

OMB APPROVAL

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Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 150

SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549
 Form 19b-4

File No.* SR - 2019 - * 096

Amendment No. (req. for Amendments *)

Filing by Cboe Exchange, Inc.

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial *



Amendment *



Withdrawal



Section 19(b)(2) *



Section 19(b)(3)(A) *



Section 19(b)(3)(B) *



Rule

Pilot
☐

Extension of Time Period
 for Commission Action *



Date Expires *

☐ 19b-4(f)(1)

☐ 19b-4(f)(4)

☐ 19b-4(f)(2)

☐ 19b-4(f)(5)

☐ 19b-4(f)(3)

☒ 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) *



Section 806(e)(2) *



Security-Based Swap Submission pursuant
 to the Securities Exchange Act of 1934

Section 3C(b)(2) *



Exhibit 2 Sent As Paper Document



Exhibit 3 Sent As Paper Document



Description

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

The Exchange proposes to make minor updates and consolidate various Exchange Rules in connection with business conduct on the Exchange, and move those Rules from the currently effective Rulebook to proposed Chapter 8 of the shell structure for the Exchange's Rulebook that will become effective upon migration.

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 * Rebecca

Last Name * Tenuta

Title * Counsel

E-mail * rtenuta@cboe.com

Telephone * (312) 786-7068

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 10/04/2019

By Rebecca Tenuta

(Name *)

Counsel

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.

rtenuta@cboe.com

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFT 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

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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

Add Remove View

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.

Item 1. Text of the Proposed Rule Change

(a) Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) proposes to make minor updates and consolidate various Exchange Rules in connection with business conduct on the Exchange, and move those Rules from the currently effective Rulebook (“current Rulebook”) to proposed Chapter 8 of the shell structure for the Exchange’s Rulebook that will become effective upon the migration of the Exchange’s trading platform to the same system used by the Cboe Affiliated Exchanges (as defined below) (“shell Rulebook”). The text of the proposed rule change is provided in Exhibit 5.

(b) Not applicable.

(c) Not applicable.

Item 2. Procedures of the Self-Regulatory Organization

(a) The Exchange’s President (or designee) pursuant to delegated authority approved the proposed rule change on September 25, 2019. The proposed rule change would become operative on the date on which Cboe Options completes the migration of its trading platform to the same system used by the Cboe Affiliated Exchanges (as defined below), which is expected to occur on October 7, 2019.

(b) Please refer questions and comments on the proposed rule change to Pat Sexton, Executive Vice President, General Counsel, and Corporate Secretary, (312) 786-7467, or Rebecca Tenuta, (312) 786-7068, Cboe Exchange, Inc., 400 South LaSalle, Chicago, Illinois 60605.

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

(a) Purpose

In 2016, the Exchange's parent company, Cboe Global Markets, Inc. (formerly named CBOE Holdings, Inc.) ("Cboe Global"), which is also the parent company of Cboe C2 Exchange, Inc. ("C2"), acquired Cboe EDGA Exchange, Inc. ("EDGA"), Cboe EDGX Exchange, Inc. ("EDGX" or "EDGX Options"), Cboe BZX Exchange, Inc. ("BZX" or "BZX Options"), and Cboe BYX Exchange, Inc. ("BYX" and, together with Cboe Options, C2, EDGX, EDGA, and BZX, the "Cboe Affiliated Exchanges"). The Cboe Affiliated Exchanges are working to align certain system functionality, retaining only intended differences, between the Cboe Affiliated Exchanges, in the context of a technology migration. Cboe Options intends to migrate its trading platform to the same system used by the Cboe Affiliated Exchanges, which the Exchange expects to complete on October 7, 2019. In connection with this technology migration, the Exchange has a shell Rulebook that resides alongside its current Rulebook, which shell Rulebook will contain the Rules that will be in place upon completion of the Cboe Options technology migration.

The Exchange proposes to consolidate current Chapter 4 and various other current rules in connection with business conduct on the Exchange into sections of proposed Chapter 8 (Business Conduct) in the shell Rulebook. The Exchange notes that in addition to consolidating and moving the various rules related to business conduct to proposed Chapter 8, the proposed rule change deletes the rules from the current Rulebook. The proposed rule change moves and, where applicable, consolidates the rules as follows:

Proposed Rule	Current Rule
SECTION A. GENERAL CONDUCT	
8.1 Just and Equitable Principles of Trade	4.1 Just and Equitable Principles of Trade
8.2 Adherence to Law	4.2 Adherence to Law
8.3 Gratuities	4.4 Gratuities
8.4 Nominal Employment	4.5 Nominal Employment
8.5 False Statements	4.6 False Statements
8.6 Manipulation	4.7 Manipulation
8.7 Rumors	4.8 Rumors
8.8 Disciplinary Action by Other Organizations	4.9 Disciplinary Action by Other Organizations
8.9 Other Restrictions on Trading Permit Holders	4.10 Other Restrictions on Trading Permit Holders ¹
8.10 Prevention of the Misuse of Material, Nonpublic Information	4.18 Prevention of the Misuse of Material, Nonpublic Information
8.11 Prohibition Against Harassment	4.19 Prohibition Against Harassment
8.12 Anti-Money Laundering Compliance Program	4.20 Anti-Money Laundering Compliance Program
8.13 Third Party Deposits Prohibited	4.21 Third Party Deposits Prohibited
8.14 Communications to the Exchange or the Clearing Corporation	4.22 Communications to the Exchange or the Clearing Corporation
8.15 Unbundling of Orders to Maximize Rebates of Fees	4.23 Unbundling of Orders to Maximize Rebates of Fees
8.16 Supervision	4.24 Supervision
8.17 Proxy Voting	4.25 Proxy Voting

¹ See Securities Exchange Act Release No. 86910 (September 19, 2019) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Rule 4.10(b) Regarding the Notice Requirement in Connection with Trading Permit Holders that Clear Market-Maker Trades) (SR-CBOE-2019-055). The changes in SR-C2-2019-015 are currently effective but not yet operative; however, the proposed rule changes assume operativeness of those effective changes.

8.18 Failure to Pay Premium ²	10.3 Failure to Pay Premium
8.20 Prohibition Against Customers Functioning as Market-Makers	6.8 Prohibition Against Customers Functioning as Market-Makers
8.21 Multiple Representation Prohibited	6.55 Multiple Representation Prohibited
8.22 Trading by Trading Permit Holders on the Floor	6.22 Trading by Trading Permit Holders on the Floor
SECTION B. POSITION LIMITS, EXERCISE LIMITS, LIQUIDATION AND REPORTS	
8.30 Position Limits	4.11 Position Limits
8.31 Position Limits for Broad-Based Index Options	24.4 Position Limits for Broad-Based Index Options
8.32 Position Limits for Industry Index Options	24.4A Position Limits for Industry Index Options
8.33 Position Limits for Position Limits for Options on Micro Narrow-Based Indexes	24.4B Position Limits for Options on Micro Narrow-Based Indexes As Defined Under Rule 24.2(d)
8.34 Position Limits for Individual Stock or ETF Based Volatility Index Options	24.4C Position Limits for Individual Stock or ETF Based Volatility Index Options
8.35 Position Limits for FLEX Options	24A.7(a)-(c) Position Limits and Reporting Requirements [FLEX options, provisions regarding position limits]
8.36 Position Limits for Binary Options	22.6 Position Limits [binary options]
8.37 Position Limit for Range Options	20.6 Position Limits [range options]
8.38 Position Limits for Corporate Debt Security Options	28.2 Position Limits [corporate debt security options]
8.39 Position Limits for Credit Options	29.5 Position Limits [credit options]
8.40 Position Limits for Government Security Options	21.3 Position Limits [Treasury Bonds and Notes]
8.41 Position Limits on Interest Rate Options	23.3 Position Limits [interest rate options]

²

The Exchange notes that Rule 8.25 (Restriction on Acting as Market-Maker and Floor Broker) is currently in the shell Rulebook, and the proposed rule change merely updates the rule number to Rule 8.19 to fit within the structure of proposed Chapter 8 in its entirety.

8.42 Exercise Limits	
8.42(a)	4.12 Exercise Limits
8.42(b)	24.5 Exercise Limits [index options, including Interpretations and Policies]
8.42(c)	20.8 Exercise Limits [range options]
8.42(d)	28.3 Exercise Limits [corporate debt security options]
8.42(e)	21.4 Exercise Limits [government security options]
8.42(f)	23.4 Exercise Limits [interest rate options]
8.42(g)	24A.8 Exercise Limits [FLEX options]
8.42(h)	22.7 Exercise Limits [binary options], and 29.7 Exercise Limits [credit options]
8.43 Reports Related to Position Limits	
8.43(a)-(d)	4.13 Reports Related to Position Limits
8.43(e)	20.7 Reports Related to Position Limits and Liquidation of Positions [range options]
8.43(f)	22.8 Reports Related to Position Limits and Liquidation of Positions [binary options]
8.43(g)	28.4 Reports Related to Position Limits and Liquidation of Positions [corporate debt security options]
8.43(h)	29.6 Reports Related to Position Limits and Liquidation of Positions [credit options]
8.43(i)	21.5 Reports Related to Position Limits and Liquidation of Positions (Treasury Bonds and Notes) [government security options]
8.43(j)	24A.7(d) Position Limits and Reporting Requirements [FLEX options, provision regarding reporting requirements]
8.44 Liquidation of Positions	4.14 Liquidation of Positions
8.45 Limit on Outstanding Uncovered Short Positions	4.15 Limit on Outstanding Uncovered Short Positions

8.46 Other Restrictions on Options Transactions and Exercises	
8.46(a)-(b)	4.16 Other Restrictions on Options Transactions and Exercises
8.46(c)	22.9 Other Restrictions on Binary Options Transactions, and 24.10 Restrictions on Contracts [index options]

The proposed rule changes make only non-substantive changes to the rules in order to update headings that better flow with the consolidated rules, update references to other rule text that will be implemented upon migration, as well as correct inaccurate references, update certain technical text formatting that will be used in the Rules upon migration (specifically, changing all times to Eastern Time without time zone indication pursuant to Rule 1.6 in the shell Rulebook which states that unless otherwise specified, all times in the Rules are Eastern Time), and reformat the paragraph lettering and numbering.

The proposed rule also makes non-substantive changes in connection with removing redundant rules and rule language. The proposed rule change removes Rule 29.8 which states that current Rule 4.16 (proposed Rule 8.46) shall be applicable to Credit Options, as this is redundant of the rule itself. The proposed change also removes redundant language under current Rules 21.5, 28.4, and 29.6, in connection with Government security options, Corporate Debt Security options, and Credit Options, respectively. The proposed rule change removes the language under each that states that the respective rule supplements current Rules 4.13 and 4.14. This language is redundant given the fact that these rules are being consolidated into the rules in which they reference and, as described below, the rules in which they reference are being updated so that they clearly cover Government security, Corporate Debt Security, and Credit options. The proposed rule change also removes the introductory clause (“in

determining compliance with Rule 4.12”) to current Rules 28.3, 21.4, 23.4, and 24A.8, because, as indicated in the table above, these rules will be consolidated into current Rule 4.12 (proposed Rule 8.42) which would make this language redundant. Additionally, the proposed rule change removes the language under current Rules 21.5, 28.4, and 29.6 that states that for the purposes of current Rules 4.13 and 4.14 (proposed Rules 8.43 and 8.44), references to current Rule 4.11 (proposed Rule 8.30) in connection with position limits shall be deemed, in the case of each respective option type, to be to the current position limit rule that governs that option type (e.g., in the case of Credit Options, references to current Rule 4.11 are deemed to be to current Rule 29.5). Instead, the proposed rule change replaces the references to current Rule 4.11 in proposed Rules 8.43 and 8.44 with the phrase “the applicable position limits Rule”, thereby encompassing the position limit provision for all respective options types and eliminating the need for the existing multiple cross-reference language in currently in Rules 21.5, 28.4, 29.6. Likewise, the proposed rule change removes the provision under current Rule 21A.7 which states that Rule 24A.7 supplements current Rule 4.11 generally, but supersedes Interpretations .02 and .04 of current Rule 4.11 and all of current Rules 24.4, 24.4A, 24.4B, 24.4C and 29.5 except to the extent those Rules are referred to in this rule. The Exchange proposes to remove the language in the above-described rules, as it believes the multiple layers of cross-references are unnecessarily cumbersome and potentially confusing for investors. It believes the proposed consolidated rules with updated and more concise cross-references make the proposed rules clear as to the specific position limit provisions that apply to different types of options.

(b) Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the “Act”) and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.³ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)⁴ requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)⁵ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The proposed rule change does not make any substantive changes to the rules and is merely intended to consolidate, reorganize, and make nonsubstantive updates to the Exchange’s rules in anticipation of the technology migration on October 7, 2019. The Exchange believes that the non-substantive proposed changes, which update technical text and formatting (e.g. paragraph headings and time-related references), update rule cross-references, correct inaccurate rule cross-references, consolidate and reorganize rules and

³ 15 U.S.C. 78f(b).

⁴ 15 U.S.C. 78f(b)(5).

⁵ Id.

rule paragraphs and/or Interpretations and Policies, and remove redundant and/or cumbersome provisions that are potentially confusing for market participants, particularly in light of the consolidated shell Rulebook format, will foster cooperation and coordination with those facilitating transactions in securities and remove impediments to and perfect the mechanism of a free and open market and national market system by simplifying the Exchange Rules and Rulebook as a whole, and making its Rules easier to follow and understand, which will also result in less burdensome and more efficient regulatory compliance.

Item 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 that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange reiterates that the proposed rule change is being proposed in the context of a technology migration of the Cboe Affiliated Exchanges, and not as a competitive filing. The Exchange does not believe that the proposed rule change will impose any burden on intramarket competition because it does not make any substantive changes to the current Exchange Rules. The proposed rule change merely intends to provide consolidated rules upon migration and consistent technical text and formatting in the shell Rulebook that will be in place come October 7, 2019. The Exchange does not believe that the proposed rule change will impose any burden on intermarket competition because the proposed rules are substantively the same as the Exchange's current rules, all of which have all been previously filed with the Commission.

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

The Exchange neither solicited nor received comments on the proposed rule change.

Item 6. Extension of Time Period for Commission Action

Not applicable.

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

(a) The proposed rule change is filed for immediate effectiveness pursuant to Section 19(b)(3)(A) of Act⁶ and Rule 19b-4(f)(6)⁷ thereunder.

(b) The Exchange designates that the proposed rule change effects a change that (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. Additionally, the Exchange has given the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of 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 proposed rule change will not significantly affect the protection of investors and the public interest because it is intended to consolidate the Exchange Rules and update the formatting, references and terms within its rules in anticipation of the technology migration. The proposed rule change does not make any substantive changes to the Exchange rules or Exchange functionality. The proposed nonsubstantive changes, including updating formatting and certain technical rule text (e.g. paragraph headings and

⁶ 15 U.S.C. 78s(b)(3)(A).

⁷ 17 CFR 240.19b-4(f)(6).

time-related references), updating rule cross-references, correcting inaccurate rule cross-references, consolidating and reorganizing rules to include all business conduct-related rules within a single chapter, and updating rule paragraphs and/or Interpretations and Policies, and removing redundant and/or cumbersome provisions that are potentially confusing for market participants, particularly in light of the consolidated shell Rulebook format, will benefit investors and the public interest by simplifying the Exchange Rules and Rulebook as a whole and making them easier to follow and understand for all investors. This, too, will benefit investors and the public interest by resulting in less burdensome and more efficient regulatory compliance upon migration.

The Exchange does not believe that the proposed rule change will impose any significant burden on competition because it is merely moving the current Exchange Rules, all of which have been previously filed with the Commission, and does not make any substantive changes to the current rules. The proposed rule change is not intended as a competitive filing but is instead intended to provide consolidated rules within the shell Rulebook in a concise and uniform manner (e.g. in connection with technical rule text and formatting) to the benefit of all market participants upon migration.

For the foregoing reasons, this rule filing qualifies as a “non-controversial” rule change under Rule 19b-4(f)(6), which renders the proposed rule change effective upon filing with the Commission. At any time within 60 days of the filing of this 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 will institute proceedings to determine

whether the proposed rule change should be approved or disapproved. The Exchange respectfully requests that the Commission waive the 30-day operative delay period after which a proposed rule change under Rule 19b-4(f)(6) becomes effective. As described above, the proposed rule change functions to move current rules into Chapter 6 of the shell Rulebook, which will be effective upon migration on October 7, 2019. The proposed rule changes do not make substantive changes to any of the rules and are merely intended to simply and update certain rule text formatting, references to rules, rule organization, and remove redundant and/or cumbersome provisions. Thus, the proposed rule changes will have no impact on trading on the Exchange. The Exchange believes that moving the rules regarding business conduct, which currently remain in the current Rulebook, to Chapter 8 of the shell Rulebook, as well as updating such rules to reflect other rules and similarly updated technical rule text and defined terms within the shell Rulebook will provide investors with a holistic Exchange Rulebook upon migration. Therefore, the Exchange respectfully requests that the Commission waive the 30-day operative delay so that the proposed rule change becomes effective October 7, 2019 and avoids any potential confusion by providing investors with a complete Exchange Rulebook upon the completion of migration.

(c) Not applicable.

(d) Not applicable.

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

The proposed rule change is not based on a rule either of another self-regulatory organization of the Commission.

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

Not applicable.

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

Not applicable.

Item 11. Exhibits

Exhibit 1. Completed Notice of Proposed Rule Change for publication in the Federal Register.

Exhibit 5A. Proposed rule text – current Rulebook.

Exhibit 5B. Proposed rule text – shell Rulebook.

EXHIBIT 1**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34- ; File No. SR-CBOE-2019-096]

[Insert date]

Self-Regulatory Organizations; Cboe Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Make Minor Updates and Consolidate Various Exchange Rules in Connection with Business Conduct on the Exchange, and Move those Rules from the Currently Effective Rulebook (“current Rulebook”) to Proposed Chapter 8 of the Shell Structure for the Exchange’s Rulebook that will Become Effective Upon the Migration of the Exchange’s Trading Platform to the Same System Used by the Cboe Affiliated Exchanges (as Defined Below) (“Shell Rulebook”)

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on [insert date], Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Exchange filed the proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act³ and Rule 19b-4(f)(6) thereunder.⁴ 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

Cboe Exchange, Inc. (the “Exchange” or “Cboe Options”) proposes to make minor updates and consolidate various Exchange Rules in connection with business

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(iii).

⁴ 17 CFR 240.19b-4(f)(6).

conduct on the Exchange, and move those Rules from the currently effective Rulebook (“current Rulebook”) to proposed Chapter 8 of the shell structure for the Exchange’s Rulebook that will become effective upon the migration of the Exchange’s trading platform to the same system used by the Cboe Affiliated Exchanges (as defined below) (“shell Rulebook”). The text of the proposed rule change is provided in Exhibit 5.

The text of the proposed rule change is also available on the Exchange’s website (<http://www.cboe.com/AboutCBOE/CBOELegalRegulatoryHome.aspx>), at the Exchange’s Office of the Secretary, and at the Commission’s Public Reference Room.

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

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

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

1. Purpose

In 2016, the Exchange’s parent company, Cboe Global Markets, Inc. (formerly named CBOE Holdings, Inc.) (“Cboe Global”), which is also the parent company of Cboe C2 Exchange, Inc. (“C2”), acquired Cboe EDGA Exchange, Inc. (“EDGA”), Cboe EDGX Exchange, Inc. (“EDGX” or “EDGX Options”), Cboe BZX Exchange, Inc. (“BZX” or “BZX Options”), and Cboe BYX Exchange, Inc. (“BYX” and, together with Cboe Options, C2, EDGX, EDGA, and BZX, the “Cboe Affiliated Exchanges”). The Cboe Affiliated

Exchanges are working to align certain system functionality, retaining only intended differences, between the Cboe Affiliated Exchanges, in the context of a technology migration. Cboe Options intends to migrate its trading platform to the same system used by the Cboe Affiliated Exchanges, which the Exchange expects to complete on October 7, 2019. In connection with this technology migration, the Exchange has a shell Rulebook that resides alongside its current Rulebook, which shell Rulebook will contain the Rules that will be in place upon completion of the Cboe Options technology migration.

The Exchange proposes to consolidate current Chapter 4 and various other current rules in connection with business conduct on the Exchange into sections of proposed Chapter 8 (Business Conduct) in the shell Rulebook. The Exchange notes that in addition to consolidating and moving the various rules related to business conduct to proposed Chapter 8, the proposed rule change deletes the rules from the current Rulebook. The proposed rule change moves and, where applicable, consolidates the rules as follows:

Proposed Rule	Current Rule
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8.21 Multiple Representation Prohibited	6.55 Multiple Representation Prohibited
8.22 Trading by Trading Permit Holders on the Floor	6.22 Trading by Trading Permit Holders on the Floor
SECTION B. POSITION LIMITS, EXERCISE LIMITS, LIQUIDATION AND REPORTS	
8.30 Position Limits	4.11 Position Limits
8.31 Position Limits for Broad-Based Index Options	24.4 Position Limits for Broad-Based Index

⁵ See Securities Exchange Act Release No. 86910 (September 19, 2019) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Amend Rule 4.10(b) Regarding the Notice Requirement in Connection with Trading Permit Holders that Clear Market-Maker Trades) (SR-CBOE-2019-055). The changes in SR-C2-2019-015 are currently effective but not yet operative; however, the proposed rule changes assume operativeness of those effective changes.

⁶ The Exchange notes that Rule 8.25 (Restriction on Acting as Market-Maker and Floor Broker) is currently in the shell Rulebook, and the proposed rule change merely updates the rule number to Rule 8.19 to fit within the structure of proposed Chapter 8 in its entirety.

	Options
8.32 Position Limits for Industry Index Options	24.4A Position Limits for Industry Index Options
8.33 Position Limits for Position Limits for Options on Micro Narrow-Based Indexes	24.4B Position Limits for Options on Micro Narrow-Based Indexes As Defined Under Rule 24.2(d)
8.34 Position Limits for Individual Stock or ETF Based Volatility Index Options	24.4C Position Limits for Individual Stock or ETF Based Volatility Index Options
8.35 Position Limits for FLEX Options	24A.7(a)-(c) Position Limits and Reporting Requirements [FLEX options, provisions regarding position limits]
8.36 Position Limits for Binary Options	22.6 Position Limits [binary options]
8.37 Position Limit for Range Options	20.6 Position Limits [range options]
8.38 Position Limits for Corporate Debt Security Options	28.2 Position Limits [corporate debt security options]
8.39 Position Limits for Credit Options	29.5 Position Limits [credit options]
8.40 Position Limits for Government Security Options	21.3 Position Limits [Treasury Bonds and Notes]
8.41 Position Limits on Interest Rate Options	23.3 Position Limits [interest rate options]
8.42 Exercise Limits	
8.42(a)	4.12 Exercise Limits
8.42(b)	24.5 Exercise Limits [index options, including Interpretations and Policies]
8.42(c)	20.8 Exercise Limits [range options]
8.42(d)	28.3 Exercise Limits [corporate debt security options]
8.42(e)	21.4 Exercise Limits [government security options]
8.42(f)	23.4 Exercise Limits [interest rate options]
8.42(g)	24A.8 Exercise Limits [FLEX options]
8.42(h)	22.7 Exercise Limits [binary options], and 29.7 Exercise Limits [credit options]

8.43 Reports Related to Position Limits	
8.43(a)-(d)	4.13 Reports Related to Position Limits
8.43(e)	20.7 Reports Related to Position Limits and Liquidation of Positions [range options]
8.43(f)	22.8 Reports Related to Position Limits and Liquidation of Positions [binary options]
8.43(g)	28.4 Reports Related to Position Limits and Liquidation of Positions [corporate debt security options]
8.43(h)	
8.43(i)	29.6 Reports Related to Position Limits and Liquidation of Positions [credit options]
8.43(j)	21.5 Reports Related to Position Limits and Liquidation of Positions (Treasury Bonds and Notes) [government security options]
	24A.7(d) Position Limits and Reporting Requirements [FLEX options, provision regarding reporting requirements]
8.44 Liquidation of Positions	4.14 Liquidation of Positions
8.45 Limit on Outstanding Uncovered Short Positions	4.15 Limit on Outstanding Uncovered Short Positions
8.46 Other Restrictions on Options Transactions and Exercises	
8.46(a)-(b)	4.16 Other Restrictions on Options Transactions and Exercises
8.46(c)	22.9 Other Restrictions on Binary Options Transactions, and 24.10 Restrictions on Contracts [index options]

The proposed rule changes make only non-substantive changes to the rules in order to update headings that better flow with the consolidated rules, update references to other rule text that will be implemented upon migration, as well as correct inaccurate references, update certain technical text formatting that will be used in the Rules upon migration

(specifically, changing all times to Eastern Time without time zone indication pursuant to Rule 1.6 in the shell Rulebook which states that unless otherwise specified, all times in the Rules are Eastern Time), and reformat the paragraph lettering and numbering.

The proposed rule also makes non-substantive changes in connection with removing redundant rules and rule language. The proposed rule change removes Rule 29.8 which states that current Rule 4.16 (proposed Rule 8.46) shall be applicable to Credit Options, as this is redundant of the rule itself. The proposed change also removes redundant language under current Rules 21.5, 28.4, and 29.6, in connection with Government security options, Corporate Debt Security options, and Credit Options, respectively. The proposed rule change removes the language under each that states that the respective rule supplements current Rules 4.13 and 4.14. This language is redundant given the fact that these rules are being consolidated into the rules in which they reference and, as described below, the rules in which they reference are being updated so that they clearly cover Government security, Corporate Debt Security, and Credit options. The proposed rule change also removes the introductory clause (“in determining compliance with Rule 4.12”) to current Rules 28.3, 21.4, 23.4, and 24A.8, because, as indicated in the table above, these rules will be consolidated into current Rule 4.12 (proposed Rule 8.42) which would make this language redundant. Additionally, the proposed rule change removes the language under current Rules 21.5, 28.4, and 29.6 that states that for the purposes of current Rules 4.13 and 4.14 (proposed Rules 8.43 and 8.44), references to current Rule 4.11 (proposed Rule 8.30) in connection with position limits shall be deemed, in the case of each respective option type, to be to the current position limit rule that governs that option type (e.g., in the case of Credit Options,

references to current Rule 4.11 are deemed to be to current Rule 29.5). Instead, the proposed rule change replaces the references to current Rule 4.11 in proposed Rules 8.43 and 8.44 with the phrase “the applicable position limits Rule”, thereby encompassing the position limit provision for all respective options types and eliminating the need for the existing multiple cross-reference language in currently in Rules 21.5, 28.4, 29.6. Likewise, the proposed rule change removes the provision under current Rule 21A.7 which states that Rule 24A.7 supplements current Rule 4.11 generally, but supersedes Interpretations .02 and .04 of current Rule 4.11 and all of current Rules 24.4, 24.4A, 24.4B, 24.4C and 29.5 except to the extent those Rules are referred to in this rule. The Exchange proposes to remove the language in the above-described rules, as it believes the multiple layers of cross-references are unnecessarily cumbersome and potentially confusing for investors. It believes the proposed consolidated rules with updated and more concise cross-references make the proposed rules clear as to the specific position limit provisions that apply to different types of options.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the “Act”) and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.⁷ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)⁸ requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(5).

of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)⁹ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The proposed rule change does not make any substantive changes to the rules and is merely intended to consolidate, reorganize, and make nonsubstantive updates to the Exchange's rules in anticipation of the technology migration on October 7, 2019. The Exchange believes that the non-substantive proposed changes, which update technical text and formatting (e.g. paragraph headings and time-related references), update rule cross-references, correct inaccurate rule cross-references, consolidate and reorganize rules and rule paragraphs and/or Interpretations and Policies, and remove redundant and/or cumbersome provisions that are potentially confusing for market participants, particularly in light of the consolidated shell Rulebook format, will foster cooperation and coordination with those facilitating transactions in securities and remove impediments to and perfect the mechanism of a free and open market and national market system by simplifying the Exchange Rules and Rulebook as a whole, and making its Rules easier to follow and understand, which will also result in less burdensome and more efficient regulatory compliance.

⁹ Id.

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 that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange reiterates that the proposed rule change is being proposed in the context of a technology migration of the Cboe Affiliated Exchanges, and not as a competitive filing. The Exchange does not believe that the proposed rule change will impose any burden on intramarket competition because it does not make any substantive changes to the current Exchange Rules. The proposed rule change merely intends to provide consolidated rules upon migration and consistent technical text and formatting in the shell Rulebook that will be in place come October 7, 2019. The Exchange does not believe that the proposed rule change will impose any burden on intermarket competition because the proposed rules are substantively the same as the Exchange's current rules, all of which have all been previously filed with the Commission.

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

The Exchange neither solicited nor received comments on the proposed rule change.

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

Because the foregoing proposed rule change does not:

- A. significantly affect the protection of investors or the public interest;
- B. impose any significant burden on competition; and
- C. 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) of the Act¹⁰ and Rule 19b-4(f)(6)¹¹ thereunder. 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 will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CBOE-2019-096 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-CBOE-2019-096. This file number should be included on the subject line if e-mail is used. To help the Commission process

¹⁰ 15 U.S.C. 78s(b)(3)(A).

¹¹ 17 CFR 240.19b-4(f)(6).

and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<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, D.C. 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-CBOE-2019-096 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.¹²

Secretary

¹² 17 CFR 200.30-3(a)(12).

EXHIBIT 5A

(additions are underlined; deletions are [bracketed])

* * * * *

Rules of Cboe Exchange, Inc.

(currently effective)

* * * * *

[CHAPTER IV. BUSINESS CONDUCT]**[Rule 4.1. Just and Equitable Principles of Trade**

No Trading Permit Holder shall engage in acts or practices inconsistent with just and equitable principles of trade. Persons associated with Trading Permit Holders shall have the same duties and obligations as Trading Permit Holders under the Rules of this Chapter.]

[Rule 4.2. Adherence to Law

No Trading Permit Holder shall engage in conduct in violation of the Securities Exchange Act of 1934, as amended, rules or regulations thereunder, the Bylaws or the Rules of the Exchange, or the Rules of the Clearing Corporation insofar as they relate to the reporting or clearance of any Exchange transaction, or any written interpretation thereof. Every Trading Permit Holder shall so supervise persons associated with the Trading Permit Holder as to assure compliance therewith.]

[Rule 4.3. Reserved

Reserved.]

[Rule 4.4. Gratuities

(a) No Trading Permit Holder or associated person of a Trading Permit Holder shall give any compensation or gratuity in any one year in excess of \$50.00 to any employee of the Exchange or in excess of \$100.00 to any employee of any other Trading Permit Holder or of any non- Trading Permit Holder broker, dealer, bank or institution, without the prior consent of the employer and of the Exchange.

(b) No Trading Permit Holder or associated person of a Trading Permit Holder shall give any compensation or gratuity of any monetary value to any Regulatory Division employee of the Exchange.]

[Rule 4.5. Nominal Employment

No Trading Permit Holder may employ any person in a nominal position on account of business obtained by such person.]

[Rule 4.6. False Statements

No Trading Permit Holder, person associated with a Trading Permit Holder or applicant to be a Trading Permit Holder shall make any willful or material misrepresentation, including a misstatement or false statement, or omission in any application, report or other communication to the Exchange, or to the Clearing Corporation with respect to the reporting or clearance of any Exchange transaction, or willfully or materially adjust any position at the Clearing Corporation in any class of options traded on the Exchange except for the purpose of correcting a bona fide error in recording or of transferring the position to another account.

... Interpretations and Policies:

.01 No Trading Permit Holder, person associated with a Trading Permit Holder or applicant to be a Trading Permit Holder shall be considered to be in violation of Cboe Options Rule 4.6 due to misrepresentations or omissions resulting from causes, such as systems malfunctions, which are outside the control of the Trading Permit Holder, associated person or applicant and could not be avoided by the exercise of due care.]

[Rule 4.7. Manipulation

(a) No Trading Permit Holder shall effect or induce the purchase, sale or exercise of any security for the purpose of creating or inducing a false, misleading, or artificial appearance of activity in such security or in the underlying security, or for the purpose of unduly or improperly influencing the market price of such security or of the underlying security or for the purpose of making a price which does not reflect the true state of the market in such security or in the underlying security.

(b) No Trading Permit Holder or any other person or organization subject to the jurisdiction of the Exchange shall directly or indirectly participate in or have any interest in the profit of a manipulative operation or knowingly manage or finance a manipulative operation. For the purpose of this paragraph but without limitation, (i) any pool, syndicate or joint account, whether in corporate form or otherwise, organized or used intentionally for the purposes of unfairly influencing the market price of any security by means of options or otherwise and for the purpose of making a profit thereby shall be deemed to be a manipulative operation; (ii) the soliciting of subscriptions to any such pool syndicate or joint account or the accepting of discretionary orders from any such pool, syndicate or joint account shall be deemed to be managing a manipulative operation; and (iii) the carrying on margin of either a “long” or a “short” position in securities for, or the advancing of credit through loans of money or of securities to, any such pool syndicate or joint account shall be deemed to be financing a manipulative operation.]

[Rule 4.8. Rumors

No Trading Permit Holder shall circulate, in any manner, rumors of a character which might affect market conditions in any option contract or underlying security or in any other security admitted to trading or unlisted trading privileges on the Exchange; provided, however, that this

Rule shall not prohibit discussion of unsubstantiated information, so long as its source and unverified nature are disclosed.]

[Rule 4.9. Disciplinary Action by Other Organizations

Every Trading Permit Holder shall promptly notify the Exchange in writing of any disciplinary action, including the basis therefor, taken by any national securities exchange or association, clearing corporation, commodity futures market or government regulatory body against the Trading Permit Holder or its associated persons, and shall similarly notify the Exchange of any disciplinary action taken by the Trading Permit Holder itself against any of its associated persons involving suspension, termination, the withholding of commissions or imposition of fines in excess of \$2,500, or any other significant limitation on activities.]

[Rule 4.10. Other Restrictions on Trading Permit Holders

(a) In General. Whenever the Chief Executive Officer or President shall find, on the basis of a report of the Department of Compliance or otherwise, that a Trading Permit Holder has failed to perform his contracts or is insolvent or is in such financial or operational condition or is otherwise conducting his business in such a manner that he cannot be permitted to continue in business with safety to his customers or creditors or the Exchange, the Chief Executive Officer or the President may summarily suspend the Trading Permit Holder in accordance with Chapter XVI or may impose such conditions and restrictions upon his being a Trading Permit Holder as he considers reasonably necessary for the protection of the Exchange and the customers of such Trading Permit Holder.

(b) Firms Clearing Market-Maker Trades.

(1) A Trading Permit Holder that clears Market-Maker trades must give fifteen (15) calendar days, prior written notice to the President of the Exchange, or his designee, concerning any proposed Significant Business Transaction ("SBT") as enumerated in this subsection (b)(1)(i) through (iii). Notification of any SBT as enumerated in this subsection (b)(1)(iv) through (vii) shall be made in writing to the President of the Exchange, or his designee, not later than five (5) business days from the date on which the SBT becomes effective. A SBT shall mean:

(i) the combination, merger or consolidation between the Trading Permit Holder and another person engaged in the business of effecting, executing, clearing or financing transactions in securities or futures products,

(ii) the transfer from another person of Market-Maker, broker dealer, or customer securities or futures accounts which are significant in size or number to the business of the Trading Permit Holder,

(iii) the assumption or guarantee by the Trading Permit Holder of liabilities, of another person engaged in the business of effecting, executing, clearing or financing transactions in securities or futures products, in connection

with a direct or indirect acquisition of all or substantially all of that person's assets,

(iv) the sale by the Trading Permit Holder of a significant part of its assets to another person,

(v) a change in the identity of any general partner or a change in the beneficial ownership of 10% of any class of the outstanding stock of any corporate general partner (if the Trading Permit Holder is a partnership),

(vi) a change in the beneficial ownership of 20% of any class of the outstanding stock of the Trading Permit Holder or the issuance of any capital stock of the Trading Permit Holder (if the Trading Permit Holder is a corporation), or

(vii) the acquisition by the Trading Permit Holder of assets of another person that would constitute a "business" that is "significant," as those terms are defined in Section 11-01 of Regulation S-X.

(2) A proposed SBT of a Trading Permit Holder as enumerated in subsection (b)(1)(i) through (iii) is subject to the prior approval of the Chief Executive Officer or President, when the Trading Permit Holder's Market-Maker clearance activities exceed, or would exceed as a result of the proposed SBT, any of the following parameters:

(i) 15% of cleared Exchange Market-Maker contract volume for the most recent three (3) months;

(ii) an average of 15% of the number of Exchange registered Market-Makers as of each month and for the most recent three (3) months, or

(iii) 25% of Market-Maker gross deductions (haircuts) defined by SEC Rule 15c3-1 (a)(6) or (c)(2)(x) carried by the Clearing Trading Permit Holder(s) in relation to the aggregate of such haircuts carried by all other Market-Maker clearing organizations for any month end within the most recent three (3) months.

A Trading Permit Holder may contact the Exchange to determine whether it exceeds the parameters described in subsection (b)(2). Trading Permit Holders subject to this subsection (b)(2) must provide thirty (30) calendar days notice of the proposed SBT, as enumerated in subsection (b)(1)(i) through (iii), to the President or his designee. The Chief Executive Officer or President may disapprove a Trading Permit Holder's proposed SBT, or approve such SBT subject to certain conditions, within the thirty (30) day period. The Chief Executive Officer or President may disapprove or condition a Trading Permit Holder's SBT within the thirty (30) day period if the Chief Executive Officer or

President determines that such SBT has the potential to threaten the financial or operational integrity of Exchange Market-Maker transactions.

(3) In addition, at any time, the Chief Executive Officer or President may impose additional financial and/or operational requirements on a Trading Permit Holder that clears Market-Maker trades when the Chief Executive Officer or President determines that the Trading Permit Holder's continuance in business without such requirements has the potential to threaten the financial or operational integrity of Exchange Market-Maker transactions.

(4) A Trading Permit Holder that clears Market-Maker trades must give fifteen (15) calendar days, written notice to the President of the Exchange, or his designee, of any proposal to terminate such business or any material part thereof.

(5) A Trading Permit Holder subject to this rule must provide promptly, in writing, all information reasonably requested by the Exchange. Until such information, and any other information provided pursuant to this subsection (b), is otherwise publicly disclosed, the information shall be kept confidential, except that such information may be disclosed to members of the staff and other agents of the Exchange who are engaged in reviewing the proposed transaction, but such employees and agents shall keep such information confidential and use it only for purposes of reviewing the proposal.

(6) In considering a proposed SBT, the Chief Executive Officer or President may consider, among other relevant matters, the following criteria:

(a) The effect of the proposed SBT on (i) the capital size and structure of the resulting clearing TPH organization(s); (ii) the potential for financial failure, and the consequences of any such failure on the Market-Maker system as a whole; and (iii) the potential for increased or decreased operational efficiencies arising from the proposed transaction.

(b) The effect of the proposed SBT upon overall concentration of options Market-Makers, including a comparison of the following measures before and after the proposed transaction:

(i) proportion of exchange Market-Makers cleared;

(ii) proportion of exchange Market-Maker contract volume cleared; and

(iii) proportion of Market-Maker gross deductions (haircuts) as defined by SEC Rule 15c3-1(a)(6) or (c)(2)(x) carried by the Clearing Trading Permit Holder(s) in relation to the aggregate of such deductions carried by other Market-Maker clearing organizations.

(c) The regulatory history of the affected TPH organization(s), specifically as it may indicate a tendency to financial/operational weakness.

(d) The history of the affected TPH organization(s) with respect to late trade match input or other operational deficiencies as determined by the Exchange.

(7) In the event the Chief Executive Officer or President determines, prior to the expiration of the thirty (30) day period set forth in subsection (1) hereof, that a proposed SBT may be approved without conditions, the Chief Executive Officer or President shall promptly so advise the Trading Permit Holder. All Chief Executive Officer or President decisions to disapprove or condition a proposed SBT pursuant to subsection (b)(2) hereof or to impose extraordinary requirements pursuant to subsection (b)(3) hereof shall be in writing, shall include a statement setting forth the grounds for the Chief Executive Officer or President's decision, and shall be served on the Trading Permit Holder. Notwithstanding any other provisions of the Rules of the Exchange, the Trading Permit Holder may appeal such decision directly to the Board of Directors of the Exchange by filing an application for review with the Secretary of the Exchange within fifteen (15) days of the date of service of the decision. The application for review shall be in the form prescribed by Rule 19.5(a), and the Board's review shall be conducted in the manner prescribed by Rule 19.5(b), except that the Trading Permit Holder may waive the making of a record. Review by the Board shall be the exclusive method of reviewing a decision of the Chief Executive Officer or President pursuant to this subsection (b). The appeal to the Board of a decision of the Chief Executive Officer or President shall not operate as a stay of that decision during the pendency of the appeal. The Exchange shall file notice with the SEC in accordance with the provisions of Section 19(d)(1) of the Securities Exchange Act of all final decisions to disapprove or condition a proposed SBT pursuant to subsection (b)(2) hereof, or to impose extraordinary requirements pursuant to subsection (b)(3) hereof.

(8) The provisions of subsection (b) of this rule do not preclude (i) summary Exchange action under subsection (a) above or under Chapter XVI of the Rules or (ii) other Exchange action pursuant to the Rules of the Exchange.

(9) The Chief Executive Officer or President may exempt a Trading Permit Holder from the requirements of subsection (b)(1) hereof, either generally or in respect of specific types of transactions, based on the limited proportion of Market-Maker trades on the Exchange that are cleared by the Trading Permit Holder or on the limited importance that the clearing of Market-Maker trades bears to the total business of the Trading Permit Holder.]

[Rule 4.11. Position Limits

Except with the prior permission of the President or his designee, to be confirmed in writing, no Trading Permit Holder shall make, for any account in which it has an interest or for the account

of any customer, an opening transaction on any exchange if the Trading Permit Holder has reason to believe that as a result of such transaction the Trading Permit Holder or its customer would, acting alone or in concert with others, directly or indirectly,

(a) control an aggregate position in an option contract dealt in on the Exchange in excess of 25,000 or 50,000 or 75,000 or 200,000 or 250,000 option contracts (whether long or short) of the put type and the call type on the same side of the market respecting the same underlying security, combining for purposes of this position limit long positions in put options with short positions in call options, and short positions in put options with long positions in call options, or such other number of option contracts as may be fixed from time to time by the Exchange as the position limit for one or more classes or series of options, or

(b) exceed the applicable position limit fixed from time to time by another exchange for an option contract not dealt in on the Exchange, when the Trading Permit Holder is not a member of the other exchange on which the transaction was effected. In addition, should a Trading Permit Holder have reason to believe that a position in any account in which it has an interest or for the account of any customer is in excess of the applicable limit, such Trading Permit Holder shall promptly take the action necessary to bring the position into compliance. Reasonable notice shall be given of each new position limit fixed by the Exchange, by publicly posting notice thereof. Limits shall be determined in the manner described in Interpretations .02 and .04 below.

. . . Interpretations and Policies:

.01 The following examples, using the 25,000 option contract limit, illustrate the operation of position limits established by Rule 4.11:

(a) Customer A, who is long 25,000 XYZ calls, may at the same time be short 25,000 XYZ calls, since long call and short call positions in the same class of options are on opposite sides of the market and are not aggregated for purposes of Rule 4.11.

(b) Customer B, who is long 25,000 XYZ calls, may at the same time be long 25,000 XYZ puts. Rule 4.11 does not require the aggregation of long call and long put (or short call and short put) positions, since they are on opposite sides of the market.

(c) Customer C, who is long 20,000 XYZ calls, may not at the same time be short more than 5,000 XYZ puts, since the 25,000 contract limit applies to the aggregation of long call and short put positions in options covering the same underlying security. Similarly, if Customer C is also short 20,000 XYZ calls, he may not at the same time be long more than 5,000 XYZ puts, since the 25,000 contract limit applies separately to the aggregation of short call and long put positions in options covering the same underlying security.

.02

(a) The 25,000 option contract limit applies to those options having an underlying security that does not meet the requirements for a higher option contract limit.

(b) To be eligible for the 50,000 option contract limit, either the most recent six-month trading volume of the underlying security must have totaled at least 20,000,000 shares; or the most recent six-month trading volume of the underlying security must have totaled at least 15,000,000 shares and the underlying security must have at least 40,000,000 shares currently outstanding.

(c) To be eligible for the 75,000 option contract limit, either the most recent six-month trading volume of the underlying security must have totaled at least 40,000,000 shares; or the most recent six-month trading volume of the underlying security must have totaled at least 30,000,000 shares and the underlying security must have at least 120,000,000 shares currently outstanding.

(d) To be eligible for the 200,000 option contract limit, either the most recent six-month trading volume of the underlying security must have totaled at least 80,000,000 shares; or the most recent six-month trading volume of the underlying security must have totaled at least 60,000,000 shares and the underlying security must have at least 240,000,000 shares currently outstanding.

(e) To be eligible for the 250,000 option contract limit, either the most recent six-month trading volume of the underlying security must have totaled at least 100,000,000 shares; or the most recent six-month trading volume of the underlying security must have totaled at least 75,000,000 shares and the underlying security must have at least 300,000,000 shares currently outstanding.

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

.03

(a) Control exists, under Rules 4.11 and 4.12, when it is determined that an individual or entity (1) makes investment decisions for an account or accounts, or (2) materially influences directly or indirectly the actions of any person who makes investment decisions.

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

(1) among all parties to a joint account who have authority to act on behalf of the account;

(2) among all general partners to a partnership account;

(3) when an individual or entity (1) holds an ownership interest of 10 percent or more in an entity (ownership interest of less than 10 percent will not

preclude aggregation), or (2) shares in 10 percent or more of profits and/or losses of an account;

(4) when accounts have common directors or management;

(5) where a person or entity has the authority to execute transactions in an account.

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

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

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

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

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

(d) Initial determinations under this Interpretation shall be made by the Market Regulation Department of the Exchange. The initial determination may be reviewed by the President of the Exchange or his designee, based upon a report by the Market Regulation Department of the Exchange. A Trading Permit Holder or customer directly affected by such a determination may ask the President of the Exchange or his designee to reconsider but may not request any other review or appeal, except in the context of a disciplinary proceeding. The decision to grant non-aggregation under this Interpretation shall not be retroactive. The presumption of control shall exist until determined, as provided above, to not exist.

.04 Equity Hedge Exemptions

(a) The following qualified hedging transactions and positions described in paragraphs (1) through (5) below shall be exempt from established position limits as prescribed under Interpretation .02 above. Hedge transactions and positions established pursuant to paragraphs six (6) and seven (7) below are subject to a position limit equal to five (5) times the standard limit established under Interpretation .02 above.

(1) Where each option contract is "hedged" or "covered" by 100 shares of the underlying security or securities convertible into such underlying security, or, in the case of an adjusted option contract, the same number of shares represented by the adjusted contract;

(i) long call and short stock;

- (ii) short call and long stock;
- (iii) long put and long stock;
- (iv) short put and short stock.

(2) A long call position accompanied by a short put position, where the long call expires with the short put, and the strike price of the long call and short put is equal, and where each long call and short put position is hedged with 100 shares (or other adjusted number of shares) of the underlying security or securities convertible into such stock (“reverse conversion”).

(3) A short call position accompanied by a long put position where the short call expires with the long put, and the strike price of the short call and the long put is equal, and where each short call and long put position is hedged with 100 shares (or other adjusted number of shares) of the underlying security or securities convertible into such stock (“conversion”).

(4) A short call position accompanied by a long put position, where the short call expires with the long put, and the strike price of the short call equals or exceeds the long put, and where each short call and long put position is hedged with 100 shares of the underlying security (or other adjusted number of shares). Neither side of the short call, long put position can be in-the-money at the time the position is established (“collar”).

(5) A long call position accompanied by a short put position where the long call expires with the short put and the strike price of the long call equals or exceeds the short put and where each long call and short put position is hedged with 100 shares of the underlying security (or other adjusted number of shares). Neither side of the long call, short put position can be in-the-money at the time the position is established (“reverse collar”).

(6) A long call position accompanied by a short put position with the same strike price and a short call position accompanied by a long put position with different strike price (“box spread”).

(7) A listed option position hedged on a one-for one basis with an over-the-counter (“OTC”) option position on the same underlying security. The strike price of the listed option position and corresponding OTC option position must be within one strike of each other and no more than one expiration month apart.

(8) For those strategies described under (2), (3), (4), and (5) above, one component of the option strategy can be an OTC option contract guaranteed or endorsed by the firm maintaining the proprietary position or carrying the customer account.

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

(b) The equity hedge exemption is in addition to the standard limit and other exemptions available under Exchange rules, interpretations and policies.

(c) Delta-Based Equity Hedge Exemption

* Note: The Delta-Based Equity Hedge Exemption for customers is not currently available and customers may not seek to rely on the Delta-Based Equity Hedge Exemption. The Exchange will issue a Regulatory Circular to announce when the Delta- Based Equity Hedge Exemption is available to customers.

The Delta-Based Equity Hedge Exemption is in addition to the standard limit and other exemptions available under Exchange rules, interpretations and policies. An equity option position of a Trading Permit Holder, non-Trading Permit Holder affiliate of a Trading Permit Holder or customer that is delta neutral shall be exempt from established position limits as prescribed under Interpretation .02 above, subject to the following:

(A) The term “delta neutral” refers to an equity option position that is hedged, in accordance with a permitted pricing model, by a position in the underlying security or one or more instruments relating to the underlying security, for the purpose of offsetting the risk that the value of the option position will change with incremental changes in the price of the security underlying the option position. Customers seeking to use the delta-based equity hedge exemption may only hedge their positions in accordance with a pricing model maintained and operated by the Clearing Corporation (“OCC Model”).

In the case of an equity option position for which the underlying security is an ETF that is based on the same index as an index option, the equity option position and any position in the underlying ETF may be combined with such an index option position and/or correlated instruments, as defined in Rule 24.4.05(A), in accordance with Rule 24.4.05 - Delta-Based Index Hedge Exemption, for calculation of the delta-based equity hedge exemption.

(B) An equity option position that is not delta neutral shall be subject to position limits in accordance with this Rule 4.11 (subject to the availability of other position limit exemptions). Only the option contract equivalent of the net delta of such position shall be subject to the appropriate position limit. The “options contract equivalent of the net delta” is the net delta divided by the number of shares that equate to one option contract on a delta basis. The term “net delta” means, at any time, the number of shares and/or other units of trade (either long or short) required to offset the risk that the value of an equity option position will change with incremental changes in the price of the security underlying the option position, as determined in accordance with a permitted pricing model.

(C) A “permitted pricing model” means -

(1) OCC Model;

(2) A pricing model maintained and used by a Trading Permit Holder subject to consolidated supervision by the Commission pursuant to Appendix E of Commission Rule 15c3-1, or by an affiliate that is part of such Trading Permit Holder's consolidated supervised holding company group, in accordance with its internal risk management control system and consistent with the requirements of Appendices E or G, as applicable, to SEC Rule 15c3-1 and SEC Rule 15c3-4 under the Act, as amended from time to time, in connection with the calculation of risk-based deductions from capital or capital allowances for market risk thereunder, provided that the Trading Permit Holder or affiliate of a Trading Permit Holder relying on this exemption in connection with the use of such model is an entity that is part of such Trading Permit Holder's consolidated supervised holding company group;

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

(i) the requirements of the Board of Governors of the Federal Reserve System, as amended from time to time, in connection with the calculation of risk-based adjustments to capital for market risk under capital requirements of the Board of Governors of the Federal Reserve System, provided that the Trading Permit Holder or affiliate of a Trading Permit Holder relying on this exemption in connection with the use of such model is an entity that is part of such company's consolidated supervised holding company group; or

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

(4) A pricing model maintained and used by an OTC derivatives dealer registered with the SEC pursuant to SEC Rule 15c3-1(a)(5) in accordance with its internal risk management control system and consistent with the requirements of Appendix F to SEC Rule 15c3-1 and SEC Rule 15c3-4 under the Act, as amended from time to time, in connection with the calculation of risk-

based deductions from capital for market risk thereunder, provided that only such OTC derivatives dealer and no other affiliated entity (including a Trading Permit Holder) may rely on this subparagraph (C)(4); or

(5) A pricing model used by a national bank under the National Bank Act maintained and used in accordance with its internal risk management control system and consistent with the requirements of the Office of the Comptroller of the Currency, as amended from time to time, in connection with the calculation of risk-based adjustments to capital for market risk under capital requirements of the Office of the Comptroller of the Currency, provided that only such national bank and no other affiliated entity (including a Trading Permit Holder) may rely on this subparagraph (C)(5).

(D) Effect on Aggregation of Accounts

(1) Trading Permit Holders, non-Trading Permit Holder affiliates and customers who rely on this exemption must ensure that the permitted pricing model is applied to all positions in or relating to the security underlying the relevant option position that are owned or controlled by such Trading Permit Holder, non-Trading Permit Holder affiliate or customers.

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

(i) the entity demonstrates to the Exchange's satisfaction that no control relationship, as defined in Interpretation .03 above, exists between such affiliates or trading units*; and

(ii) the entity has provided (by the Trading Permit Holder carrying the account as applicable) the Exchange written notice in advance that it intends to be considered separate and distinct from any affiliate or, as applicable, which trading units within the entity are to be considered separate and distinct from each other for purposes of this exemption.

* Note: The Exchange has set forth in Regulatory Circular RG08-12 the conditions under which it will deem no control relationship to exist between affiliates and between separate and distinct trading units within the same entity.

(3) Notwithstanding subparagraph (D)(1) or (D)(2), a Trading Permit Holder, non-Trading Permit Holder affiliate or customer who relies on this exemption shall designate, by prior written notice to the Exchange (to be obtained and provided by the Trading Permit Holder carrying the account as applicable), each trading unit or entity whose option positions are required under Exchange Rules to be aggregated with the option positions of such Trading Permit Holder,

non-Trading Permit Holder affiliate or customer that is relying on this exemption for purposes of compliance with Exchange position limits or exercise limits. In any such case:

(i) the permitted pricing model shall be applied, for purposes of calculating such Trading Permit Holder's, affiliate's or customer's net delta, only to the positions in or relating to the security underlying any relevant option position owned and controlled by those entities and trading units who are relying on this exemption; and

(ii) the net delta of the positions owned or controlled by the entities and trading units who are relying on this exemption shall be aggregated with the non-exempt option positions of all other entities and trading units whose options positions are required under Exchange Rules to be aggregated with the option positions of such Trading Permit Holder, affiliate or customer.

(E) Obligations of Trading Permit Holders

(1) A Trading Permit Holder that relies on this exemption for a proprietary equity options position:

(i) must provide a written certification to the Exchange that it is using a permitted pricing model pursuant to subparagraph (C) above; and

(ii) by such reliance authorizes any other person carrying for such Trading Permit Holder an account including, or with whom such Trading Permit Holder has entered into, a position in or relating to a security underlying the relevant option position to provide to the Exchange or the Clearing Corporation such information regarding such account or position as the Exchange or Clearing Corporation may request as part of the Exchange's confirmation or verification of the accuracy of any net delta calculation under this exemption.

(2) The equity option positions of a non-Trading Permit Holder relying on this exemption must be carried by a Trading Permit Holder with which it is affiliated.

(3) A Trading Permit Holder carrying an account that includes an equity option position for a non-Trading Permit Holder affiliate that intends to rely on this exemption must obtain from such non-Trading Permit Holder affiliate and must provide to the Exchange:

(i) a written certification to the Exchange that the non-Trading Permit Holder affiliate is using a permitted pricing model pursuant to subparagraph (C) above; and

(ii) a written statement confirming that such non-Trading Permit Holder affiliate:

- (a) is relying on this exemption;
- (b) will use only a permitted pricing model for purposes of calculating the net delta of its option positions for purposes of this exemption;
- (c) will promptly notify the Trading Permit Holder if it ceases to rely on this exemption;
- (d) authorizes the Trading Permit Holder to provide to the Exchange or the Clearing Corporation such information regarding positions of the non-Trading Permit Holder affiliate as the Exchange or Clearing Corporation may request as part of the Exchange's confirmation or verification of the accuracy of any net delta calculation under this exemption; and
- (e) if the non-Trading Permit Holder affiliate is using the OCC Model, has duly executed and delivered to the Trading Permit Holder such documents as the Exchange may require to be executed and delivered to the Exchange as a condition to reliance on this exemption.

(4) A Trading Permit Holder carrying an account that includes an equity option position for a customer who intends to rely on this exemption must obtain from such customer and provide to the Exchange:

- (i) a written certification to the Exchange that the customer is using the OCC Model pursuant to paragraph (C)(1) above; and
- (ii) a written statement confirming that such customer:
 - (a) is relying on this exemption;
 - (b) will use only the OCC Model for purposes of calculating the net delta of the customer's option positions for purposes of this exemption;
 - (c) will promptly notify the Trading Permit Holder if the customer ceases to rely on this exemption;
 - (d) in connection with using the OCC Model, has duly executed and delivered to the Trading Permit Holder such documents as the Exchange may require to be executed and delivered to the Exchange as a condition to reliance on this exemption.

(F) Reporting.

Each Trading Permit Holder (other than an Exchange market-maker or DPM using the OCC Model) that holds or carries an account that relies on this exemption shall report, in accordance with Rule 4.13, all equity option positions (including those that are delta neutral) that are reportable thereunder. Each such Trading Permit Holder on its own behalf or on behalf of a designated aggregation unit pursuant to Rule 4.11.04(c)(D) shall also report, in accordance with Rule 4.13, for each such account that holds an equity option position subject to this exemption in excess of the levels specified in this Rule 4.11, the net delta and the options contract equivalent of the net delta of such position.

(G) Records.

Each Trading Permit Holder relying on this exemption shall: (i) retain, and undertake reasonable efforts to ensure that any non-Trading Permit Holder affiliate of the Trading Permit Holder or customer relying on this exemption retains, a list of the options, securities and other instruments underlying each option position net delta calculation reported to the Exchange hereunder, and (ii) produce such information to the Exchange upon request.

.05

(a) The provisions set forth below apply only to Market-Makers seeking an exemption to the standard position limits in all options traded on the Exchange for the purpose of assuring that there is sufficient depth and liquidity in the marketplace, and not to confer a right upon the Market-Maker applying for an exemption. In light of the procedural safeguards, the purpose of this exemption process, and the prohibition against the granting of retroactive exemptions, decisions granting or denying exemptions are not subject to review under Chapter XIX of the Exchange Rules regarding Hearings and Review. The general provisions of the policy are as follows:

(1) An exemption may be granted for the purpose of maintaining a fair and orderly market in the options on a given underlying security.

(2) Generally, an exemption will be granted only to a Market-Maker who has requested an exemption, who holds an appointment to the option class in which the exemption is requested, whose positions are near the current position limit and who is significant in terms of in-person daily volume. The interpretation of this point is that the positions must generally be within 10% of the applicable limits in equity options and 20% of the applicable limits in broad-based index options, bond or note options.

(3) If an exemption is granted, it will be effective at the time the decision is communicated. Retroactive exemptions will not be granted.

(4) The size and length of an exemption will be determined on a case by case basis. (An exemption will usually be granted until the nearest expiration.)

The exemption may specify the extent to which the resulting position may be carried in options in one or more expiration cycles.

(b) The following procedures have been established for Market-Makers nearing the limits due to general market conditions.

(1) A request for an exemption from the established position and exercise limits must be in writing and must state the specific reasons why an exemption should be granted.

(2) The request should be submitted to the Department of Market Regulation.

(3) The Exchange will review, among other factors, such matters as Market-Maker positions, trading activity, and comments by trading crowd members concerning market conditions. The Exchange will determine whether or not an exemption will be granted.

(4) To ensure same day review by the Exchange, exemption requests must be submitted to the Department of Market Regulation no later than 1:00 p.m. The Exchange's review will be conducted informally, and it may receive information in such manner as is most effective, in its discretion, to ascertain whether an exemption is necessary to maintain depth and liquidity in the market.

(5) The Market Regulation staff will communicate the exemption decision to the requesting Market-Maker and his clearing firm as soon as possible, generally on the day following Exchange review.

(6) Ordinarily, a first application will be considered by the Exchange without the presence of the applicant. If a Market-Maker's request for an exemption is denied and he wishes to reapply for an exemption, he may make a brief scheduled personal appearance before the Exchange.

(7) Granted exemptions may be reviewed by the Exchange, which can revoke or modify the exemption. Such reviews may be considered by the Exchange without the presence of the Market-Maker that originally received the exemption. If a granted exemption that is reviewed by the Exchange without the presence of the Market-Maker is revoked or modified and the Market-Maker wishes to reapply for the exemption or a modified exemption, the Market-Maker may make a brief scheduled personal appearance before the Exchange.

(c) Requests for instant exemptions should be made by contacting the Department of Market Regulation. Instant exemption requests will be considered in extraordinary situations, such as an order imbalance, an off-floor executable order in the crowd or position limit restrictions of Market-Makers who are near the limits intraday. Following its immediate review of the situation, the Exchange will make a decision whether an exemption is warranted, in accordance with criteria established by the Exchange. Following its decision, the Exchange will

prepare the proper form and provide a copy to the Market-Maker. Granted instant exemptions may be reviewed by the Exchange, which can revoke or modify the exemption.

(d) A list of current exemptions will be posted in a generally accessible area and will include, but may not be limited to, the following information: the exemption recipient's name and the class, size, and duration of each exemption.

.06 Firm Facilitation Exemption

To the extent that the following procedures and criteria are satisfied, a TPH organization may receive and maintain for its proprietary account an exemption ("facilitation exemption") from the applicable standard position limit in non-multiply-listed Exchange options for the purpose of facilitating, pursuant to the provisions of Rule 6.74(b), (a) orders for its own customer (one that will have the resulting position carried with the firm) or (b) orders received from or on behalf of a customer for execution only against the TPH firm's proprietary account.

(a) The TPH organization must receive approval from the Exchange prior to executing facilitating trades. The facilitation exemption shall be granted to the TPH organization owning or controlling the account in which the exempt option positions are held. For purposes of this Interpretation .06, control shall be determined in accordance with the provision of Interpretation .03 to Rule 4.11. Exchange approval may be given on the basis of verbal representations, in which event the TPH organization shall, within a period of time to be designated by the Exchange, furnish the Department of Market Regulation with appropriate forms and documentation substantiating the basis for the exemption. The approval for the facilitation exemption will specify the maximum number of contracts that may be exempt under this Interpretation. In no event may the aggregate exempted position under this Interpretation and Policy .06 exceed the number of contracts specified in the table as follows:

OPTION TYPE	FIRM FACILITATION EXEMPTION (is in addition to standard limit)
Equity	2 × applicable standard limit
Broad-based index (other than DJX,OEX or SPX)	2 × standard overall limit
Narrow-based (industry or sector) index	2 × applicable standard limit
Flexible Exchange (FLEX)	2 × FLEX standard limit
Interest rate	3 × standard limit
Government securities	2 × standard limit value

EXAMPLE: If a firm desires to facilitate customer order(s) in the XYZ option class, which is assumed to be in a non-multiply listed class of options with a 50,000 contract standard position limit, the firm may qualify for a firm facilitation exemption of up to twice the standard limit or 100,000 contracts.

The facilitation exemption is in addition to the standard limit and other exemptions available under Exchange rules, interpretations and policies. A TPH organization so approved is hereinafter referred to as a “facilitation firm”.

(b) The facilitation firm must provide all information required by the Exchange on approved forms and keep such information current. The facilitation firm shall promptly provide to the Exchange any information or documents requested concerning the exempted options positions and the positions hedging them. A copy of all applicable order tickets must be provided to the Department of Market Regulation on the day of execution.

(c) In addition, the facilitation firm shall comply with the following provisions regarding the execution of its customer’s order and its own facilitating order:

(1) neither order may be contingent on “all or none” or “fill or kill” instructions;

(2) the orders may not be executed until Rule 6.74(b) procedures have been satisfied and crowd members have been given a reasonable time to participate pursuant thereto.

(d) To remain qualified, a facilitation firm must, within five (5) business days after the execution of a facilitation exemption order, hedge all exempt options positions that have not previously been liquidated, and furnish the Department of Market Regulation with documentation reflecting the resulting hedging positions.

(e) The facilitation firm shall:

(1) liquidate and establish its customer’s and its own options and stock positions or their equivalent in an orderly fashion, and not in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes; and not initiate or liquidate its customer’s or its own stock position or its equivalent with an equivalent index option position with a view toward taking advantage of any differential in price between a group of securities and an overlying stock index option;

(2) promptly notify the Exchange of any material change in the exempted options position or the hedge; and

(3) not increase the exempted option position once it is closed unless approval is received again pursuant to a reapplication under this Interpretation.

(f) Violation of any of these provisions, absent reasonable justification or excuse, shall result in withdrawal of the facilitation exemption and may form the basis for subsequent denial of an application for a facilitation exemption hereunder.

.07 The position limits under Rule 4.11 applicable to options on shares or other securities that represent interests in registered investment companies (or series thereof) organized as open- end management investment companies, unit investment trusts or similar entities that satisfy the criteria set forth in Interpretation and Policy .06 under Rule 5.3 shall be the same as the position limits applicable to equity options under Rule 4.11 and Interpretations and Policies thereunder; except that the position limits under Rule 4.11 applicable to option contracts on the securities listed in the below chart are as follows:

Security Underlying Option	Position Limit
The DIAMONDS Trust (DIA)	300,000 contracts
The Standard and Poor's Depository Receipts Trust (SPY)	1,800,000 contracts
The iShares Russell 2000 ETF (IWM)	1,000,000 contracts
The PowerShares QQQ Trust (QQQQ)	1,800,000 contracts
The iShares MSCI Emerging Markets ETF (EEM)	1,000,000 contracts
iShares China Large-Cap ETF ("FXI")	500,000 contracts
iShares MSCI EAFE ETF ("EFA")	500,000 contracts
iShares MSCI Brazil Capped ETF ("EWZ")	500,000 contracts
iShares 20+ Year Treasury Bond Fund ETF ("TLT")	500,000 contracts
iShares MSCI Japan ETF ("EWJ")	500,000 contracts

.08 For purposes of determining compliance with the position limits under this Rule 4.11, ten mini-option contracts (as permitted under Rule 5.5.22) shall equal one standard contract overlying 100 shares.]

[Rule 4.12. Exercise Limits

Except with the prior permission of the President or his designee, to be confirmed in writing, no Trading Permit Holder shall exercise, for any account in which it has an interest or for the account of any customer, a long position in any option contract where such Trading Permit Holder or customer, acting alone or in concert with others, directly or indirectly, (a) has or will have exercised within any five consecutive business days aggregate long positions in any class of

options dealt in on the Exchange in excess of 25,000 or 50,000 or 75,000 or 200,000, or 250,000 option contracts or such other number of options contracts as may be fixed from time to time by the Exchange as the exercise limit for that class of options, or (b) has or will have exceeded the applicable exercise limit fixed from time to time by another exchange for an option class not dealt in on the Exchange, when the Trading Permit Holder is not a member of the other exchange which lists the option class. (c) Reasonable notice shall be given of each new exercise limit fixed by the Exchange by publicly posting notice thereof. Limits shall be determined in the manner described in Interpretation .02 or in the case of a hedged position Interpretation .04 to Rule 4.11 or in the case of facilitation exempted position in accordance with Interpretation .06 to Rule 4.11. Whether option positions should be aggregated under this rule shall be determined in the manner described in Interpretation .03 to Exchange Rule 4.11.

... Interpretations and Policies:

.01 For a Market-Maker granted an exemption to position limits pursuant to Rule 4.11, Interpretation .05, the number of contracts which can be exercised over a five (5) business day period shall equal the Market-Maker's exempted position.

.02 The exercise limits established under Rule 4.12 in respect of options on shares or other securities that represent interests in registered investment companies (or series thereof) organized as open-end management investment companies, unit investment trusts or similar entities that satisfy the criteria set forth in Interpretation and Policy .06 under Rule 5.3 shall be equivalent to the position limits prescribed for such options in Interpretation and Policy .07 under Rule 4.11, subject to any exemptions granted in respect of such position limits.]

[Rule 4.13. Reports Related to Position Limits

(a) In a manner and form prescribed by the Exchange, each Trading Permit Holder shall report to the Exchange, the name, address, and social security or tax identification number of any customer who, acting alone, or in concert with others, on the previous business day maintained aggregate long or short positions on the same side of the market of 200 or more contracts of any single class of option contracts dealt in on the Exchange. The report shall indicate for each such class of options, the number of option contracts comprising each such position and, in the case of short positions, whether covered or uncovered.

(b) In addition to the reporting requirement described in paragraph (a) of this Rule, each Trading Permit Holder (other than an Exchange market-maker or DPM) that maintains a position in excess of 10,000 non-FLEX equity option contracts on the same side of the market on behalf of its own account or for the account of a customer, shall report information as to whether such positions are hedged, and provide documentation to as to how such contracts are hedged, in a manner and form prescribed by the Exchange. In addition, whenever the Exchange determines based on a report to the Department of Market Regulation or otherwise, that a higher margin requirement is necessary in light of the risks associated with an under- hedged Non-FLEX equity option position in excess of 10,000 contracts on the same side of the market, the Exchange may consider imposing additional margin upon the account maintaining such under-hedged position, pursuant to its authority under Exchange Rule 12.10. Additionally, it should be noted that the clearing firm carrying the account will be subject to capital charges under SEC

Rule 15c3-1 to the extent of any margin deficiency resulting from the higher margin requirements.

(c) In addition to the reports required by paragraph (a) of this Rule, each Trading Permit Holder shall report promptly to the Department of Market Regulation any instance in which the Trading Permit Holder has reason to believe that a customer, acting alone or in concert with others, has exceeded or is attempting to exceed the position limits established pursuant to Rule 4.11.

(d) For purposes of this rule, the term “customer” in respect of any Trading Permit Holder shall include the Trading Permit Holder, any general or special partner of the Trading Permit Holder, any officer or director of the Trading Permit Holder, or any participant, as such, in any joint, group or syndicate account with the Trading Permit Holder or with any partner, officer or director thereof.]

[Rule 4.14. Liquidation of Positions

Whenever the President or his designee shall find, on the basis of a report of the Department of Market Regulation or otherwise, that a person or group of persons acting in concert holds or controls, or is obligated in respect of, an aggregate position (whether long or short) in all option contracts of one or more classes or series dealt in on the Exchange in excess of the applicable position limit established pursuant to Rule 4.11, he or his designee may order all Trading Permit Holders carrying a position in option contracts of such classes or series for such person or persons to liquidate such position as expeditiously as possible consistent with the maintenance of an orderly market. Whenever such an order is given by the President or his designee, no Trading Permit Holder shall accept any order to purchase, sell or exercise any option contract for the account of the person or persons named in the order, unless and until the President or his designee expressly approves such person or persons for options transactions.]

[Rule 4.15. Limit on Outstanding Uncovered Short Positions

Whenever it is determined from the reports of uncovered short positions submitted pursuant to Rule 15.3, viewed in light of current market conditions in options and in underlying securities, that there are outstanding an excessive number of uncovered short positions in option contracts of a given class dealt in on the Exchange or that an excessively high percentage of outstanding short positions in option contracts of a given class dealt in on the Exchange are uncovered, the Board may prohibit any further opening writing transactions on any exchange in option contracts of that class unless the resulting short position will be covered, and it may prohibit the uncovering of any existing covered short positions in one or more series of options of that class, as it deems appropriate in the interest of maintaining a fair and orderly market in option contracts or in underlying securities. The Board may exempt transactions of Market- Makers from restrictions imposed under this rule and it shall rescind such restrictions upon its determination that they are no longer appropriate.]

[Rule 4.16. Other Restrictions on Options Transactions and Exercises

(a) The Board shall be empowered to impose such restrictions on transactions or exercises in one or more series of options of any class dealt in on the Exchange as the Board in its judgment deems advisable in the interests of maintaining a fair and orderly market in option contracts or in underlying securities, or otherwise deems advisable in the public interest or for the protection of investors. During the effectiveness of any such restriction, no Trading Permit Holder shall, for any account in which it has an interest or for the account of any customer, engage in any transaction or exercise in contravention of such restriction. Notwithstanding the foregoing, during the ten business days prior to the expiration date of a given series of options, other than index options, no restriction on exercise may be in effect with respect to that series of options. With respect to index options, restrictions on exercise may be in effect until the opening of business on the last business day before the expiration date.

(b) Exercises of American-style, cash-settled index options shall be prohibited during any time when trading in such options is delayed, halted, or suspended, subject to the following exceptions:

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

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

(iii) Exercises of American-style, cash-settled index options shall not be prohibited during a trading halt that occurs at or after 3:00 p.m. (CT). In the event of such a trading halt, exercises may occur through 3:20 p.m. (CT). In addition, if trading resumes following such a trading halt (such as by closing rotation), exercises may occur during the resumption of trading and for five (5) minutes after the close of the resumption of trading. The provisions of this subparagraph (b)(iii) are subject to the authority of the Board to impose restrictions on transactions and exercises pursuant to paragraph (a) of this Rule.

(iv) The President or his designee may determine to permit the exercise of American-style, cash-settled index options while trading in such options is delayed, halted, or suspended.

In the case of an American-style, cash-settled FLEX Index Option, the references in this paragraph (b) to a trading delay, halt, suspension, resumption, or closing rotation shall mean the occurrence of the applicable condition in the standardized option on the index underlying the FLEX Index Option (rather than the occurrence of the applicable condition in the FLEX Index Option itself).

... Interpretations and Policies:

.01 Whenever the issuer of a security underlying a call option traded on the Exchange is engaged or proposes to engage in a public underwritten distribution (“public distribution”) of such underlying security or securities exchangeable for or convertible into such underlying security, the underwriters may request that the Exchange impose restrictions upon all opening writing transactions in such options at a “discount” (as defined below in .02) where the resulting short position will be uncovered (“uncovered opening writing transactions”). Upon receipt of such a request, the Exchange shall impose the requested restrictions as promptly as possible but no earlier than 15 minutes after it has been announced on the floor of the Exchange and shall terminate such restrictions upon request of the underwriters or when the Exchange otherwise discovers that the stabilizing transaction by the underwriters has been terminated. In addition to a request, the following conditions are necessary for the imposition of restrictions:

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

(2) the underwriters agree to notify the Exchange upon the termination of their stabilization activities and

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

.02 For purposes of .01 above, an uncovered opening writing transaction in a call option will be deemed to be effected at a “discount” when the premium in such transaction is either:

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

(ii) in the case of a distribution being offered pursuant to rights, less than the amount by which the underwriters’ stabilization bid in the underlying security at the Subscription Price exceeds the exercise price of such option.]

[Rule 4.17. Restriction of Out-of-the-Money Options

... Interpretations and Policies:

.01 Deleted October 31, 1980.

.02 Deleted October 31, 1980.]

[Rule 4.18. Prevention of the Misuse of Material, Nonpublic Information

Every Trading Permit Holder shall establish, maintain and enforce written policies and procedures reasonably designed, taking into consideration the nature of such Trading Permit Holder’s business, to prevent the misuse, in violation of the Exchange Act and Exchange Rules, of material, nonpublic information by such Trading Permit Holder or persons associated with

such Trading Permit Holder. Trading Permit Holders that are required, pursuant to Exchange Rule 15.5, to file SEC Form X-17A-5 with the Exchange on an annual basis only, shall, contemporaneously with those submissions, file attestations signed by such Trading Permit Holders stating that the procedures mandated by this Rule have been established, enforced and maintained. Any Trading Permit Holder or associated person who becomes aware of a possible misuse of material, nonpublic information must promptly notify the Exchange's Department of Market Surveillance.

... Interpretations and Policies:

.01 For purposes of this Rule, conduct constituting the misuse of material, nonpublic information in violation of the Exchange Act and Exchange Rules includes, but is not limited to, the following:

(A) trading in any securities issued by a corporation, partnership, Trust Issued Receipts, or Units, as defined in Rule 5.3 Interpretations and Policies .06, .07, or .10 thereunder or a trust or similar entities, or in any related securities or related options or other derivative securities, or in any related non-U.S. currency, non-U.S. currency options, futures or options on futures on such currency, or any other derivatives based on such currency, or in any related commodity, related commodity futures or options on commodity futures or in any related commodity derivatives, while in possession of material, nonpublic information concerning that corporation, partnership, Trust Issued Receipts, or those Units or that trust or similar entities;

(B) trading in an underlying security or related options or other derivative securities, or in any related non-U.S. currency, non-U.S. currency options, futures or options on futures on such currency, or in any related commodity, related commodity futures or options on commodity futures or any other related commodities derivatives, or any other derivatives based on such currency while in possession of material nonpublic information concerning imminent transactions in the above; and

(C) disclosing to another person or entity any material, nonpublic information involving a corporation, partnership, Trust Issued Receipts, or Units or a trust or similar entities whose shares are publicly traded or an imminent transaction in an underlying security or related securities or in the underlying non-U.S. currency or any related non-U.S. currency options, futures or options on futures on such currency, or any other derivatives based on such currency, or in any related commodity, related commodity futures or options on commodity futures or any other related commodity derivatives, for the purpose of facilitating the possible misuse of such material, nonpublic information.

.02 Rule 4.18 requires that each Trading Permit Holder establish, maintain, and enforce the following policies and procedures:

(1) All associated persons must be advised in writing of the prohibition against the misuse of material, nonpublic information;

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

(3) records of all brokerage accounts maintained by the Trading Permit Holder and all associated persons must be acquired and maintained for at least 3 years, the first 2 years in an easily accessible place;

(4) such brokerage accounts must be reviewed periodically by the Trading Permit Holder for the purpose of detecting the possible misuse of material, nonpublic information; and

(5) any business dealings the Trading Permit Holder may have with any corporation whose securities are publicly traded, or any other circumstances that may result in the Trading Permit Holder receiving, in the ordinary course of business, material, nonpublic information concerning any such corporation, must be identified and documented.

Maintenance of the foregoing policies and procedures will not, in all cases, satisfy the requirements of Rule 4.18; the adequacy of each Trading Permit Holder's policies and procedures will depend upon the nature of such Trading Permit Holder's business. The Exchange may determine that policies and procedures less burdensome than those set forth herein would be appropriate for certain Trading Permit Holders, given the nature of such Trading Permit Holder's business.

.03 The Exchange has developed a form, denominated OE-418, that may be used by certain individual Trading Permit Holders and small TPH organizations to satisfy the filing and record-keeping requirements of Rule 4.18. Qualified Trading Permit Holders that file the form in an accurate and timely manner and comply with the policies and procedures mandated by that form will be deemed to be in compliance with the filing and record-keeping requirements of the Rule. The Exchange will issue regulatory circulars from time to time setting forth the criteria that must be met by individual Trading Permit Holders and small TPH organizations seeking to rely on the form, and describing the policies and procedures mandated by that form.]

[Rule 4.19. Prohibition Against Harassment

Practices involving harassment, threats, intimidation, collusion, refusals to deal, or retaliation that have the intended purpose or effect of discouraging a Trading Permit Holder or other market participant from acting, or seeking to act, competitively are prohibited under this Rule and shall be deemed conduct inconsistent with just and equitable principles of trade under Rule 4.1.

... Interpretations and Policies:

.01 Among the specific types of conduct that are prohibited by this Rule and which shall be deemed conduct inconsistent with just and equitable principles of trade are harassment, threats, intimidation, collusion, refusals to deal, or retaliation against any person or entity in connection with (i) a listing proposal made by such person or entity to any exchange or other market; (ii) such person's or entity's advocacy or proposal concerning listing or trading on any exchange or market; and (iii) such person or entity making markets in or trading any option on any exchange

or other market, that have the intended purpose or effect of discouraging such person or entity from acting, or seeking to act, competitively.]

[Rule 4.20. Anti-Money Laundering Compliance Program

Each TPH organization and each Trading Permit Holder not associated with a TPH organization shall develop and implement a written anti-money laundering program reasonably designed to achieve and monitor compliance with the requirements of the Bank Secrecy Act (31 U.S.C. 5311, et seq.), and the implementing regulations promulgated thereunder by the Department of the Treasury. Each TPH organization's anti-money laundering program must be approved, in writing, by a member of senior management.

The anti-money laundering programs required by this Rule shall, at a minimum:

(1) Establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. 5318(g) and the implementing regulations thereunder;

(2) Establish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder;

(3) Provide for annual (on a calendar-year basis) independent testing for compliance to be conducted by Trading Permit Holder or TPH organization personnel or by a qualified outside party, unless the Trading Permit Holder or TPH organization does not execute transactions for customers or otherwise hold customer accounts or act as an introducing broker with respect to customer accounts (e.g., engages solely in proprietary trading or conducts business only with other broker-dealers), in which case such "independent testing" is required every two years (on a calendar-year basis); provided however, all Trading Permit Holder or TPH organizations must conduct independent testing during the first calendar year of becoming a Trading Permit Holder or TPH organization;

(4) Designate, and identify to the Exchange (by name, title, mailing address, e-mail address, telephone number, and facsimile number) a person or persons responsible for implementing and monitoring the day-to-day operations and internal controls of the program (such individual or individuals must be an associated person of the Trading Permit Holder) and provide prompt notification to the Exchange regarding any change in such designation(s); and

(5) Provide ongoing training for appropriate persons.

... Interpretations and Policies:

.01 Independent Testing Requirements

(a) All Trading Permit Holders should undertake more frequent testing than required by this rule if circumstances warrant.

(b) Independent testing pursuant to this rule must be conducted by a designated person with a working knowledge of applicable requirements under the Bank Secrecy Act and its implementing regulations.

(c) Independent testing may not be conducted by:

- (1) a person who performs the functions being tested, or
- (2) the designated anti-money laundering compliance person, or
- (3) a person who reports to a person described in either (1) or (2) above.]

[Rule 4.21. Third Party Deposits Prohibited

TPH organizations engaged in the business of clearing and carrying the accounts of options Market-Makers (“Clearing Firms”) registered to conduct business on the Exchange are subject to the following prohibitions:

(1) The acceptance of a check or funds transfer for deposit into any broker-dealer account cleared or carried by a Clearing Firm is prohibited if the name on the account from which the check or transfer is drawn is not the same as that on the account cleared or carried by the Clearing Firm.

(2) The acceptance of securities, either directly or via transfer, for deposit into any broker-dealer account cleared or carried by a Clearing Firm is prohibited if the name on the securities, or the name on the account from which the securities are drawn, is not the same as that on the account cleared or carried by the Clearing Firm.

... Interpretations and Policies:

.01 The foregoing prohibitions do not apply to checks, funds or securities for deposit to a Market-Maker’s account that are drawn on a joint account of which the Market-Maker is one of the joint owners, and the title of the Market-Maker’s account with the Clearing Firm coincides with the Market-Maker’s designation on the joint account.

.02 The foregoing prohibitions do not apply to checks, funds or securities for deposit into the account of a U.S. broker-dealer business entity if the depositor (i) has an ownership interest disclosed on Schedule A of the broker-dealer’s Uniform Application for Broker-Dealer Registration (“Form BD”), or (ii) is a U.S. broker-dealer and has an ownership interest disclosed on Schedule B of Form BD.

.03 The foregoing prohibitions do not apply to checks or funds transfers for deposit to a broker-dealers account: (i) that constitute an award or settlement paid as the result of the resolution of litigation or arbitration which arose in connection with the broker-dealer’s securities or futures business; (ii) that are drawn on an account of the government of the United

States; or (iii) that are drawn on the account of another broker-dealer for satisfaction of the resolution of transaction disputes.

.04 If immediate action is required in order for an account of a broker-dealer cleared and carried by a Clearing Firm to (i) establish a positive net liquidating equity or supplement equity when required based upon internal risk control procedures of the Clearing Firm, or (ii) achieve compliance with SEC Rule 15c3-1 (the Net Capital Rule), an officer or partner of a Clearing Firm may grant an exception, which must be in writing, with respect to any transaction prohibited by this Rule 4.21.

.05 Transfers of funds or securities between two accounts cleared and carried by the same Clearing Firm are permitted provided that, if both accounts are not owned by the same person(s) or entity, the transfer must be authorized in writing by the owner of the account from which funds and/or securities would be withdrawn.

.06 Documentation evidencing any exceptions granted pursuant to Interpretation and Policy .04 above, and documents evidencing that deposits qualify for acceptance pursuant to Interpretation and Policy .03 above, as well as documents authorizing transfers of funds or securities between accounts pursuant to Interpretation and Policy .05 above, shall be retained by the Clearing Firm for at least three years, the first two years in an easily accessible place for examination by the Exchange. In lieu of having the documents easily accessible, a Clearing Firm may make and keep current a separate central log, index or other file through which the documents can be identified and retrieved.]

[Rule 4.22. Communications to the Exchange or the Clearing Corporation

No Trading Permit Holder, person associated with a Trading Permit Holder or applicant to be a Trading Permit Holder shall make any misrepresentation or omission in any application, report or other communication to the Exchange, or to the Clearing Corporation with respect to the reporting or clearance of any Exchange transaction, or adjust any position at the Clearing Corporation in any class of options traded on the Exchange except for the purpose of correcting a bona fide error in recording or of transferring the position to another account. Violations of this Rule may be subject to summary fine under Exchange Rule 17.50(g)(11).

... Interpretations and Policies:

.01 The Exchange will distinguish misrepresentations and omissions from willful or material misrepresentations and omissions. Willful or material misrepresentations and omissions may be considered a violation of Exchange Rule 4.6.]

[Rule 4.23. Unbundling of Orders to Maximize Rebates of Fees

No Trading Permit Holder shall divide an order into multiple smaller orders for the primary purpose of maximizing rebates of fees resulting from the execution of such orders, or any other similar payment of value to the Trading Permit Holder.]

[Rule 4.24. Supervision

(a) General

Each office, location, department, business activity, trading system, and internal surveillance system of a Trading Permit Holder shall be under the supervision and control of the Trading Permit Holder establishing it and of an appropriately qualified supervisor, as described in paragraph (c) below.

Each Trading Permit Holder and associated persons of a Trading Permit Holder shall be under the supervision and control of an appropriately qualified supervisor, as described in paragraph (c) below.

(b) Designation of Supervisor by Trading Permit Holder

The general partners or directors of each Trading Permit Holder shall provide for appropriate supervisory control and shall designate a general partner or principal executive officer to assume overall authority and responsibility for internal supervision and control of the organization and compliance with applicable securities laws and regulations, and with applicable Exchange rules. The person designated shall:

(1) Delegate to qualified principals responsibility and authority for supervision and control of each office, location, department, business activity, trading system, and internal surveillance system and provide for appropriate written procedures of supervision and control; and

(2) Establish a separate system of follow-up and review to determine that the delegated authority and responsibility is being properly exercised.

(c) Qualification of Supervisor

Each Trading Permit Holder must make reasonable efforts to determine that each person with supervisory control, as described in paragraphs (a) and (b) above, is qualified by virtue of experience or training to carry out his or her assigned responsibilities. Persons with supervisory control must meet the Exchange's qualification requirements for supervisors, including completion of the appropriate examination(s).

(d) Standards of Supervision

Each person with supervisory control as described in paragraphs (a) and (b) above, shall reasonably discharge his or her duties and obligations in connection with such supervision and control in order to prevent and detect violations of applicable securities laws and regulations, and applicable Exchange rules.

(e) Written Supervisory Procedures

Each Trading Permit Holder shall establish, maintain, and enforce written supervisory procedures, and a system for applying such procedures, to supervise the types of business in

which the Trading Permit Holder engages and to supervise the activities of all associated persons. The written supervisory procedures and the system for applying such procedures shall reasonably be designed to prevent and detect violations of applicable securities laws and regulations, and applicable Exchange rules.

The written supervisory procedures shall set forth the supervisory system established by the Trading Permit Holder pursuant to this rule. Each Trading Permit Holder shall keep a record of the name, title, registration status, and location of all supervisory personnel required by this rule, the dates for which supervisory designations were or are effective, and the responsibilities of the supervisory personnel as these relate to the types of business the Trading Permit Holder engages in, and applicable securities laws and regulations, including applicable Exchange rules. This record must be preserved for a period of not less than three years, the first two in an easily accessible place.

A copy of the written supervisory procedures shall be kept and maintained at each location where supervisory activities are conducted on behalf of the Trading Permit Holder. Each Trading Permit Holder shall amend its written supervisory procedures as appropriate within a reasonable time after changes occur in applicable securities laws and regulations, Exchange rules, and as any changes occur in supervisory personnel or supervisory procedures. Each Trading Permit Holder shall be responsible for communicating such changes through its organization within a reasonable time.

(f) Office Inspections

Each Trading Permit Holder shall inspect every office or location of the Trading Permit Holder at least once every three calendar years. An inspection may not be conducted by any person within that office or location who has supervisory responsibilities or by any individual who is directly or indirectly supervised by such person(s). In establishing the inspection cycle, the Trading Permit Holder shall give consideration to the nature and complexity of the securities activities for which the office or location is responsible, the volume of business done, and the number of associated persons at each office or location. The examination schedule and an explanation of the factors considered in determining the frequency of the examinations in the cycle shall be set forth in the Trading Permit Holder's written supervisory procedures.

Such inspection shall be reasonably designed to assist in preventing and detecting violations of, and achieving compliance with, applicable securities laws and regulations, and with applicable Exchange rules.

Each Trading Permit Holder shall retain a written record of the dates upon which each inspection is conducted, the participants in the inspection, and the results thereof.

(g) Annual Review and Written Report

(1) At least annually, each Trading Permit Holder shall conduct an interview or meeting with all associated persons, at which compliance matters relevant to the activities of the associated person are discussed. Each Trading Permit Holder shall retain a written record of the dates upon which each interview

or meeting occurred, the participants in the interview or meeting, and the results thereof; and

(2) By April 1 of each year, each Trading Permit Holder shall submit to the Exchange a written report on the Trading Permit Holder's supervision and compliance effort during the preceding year and on the adequacy of the Trading Permit Holder's ongoing compliance processes and procedures. The report shall include, but not be limited to, the following:

(A) A tabulation of customer complaints (including arbitrations and civil actions) and internal investigations, if any.

(B) Identification and analysis of significant compliance problems, plans for future systems or procedures to prevent and detect violations and problems, and an assessment of the proceeding year's efforts of this nature.

(C) Discussion of the preceding year's compliance efforts, new procedures, educational programs, etc. in each of the following areas: (1) antifraud and trading practices; (2) books and records; (3) finance and operations; (4) supervision; (5) internal controls; and (6) anti-money laundering. If any of these do not apply to the Trading Permit Holder, the report shall so state.

(D) A certification signed by the Trading Permit Holder's Chief Executive Officer (or equivalent officer) that:

(i) The Trading Permit Holder has in place processes to:

(1) establish and maintain policies and procedures reasonably designed to achieve compliance with applicable Exchange Rules and federal securities laws and regulations,

(2) modify such policies and procedures as business, regulatory and legislative changes and events dictate, and

(3) test the effectiveness of such policies and procedures on a periodic basis, the timing and extent of which is reasonably designed to ensure continuing compliance with Exchange Rules and federal securities laws and regulations.

(ii) (The Chief Executive Officer (or equivalent officer) conducted one or more meetings with the Trading Permit Holder's Chief Compliance Officer during the preceding 12 months, and that they discussed and reviewed the matters described in this certification, including the Trading Permit Holder's prior compliance efforts, and identified and addressed significant compliance problems and plans for emerging business areas.

(iii) The processes described in paragraph (g)(2)(D)(i) of this Rule are evidenced in a report reviewed by the Chief Executive Officer (or equivalent officer), Chief Compliance Officer and such other officers as the Trading Permit Holder may deem necessary to make this certification, and submitted to the Trading Permit Holder's board of directors or audit committee (or equivalent bodies) on or before April 1st of each year.

(iv) The Chief Executive Officer (or equivalent officer) has consulted with the Chief Compliance Officer and other officers referenced in paragraph (g)(2)(D)(iii) of this Rule and other such employees, outside consultants, lawyers and accountants, to the extent they deem appropriate, in order to attest to the statements made in this certification.

(3) A Trading Permit Holder that specifically includes its options compliance program within an annual compliance review and written report that complies with substantially similar requirements of the Financial Industry Regulatory Authority or any other self-regulatory organization will be deemed to have met the requirements of this Rule 4.24(g), however the Trading Permit Holder must submit a copy of such written report to the Exchange by April 1 of each year.]

[Rule 4.25. Proxy Voting

(a) No Trading Permit Holder may give a proxy to vote stock that is registered in its name, unless:

(1) such Trading Permit Holder is the beneficial owner of such stock;

(2) pursuant to the written instructions of the beneficial owner; or

(3) pursuant to the rules of any national securities exchange or association of which it is a member provided that the records of the Trading Permit Holder clearly indicate the procedure it is following

(b) Notwithstanding the foregoing, a Trading Permit Holder that is not the beneficial owner of a security registered under Section 12 of the Exchange Act is prohibited from granting a proxy to vote the security in connection with a shareholder vote on the election of a member of the board of directors of an issuer (except for a vote with respect to uncontested election of a member of the board of directors of any investment company registered under the Investment Company Act of 1940), executive compensation, or any other significant matter, as determined by the Commission, by rule, unless the beneficial owner of the security has instructed the Trading Permit Holder to vote the proxy in accordance with the voting instructions of the beneficial owner.]

* * * * *

[Rule 6.8. Prohibition Against Customers Functioning as Market-Makers

(a) TPH organizations may neither enter nor permit the entry of priority customer orders into the Hybrid System if (1) the orders are limit orders for the account or accounts of the same beneficial owner(s) and (2) the limit orders are entered in such a manner that the beneficial owner(s) effectively is operating as a market maker by holding itself out as willing to buy and sell such securities on a regular or continuous basis.

(b) In determining whether a beneficial owner effectively is operating as a market maker, the Exchange will consider, among other things, the simultaneous or near simultaneous entry of limit orders to buy and sell the same security and the entry of multiple limit orders at different prices in the same security.]

* * * * *

[Rule 6.22. Trading by Trading Permit Holders on the Floor

No Trading Permit Holder shall initiate a transaction, while on the floor, for an account in which he has an interest unless such Trading Permit Holder is registered with the Exchange as a Market-Maker and is acting in accordance with Chapter VIII of these Rules; however, a Trading Permit Holder may take into his own account, and subsequently liquidate, any position that results from an error made while attempting to execute, as Floor Broker, an order for a customer.]

* * * * *

[Rule 6.55. Multiple Representation Prohibited

(a) No Trading Permit Holder, for any account in which the Trading Permit Holder has an interest or on behalf of a customer, shall maintain with more than one broker orders for the purchase or sale of the same option contract or other security, or the same combination of option contracts or other securities, with the knowledge that such orders are for the account of the same principal.

(b) Except in accordance with procedures established by the Exchange or with the Exchange's permission in individual cases, no individual Market-Maker shall enter or be present in a trading crowd while a Floor Broker present in the trading crowd is holding an order on behalf of the Market-Maker's individual account or an order initiated by the Market-Maker for an account in which the Market-Maker has an interest.

.. . Interpretations and Policies:

.01 An individual Market-Maker may permissibly enter a trading crowd in which a Floor Broker is present who holds an order on behalf of the Market-Maker's individual account or an order initiated by the Market-Maker for an account in which the Market-Maker has an interest if one of the following procedures is followed:

(a) The Market-Maker cancels the order prior to entering the trading crowd or the Market-Maker makes the Floor Broker aware of the Market-Maker's intention to enter the

trading crowd and the Floor Broker cancels the order. If the Market-Maker wishes to re-enter the order upon the Market-Maker's exit from the trading crowd, a new order must be entered.

(b) The Market-Maker makes the Floor Broker aware of the Market-Maker's intention to enter or to be present in the trading crowd and the Market-Maker refrains from trading in-person on the same trade as the order being represented by the Floor Broker unless other in- crowd market participants choose not to trade the remaining portion of the order.

.02 The following procedures apply to the simultaneous presence in a trading crowd of participants in and orders for the same joint account:

(a) Joint accounts may be simultaneously represented in a trading crowd by participants trading in-person for the joint account.

(b) Joint account participants who are not trading in-person in a trading crowd may enter orders for the joint account with Floor Brokers even if other participants are trading the same joint account in-person.

(c) When series are simultaneously opened during rotation, joint account participants trading the joint account in-person may enter orders for the joint account with Floor Brokers in series where they are unable to trade the joint account in-person.

(d) There is no restriction on the number of joint account participants that may participate on behalf of the joint account on the same trade.

(e) When joint account participants are trading in-person in a trading crowd for their individual account or as a Floor Broker, another participant of the joint account may trade for the joint account in-person or enter orders for the joint account with Floor Brokers.

(f) Except as otherwise permitted under Rule 6.55, Trading Permit Holders are reminded that they are prohibited from entering orders for their individual or joint accounts while they are trading in-person in a trading crowd even if the orders are for an account they are not then actively trading.

(g) Trading Permit Holders must ensure that they do not trade in-person or by orders such that (i) a trade occurs between a joint account participant's individual market-maker account and the joint account of which he or she is a participant, or (ii) a trade occurs in which the buyer and seller are representing the same joint account and are on opposite sides of a transaction. It is the responsibility of a joint account participant to ascertain whether joint account orders have been entered in a crowd prior to trading the joint account in-person.

(h) Joint account participants may not act as a Floor Broker for the joint account of which they are a participant.

(i) Trading Permit Holders may alternate trading in-person for their individual account and their joint account while in a trading crowd.

(j) When completing a trade ticket for Market-Maker joint account transactions, it must contain such information as may be required by the Exchange under Rule 6.51(d).]

* * * * *

[Rule 10.3. Failure to Pay Premium

When the Clearing Corporation shall reject an Exchange transaction because of the failure of the Clearing Trading Permit Holder acting on behalf of the purchaser to pay the aggregate premiums due thereon as required by the Rules of the Clearing Corporation, the Trading Permit Holder acting as or on behalf of the writer shall have the right either to cancel the transaction by giving notice thereof to the Clearing Trading Permit Holder or to enter into a closing writing transaction in respect of the same option contract that was the subject of the rejected Exchange transaction for the account of the defaulting Clearing Trading Permit Holder. Such action shall be taken as soon as possible, and in any event not later than 10:00 A.M. on the business day following the day the Exchange transaction was rejected by the Clearing Corporation.]

* * * * *

[Rule 20.6. Position Limits

(a) In determining compliance with Rules 4.11, 24.4, 24.4A, and 24.4B, cash-settled Range Option contracts shall have a position limit equal to those for options on the same underlying index.

(b) In determining compliance with the position limits set forth in paragraph (a), Range Options shall be aggregated with option contracts on the same underlying index, including other classes of Range Options overlying the same index.]

[Rule 20.7. Reports Related to Position Limits and Liquidation of Positions

Range Options shall be subject to the same reporting and other requirements triggered for options on the same underlying index. In computing reportable Range Options, Range Options shall be aggregated with option contracts on the same underlying index, including other classes of Range Options overlying the same index.]

[Rule 20.8. Exercise Limits

Exercise limits for Range Options shall be the same as those for options on the same underlying index.]

* * * * *

[Rule 21.3. Position Limits (Treasury Bonds and Notes)

(a) Establishment of Position Limit. In determining compliance with Rule 4.11, options on a Treasury security shall be subject to a contract limitation (whether long or short) of

the put type and the call type on the same side of the market covering a value no greater than 10% of the value of the initial or reopened public issuance, rounded to the next lower \$100 million interval, combining for purposes of this position limit long positions in put options with short positions in call options, and short positions in put options with long positions in call options, or such other lower amount of options as may be fixed from time to time by the Exchange as the position limit for one or more classes or series of options. Reasonable notice shall be given of each new position limit fixed by the Exchange, by posting notice thereof on the bulletin board of the Exchange. In no event shall the position limit exceed a position on either side of the market covering a value in excess of \$1,200,000,000 of the underlying securities.

(b) Maintenance of Position Limit. In the event that any of the underlying Treasury Securities are reported as “separate trading of registered interest and principal of securities” (“strips”) in the Monthly Statement of the Public Debt of the United States Government (hereinafter “Monthly Report”), or such other report or compilation as may be selected from time to time by the Exchange, such stripping shall be taken into account in determining whether the position limit as initially established under paragraph (a) (“the established position limit”) can be maintained (the remaining non-stripped underlying securities are hereinafter referred to as “the non-stripped securities”). The established position limit may remain so long as the position limit covers a principal amount of underlying securities not in excess of 12% of the non-stripped securities. In the event that the established position limit covers a principal amount of securities in excess of 12% of the non-stripped securities, the Exchange shall reestablish the position limit to cover a principal amount of underlying securities not in excess of 12% of the non-stripped securities. Revisions to the position limits as provided herein will become effective the Monday following the provision of notice thereof. Except as otherwise exempted under Rule 4.11, persons whose positions exceed revised position limits may only engage in liquidating transactions until their positions are lower than the revised position limits.]

[Rule 21.4. Exercise Limits (Treasury Bonds and Notes)

In determining compliance with Rule 4.12, exercise limits for options on a Treasury security shall be equivalent to the position limits prescribed in Rule 21.3.]

[Rule 21.5. Reports Related to Position Limits and Liquidation of Positions (Treasury Bonds and Notes)

For purposes of Rules 4.13 and 4.14, references to Rule 4.11 in connection with position limits shall be deemed, in the case of Treasury security options, to be to Rule 21.3. The reference in Rule 4.13(a) to reports required of positions of 200 or more options shall, in the case of Treasury security options, be revised to positions of options covering \$20 million or more principal amount of underlying Treasury securities, for example, the 14% bonds due in the year 2011.

Rule 21.5 supplements Rules 4.13 and 4.14.]

* * * * *

[Rule 22.6. Position Limits

(a) Fixed Limit. In determining compliance with Rule 4.11, the position limit for binary options on a broad-based index for which traditional options on the same broad-based index have no position limit, as set forth in Rule 24.4, shall be 15,000 contracts, provided that the exercise settlement amount is \$10,000. For binary options that have an exercise settlement amount that is not equal to \$10,000, the position limit shall be 15,000 times the ratio of 10,000 to the exercise settlement amount (e.g., if the binary option exercise settlement amount is \$1,000, then the position limit is 150,000 contracts. If the binary option exercise settlement amount is \$12,000, then the position limit is 12,500 contracts).

(b) Formulaic Limit. For binary options on a broad-based index for which traditional options on the same broad-based index have a position limit, as set forth in Rule 24.4, the position limit shall be calculated in accordance with the following methodology:

(1) Determine the Market Capitalization of the S&P 500 Index.

(2) Determine the Market Capitalization of the broad-based index underlying the binary option.

(3) Calculate the Market Capitalization Ratio of the broad-based index underlying the binary option to the Market Capitalization of the S&P 500 Index.

(4) The position limit for binary options subject to a formulaic limit with an exercise settlement amount of \$10,000 shall be:

(i) 10,000 contracts if the Market Capitalization Ratio is greater than or equal to 0.50;

(ii) 5,000 contracts if the Market Capitalization Ratio is less than 0.50 but greater than or equal to 0.25;

(iii) 2,500 contracts if the Market Capitalization Ratio is less than 0.25 but greater than or equal to 0.10.

(iv) The Exchange will seek Commission approval prior to establishing position limits for binary options on broad-based indexes that have a Market Capitalization Ratio that is less than 0.10.

(5) For binary options that have an exercise settlement amount that is not equal to \$10,000, the position limit shall be the ratio of 10,000 to the exercise settlement amount multiplied by the applicable formulaic limit.

(c) Positions in binary options on the same broad-based index that have different exercise settlement amounts shall be aggregated.

(d) In determining compliance with the position limits set forth in this Rule 22.6, binary options shall not be aggregated with non-binary option contracts on the same or similar

underlying security or broad-based index. In addition, binary options on broad-based indexes shall not be aggregated with non-binary option contracts on an underlying stock or stocks included within such broad-based index, and binary options on one broad-based index shall not be aggregated with binary options on any other broad-based index.

(e) For purposes of the position limits established under this Rule, long positions in put binary options and short positions in call binary options shall be considered to be on the same side of the market; and short positions in put binary options and long positions in call binary options shall be considered to be on the same side of the market.

(f) Binary options shall not be subject to the hedge exemption to the standard position limits found in Rule 4.11. The following qualified hedge exemption strategies and positions shall be exempt from the established position limits as prescribed in the Rule above. For purposes of this Rule, qualified hedge strategies or positions are defined as follows:

(1) A binary option position “hedged” or “covered” by an appropriate amount of cash to meet the settlement obligation (e.g., \$1,000 for a binary option with an exercise settlement amount of \$1,000).

(2) A binary option position “hedged” or “covered” by a sufficient amount of a related or similar security to meet the settlement obligation.

(3) A binary option position “hedged” or “covered” by a traditional option covering the same underlying broad-based index sufficient to meet the settlement obligation.]

[Rule 22.7. Exercise Limits

Binary options are not subject to exercise limits.]

[Rule 22.8. Reports Related to Position Limits and Liquidation of Positions

References in Rules 4.13 and 4.14 to Rule 4.11 in connection with position limits shall be deemed, in the case of binary options, to be to Rule 22.6. In computing reportable binary options under Rule 4.13: (a) positions in binary options on the same broad-based index that have different exercise settlement amounts shall be aggregated, (b) positions in binary options shall not be aggregated with non-binary option contracts on the same or similar underlying security or broad-based index, (c) positions in binary options on broad-based indexes shall not be aggregated with non-binary option contracts on an underlying stock or stocks included within such broad-based index, and (d) positions in binary options on one broad-based index shall not be aggregated with binary options on any other broad-based index.]

[Rule 22.9. Other Restrictions on Binary Option Transactions

Binary options are not subject to Rule 4.16(b) and Interpretation and Policy .01 under Rule 4.16.]

* * * * *

[Rule 23.3. Position Limits

(a) In determining compliance with Rule 4.11, interest rate options shall be subject to a contract limitation (whether long or short) of the put class and the call class on the same side of the market covering no more than (1) 5,000 contracts in the case of an option on an interest rate measure respecting a short term Treasury Security or Securities and (2) 25,000 contracts in the case of an option on an interest rate measure respecting a long term Treasury Security or Securities.

(b) Bona fide hedging positions that are traded on the Exchange and held in the aggregate by a public customer (whose orders would be eligible to be placed on the book under Rule 6.11) are exempt from subsection (a)(2) of Rule 23.3 to the extent that the following procedures and criteria are satisfied:

(i) Only the following bona fide hedging transactions and positions are eligible for exemption hereunder:

(A) Long call(s) used to hedge a long position in a qualified portfolio (as defined below in subpart (ii) of this paragraph (b));

(B) Long put(s) used to hedge a short position in a qualified portfolio;

(C) Short put(s) used to hedge a long position in a qualified portfolio (a “covered yield write position”);

(D) Short call(s) used to hedge a short position in a qualified portfolio;

(E) A covered yield write position accompanied by long call(s) where the short put(s) expire with the long call(s), and the strike price of the short put(s) equals or is less than the strike price of the long call(s);

(F) A long call position coupled with a short call position, where the short call(s) expires with the long call(s), and the strike price of the long call(s) equals or is less than the strike price of the short call(s), and where the total position is used to hedge a long position in a qualified portfolio (a “debit yield call spread position”);

(G) A covered yield write position accompanied by a debit yield call spread position, where the short put(s) expires with the call(s) and the strike price of the short put(s) equals or is less than the strike price of the long call(s).

(ii) (A “qualified portfolio,” as that term is used in this Rule 23.3, is a portfolio of net long or short positions in long-term Treasury Securities.

(iii) The customer must receive approval for the hedge exemption from the Department of Market Regulation. Exchange approval may be granted on the basis of verbal representations, in which event the customer shall, within a time period to be designated by the Exchange, furnish the Department of Market Regulation with

appropriate forms and documentation substantiating the basis for the exemption. Where applicable, the hedge exemption shall be granted to an individual or organization controlling or managing the customer account in which the exempt option positions are held (the “money manager”). For purposes of this Paragraph (iii), control shall be determined as provided in Interpretation .03 to Rule 4.11 and positions in all accounts controlled or managed by the money manager shall be aggregated for position limit purposes. In no event shall any money manager hold (A) in its aggregated accounts, more than 125,000 exempted same- side of the market option contracts or (B) in any single account, more than 75,000 exempted same-side of the market option contracts. A customer or money manager that obtains Exchange approval for the hedge exemption is hereinafter referred to as a “hedge exemption market participant.”

(iv) The hedge exemption market participant must provide all information required on Exchange-approved forms and must keep such information current.

(v) The hedge exemption applies to positions in Interest Rate options to the extent the underlying value thereof does not exceed the unhedged value of the qualified portfolio. The unhedged value is determined as follows: (1) the values of the net cash position for each of the securities in the qualified portfolio are totaled; and (2) the value of (a) any opposite side of the market calls and puts in the given Interest Rate option, (b) any opposite side of the market positions in corresponding Treasury futures, and (c) any economically equivalent opposite side of the market positions in other Interest Rate options and Treasury futures is subtracted from the total. In no event may exempted positions hereunder exceed 75,000 same-side of the market option contracts except as provided in the provisions of subparts (iii)(A) and (iii)(B) of this Paragraph (b).

(vi) The hedge exemption market participant shall agree promptly to provide the Exchange with any information requested concerning the dollar value and composition of the market participant’s portfolio, the current hedged and aggregate options positions, and any Treasury futures positions.

(vii) The hedge exemption market participant shall agree to, and any Trading Permit Holder carrying an account for the hedge exemption market participant, shall:

(A) liquidate and establish options and corresponding Treasury positions in an orderly fashion; not initiate or liquidate positions in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes; and not initiate or liquidate a securities position or its equivalent option position with a view toward taking advantage of any differential in price between a Treasury security or group of Treasury securities and an overlying option;

(B) liquidate any options prior to or contemporaneously with a decrease in the hedged value of the qualified portfolio where the failure to liquidate the options would cause the underlying value of the options to exceed the value of the hedged securities; and

(C) promptly notify the Exchange of any material change in the value of the qualified portfolio or the options or futures positions that materially affects the unhedged value of the portfolio.

(viii) If any Trading Permit Holder or TPH organization carrying an account for a hedge exemption market participant that includes Interest Rate option positions established on the Exchange has reason to believe that the hedge exemption market participant, acting alone or in concert with others, is violating this exemption, then the Trading Permit Holder or TPH organization is deemed to have violated Rule 23.4.

(ix) Violation of any of these positions, absent reasonable justification or excuse, shall result in withdrawal of approval of the hedge exemption and may form the basis for denial of a subsequent application for a hedge exemption hereunder.]

[Rule 23.4. Exercise Limits

In determining compliance with Rule 4.12, exercise limits for interest rate options shall be equivalent to the position limits prescribed in Rule 23.3.]

* * * * *

[Rule 24.4. Position Limits for Broad-Based Index Options

(a) In determining compliance with Rule 4.11, there shall be no position limits for broad-based index option contracts (including reduced-value option contracts) on Cboe S&P 500 AM/PM Basis, Cboe S&P 500 Three-Month Realized Variance, Cboe S&P 500 Three-Month Realized Volatility and on the BXM (1/10th value), DJX, OEX, XEO, NDX, RUT, VIX, VXN, VXD, VXST, S&P 500 Dividend Index, and SPX classes. All other broad-based index option contracts shall be subject to a contract limitation fixed by the Exchange, which shall not be larger than the limits provided in the chart below.

BROAD-BASED INDEX OPTION TYPE	STANDARD LIMIT (on the same side of the market)	RESTRICTIONS
Dow Jones Equity REIT Index	250,000 contracts	None
Lipper Analytical/Salomon Bros. Growth Fund Index Lipper Analytical/Salomon Bros. Growth and Income Fund Index	75,000 contracts	no more than 50,000 near- term

S&P 500/Barra Growth or Value	36,000 contracts in the aggregate	no more than 21,500 near-term
S&P SmallCap 600 GSTI Composite	100,000 contracts	no more than 60,000 near-term
Russell 1000 Russell 1000 Growth Russell 1000 Value Russell 2000 Growth Russell 2000 Value Russell 3000 Russell 3000 Growth Russell 3000 Value Russell Midcap Russell Midcap Growth Russell Midcap Value Russell Top 200 Index Russell Top 200 Growth Index Russell Top 200 Value Index Mexico 30 Index Germany 25 Morgan Stanley Multinational Company Index Cboe Euro 25 Index Cboe Asian 25 Index	50,000 contracts	no more than 30,000 near-term
Reduced Value NYSE Composite	45,000 contracts	no more than 25,000 near-term
Cboe Russell 2000 Volatility Index SM ("RVX SM ")	50,000 contracts	no more than 30,000 near-term
Other broad-based index	25,000 contracts	no more than 15,000 near-term

(b) Nonstandard Expirations (as provided for in Rule 24.9(e), QIXs, Q-CAPS, Packaged Vertical Spreads and Packaged Butterfly Spreads on a broad-based index shall be aggregated with option contracts on the same broad-based index and shall be subject to the overall position limit.

(c) Index option contracts shall not be aggregated with option contracts on any stocks whose prices are the basis for calculation of the index.

(d) Positions in reduced-value index options shall be aggregated with positions in full-value indices. For example, if an index is reduced by one-tenth, ten (10) reduced-value contracts shall equal one contract. If an index is reduced by one-fifth, five (5) reduced-value contracts shall equal one contract.

(e) Positions in Short Term Option Series, Quarterly Options Series, and Delayed Start Option Series shall be aggregated with positions in options contracts in the same index class.

. . . Interpretations and Policies:

.01 Broad-based Index Hedge Exemption

The broad-based index hedge exemption is in addition to the standard limit and other exemptions available under Exchange rules, interpretations and policies. The following procedures and criteria must be satisfied to qualify for a broad-based index hedge exemption:

(a) The account in which the exempt option positions are held (“hedge exemption account”) has received prior Exchange approval for the hedge exemption specifying the maximum number of contracts which may be exempt under this Interpretation. The hedge exemption account has provided all information required on Exchange-approved forms and has kept such information current. Exchange approval may be granted on the basis of verbal representations, in which event the hedge exemption account shall within two (2) business days or such other time period designated by the Department of Market Regulation furnish the Department of Market Regulation with appropriate forms and documentation substantiating the basis for the exemption. The hedge exemption account may apply from time to time for an increase in the maximum number of contracts exempt from the position limits.

(b) A hedge exemption account that is not carried by a Cboe Options TPH organization must be carried by a member of a self-regulatory organization participating in the Intermarket Surveillance Group.

(c) The hedge exemption account maintains a qualified portfolio, or will effect transactions necessary to obtain a qualified portfolio concurrent with or at or about the same time as the execution of the exempt options positions, of:

(i) a net long or short position in common stocks in at least four industry groups and contains at least twenty stocks, none of which accounts for more than fifteen percent of the value of the portfolio or in securities readily convertible, and additionally in the case of convertible bonds economically convertible, into common stocks which would comprise a portfolio, and/or

(ii) a net long or short position in index futures contracts or in options on index futures contracts, or long or short positions in index options or index warrants, for which the underlying index is included in the same margin or cross-margin product group cleared at the Options Clearing Corporation as the index option class to which the hedge

exemption applies. To remain qualified, a portfolio must at all times meet these standards notwithstanding trading activity.

(d) The exemption applies to positions in broad-based index options dealt in on the Exchange and is applicable to the unhedged value of the qualified portfolio. The unhedged value will be determined as follows: (1) the values of the net long or short positions of all qualifying products in the portfolio are totalled; (2) for positions in excess of the standard limit, the underlying market value (a) of any economically equivalent opposite side of the market calls and puts in broad-based index options, and (b) of any opposite side of the market positions in stock index futures, options on stock index futures, and any economically equivalent opposite side of the market positions, assuming no other hedges for these contracts exist, is subtracted from the qualified portfolio; and (3) the market value of the resulting unhedged portfolio is equated to the appropriate number of exempt contracts as follows—the unhedged qualified portfolio is divided by the correspondent closing index value and the quotient is then divided by the index multiplier or 100.

(e) Positions in broad-based index options that are traded on the Exchange are exempt from the standard limits to the extent specified below.

<i>BROAD-BASED INDEX OPTION TYPE</i>	<i>BROAD-BASED INDEX HEDGE EXEMPTION (is in addition to standard limit)</i>
S&P 500/Barra Growth or Value	65,000 contracts
Other broad-based index	75,000 contracts

(f) Only the following qualified hedging transactions and positions are eligible for purposes of hedging a qualified portfolio (i.e. stocks, futures, options and warrants) pursuant to this Interpretation .01:

- (1) Long put(s) used to hedge the holdings of a qualified portfolio;
- (2) Long call(s) used to hedge a short position in a qualified portfolio;
- (3) Short call(s) used to hedge the holdings of a qualified portfolio; and
- (4) Short put(s) used to hedge a short position in a qualified portfolio.

The following strategies may be effected only in conjunction with a qualified stock portfolio:

- (5) (for non-P.M. settled, European style index options only) A short call position accompanied by long put(s), where the short call(s) expires with the long put(s), and the strike price of the short call(s) equals or exceeds the strike price of the long

put(s)(a “collar”). Neither side of the collar transaction can be in-the-money at the time the position is established. For purposes of determining compliance with Rules 4.11 and 24.4, a collar position will be treated as one (1) contract;

(6) (for non-P.M. settled, European style index options only) A long put position coupled with a short put position overlying the same broad-based index and having an equivalent underlying aggregate index value, where the short put(s) expires with the long put(s), and the strike price of the long put(s) exceeds the strike price of the short put(s)(a “debit put spread position”); and

(7) (for non-P.M. settled, European style index options only) A short call position accompanied by a debit put spread position, where the short call(s) expires with the puts and the strike price of the short call(s) equals or exceeds the strike price of the long put(s). Neither side of the short call, long put transaction can be in-the-money at the time the position is established. For purposes of determining compliance with Rules 4.11 and 24.4, the short call and long put positions will be treated as one (1) contract.

(g) The hedge exemption account shall:

(1) liquidate and establish options, stock positions, their equivalent or other qualified portfolio products in an orderly fashion; not initiate or liquidate positions in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes; and not initiate or liquidate a stock position or its equivalent with an equivalent index option position with a view toward taking advantage of any differential in price between a group of securities and an overlying stock index option.

(2) liquidate any options prior to or contemporaneously with a decrease in the hedged value of the qualified portfolio which options would thereby be rendered excessive.

(3) promptly notify the Exchange of any material change in the qualified portfolio which materially affects the unhedged value of the qualified portfolio.

(h) If an exemption is granted, it will be effective at the time the decision is communicated. Retroactive exemptions will not be granted.

.02 Compliance

(a) The hedge exemption account shall promptly provide to the Exchange any information requested concerning the qualified portfolio.

(b) Positions included in a qualified portfolio which serve to secure an index hedge exemption may not also be used to secure any other position limit exemption granted by the Exchange or any other self regulatory organization or futures contract market.

(c) Any Trading Permit Holder or TPH organization that maintains a broad-based index option position in such Trading Permit Holder’s or TPH organization’s own account or in a customer account, and has reason to believe that such position is in excess of the applicable

limit, shall promptly take the action necessary to bring the position into compliance. Failure to abide by this provision shall be deemed to be a violation of Rules 4.11 and 24.4 by the Trading Permit Holder or TPH organization.

(d) Violation of any of the provisions of Rule 24.4 and the interpretations and policies thereunder, absent reasonable justification or excuse, shall result in withdrawal of the index hedge exemption and may form the basis for subsequent denial of an application for an index hedge exemption hereunder.

.03 Delta-Based Index Hedge Exemption

The Delta-Based Index Hedge Exemption is in addition to the standard limit and other exemptions available under Exchange rules, interpretations and policies. An index option position of a member, non-member affiliate of a member or customer that is delta neutral shall be exempt from established position limits as prescribed under this Rule 24.4, subject to the following:

(A) The term “delta neutral” refers to an index option position that is hedged, in accordance with a permitted pricing model, by a position in one or more correlated instruments, for the purpose of offsetting the risk that the value of the option position will change with incremental changes in the value of the underlying index. The term “correlated instruments” means securities and/or other instruments that track the performance of or are based on the same underlying index as the index underlying the option position (but not including baskets of securities). Customers seeking to use the delta-based index hedge exemption may only hedge their positions in accordance with the OCC Model as defined in Rule 4.11.04(c)(C).

(B) An index option position that is not delta neutral shall be subject to position limits in accordance with this Rule 24.4 (subject to the availability of other position limit exemptions). Only the options contract equivalent of the net delta of such position shall be subject to the appropriate position limit. The “options contract equivalent of the net delta” is the net delta divided by units of trade that equate to one option contract on a delta basis. The term “net delta” means, at any time, the number of shares and/or other units of trade (either long or short) required to offset the risk that the value of an index option position will change with incremental changes in the value of the underlying index, as determined in accordance with a permitted pricing model.

(C) A “permitted pricing model” shall have the meaning as defined in Rule 4.11.04(c)(C).

(D) Effect on Aggregation of Accounts

(1) Members, non-member affiliates and customers who rely on this exemption must ensure that the permitted pricing model is applied to all positions in correlated instruments that are owned or controlled by such member, non-member affiliate or customer.

(2) Notwithstanding subparagraph (D)(1), the net delta of an option position held by an entity entitled to rely on this exemption, or by a separate and distinct trading unit of such entity, may be calculated without regard to positions in correlated instruments held by an affiliated entity or by another trading unit within the same entity, provided that:

(i) the entity demonstrates to the Exchange's satisfaction that no control relationship, as defined in Rule 4.11.03, exists between such affiliates or trading units*; and

(ii) the entity has provided (by the member carrying the account as applicable) the Exchange written notice in advance that it intends to be considered separate and distinct from any affiliate or, as applicable, which trading units within the entity are to be considered separate and distinct from each other for purposes of this exemption.

* Note: The Exchange has set forth in Regulatory Circular RG08-12 the conditions under which it will deem no control relationship to exist between affiliates and between separate and distinct trading units within the same entity.

(3) Notwithstanding subparagraph (D)(1) or (D)(2), a member, non-member affiliate or customer who relies on this exemption shall designate, by prior written notice to the Exchange (to be obtained and provided by the member carrying the account as applicable), each trading unit or entity whose option positions are required under Exchange Rules to be aggregated with the option positions of such member, non-member affiliate or customer that is relying on this exemption for purposes of compliance with Exchange position limits or exercise limits. In any such case:

(i) the permitted pricing model shall be applied, for purposes of calculating such member's, affiliate's or customer's net delta, only to the positions in correlated instruments owned and controlled by those entities and trading units who are relying on this exemption; and

(ii) the net delta of the positions owned or controlled by the entities and trading units who are relying on this exemption shall be aggregated with the non-exempt option positions of all other entities and trading units whose options positions are required under Exchange Rules to be aggregated with the option positions of such member, affiliate or customer.

(E) Obligations of Members

(1) A member that relies on this exemption for a proprietary index options position:

(i) must provide a written certification to the Exchange that it is using a permitted pricing model pursuant to subparagraph (C) above; and

(ii) by such reliance authorizes any other person carrying for such member an account including, or with whom such member has entered into, a position in a correlated instrument to provide to the Exchange or the Clearing Corporation such information regarding such account or position as the Exchange or Clearing Corporation may request as part of the Exchange's confirmation or verification of the accuracy of any net delta calculation under this exemption.

(2) The index option positions of a non-member relying on this exemption must be carried by a member with which it is affiliated.

(3) A member carrying an account that includes an index option position for a non-member affiliate that intends to rely on this exemption must obtain from such non-member affiliate and must provide to the Exchange:

(i) a written certification to the Exchange that the non-member affiliate is using a permitted pricing model pursuant to subparagraph (C) above; and

(ii) a written statement confirming that such non-member affiliate:

(a) is relying on this exemption;

(b) will use only a permitted pricing model for purposes of calculating the net delta of its option positions for purposes of this exemption;

(c) will promptly notify the member if it ceases to rely on this exemption;

(d) authorizes the member to provide to the Exchange or the Clearing Corporation such information regarding positions of the non-member affiliate as the Exchange or Clearing Corporation may request as part of the Exchange's confirmation or verification of the accuracy of any net delta calculation under this exemption; and

(e) if the non-member affiliate is using the OCC Model, has duly executed and delivered to the member such documents as the Exchange may require to be executed and delivered to the Exchange as a condition to reliance on this exemption.

(4) A member carrying an account that includes an index option position for a customer who intends to rely on this exemption must obtain from such customer and provide to the Exchange:

(i) a written certification to the Exchange that the customer is using the OCC Model pursuant to paragraph (C) above; and

(ii) a written statement confirming that such customer:

- (a) is relying on this exemption;
- (b) will use only the OCC Model for purposes of calculating the net delta of the customer's option positions for purposes of this exemption;
- (c) will promptly notify the member if the customer ceases to rely on this exemption;
- (d) in connection with using the OCC Model, has duly executed and delivered to the member such documents as the Exchange may require to be executed and delivered to the Exchange as a condition to reliance on this exemption.

(F) Reporting.

Each member (other than an Exchange market-maker, DPM or LMM using the OCC Model) that holds or carries an account that relies on this exemption shall report, in accordance with Rule 4.13, all index option positions (including those that are delta neutral) that are reportable thereunder. Each such member on its own behalf or on behalf of a designated aggregation unit pursuant to Rule 24.4.05(D) shall also report, in accordance with Rule 4.13, for each such account that holds an index option position subject to this exemption in excess of the levels specified in this Rule 24.4, the net delta and the options contract equivalent of the net delta of such position.

(G) Records.

Each member relying on this exemption shall: (i) retain, and undertake reasonable efforts to ensure that any non-member affiliate of the member or customer relying on this exemption retains, a list of the options, securities and other instruments underlying each option position net delta calculation reported to the Exchange hereunder, and (ii) produce such information to the Exchange upon request.]

[Rule 24.4A. Position Limits for Industry Index Options

(a)

(i) In determining compliance with Rule 4.11, option contracts on an industry index shall, subject to the procedures specified in subparagraph (iii) of this rule, be subject to the following position limits:

- 18,000 contracts if the Exchange determines, at the time of a review conducted pursuant to subparagraph (ii) of this paragraph (a), that any single underlying stock accounted, on average, for 30% or more of the index value during the 30-day period immediately preceding the review; or

- 24,000 contracts if the Exchange determines, at the time of a review conducted pursuant to subparagraph (ii) of this paragraph (a), that any single underlying stock accounted, on average, for 20% or more of the index value or that any five underlying stocks together accounted, on average, for more than 50% of the index value, but that no single stock in the group accounted, on average, for 30% or more of the index value, during the 30-day period immediately preceding the review; or
- 31,500 contracts if the Exchange determines that the conditions specified above which would require the establishment of a lower limit have not occurred.

(ii) The Exchange shall make the determinations required by subparagraph (i) of this paragraph (a) with respect to options on each industry index at the commencement of trading of such options on the Exchange and thereafter review the determination semi-annually on January 1 and July 1.

(iii) If the Exchange determines, at the time of a semi-annual review, that the position limit in effect with respect to options on a particular industry index is lower than the maximum position limit permitted by the criteria set forth in paragraph (i) of this paragraph (a), the Exchange may effect an appropriate position limit increase immediately. If the Exchange determines, at the time of a semi-annual review, that the position limit in effect with respect to options on a particular industry index exceeds the maximum position limit permitted by the criteria set forth in subparagraph (i) of this paragraph (a), the Exchange shall reduce the position limit applicable to such options to a level consistent with such criteria; provided, however, that such a reduction shall not become effective until after the expiration date of the most distantly expiring option series relating to the industry index, which is open for trading on the date of the review; and provide further that such a reduction shall not become effective if the Exchange determines, at the next succeeding semi-annual review, that the existing position limit applicable to such options is consistent with the criteria set forth in subparagraph (i) of this paragraph (a).

(b) Index option contracts shall not be aggregated with option contracts on any stocks whose prices are the basis for calculation of the index.

(c) Positions in reduced-value index options shall be aggregated with positions in full-value index options. For such purposes, ten (10) reduced-value options shall equal one full-value contract.

(d) Positions in Short Term Option Series, Quarterly Options Series, and Delayed Start Option Series shall be aggregated with positions in options contracts in the same index class.

... Interpretations and Policies:

.01 Industry Index Hedge Exemption.

(a) The industry (narrow-based) index hedge exemption is in addition to the standard limit and other exemptions available under Exchange rules, interpretations and policies, and may not exceed twice the standard limit established under Rule 24.4A. Industry index option positions may be exempt from established position limits for each option contract “hedged” by an equivalent dollar amount of the underlying component securities or securities convertible into such components; provided that, in applying such hedge, each option position to be exempted is hedged by a position in at least 75% of the number of component securities underlying the index. In addition, the underlying value of the option position may not exceed the value of the underlying portfolio.

(b) The value of the portfolio is:

- (1) the total market value of the net stock position; and
- (2) for positions in excess of the standard limit, subtract the underlying market value of:
 - (A) any offsetting calls and puts in the respective index option; and
 - (B) any offsetting positions in related stock index futures or options; and
 - (C) any economically equivalent positions (assuming no other hedges for these contracts exist).

The following procedures and criteria must be satisfied to qualify for an industry index hedge exemption:

(c) The account in which the exempt option positions are held (“hedge exemption account”) has received prior Exchange approval for the hedge exemption specifying the maximum number of contracts which may be exempt under this Interpretation. The hedge exemption account has provided all information required on Exchange-approved forms and has kept such information current. Exchange approval may be granted on the basis of verbal representations, in which event the hedge exemption account shall within two (2) business days or such other time period designated by the Department of Market Regulation furnish the Department of Market Regulation with appropriate forms and documentation substantiating the basis for the exemption. The hedge exemption account may apply from time to time for an increase in the maximum number of contracts exempt from the position limits.

(d) A hedge exemption account that is not carried by a Cboe Options TPH organization must be carried by a member of a self-regulatory organization participating in the Intermarket Surveillance Group.

(e) The hedge exemption account shall liquidate and establish options, stock positions, or economically equivalent positions in an orderly fashion; not initiate or liquidate positions in a manner calculated to cause unreasonable price fluctuations or unwarranted price

changes; and not initiate or liquidate a stock position or its equivalent with an equivalent index option position with a view toward taking advantage of any differential in price between a group of securities and an overlying stock index option. The hedge exemption account shall liquidate any options prior to or contemporaneously with a decrease in the hedged value of the portfolio which options would thereby be rendered excessive. The hedge exemption account shall promptly notify the Exchange of any change in the portfolio which materially affects the unhedged value of the portfolio.

(f) If an exemption is granted, it will be effective at the time the decision is communicated. Retroactive exemptions will not be granted.

.02 Compliance

(a) The hedge exemption account shall promptly provide to the Exchange any information requested concerning the portfolio.

(b) Positions included in a portfolio which serve to secure an index hedge exemption may not also be used to secure any other position limit exemption granted by the Exchange or any other self regulatory organization or futures contract market.

(c) Any Trading Permit Holder or TPH organization that maintains an industry index option position in such Trading Permit Holder's or TPH organization's own account or in a customer account, and has reason to believe that such position is in excess of the applicable limit, shall promptly take the action necessary to bring the position into compliance. Failure to abide by this provision shall be deemed to be a violation of Rules 4.11 and 24.4A by the Trading Permit Holder or TPH organization.

(d) Violation of any of the provisions of Rule 24.4A and the interpretations and policies thereunder, absent reasonable justification or excuse, shall result in withdrawal of the index hedge exemption and may form the basis for subsequent denial of an application for an index hedge exemption hereunder.

.03 Delta-Based Industry Index Hedge Exemption.

The Delta-Based Index Hedge Exemption provided under Interpretation and Policy .05 to Rule 24.4 may also be applied to industry index option positions. The Delta-Based Industry Index Hedge Exemption is in addition to the standard limit and other exemptions available under Exchange rules, interpretations and policies.]

[Rule 24.4B. Position Limits for Options on Micro Narrow-Based Indexes As Defined Under Rule 24.2(d)

In determining compliance with Rule 4.11, cash-settled option contracts on any Micro Narrow-Based Index, as defined and determined under Rule 24.2(d), shall be subject to the following methodologies for determining the applicable position limits:

(a) Methodology for Establishing Position Limits on Cash-Settled Options on Micro Narrow- Based Indexes as defined under Rule 24.2(d). The position limit for a cash-settled

option on a Micro Narrow-Based Index that meets the criteria under Rule 24.2(d) shall be calculated in accordance with the following methodology:

(1) Determine the Market Capitalization of the S&P 500 Index.

(2) Calculate the Notional Value of a position at the limit in the Chicago Mercantile Exchange's ("CME") S&P 500 futures contract. The position limit for that contract is 20,000 (in all months combined) and the Index Multiplier is \$250.

Notional Value for the purposes of this Rule 24.4B(a)(1) = Index Level * Index Multiplier. Therefore,

Notional Value of 20,000 S&P 500 futures contracts = 20,000 * S&P 500 Index Level * 250.

(3) Calculate the Market Capitalization Ratio of the S&P 500 Index Market Capitalization to the Notional Value of a position limit at the limit.

Market Capitalization Ratio = Market Capitalization of the S&P 500 ÷ Notional Value of 20,000 S&P 500 futures contract positions.

(4) Determine the Market Capitalization of the Micro Narrow-Based Index by adding together the market capitalization of each underlying security component.

(5) Determine the Notional Value of the Micro Narrow-Based Index Option (Index Level * Contract Multiplier).

(6) Calculate the Position Limit of the Micro Narrow-Based Index using the following formula:

Contract Position Limit on the Micro Narrow-Based Index = Market Capitalization of Micro Narrow-Based Index ÷ (Notional Value of Micro Narrow-Based Index Option * Market Capitalization Ratio).

(7) Establishing the Position Limit. After the applicable position limit has been determined pursuant to section 24.4B(a)(1)-(6), round the calculated position limit to the nearest 1,000 contracts using standard rounding procedures. For position limits that are 400 or greater, but less than 1000 contracts, round up to 1,000 contracts.

Rule 24.2(d) shall not apply to any Micro Narrow-Based Index in which the applicable position limit, as calculated using Rule 24.4B(a)(1)- (6), for that Micro Narrow-Based Index is less than 400 contracts.

(b) Positions in Short Term Option Series, Quarterly Options Series, and Delayed Start Option Series shall be aggregated with positions in options contracts in the same index class.]

[Rule 24.4C. Position Limits for Individual Stock or ETF Based Volatility Index Options

(a) In determining compliance with Rule 4.11, Individual Stock or ETF Based Volatility Index options (as defined in Rule 24.1(bb)) shall have a position limit equal to 50,000 contracts on either side of the market, and no more than 30,000 contracts in the nearest expiration month.

(b) In determining compliance with the position limits set forth in paragraph (a), Individual Stock or ETF Based Volatility Index options shall not be aggregated with the index component option contracts on the corresponding underlying security (e.g., individual stock or exchange-traded fund).

(c) Positions in Short Term Options Series, Quarterly Options Series, and Delayed Start Options Series will be aggregated with position in options contracts on the same Individual Stock or ETF Based Volatility Index class.

. . . Interpretations and Policies:

.01 Hedge Exemption

The hedge exemption for Individual Stock or ETF Based Volatility Index options is in addition to the standard limit and other exemptions available under Exchange rules, interpretations and policies. The following procedures and criteria must be satisfied to qualify for the hedge exemption:

(a) The account in which the exempt option positions are held (“hedge exemption account”) has received prior Exchange approval for the hedge exemption specifying the maximum number of contracts which may be exempt under this Interpretation. The hedge exemption account has provided all information required on Exchange-approved forms and has kept such information current. Exchange approval may be granted on the basis of verbal representations, in which event the hedge exemption account shall within two (2) business days or such other time period designated by the Department of Market Regulation furnish the Department of Market Regulation with appropriate forms and documentation substantiating the basis for the exemption. The hedge exemption account may apply from time to time for an increase in the maximum number of contracts exempt from the position limits.

(b) A hedge exemption account that is not carried by a Cboe Options TPH organization must be carried by a member of a self-regulatory organization participating in the Intermarket Surveillance Group.

(c) The hedge exemption account maintains a qualified portfolio, or will effect transactions necessary to obtain a qualified portfolio concurrent with or at or about the same time as the execution of the exempt options positions, of a net long or short position in Individual

Stock or ETF Based Volatility Index futures contracts or in options on Individual Stock or ETF Based Volatility Index futures contracts, or long or short positions in Individual Stock or ETF Based Volatility Index options, for which the underlying Individual Stock or ETF Based Volatility Index is included in the same margin or cross-margin product group cleared at the Clearing Corporation as the Individual Stock or ETF Based Volatility Index option class to which the hedge exemption applies. To remain qualified, a portfolio must at all times meet these standards notwithstanding trading activity.

(d) The exemption applies to positions in Individual Stock or ETF Based Volatility Index options dealt in on the Exchange and is applicable to the unhedged value of the qualified portfolio. The unhedged value will be determined as follows: (1) the values of the net long or short positions of all qualifying products in the portfolio are totaled; (2) for positions in excess of the standard limit, the underlying market value (a) of any economically equivalent opposite side of the market calls and puts in broad-based index options, and (b) of any opposite side of the market positions in Individual Stock or ETF Based Volatility Index futures, options on Individual Stock or ETF Based Volatility Index futures, and any economically equivalent opposite side of the market positions, assuming no other hedges for these contracts exist, is subtracted from the qualified portfolio; and (3) the market value of the resulting unhedged portfolio is equated to the appropriate number of exempt contracts as follows—the unhedged qualified portfolio is divided by the correspondent closing index value and the quotient is then divided by the index multiplier or 100.

(e) Only the following qualified hedging transactions and positions are eligible for purposes of hedging a qualified portfolio (i.e., futures and options) pursuant to this Interpretation .01:

- (1) Long put(s) used to hedge the holdings of a qualified portfolio;
- (2) Long call(s) used to hedge a short position in a qualified portfolio;
- (3) Short call(s) used to hedge the holdings of a qualified portfolio; and
- (4) Short put(s) used to hedge a short position in a qualified portfolio.

The following strategies may be effected only in conjunction with a qualified stock portfolio:

(5) A short call position accompanied by long put(s), where the short call(s) expires with the long put(s), and the strike price of the short call(s) equals or exceeds the strike price of the long put(s) (a “collar”). Neither side of the collar transaction can be in-the-money at the time the position is established. For purposes of determining compliance with Rules 4.11 and 24.4C, a collar position will be treated as one (1) contract;

(6) A long put position coupled with a short put position overlying the same Individual Stock or ETF Based Volatility Index and having an equivalent underlying aggregate index value, where the short put(s) expires with the long put(s), and the strike

price of the long put(s) exceeds the strike price of the short put(s) (a “debit put spread position”); and

(7) A short call position accompanied by a debit put spread position, where the short call(s) expires with the puts and the strike price of the short call(s) equals or exceeds the strike price of the long put(s). Neither side of the short call, long put transaction can be in-the-money at the time the position is established. For purposes of determining compliance with Rules 4.11 and 24.4C, the short call and long put positions will be treated as one (1) contract.

(f) The hedge exemption account shall:

(1) liquidate and establish options, their equivalent or other qualified portfolio products in an orderly fashion; not initiate or liquidate positions in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes.

(2) liquidate any options prior to or contemporaneously with a decrease in the hedged value of the qualified portfolio which options would thereby be rendered excessive.

(3) promptly notify the Exchange of any material change in the qualified portfolio which materially affects the unhedged value of the qualified portfolio.

(g) If an exemption is granted, it will be effective at the time the decision is communicated. Retroactive exemptions will not be granted.]

[Rule 24.5. Exercise Limits

In determining compliance with Rule 4.12, exercise limits for index option contracts shall be equivalent to the position limits prescribed for option contracts with the nearest expiration date in Rule 24.4, 24.4A, or 24.4C. There shall be no exercise limits for broad-based index options (including reduced-value option contracts) on Cboe S&P 500 AM/PM Basis, Cboe S&P 500 Three-Month Realized Variance, Cboe S&P 500 Three-Month Realized Volatility and on the BXM (1/10th value), DJX, OEX, XEO, NDX, RUT, VIX, VXN, VXD, VXST, S&P 500 Dividend Index, or SPX.

. . . Interpretations and Policies:

.01 For a Market-Maker granted an exemption to position limits pursuant to Rule 4.11 Interpretation .05 the number of contracts which can be exercised over a five (5) business day period shall equal the Market-Maker’s exempted position.

.02 CAPS and Q-CAPS will not be included when calculating exercise limits for index option contracts.

.03 With respect to index options contracts for which an exemption has been granted in accordance with the provisions of Rule 24.4, the exercise limit shall be equal to the amount of the exemption.

.04 With respect to Individual Stock or ETF Based Volatility Index options contracts for which an exemption has been granted in accordance with the provisions of Interpretation and Policy .01 to Rule 24.4C, the exercise limit shall be equal to the amount of the exemption.]

* * * * *

[Rule 24.10. Restrictions on Contracts

Contracts provided for in this chapter shall not be subject to the restriction in Rule 4.16, Interpretation and Policy .01.]

* * * * *

[Rule 24A.7. Position Limits and Reporting Requirements

(a) FLEX Index Options

(1) In determining compliance with Rules 4.11, 24.4, 24.4A and 24.4B, FLEX Index Options shall be subject to FLEX contract position limitations fixed by the Exchange in accordance with the provisions of this Rule.

(2) Except as otherwise provided in paragraph (b) of this Rule, in no event shall the position limits for a broad-based FLEX Index Option class exceed in the aggregate 200,000 contracts on the same side of the market.

(3) In no event shall the position limits for an industry-based FLEX Index Option class exceed one times the applicable number of Non-FLEX Index Option contracts (whether long or short) of the put class and the call class on the same side of the market, as determined on the basis of the position limits established pursuant to Rule 24.4A provided, however, the position limits for an industry-based FLEX Index Option class shall not exceed four times the applicable position limits established pursuant to Rule 24.4A, instead of one times as provided above, for: (i) the Dow Jones Transportation Average or the Dow Jones Utility Average; or (ii) an underlying industry-based index that is not a “narrow-based security index,” as defined under Section 3(a)(55)(B) of the Exchange Act.

(4) In no event shall the position limits for a micro narrow-based FLEX Index Option class exceed one times the applicable number of Non-FLEX Index Option contracts (whether long or short) of the class on the same side of the market, as determined on the basis of the position limits established pursuant to Rule 24.4B.

(5) The position limits for FLEX Individual Stock or ETF Based Volatility Index Options are equal to the position limits for Non-FLEX Individual Stock or ETF Based Volatility Index Options established pursuant to Rule 24.4C.

(6) The position limits for FLEX Index options on the FTSE 100 Index (1/10 th), FTSE China 50 Index (1/100 th), FTSE Emerging Index, FTSE Developed Europe Index, MSCI EAFE Index and MSCI Emerging Market Index are equal to the position limits for Non-FLEX options on the FTSE 100 Index (1/10 th), FTSE China 50 Index (1/100 th), FTSE Emerging Index, FTSE Developed Europe Index, MSCI EAFE Index and MSCI Emerging Market Index.

(b) Certain Broad-Based FLEX Index Options. There shall be no position limits for FLEX BXM (1/10th value), DJX, NDX, OEX, RUT, S&P 500 Dividend Index, SPX, VIX, VXN, VXD, Cboe S&P 500 AM/PM Basis, Cboe S&P 500 Three-Month Realized Variance, Cboe S&P 500 Three-Month Realized Volatility or XEO option contracts (including reduced-value option contracts). However, each Trading Permit Holder or TPH organization (other than a FLEX Market-Maker) that maintains a FLEX broad-based index option position on the same side of the market in excess of 100,000 contracts for NDX, OEX, RUT, S&P 500 Dividend Index, SPX, VIX, VXN, VXD, Cboe S&P 500 AM/PM Basis, Cboe S&P 500 Three-Month Realized Variance, Cboe S&P 500 Three-Month Realized Volatility or XEO and 1 million contracts for BXM (1/10th value) and DJX, for its own account or for the account of a customer, shall report information as to whether the positions are hedged and provide documentation as to how such contracts are hedged, in the manner and form prescribed by the Exchange. In calculating the applicable contract-reporting amount, reduced-value contracts will be aggregated with full-value contracts and counted by the amount by which they equal a full-value contract (e.g., 10 XSP options equal 1 SPX full-value contract). The Exchange may specify other reporting requirements of this interpretation as well as the limit at which the reporting requirement may be triggered. In addition, whenever the Exchange determines that a higher margin is warranted in light of the risks associated with an under-hedged FLEX BXM (1/10th value), DJX, NDX, OEX, RUT, S&P 500 Dividend Index, SPX, VIX, VXN, VXD, Cboe S&P 500 AM/PM Basis, Cboe S&P 500 Three-Month Realized Variance, Cboe S&P 500 Three-Month Realized Volatility or XEO option & position, the Exchange may consider imposing additional margin upon the account maintaining such under-hedged position, pursuant to its authority under Exchange Rule 12.10. Additionally, it should be noted that the clearing firm carrying the account will be subject to capital charges under Rule 15c3-1 under the Exchange Act to the extent of any margin deficiency resulting from the higher margin requirements.

(c) FLEX Equity Options

There shall be no position limits for FLEX Equity Options. However, each Trading Permit Holder or TPH organization (other than a Market-Maker or a Designated Primary Market-Maker) that maintains a position on the same side of the market in excess of the standard limit under Exchange Rule 4.11 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, pursuant to its authority under Exchange Rule 12.10. Additionally, it should be noted that the clearing firm carrying the account will be subject to capital charges under Rule 15c3-1 under the Exchange Act to the extent of any margin deficiency resulting from the higher margin requirement.

(d) Aggregation of Positions

For purposes of the position limits and reporting requirements set forth in this Rule, FLEX Option positions shall not be aggregated with positions in Non-FLEX Options other than as provided below, and positions in FLEX Index Options on a given index shall not be aggregated with options on any stocks included in the index or with FLEX Index Option positions on another index.

(1) Commencing at the close of trading two business days prior to the last trading day of the calendar quarter, positions in P.M. Settled FLEX Index Options (i.e., FLEX Index Options having an exercise settlement value determined by the level of the index at the close of trading on the last trading day before expiration) shall be aggregated with positions in Quarterly Index Options on the same index with the same expiration (“comparable QIX options”) and shall be subject to the position limits set forth in Rule 24.4, 24.4A or 24.4B, as applicable.

(2) Commencing at the close of trading two business days prior to the last trading day of the week, positions in FLEX Options that are cash settled (i.e., FLEX Index Options or Credit Default Options) shall be aggregated with positions in Short Term Option Series on the same underlying (e.g., same underlying index as a FLEX Index Option) with the same means for determining exercise settlement value (e.g., opening or closing prices of the underlying index) and same expiration (“comparable Weekly options”) and shall be subject to the position limits set forth in Rule 24.4, 24.4A, 24.4B or 29.5, as applicable.

(3) As long as the options positions remain open, positions in FLEX Options that expire on a third Friday-of-the-month expiration day shall be aggregated with positions in Non-FLEX Options on the same underlying (“comparable Non-FLEX Options”) and shall be subject to the position limits set forth in Rule 4.11, 24.4, 24.4A, 24.4B or 29.5, as applicable, and the exercise limits set forth in Rule 4.12, 24.5 or 29.7, as applicable.

(4) As long as the options positions remain open, positions in FLEX Individual Stock or ETF Based Volatility Index Options that expire on the same day as Non-FLEX Individual Stock or ETF Based Volatility Index Options, as determined pursuant to Rule 24.9(a)(5), shall be aggregated with positions in Non-FLEX Options on the same Individual Stock or ETF Based Volatility Index

and shall be subject to the position limits set forth in Rules 4.11, 24.4, 24.4A, 24.4B, and 24.4C and the exercise limits set forth in Rules 4.12 and 24.5.

This rule supplements Rule 4.11 generally, but supersedes Interpretations .02 and .04 of Rule 4.11 and all of Rules 24.4, 24.4A, 24.4B, 24.4C and 29.5 except to the extent those Rules are referred to in this rule.]

[Rule 24A.8. Exercise Limits

(a) In determining compliance with Rules 4.12 and 24.5, exercise limits for FLEX Index and FLEX Individual Stock or ETF Based Volatility Index Options shall be equivalent to the FLEX position limits prescribed in Rule 24A.7. There shall be no exercise limits for broad-based FLEX Index Options (including reduced-value option contracts) on BXM (1/10th value), DJX, NDX, OEX, RUT, S&P 500 Dividend Index, SPX, VIX, VXN, VXD, Cboe S&P 500 AM/PM Basis, Cboe S&P 500 Three-Month Realized Variance, Cboe S&P 500 Three-Month Realized Volatility and XEO.

(b) The minimum value size for FLEX Equity Option exercises shall be 25 contracts or the remaining size of the position, whichever is less.

(c) The minimum value size for FLEX Index Option exercises shall be \$1 million Underlying Equivalent Value or the remaining Underlying Equivalent Value of the position, whichever is less.

(d) Except as provided in Rule 24A.7(d)(3), FLEX Options shall not be taken into account when calculating exercise limits for Non-FLEX Option contracts.

This rule supersedes Rules 4.12 and 24.5.]

* * * * *

[Rule 28.2. Position Limits

(a) Establishment of Position Limit. In determining compliance with Rule 4.11, options contracts on Corporate Debt Securities shall be subject to a contract limitation fixed by the Exchange, of the put type and the call type on the same side of the market, which shall not be larger than the limits provided in the chart below:

Issue Float	Position Limit
\$200,000,000 - \$499,999,000	200 contracts
\$500,000,000 - \$749,999,000	500 contracts
\$750,000,000 - \$999,999,000	750 contracts

\$1,000,000,000 - \$2,499,999,000	1,000 contracts
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\$2,500,000,000 and greater	2,500 contracts]
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[Rule 28.3. Exercise Limits

In determining compliance with Rule 4.12, exercise limits for options on a Corporate Debt Security shall be equivalent to the position limits prescribed in Rule 28.2.]

[Rule 28.4. Reports Related to Position Limits and Liquidation of Positions

For purposes of Rules 4.13 and 4.14, references to Rule 4.11 in connection with position limits shall be deemed, in the case of Corporate Debt Security options, to be to Rule 28.2. The reference in Rule 4.13(a) to reports required of positions of 200 or more option contracts shall, in the case of Corporate Debt Security options, be revised to positions of 20 option contracts.

Rule 28.4 supplements Rules 4.13 and 4.14.]

* * * * *

[Rule 29.5. Position Limits

(a) In determining compliance with Rule 4.11, Credit Default Option contracts with a cash settlement value of \$100,000 per contract (equal to an exercise settlement value of \$100 multiplied by a contract multiplier of 1,000) shall have a position limit equal to 5,000 contracts on the same side of the market. In calculating the applicable position limits, reduced-value contracts (i.e., Credit Default Options with a cash settlement value of less than \$100,000 per contract) will be aggregated with full-value contracts and counted by the amount by which they equal a full-value contract (e.g., 10 Credit Default Option contract with a cash settlement value of \$10,000 per contract (equal to an exercise settlement value of \$100 multiplied by a contract multiplier of 100) equal one full-value contract). Cash-settled Credit Default Basket Options shall have a position limit equal to 50,000 contracts on the same side of the market.

(b) In determining compliance with the position limits set forth in paragraph (a), Credit Options shall not be aggregated with option contracts on the same or similar underlying security.

(c) Credit Options shall not be subject to the hedge exemption to the standard position limits found in Rule 4.11.04. The following qualified hedge exemption strategies and positions shall be exempt from the established position limits as prescribed in the Rule above:

(1) A Credit Option position “hedged” or “covered” by an appropriate amount of cash to meet the cash settlement amount obligation (e.g., \$100,000 for a Credit Default Option with an exercise settlement value of \$100 and a contract multiplier of 1,000 or \$100,000 for a Credit Default Basket Option with a Notional Face Value of Basket of \$100,000).

(2) A Credit Default Option position “hedged” or “covered” by a sufficient amount of the underlying Relevant Obligation(s) and/or other securities, instruments or interests related to the Reference Entity to meet the cash settlement amount obligation (e.g., a long Credit Default Option position could be offset by a long position in a debt security of the Reference Entity that is worth \$100,000 per contract (or the applicable adjusted amount) and short Credit Default Option position could be offset by a short position in a debt security of the Reference Entity that is worth \$100,000 per contract (or the applicable adjusted amount)).

(3) A Credit Default Basket Option position “hedged” or “covered” by a sufficient amount of any of the Basket Component debt securities, instruments or interests related to the Reference Entity that equals the sum of the cash settlement amounts for Basket Components for a Multiple Payout Credit Default Basket Option or equals the maximum Basket Component cash settlement amount for a Single Payout Credit Default Basket Option.

(d) Credit Options shall be subject to the Market-Maker hedge and firm facilitation exemptions to the standard position limits found in Rule 4.11.05 and .06, respectively. With respect to the Market-Maker hedge exemption, the positions must generally be within 20% of the applicable limits of the Credit Option before an exemption will be granted as described in Rule 4.11.05(a) (2). With respect to the firm facilitation exemption, the aggregate exemption position may not exceed $3 \times$ the standard limits set forth in paragraph (a) and be consistent with the procedures described in Rule 4.11.06.]

[Rule 29.6. Reports Related to Position Limits and Liquidation of Positions]

For purposes of Rules 4.13 and 4.14, references to Rule 4.11 in connection with position limits shall be deemed, in the case of Credit Options, to be to Rule 29.5. In computing reportable Credit Options under Rule 4.13, Credit Options shall not be aggregated with non-Credit Options contracts. In addition, Credit Options of a given class shall not be aggregated with any other class of Credit Options. The applicable hedge reporting requirement described in Rule 4.13(b) shall apply to a position in excess of 1,000 Credit Option contracts on the same side of the market. In calculating the applicable position for Credit Default Option contracts, reduced-value contracts (i.e., Credit Default Options with a cash settlement value of less than \$100,000 per contract) will be aggregated with full-value contracts and counted by the amount by which they equal a full-value contract (e.g., 10 Credit Default Option contract with a cash settlement value of \$10,000 per contract (equal to an exercise settlement value of \$100 multiplied by a contract multiplier of 100) equal one full-value contract).

Rule 29.6 supplements Rules 4.13 and 4.14.]

[Rule 29.7. Exercise Limits]

There shall be no exercise limits for Credit Options.

Rule 29.7 replaces, for purposes of Chapter XXIX, Rule 4.12.]

[Rule 29.8. Other Restrictions on Credit Option Transactions

Rule 4.16 shall be applicable to Credit Options.]

EXHIBIT 5B

(additions are underlined; deletions are [bracketed])

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Rules of Cboe Exchange, Inc.

(Effective October 7, 2019)

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CHAPTER 5. OPTIONS TRADING

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SECTION C. ELECTRONIC TRADING

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Rule 5.31. Opening Auction Process

(a)-(i) No change.

(j) *Modified Opening Auction Process.* All provisions set forth above in this Rule 5.31 apply to the opening of SPX constituent option series for Regular Trading Hours on exercise settlement value determination days, except as otherwise provided in this paragraph (j) (“modified opening auction process”). The Exchange uses the opening trade prices of SPX series that comprise the settlement strip (or the average of a series’ opening bid and ask if there is no opening trade in that series) established by the modified opening auction process to calculate the exercise or final settlement value, as applicable, of expiring VIX derivatives.

(1)-(5) No change.

(6) *Opening Rotation Self-Trades.* A User may submit multiple orders and quotes in accordance with subparagraph (3) above. If, during the opening rotation, the System executes an order or quote of that User against another order or quote of that User, the Exchange does not deem that fact alone to cause these executions to be considered violations of Section 9(a)(1) of the Exchange Act, and instead will evaluate other facts and circumstances. The Exchange reviews all activity, including these executions, during the modified opening auction process for compliance with the Rules and the Exchange Act, including Rule [10.6]8.6 (which prohibits manipulation).

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CHAPTER 8. BUSINESS CONDUCT**SECTION A. GENERAL CONDUCT**

Rule 8.1. Just and Equitable Principles of Trade

No Trading Permit Holder shall engage in acts or practices inconsistent with just and equitable principles of trade. Persons associated with Trading Permit Holders shall have the same duties and obligations as Trading Permit Holders under the Rules of this Chapter.

Rule 8.2. Adherence to Law

No Trading Permit Holder shall engage in conduct in violation of the Securities Exchange Act of 1934, as amended, rules or regulations thereunder, the Bylaws or the Rules of the Exchange, or the Rules of the Clearing Corporation insofar as they relate to the reporting or clearance of any Exchange transaction, or any written interpretation thereof. Every Trading Permit Holder shall so supervise persons associated with the Trading Permit Holder as to assure compliance therewith.

Rule 8.3. Gratuities

(a) No Trading Permit Holder or associated person of a Trading Permit Holder shall give any compensation or gratuity in any one year in excess of \$50.00 to any employee of the Exchange or in excess of \$100.00 to any employee of any other Trading Permit Holder or of any non-Trading Permit Holder broker, dealer, bank or institution, without the prior consent of the employer and of the Exchange.

(b) No Trading Permit Holder or associated person of a Trading Permit Holder shall give any compensation or gratuity of any monetary value to any Regulatory Division employee of the Exchange.

Rule 8.4. Nominal Employment

No Trading Permit Holder may employ any person in a nominal position on account of business obtained by such person.

Rule 8.5. False Statements

No Trading Permit Holder, person associated with a Trading Permit Holder or applicant to be a Trading Permit Holder shall make any willful or material misrepresentation, including a misstatement or false statement, or omission in any application, report or other communication to the Exchange, or to the Clearing Corporation with respect to the reporting or clearance of any Exchange transaction, or willfully or materially adjust any position at the Clearing Corporation in any class of options traded on the Exchange except for the purpose of correcting a bona fide error in recording or of transferring the position to another account.

Interpretations and Policies

.01 No Trading Permit Holder, person associated with a Trading Permit Holder or applicant to be a Trading Permit Holder shall be considered to be in violation of this Rule 8.5 due to misrepresentations or omissions resulting from causes, such as systems malfunctions, which are outside the control of the Trading Permit Holder, associated person or applicant and could not be avoided by the exercise of due care.

Rule 8.6. Manipulation

(a) No Trading Permit Holder shall effect or induce the purchase, sale or exercise of any security for the purpose of creating or inducing a false, misleading, or artificial appearance of activity in such security or in the underlying security, or for the purpose of unduly or improperly influencing the market price of such security or of the underlying security or for the purpose of making a price which does not reflect the true state of the market in such security or in the underlying security.

(b) No Trading Permit Holder or any other person or organization subject to the jurisdiction of the Exchange shall directly or indirectly participate in or have any interest in the profit of a manipulative operation or knowingly manage or finance a manipulative operation. For the purpose of this paragraph but without limitation, (1) any pool, syndicate or joint account, whether in corporate form or otherwise, organized or used intentionally for the purposes of unfairly influencing the market price of any security by means of options or otherwise and for the purpose of making a profit thereby shall be deemed to be a manipulative operation; (2) the soliciting of subscriptions to any such pool syndicate or joint account or the accepting of discretionary orders from any such pool, syndicate or joint account shall be deemed to be managing a manipulative operation; and (3) the carrying on margin of either a "long" or a "short" position in securities for, or the advancing of credit through loans of money or of securities to, any such pool syndicate or joint account shall be deemed to be financing a manipulative operation.

Rule 8.7. Rumors

No Trading Permit Holder shall circulate, in any manner, rumors of a character which might affect market conditions in any option contract or underlying security or in any other security admitted to trading or unlisted trading privileges on the Exchange; provided, however, that this Rule 8.7 shall not prohibit discussion of unsubstantiated information, so long as its source and unverified nature are disclosed.

Rule 8.8. Disciplinary Action by Other Organizations

Every Trading Permit Holder shall promptly notify the Exchange in writing of any disciplinary action, including the basis therefor, taken by any national securities exchange or association, clearing corporation, commodity futures market or government regulatory body against the Trading Permit Holder or its associated persons, and shall similarly notify the Exchange of any disciplinary action taken by the Trading Permit Holder itself against any of its associated persons involving suspension, termination, the withholding of commissions or imposition of fines in excess of \$2,500, or any other significant limitation on activities.

Rule 8.9. Other Restrictions on Trading Permit Holders

(a) General. Whenever the Chief Executive Officer or President shall find, on the basis of a report of the Department of Compliance or otherwise, that a Trading Permit Holder has failed to perform his contracts or is insolvent or is in such financial or operational condition or is otherwise conducting his business in such a manner that he cannot be permitted to continue in

business with safety to his customers or creditors or the Exchange, the Chief Executive Officer or the President may summarily suspend the Trading Permit Holder in accordance with Chapter 12 or may impose such conditions and restrictions upon his being a Trading Permit Holder as he considers reasonably necessary for the protection of the Exchange and the customers of such Trading Permit Holder.

(b) *Firms Clearing Market-Maker Trades.*

(1) A Trading Permit Holder that clears Market-Maker trades must give 15 calendar days, prior written notice to the President of the Exchange, or his designee, concerning any proposed Significant Business Transaction (“SBT”) as enumerated in this subparagraph (b)(1)(A) through (C). Notification of any SBT as enumerated in this subparagraph (b)(1)(D) through (G) shall be made in writing to the President of the Exchange, or his designee, not later than five business days from the date on which the SBT becomes effective. A SBT shall mean:

(A) the combination, merger or consolidation between the Trading Permit Holder and another person engaged in the business of effecting, executing, clearing or financing transactions in securities or futures products,

(B) the transfer from another person of Market-Maker, broker dealer, or customer securities or futures accounts which are significant in size or number to the business of the Trading Permit Holder,

(C) the assumption or guarantee by the Trading Permit Holder of liabilities, of another person engaged in the business of effecting, executing, clearing or financing transactions in securities or futures products, in connection with a direct or indirect acquisition of all or substantially all of that person’s assets,

(D) the sale by the Trading Permit Holder of a significant part of its assets to another person,

(E) a change in the identity of any general partner or a change in the beneficial ownership of 10% of any class of the outstanding stock of any corporate general partner (if the Trading Permit Holder is a partnership),

(F) a change in the beneficial ownership of 20% of any class of the outstanding stock of the Trading Permit Holder or the issuance of any capital stock of the Trading Permit Holder (if the Trading Permit Holder is a corporation), or

(G) the acquisition by the Trading Permit Holder of assets of another person that would constitute a “business” that is “significant,” as those terms are defined in Section 11-01 of Regulation S-X.

(2) A proposed SBT of a Trading Permit Holder as enumerated in subparagraph (b)(1)(A) through (C) above is subject to the prior approval of the Chief Executive Officer or

President, when the Trading Permit Holder's Market-Maker clearance activities exceed, or would exceed as a result of the proposed SBT, any of the following parameters:

(A) 15% of cleared Exchange Market-Maker contract volume for the most recent three months;

(B) an average of 15% of the number of Exchange registered Market-Makers as of each month and for the most recent three months, or

(C) 25% of Market-Maker gross deductions (haircuts) defined by SEC Rule 15c3-1 (a)(6) or (c)(2)(x) carried by the Clearing Trading Permit Holder(s) in relation to the aggregate of such haircuts carried by all other Market-Maker clearing organizations for any month end within the most recent three months.

A Trading Permit Holder may contact the Exchange to determine whether it exceeds the parameters described in this subparagraph (b)(2). Trading Permit Holders subject to this subparagraph (b)(2) must provide 30 calendar days' notice of the proposed SBT, as enumerated in subparagraph (b)(1)(A) through (C) above, to the President or his designee. The Chief Executive Officer or President may disapprove a Trading Permit Holder's proposed SBT, or approve such SBT subject to certain conditions, within the 30-day period. The Chief Executive Officer or President may disapprove or condition a Trading Permit Holder's SBT within the 30-day period if the Chief Executive Officer or President determines that such SBT has the potential to threaten the financial or operational integrity of Exchange Market-Maker transactions.

(3) In addition, at any time, the Chief Executive Officer or President may impose additional financial and/or operational requirements on a Trading Permit Holder that clears Market-Maker trades when the Chief Executive Officer or President determines that the Trading Permit Holder's continuance in business without such requirements has the potential to threaten the financial or operational integrity of Exchange Market-Maker transactions.

(4) A Trading Permit Holder that clears Market-Maker trades must give 15 calendar days, written notice to the President of the Exchange, or his designee, of any proposal to terminate such business or any material part thereof.

(5) A Trading Permit Holder subject to this rule must provide promptly, in writing, all information reasonably requested by the Exchange. Until such information, and any other information provided pursuant to this paragraph (b), is otherwise publicly disclosed, the information shall be kept confidential, except that such information may be disclosed to members of the staff and other agents of the Exchange who are engaged in reviewing the proposed transaction, but such employees and agents shall keep such information confidential and use it only for purposes of reviewing the proposal.

(6) In considering a proposed SBT, the Chief Executive Officer or President may consider, among other relevant matters, the following criteria:

(A) The effect of the proposed SBT on (i) the capital size and structure of the resulting clearing TPH organization(s); (ii) the potential for financial failure, and the consequences of any such failure on the Market-Maker system as a whole; and (iii) the potential for increased or decreased operational efficiencies arising from the proposed transaction.

(B) The effect of the proposed SBT upon overall concentration of options Market-Makers, including a comparison of the following measures before and after the proposed transaction:

(i) proportion of exchange Market-Makers cleared;

(ii) proportion of exchange Market-Maker contract volume cleared; and

(iii) proportion of Market-Maker gross deductions (haircuts) as defined by SEC Rule 15c3-1(a)(6) or (c)(2)(x) carried by the Clearing Trading Permit Holder(s) in relation to the aggregate of such deductions carried by other Market-Maker clearing organizations.

(C) The regulatory history of the affected TPH organization(s), specifically as it may indicate a tendency to financial/operational weakness.

(D) The history of the affected TPH organization(s) with respect to late trade match input or other operational deficiencies as determined by the Exchange.

(7) In the event the Chief Executive Officer or President determines, prior to the expiration of the 30-day period set forth in subparagraph (b)(2) above, that a proposed SBT may be approved without conditions, the Chief Executive Officer or President shall promptly so advise the Trading Permit Holder. All Chief Executive Officer or President decisions to disapprove or condition a proposed SBT pursuant to subparagraph (b)(2) above or to impose extraordinary requirements pursuant to subparagraph (b)(3) above shall be in writing, shall include a statement setting forth the grounds for the Chief Executive Officer or President's decision, and shall be served on the Trading Permit Holder. Notwithstanding any other provisions of the Rules of the Exchange, the Trading Permit Holder may appeal such decision directly to the Board of Directors of the Exchange by filing an application for review with the Secretary of the Exchange within 15 days of the date of service of the decision. The application for review shall be in the form prescribed by Rule 15.5(a), and the Board's review shall be conducted in the manner prescribed by Rule 15.5(b), except that the Trading Permit Holder may waive the making of a record. Review by the Board shall be the exclusive method of reviewing a decision of the Chief Executive Officer or President pursuant to this paragraph (b). The appeal to the Board of a decision of the Chief Executive Officer or President shall not operate as a stay of that decision during the pendency of the appeal. The Exchange shall file notice with the SEC in accordance with the provisions of Section 19(d)(1) of the Securities Exchange Act of all final decisions to disapprove or condition a proposed SBT pursuant to subparagraph (b)(2) above, or to impose extraordinary requirements pursuant to subparagraph (b)(3) above.

(8) The provisions of this paragraph (b) do not preclude (i) summary Exchange action under paragraph (a) above or under Chapter 12 of the Rules or (ii) other Exchange action pursuant to the Rules of the Exchange.

(9) The Chief Executive Officer or President may exempt a Trading Permit Holder from the requirements of subparagraph (b)(1) above, either generally or in respect of specific types of transactions, based on the limited proportion of Market-Maker trades on the Exchange that are cleared by the Trading Permit Holder or on the limited importance that the clearing of Market- Maker trades bears to the total business of the Trading Permit Holder.

Rule 8.10. Prevention of the Misuse of Material, Nonpublic Information

Every Trading Permit Holder shall establish, maintain and enforce written policies and procedures reasonably designed, taking into consideration the nature of such Trading Permit Holder's business, to prevent the misuse, in violation of the Exchange Act and Exchange Rules, of material, nonpublic information by such Trading Permit Holder or persons associated with such Trading Permit Holder. Trading Permit Holders that are required, pursuant to Rule 7.3, to file SEC Form X-17A-5 with the Exchange on an annual basis only, shall, contemporaneously with those submissions, file attestations signed by such Trading Permit Holders stating that the procedures mandated by this Rule have been established, enforced and maintained. Any Trading Permit Holder or associated person who becomes aware of a possible misuse of material, nonpublic information must promptly notify the Exchange's Department of Market Surveillance.

Interpretations and Policies

.01 For purposes of this Rule 8.10, conduct constituting the misuse of material, nonpublic information in violation of the Exchange Act and Exchange Rules includes, but is not limited to, the following:

(a) trading in any securities issued by a corporation, partnership, Trust Issued Receipts, or Units, as defined in Rules 4.3.06, 4.3.07, or 4.3.10 or a trust or similar entities, or in any related securities or related options or other derivative securities, or in any related non-U.S. currency, non-U.S. currency options, futures or options on futures on such currency, or any other derivatives based on such currency, or in any related commodity, related commodity futures or options on commodity futures or in any related commodity derivatives, while in possession of material, nonpublic information concerning that corporation, partnership, Trust Issued Receipts, or those Units or that trust or similar entities;

(b) trading in an underlying security or related options or other derivative securities, or in any related non-U.S. currency, non-U.S. currency options, futures or options on futures on such currency, or in any related commodity, related commodity futures or options on commodity futures or any other related commodities derivatives, or any other derivatives based on such currency while in possession of material nonpublic information concerning imminent transactions in the above; and

(c) disclosing to another person or entity any material, nonpublic information involving a corporation, partnership, Trust Issued Receipts, or Units or a trust or similar entities whose shares are publicly traded or an imminent transaction in an underlying security or related securities or in the underlying non-U.S. currency or any related non-U.S. currency options, futures or options on futures on such currency, or any other derivatives based on such currency, or in any related commodity, related commodity futures or options on commodity futures or any other related commodity derivatives, for the purpose of facilitating the possible misuse of such material, nonpublic information.

.02 This Rule 8.10 requires that each Trading Permit Holder establish, maintain, and enforce the following policies and procedures:

(a) All associated persons must be advised in writing of the prohibition against the misuse of material, nonpublic information;

(b) Signed attestations from the Trading Permit Holder and all associated persons affirming their awareness of, and agreement to abide by, the aforementioned prohibitions must be maintained for at least 3 years, the first 2 years in an easily accessible place;

(c) records of all brokerage accounts maintained by the Trading Permit Holder and all associated persons must be acquired and maintained for at least 3 years, the first 2 years in an easily accessible place;

(d) such brokerage accounts must be reviewed periodically by the Trading Permit Holder for the purpose of detecting the possible misuse of material, nonpublic information; and

(e) any business dealings the Trading Permit Holder may have with any corporation whose securities are publicly traded, or any other circumstances that may result in the Trading Permit Holder receiving, in the ordinary course of business, material, nonpublic information concerning any such corporation, must be identified and documented.

Maintenance of the foregoing policies and procedures will not, in all cases, satisfy the requirements of this Rule 8.10; the adequacy of each Trading Permit Holder's policies and procedures will depend upon the nature of such Trading Permit Holder's business. The Exchange may determine that policies and procedures less burdensome than those set forth herein would be appropriate for certain Trading Permit Holders, given the nature of such Trading Permit Holder's business.

.03 The Exchange has developed a form, denominated OE-418, that may be used by certain individual Trading Permit Holders and small TPH organizations to satisfy the filing and record-keeping requirements of this Rule 8.10. Qualified Trading Permit Holders that file the form in an accurate and timely manner and comply with the policies and procedures mandated by that form will be deemed to be in compliance with the filing and record-keeping requirements of the Rule. The Exchange will issue regulatory circulars from time to time setting forth the criteria that must be met by individual Trading Permit Holders and small TPH organizations seeking to rely on the form, and describing the policies and procedures mandated by that form.

Rule 8.11. Prohibition Against Harassment

Practices involving harassment, threats, intimidation, collusion, refusals to deal, or retaliation that have the intended purpose or effect of discouraging a Trading Permit Holder or other market participant from acting, or seeking to act, competitively are prohibited under this Rule and shall be deemed conduct inconsistent with just and equitable principles of trade under Rule 8.1.

Interpretations and Policies

.01 Among the specific types of conduct that are prohibited by this Rule 8.11 and which shall be deemed conduct inconsistent with just and equitable principles of trade are harassment, threats, intimidation, collusion, refusals to deal, or retaliation against any person or entity in connection with (1) a listing proposal made by such person or entity to any exchange or other market; (2) such person's or entity's advocacy or proposal concerning listing or trading on any exchange or market; and (3) such person or entity making markets in or trading any option on any exchange or other market, that have the intended purpose or effect of discouraging such person or entity from acting, or seeking to act, competitively.

Rule 8.12. Anti-Money Laundering Compliance Program

(a) Each TPH organization and each Trading Permit Holder not associated with a TPH organization shall develop and implement a written anti-money laundering program reasonably designed to achieve and monitor compliance with the requirements of the Bank Secrecy Act (31 U.S.C. 5311, et seq.), and the implementing regulations promulgated thereunder by the Department of the Treasury. Each TPH organization's anti-money laundering program must be approved, in writing, by a member of senior management.

(b) The anti-money laundering programs required by this Rule shall, at a minimum:

(1) Establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. 5318(g) and the implementing regulations thereunder;

(2) Establish and implement policies, procedures, and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder;

(3) Provide for annual (on a calendar-year basis) independent testing for compliance to be conducted by Trading Permit Holder or TPH organization personnel or by a qualified outside party, unless the Trading Permit Holder or TPH organization does not execute transactions for customers or otherwise hold customer accounts or act as an introducing broker with respect to customer accounts (e.g., engages solely in proprietary trading or conducts business only with other broker-dealers), in which case such "independent testing" is required every two years (on a calendar-year basis); provided however, all Trading Permit Holder or TPH organizations must conduct independent testing during the first calendar year of becoming a Trading Permit Holder or TPH organization;

(4) Designate, and identify to the Exchange (by name, title, mailing address, e-mail address, telephone number, and facsimile number) a person or persons responsible for implementing and monitoring the day-to-day operations and internal controls of the program (such individual or individuals must be an associated person of the Trading Permit Holder) and provide prompt notification to the Exchange regarding any change in such designation(s); and

(5) Provide ongoing training for appropriate persons.

Interpretations and Policies

.01 Independent Testing Requirements.

(a) All Trading Permit Holders should undertake more frequent testing than required by this Rule 8.12 if circumstances warrant.

(b) Independent testing pursuant to this rule must be conducted by a designated person with a working knowledge of applicable requirements under the Bank Secrecy Act and its implementing regulations.

(c) Independent testing may not be conducted by:

(1) a person who performs the functions being tested, or

(2) the designated anti-money laundering compliance person, or

(3) a person who reports to a person described in either (1) or (2) above.

Rule 8.13. Third Party Deposits Prohibited

TPH organizations engaged in the business of clearing and carrying the accounts of options Market-Makers ("Clearing Firms") registered to conduct business on the Exchange are subject to the following prohibitions:

(a) The acceptance of a check or funds transfer for deposit into any broker-dealer account cleared or carried by a Clearing Firm is prohibited if the name on the account from which the check or transfer is drawn is not the same as that on the account cleared or carried by the Clearing Firm.

(b) The acceptance of securities, either directly or via transfer, for deposit into any broker-dealer account cleared or carried by a Clearing Firm is prohibited if the name on the securities, or the name on the account from which the securities are drawn, is not the same as that on the account cleared or carried by the Clearing Firm.

Interpretations and Policies

.01 The foregoing prohibitions do not apply to checks, funds or securities for deposit to a Market-Maker's account that are drawn on a joint account of which the Market-Maker is one of

the joint owners, and the title of the Market-Maker's account with the Clearing Firm coincides with the Market-Maker's designation on the joint account.

.02 The foregoing prohibitions do not apply to checks, funds or securities for deposit into the account of a U.S. broker-dealer business entity if the depositor (1) has an ownership interest disclosed on Schedule A of the broker-dealer's Uniform Application for Broker-Dealer Registration ("Form BD"), or (2) is a U.S. broker-dealer and has an ownership interest disclosed on Schedule B of Form BD.

.03 The foregoing prohibitions do not apply to checks or funds transfers for deposit to a broker-dealers account: (1) that constitute an award or settlement paid as the result of the resolution of litigation or arbitration which arose in connection with the broker-dealer's securities or futures business; (2) that are drawn on an account of the government of the United States; or (3) that are drawn on the account of another broker-dealer for satisfaction of the resolution of transaction disputes.

.04 If immediate action is required in order for an account of a broker-dealer cleared and carried by a Clearing Firm to (1) establish a positive net liquidating equity or supplement equity when required based upon internal risk control procedures of the Clearing Firm, or (2) achieve compliance with SEC Rule 15c3-1 (the Net Capital Rule), an officer or partner of a Clearing Firm may grant an exception, which must be in writing, with respect to any transaction prohibited by this Rule 8.13.

.05 Transfers of funds or securities between two accounts cleared and carried by the same Clearing Firm are permitted provided that, if both accounts are not owned by the same person(s) or entity, the transfer must be authorized in writing by the owner of the account from which funds and/or securities would be withdrawn.

.06 Documentation evidencing any exceptions granted pursuant to Interpretation and Policy .04 above, and documents evidencing that deposits qualify for acceptance pursuant to Interpretation and Policy .03 above, as well as documents authorizing transfers of funds or securities between accounts pursuant to Interpretation and Policy .05 above, shall be retained by the Clearing Firm for at least three years, the first two years in an easily accessible place for examination by the Exchange. In lieu of having the documents easily accessible, a Clearing Firm may make and keep current a separate central log, index or other file through which the documents can be identified and retrieved.

Rule 8.14. Communications to the Exchange or the Clearing Corporation

No Trading Permit Holder, person associated with a Trading Permit Holder or applicant to be a Trading Permit Holder shall make any misrepresentation or omission in any application, report or other communication to the Exchange, or to the Clearing Corporation with respect to the reporting or clearance of any Exchange transaction, or adjust any position at the Clearing Corporation in any class of options traded on the Exchange except for the purpose of correcting a bona fide error in recording or of transferring the position to another account. Violations of this Rule may be subject to summary fine under Rule 13.15(g)(11).

Interpretations and Policies

.01 The Exchange will distinguish misrepresentations and omissions from willful or material misrepresentations and omissions. Willful or material misrepresentations and omissions may be considered a violation of Rule 8.5.

Rule 8.15. Unbundling of Orders to Maximize Rebates of Fees

No Trading Permit Holder shall divide an order into multiple smaller orders for the primary purpose of maximizing rebates of fees resulting from the execution of such orders, or any other similar payment of value to the Trading Permit Holder.

Rule 8.16. Supervision

(a) General. Each office, location, department, business activity, trading system, and internal surveillance system of a Trading Permit Holder shall be under the supervision and control of the Trading Permit Holder establishing it and of an appropriately qualified supervisor, as described in paragraph (c) below. Each Trading Permit Holder and associated persons of a Trading Permit Holder shall be under the supervision and control of an appropriately qualified supervisor, as described in paragraph (c) below.

(b) Designation of Supervisor by Trading Permit Holder. The general partners or directors of each Trading Permit Holder shall provide for appropriate supervisory control and shall designate a general partner or principal executive officer to assume overall authority and responsibility for internal supervision and control of the organization and compliance with applicable securities laws and regulations, and with applicable Exchange rules. The person designated shall:

(1) Delegate to qualified principals responsibility and authority for supervision and control of each office, location, department, business activity, trading system, and internal surveillance system and provide for appropriate written procedures of supervision and control; and

(2) Establish a separate system of follow-up and review to determine that the delegated authority and responsibility is being properly exercised.

(c) Qualification of Supervisor. Each Trading Permit Holder must make reasonable efforts to determine that each person with supervisory control, as described in paragraphs (a) and (b) above, is qualified by virtue of experience or training to carry out his or her assigned responsibilities. Persons with supervisory control must meet the Exchange's qualification requirements for supervisors, including completion of the appropriate examination(s).

(d) Standards of Supervision. Each person with supervisory control as described in paragraphs (a) and (b) above, shall reasonably discharge his or her duties and obligations in connection with such supervision and control in order to prevent and detect violations of applicable securities laws and regulations, and applicable Exchange rules.

(e) Written Supervisory Procedures. Each Trading Permit Holder shall establish, maintain, and enforce written supervisory procedures, and a system for applying such procedures, to supervise

the types of business in which the Trading Permit Holder engages and to supervise the activities of all associated persons. The written supervisory procedures and the system for applying such procedures shall reasonably be designed to prevent and detect violations of applicable securities laws and regulations, and applicable Exchange rules.

(1) The written supervisory procedures shall set forth the supervisory system established by the Trading Permit Holder pursuant to this rule. Each Trading Permit Holder shall keep a record of the name, title, registration status, and location of all supervisory personnel required by this rule, the dates for which supervisory designations were or are effective, and the responsibilities of the supervisory personnel as these relate to the types of business the Trading Permit Holder engages in, and applicable securities laws and regulations, including applicable Exchange rules. This record must be preserved for a period of not less than three years, the first two in an easily accessible place.

(2) A copy of the written supervisory procedures shall be kept and maintained at each location where supervisory activities are conducted on behalf of the Trading Permit Holder. Each Trading Permit Holder shall amend its written supervisory procedures as appropriate within a reasonable time after changes occur in applicable securities laws and regulations, Exchange rules, and as any changes occur in supervisory personnel or supervisory procedures. Each Trading Permit Holder shall be responsible for communicating such changes through its organization within a reasonable time.

(f) Office Inspections. Each Trading Permit Holder shall inspect every office or location of the Trading Permit Holder at least once every three calendar years. An inspection may not be conducted by any person within that office or location who has supervisory responsibilities or by any individual who is directly or indirectly supervised by such person(s). In establishing the inspection cycle, the Trading Permit Holder shall give consideration to the nature and complexity of the securities activities for which the office or location is responsible, the volume of business done, and the number of associated persons at each office or location. The examination schedule and an explanation of the factors considered in determining the frequency of the examinations in the cycle shall be set forth in the Trading Permit Holder's written supervisory procedures.

(1) Such inspection shall be reasonably designed to assist in preventing and detecting violations of, and achieving compliance with, applicable securities laws and regulations, and with applicable Exchange rules.

(2) Each Trading Permit Holder shall retain a written record of the dates upon which each inspection is conducted, the participants in the inspection, and the results thereof.

(g) Annual Review and Written Report.

(1) At least annually, each Trading Permit Holder shall conduct an interview or meeting with all associated persons, at which compliance matters relevant to the activities of the associated person are discussed. Each Trading Permit Holder shall retain a written record of the dates upon which each interview or meeting occurred, the participants in the interview or meeting, and the results thereof; and

(2) By April 1 of each year, each Trading Permit Holder shall submit to the Exchange a written report on the Trading Permit Holder's supervision and compliance effort during the preceding year and on the adequacy of the Trading Permit Holder's ongoing compliance processes and procedures. The report shall include, but not be limited to, the following:

(A) A tabulation of customer complaints (including arbitrations and civil actions) and internal investigations, if any.

(B) Identification and analysis of significant compliance problems, plans for future systems or procedures to prevent and detect violations and problems, and an assessment of the proceeding year's efforts of this nature.

(C) Discussion of the preceding year's compliance efforts, new procedures, educational programs, etc. in each of the following areas: (i) antifraud and trading practices; (ii) books and records; (iii) finance and operations; (iv) supervision; (v) internal controls; and (vi) anti-money laundering. If any of these do not apply to the Trading Permit Holder, the report shall so state.

(D) A certification signed by the Trading Permit Holder's Chief Executive Officer (or equivalent officer) that:

(i) The Trading Permit Holder has in place processes to:

(a) establish and maintain policies and procedures reasonably designed to achieve compliance with applicable Exchange Rules and federal securities laws and regulations,

(b) modify such policies and procedures as business, regulatory and legislative changes and events dictate, and

(c) test the effectiveness of such policies and procedures on a periodic basis, the timing and extent of which is reasonably designed to ensure continuing compliance with Exchange Rules and federal securities laws and regulations.

(ii) The Chief Executive Officer (or equivalent officer) conducted one or more meetings with the Trading Permit Holder's Chief Compliance Officer during the preceding 12 months, and that they discussed and reviewed the matters described in this certification, including the Trading Permit Holder's prior compliance efforts, and identified and addressed significant compliance problems and plans for emerging business areas.

(iii) The processes described in subparagraph (g)(2)(D)(i) above are evidenced in a report reviewed by the Chief Executive Officer (or equivalent officer), Chief Compliance Officer and such other officers as the Trading Permit Holder may deem necessary to make this certification,

and submitted to the Trading Permit Holder's board of directors or audit committee (or equivalent bodies) on or before April 1st of each year.

(iv) The Chief Executive Officer (or equivalent officer) has consulted with the Chief Compliance Officer and other officers referenced in subparagraph (g)(2)(D)(iii) above and other such employees, outside consultants, lawyers and accountants, to the extent they deem appropriate, in order to attest to the statements made in this certification.

(3) A Trading Permit Holder that specifically includes its options compliance program within an annual compliance review and written report that complies with substantially similar requirements of the Financial Industry Regulatory Authority or any other self-regulatory organization will be deemed to have met the requirements of this paragraph (g), however the Trading Permit Holder must submit a copy of such written report to the Exchange by April 1 of each year.

Rule 8.17. Proxy Voting

(a) No Trading Permit Holder may give a proxy to vote stock that is registered in its name, unless:

(1) such Trading Permit Holder is the beneficial owner of such stock;

(2) pursuant to the written instructions of the beneficial owner; or

(3) pursuant to the rules of any national securities exchange or association of which it is a member provided that the records of the Trading Permit Holder clearly indicate the procedure it is following

(b) Notwithstanding the foregoing, a Trading Permit Holder that is not the beneficial owner of a security registered under Section 12 of the Exchange Act is prohibited from granting a proxy to vote the security in connection with a shareholder vote on the election of a member of the board of directors of an issuer (except for a vote with respect to uncontested election of a member of the board of directors of any investment company registered under the Investment Company Act of 1940), executive compensation, or any other significant matter, as determined by the Commission, by rule, unless the beneficial owner of the security has instructed the Trading Permit Holder to vote the proxy in accordance with the voting instructions of the beneficial owner.

Rule 8.18. Failure to Pay Premium

When the Clearing Corporation shall reject an Exchange transaction because of the failure of the Clearing Trading Permit Holder acting on behalf of the purchaser to pay the aggregate premiums due thereon as required by the Rules of the Clearing Corporation, the Trading Permit Holder acting as or on behalf of the writer shall have the right either to cancel the transaction by giving notice thereof to the Clearing Trading Permit Holder or to enter into a closing writing transaction in respect of the same option contract that was the subject of the rejected Exchange transaction for the account of the defaulting Clearing Trading Permit Holder. Such action shall be taken as

soon as possible, and in any event not later than 11:00 a.m. on the business day following the day the Exchange transaction was rejected by the Clearing Corporation.

Rule 8.[25]19. Restriction on Acting as Market-Maker and Floor Broker

No change.

Rule 8.20. Prohibition Against Customers Functioning as Market-Makers

(a) TPH organizations may neither enter nor permit the entry of priority customer orders into the Hybrid System if (1) the orders are limit orders for the account or accounts of the same beneficial owner(s) and (2) the limit orders are entered in such a manner that the beneficial owner(s) effectively is operating as a Market-Maker by holding itself out as willing to buy and sell such securities on a regular or continuous basis.

(b) In determining whether a beneficial owner effectively is operating as a Market-Maker, the Exchange will consider, among other things, the simultaneous or near simultaneous entry of limit orders to buy and sell the same security and the entry of multiple limit orders at different prices in the same security.

Rule 8.21. Multiple Representation Prohibited

(a) No Trading Permit Holder, for any account in which the Trading Permit Holder has an interest or on behalf of a customer, shall maintain with more than one broker orders for the purchase or sale of the same option contract or other security, or the same combination of option contracts or other securities, with the knowledge that such orders are for the account of the same principal.

(b) Except in accordance with procedures established by the Exchange or with the Exchange's permission in individual cases, no individual Market-Maker shall enter or be present in a trading crowd while a Floor Broker present in the trading crowd is holding an order on behalf of the Market-Maker's individual account or an order initiated by the Market-Maker for an account in which the Market-Maker has an interest.

Interpretations and Policies

.01 An individual Market-Maker may permissibly enter a trading crowd in which a Floor Broker is present who holds an order on behalf of the Market-Maker's individual account or an order initiated by the Market-Maker for an account in which the Market-Maker has an interest if one of the following procedures is followed:

(a) The Market-Maker cancels the order prior to entering the trading crowd or the Market-Maker makes the Floor Broker aware of the Market-Maker's intention to enter the trading crowd and the Floor Broker cancels the order. If the Market-Maker wishes to re-enter the order upon the Market-Maker's exit from the trading crowd, a new order must be entered.

(b) The Market-Maker makes the Floor Broker aware of the Market-Maker's intention to enter or to be present in the trading crowd and the Market-Maker refrains from trading in-person on the

same trade as the order being represented by the Floor Broker unless other in-crowd market participants choose not to trade the remaining portion of the order.

.02 The following procedures apply to the simultaneous presence in a trading crowd of participants in and orders for the same joint account:

(a) Joint accounts may be simultaneously represented in a trading crowd by participants trading in-person for the joint account.

(b) Joint account participants who are not trading in-person in a trading crowd may enter orders for the joint account with Floor Brokers even if other participants are trading the same joint account in-person.

(c) When series are simultaneously opened during rotation, joint account participants trading the joint account in-person may enter orders for the joint account with Floor Brokers in series where they are unable to trade the joint account in-person.

(d) There is no restriction on the number of joint account participants that may participate on behalf of the joint account on the same trade.

(e) When joint account participants are trading in-person in a trading crowd for their individual account or as a Floor Broker, another participant of the joint account may trade for the joint account in-person or enter orders for the joint account with Floor Brokers.

(f) Except as otherwise permitted under this Rule 8.21, Trading Permit Holders are reminded that they are prohibited from entering orders for their individual or joint accounts while they are trading in-person in a trading crowd even if the orders are for an account they are not then actively trading.

(g) Trading Permit Holders must ensure that they do not trade in-person or by orders such that (1) a trade occurs between a joint account participant's individual market-maker account and the joint account of which he or she is a participant, or (2) a trade occurs in which the buyer and seller are representing the same joint account and are on opposite sides of a transaction. It is the responsibility of a joint account participant to ascertain whether joint account orders have been entered in a crowd prior to trading the joint account in-person.

(h) Joint account participants may not act as a Floor Broker for the joint account of which they are a participant.

(i) Trading Permit Holders may alternate trading in-person for their individual account and their joint account while in a trading crowd.

(j) When completing a trade ticket for Market-Maker joint account transactions, it must contain such information as may be required by the Exchange under Rule 6.1(d).

Rule 8.22. Trading by Trading Permit Holders on the Floor

No Trading Permit Holder shall initiate a transaction, while on the floor, for an account in which he has an interest unless such Trading Permit Holder is registered with the Exchange as a Market-Maker and is acting in accordance with Chapter 3, Section C and Chapter 5, Section D of these Rules; however, a Trading Permit Holder may take into his own account, and subsequently liquidate, any position that results from an error made while attempting to execute, as Floor Broker, an order for a customer.

SECTION B. POSITION LIMITS, EXERCISE LIMITS, LIQUIDATION AND REPORTING

Rule 8.30. Position Limits

Except with the prior permission of the President or his designee, to be confirmed in writing, no Trading Permit Holder shall make, for any account in which it has an interest or for the account of any customer, an opening transaction on any exchange if the Trading Permit Holder has reason to believe that as a result of such transaction the Trading Permit Holder or its customer would, acting alone or in concert with others, directly or indirectly, (a) control an aggregate position in an option contract dealt in on the Exchange in excess of 25,000 or 50,000 or 75,000 or 200,000 or 250,000 option contracts (whether long or short) of the put type and the call type on the same side of the market respecting the same underlying security, combining for purposes of this position limit long positions in put options with short positions in call options, and short positions in put options with long positions in call options, or such other number of option contracts as may be fixed from time to time by the Exchange as the position limit for one or more classes or series of options, or (b) exceed the applicable position limit fixed from time to time by another exchange for an option contract not dealt in on the Exchange, when the Trading Permit Holder is not a member of the other exchange on which the transaction was effected. In addition, should a Trading Permit Holder have reason to believe that a position in any account in which it has an interest or for the account of any customer is in excess of the applicable limit, such Trading Permit Holder shall promptly take the action necessary to bring the position into compliance. Reasonable notice shall be given of each new position limit fixed by the Exchange, by publicly posting notice thereof. Limits shall be determined in the manner described in Interpretations and Policies .02 and .04 below.

Interpretations and Policies

.01 Examples. The following examples, using the 25,000 option contract limit, illustrate the operation of position limits established by this Rule 8.30:

(a) Customer A, who is long 25,000 XYZ calls, may at the same time be short 25,000 XYZ calls, since long call and short call positions in the same class of options are on opposite sides of the market and are not aggregated for purposes of this Rule 8.30.

(b) Customer B, who is long 25,000 XYZ calls, may at the same time be long 25,000 XYZ puts. Rule 8.30 does not require the aggregation of long call and long put (or short call and short put) positions, since they are on opposite sides of the market.

(c) Customer C, who is long 20,000 XYZ calls, may not at the same time be short more than 5,000 XYZ puts, since the 25,000 contract limit applies to the aggregation of long call and short put positions in options covering the same underlying security. Similarly, if Customer C is also short 20,000 XYZ calls, he may not at the same time be long more than 5,000 XYZ puts, since the 25,000 contract limit applies separately to the aggregation of short call and long put positions in options covering the same underlying security.

.02 Option Contract Limits.

(a) The 25,000 option contract limit applies to those options having an underlying security that does not meet the requirements for a higher option contract limit.

(b) To be eligible for the 50,000 option contract limit, either the most recent six-month trading volume of the underlying security must have totaled at least 20,000,000 shares; or the most recent six-month trading volume of the underlying security must have totaled at least 15,000,000 shares and the underlying security must have at least 40,000,000 shares currently outstanding.

(c) To be eligible for the 75,000 option contract limit, either the most recent six-month trading volume of the underlying security must have totaled at least 40,000,000 shares; or the most recent six-month trading volume of the underlying security must have totaled at least 30,000,000 shares and the underlying security must have at least 120,000,000 shares currently outstanding.

(d) To be eligible for the 200,000 option contract limit, either the most recent six-month trading volume of the underlying security must have totaled at least 80,000,000 shares; or the most recent six-month trading volume of the underlying security must have totaled at least 60,000,000 shares and the underlying security must have at least 240,000,000 shares currently outstanding.

(e) To be eligible for the 250,000 option contract limit, either the most recent six-month trading volume of the underlying security must have totaled at least 100,000,000 shares; or the most recent six-month trading volume of the underlying security must have totaled at least 75,000,000 shares and the underlying security must have at least 300,000,000 shares currently outstanding.

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

.03 Control.

(a) Control exists, under this Rule 8.30 and Rule 8.42, when it is determined that an individual or entity (1) makes investment decisions for an account or accounts, or (2) materially influences directly or indirectly the actions of any person who makes investment decisions.

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

(1) among all parties to a joint account who have authority to act on behalf of the account;

(2) among all general partners to a partnership account;

(3) when an individual or entity (A) holds an ownership interest of 10 percent or more in an entity (ownership interest of less than 10 percent will not preclude aggregation), or (B) shares in 10 percent or more of profits and/or losses of an account;

(4) when accounts have common directors or management;

(5) where a person or entity has the authority to execute transactions in an account.

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

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

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

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

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

(d) Initial determinations under this Interpretation and Policy .03 shall be made by the Market Regulation Department of the Exchange. The initial determination may be reviewed by the President of the Exchange or his designee, based upon a report by the Market Regulation Department of the Exchange. A Trading Permit Holder or customer directly affected by such a determination may ask the President of the Exchange or his designee to reconsider but may not request any other review or appeal, except in the context of a disciplinary proceeding. The decision to grant non- aggregation under this Interpretation shall not be retroactive. The presumption of control shall exist until determined, as provided above, to not exist.

.04 Equity Hedge Exemptions.

(a) Hedge Transactions and Positions. The following qualified hedging transactions and positions described in subparagraphs (a)(1) through (a)(5) below shall be exempt from

established position limits as prescribed under Interpretation and Policy .02 above. Hedge transactions and positions established pursuant to subparagraphs (a)(6) and (a)(7) below are subject to a position limit equal to five (5) times the standard limit established under Interpretation and Policy .02 above.

(1) Where each option contract is “hedged” or “covered” by 100 shares of the underlying security or securities convertible into such underlying security, or, in the case of an adjusted option contract, the same number of shares represented by the adjusted contract;

(A) long call and short stock;

(B) short call and long stock;

(C) long put and long stock;

(D) short put and short stock.

(2) A long call position accompanied by a short put position, where the long call expires with the short put, and the strike price of the long call and short put is equal, and where each long call and short put position is hedged with 100 shares (or other adjusted number of shares) of the underlying security or securities convertible into such stock (“reverse conversion”).

(3) A short call position accompanied by a long put position where the short call expires with the long put, and the strike price of the short call and the long put is equal, and where each short call and long put position is hedged with 100 shares (or other adjusted number of shares) of the underlying security or securities convertible into such stock (“conversion”).

(4) A short call position accompanied by a long put position, where the short call expires with the long put, and the strike price of the short call equals or exceeds the long put, and where each short call and long put position is hedged with 100 shares of the underlying security (or other adjusted number of shares). Neither side of the short call, long put position can be in-the-money at the time the position is established (“collar”).

(5) A long call position accompanied by a short put position where the long call expires with the short put and the strike price of the long call equals or exceeds the short put and where each long call and short put position is hedged with 100 shares of the underlying security (or other adjusted number of shares). Neither side of the long call, short put position can be in-the-money at the time the position is established (“reverse collar”).

(6) A long call position accompanied by a short put position with the same strike price and a short call position accompanied by a long put position with different strike price (“box spread”).

(7) A listed option position hedged on a one-for one basis with an over-the-counter (“OTC”) option position on the same underlying security. The strike price of the listed

option position and corresponding OTC option position must be within one strike of each other and no more than one expiration month apart.

(8) For those strategies described under subparagraphs (a)(2) through (a)(5) above, one component of the option strategy can be an OTC option contract guaranteed or endorsed by the firm maintaining the proprietary position or carrying the customer account.

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

(b) *Other Exemptions.* The equity hedge exemption is in addition to the standard limit and other exemptions available under Exchange rules, interpretations and policies.

(c) *Delta-Based Equity Hedge Exemption.*

* Note: The Delta-Based Equity Hedge Exemption for customers is not currently available and customers may not seek to rely on the Delta-Based Equity Hedge Exemption. The Exchange will issue a Regulatory Circular to announce when the Delta-Based Equity Hedge Exemption is available to customers.

The Delta-Based Equity Hedge Exemption is in addition to the standard limit and other exemptions available under Exchange rules, interpretations and policies. An equity option position of a Trading Permit Holder, non-Trading Permit Holder affiliate of a Trading Permit Holder or customer that is delta neutral shall be exempt from established position limits as prescribed under Interpretation and Policy .02 above, subject to the following:

(1) The term “delta neutral” refers to an equity option position that is hedged, in accordance with a permitted pricing model, by a position in the underlying security or one or more instruments relating to the underlying security, for the purpose of offsetting the risk that the value of the option position will change with incremental changes in the price of the security underlying the option position. Customers seeking to use the delta-based equity hedge exemption may only hedge their positions in accordance with a pricing model maintained and operated by the Clearing Corporation (“OCC Model”).

In the case of an equity option position for which the underlying security is an ETF that is based on the same index as an index option, the equity option position and any position in the underlying ETF may be combined with such an index option position and/or correlated instruments, as defined in Rule 8.31.05(a), in accordance with Rule 8.31.05 - Delta-Based Index Hedge Exemption, for calculation of the delta-based equity hedge exemption.

(2) An equity option position that is not delta neutral shall be subject to position limits in accordance with this Rule 8.30 (subject to the availability of other position limit exemptions). Only the option contract equivalent of the net delta of such position shall be subject to the appropriate position limit. The “options contract equivalent of the net delta” is the net delta divided by the number of shares that equate to one option contract on a delta basis. The term “net delta” means, at any time, the number of shares and/or other

units of trade (either long or short) required to offset the risk that the value of an equity option position will change with incremental changes in the price of the security underlying the option position, as determined in accordance with a permitted pricing model.

(3) A “permitted pricing model” means –

(A) OCC Model;

(B) A pricing model maintained and used by a Trading Permit Holder subject to consolidated supervision by the Commission pursuant to Appendix E of Commission Rule 15c3-1, or by an affiliate that is part of such Trading Permit Holder’s consolidated supervised holding company group, in accordance with its internal risk management control system and consistent with the requirements of Appendices E or G, as applicable, to SEC Rule 15c3-1 and SEC Rule 15c3-4 under the Act, as amended from time to time, in connection with the calculation of risk-based deductions from capital or capital allowances for market risk thereunder, provided that the Trading Permit Holder or affiliate of a Trading Permit Holder relying on this exemption in connection with the use of such model is an entity that is part of such Trading Permit Holder’s consolidated supervised holding company group;

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

(i) the requirements of the Board of Governors of the Federal Reserve System, as amended from time to time, in connection with the calculation of risk-based adjustments to capital for market risk under capital requirements of the Board of Governors of the Federal Reserve System, provided that the Trading Permit Holder or affiliate of a Trading Permit Holder relying on this exemption in connection with the use of such model is an entity that is part of such company’s consolidated supervised holding company group; or

(ii) the standards published by the Basel Committee on Banking Supervision, as amended from time to time and as implemented by such company’s principal regulator, in connection with the calculation of risk-based deductions or adjustments to or allowances for the market risk capital requirements of such principal regulator applicable to such company - where “principal regulator” means a member of the Basel Committee on Banking Supervision that is the home country consolidated supervisor of such company - provided that the Trading Permit Holder or affiliate of a Trading Permit Holder relying on this exemption in

connection with the use of such model is an entity that is part of such company's consolidated supervised holding company group;

(4) A pricing model maintained and used by an OTC derivatives dealer registered with the SEC pursuant to SEC Rule 15c3-1(a)(5) in accordance with its internal risk management control system and consistent with the requirements of Appendix F to SEC Rule 15c3-1 and SEC Rule 15c3-4 under the Act, as amended from time to time, in connection with the calculation of risk-based deductions from capital for market risk thereunder, provided that only such OTC derivatives dealer and no other affiliated entity (including a Trading Permit Holder) may rely on this subparagraph (c)(4); or

(5) A pricing model used by a national bank under the National Bank Act maintained and used in accordance with its internal risk management control system and consistent with the requirements of the Office of the Comptroller of the Currency, as amended from time to time, in connection with the calculation of risk-based adjustments to capital for market risk under capital requirements of the Office of the Comptroller of the Currency, provided that only such national bank and no other affiliated entity (including a Trading Permit Holder) may rely on this subparagraph (c)(5).

(d) Effect on Aggregation of Accounts.

(1) Trading Permit Holders, non-Trading Permit Holder affiliates and customers who rely on the exemption under paragraph (c) above must ensure that the permitted pricing model is applied to all positions in or relating to the security underlying the relevant option position that are owned or controlled by such Trading Permit Holder, non-Trading Permit Holder affiliate or customers.

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

(A) the entity demonstrates to the Exchange's satisfaction that no control relationship, as defined in Interpretation and Policy .03 above, exists between such affiliates or trading units*; and

(B) the entity has provided (by the Trading Permit Holder carrying the account as applicable) the Exchange written notice in advance that it intends to be considered separate and distinct from any affiliate or, as applicable, which trading units within the entity are to be considered separate and distinct from each other for purposes of this exemption.

* Note: The Exchange has set forth in Regulatory Circular RG08-12 the conditions under which it will deem no control relationship to exist between affiliates and between separate and distinct trading units within the same entity.

(3) Notwithstanding subparagraph (d)(1) or (d)(2) above, a Trading Permit Holder, non-Trading Permit Holder affiliate or customer who relies on this exemption shall designate, by prior written notice to the Exchange (to be obtained and provided by the Trading Permit Holder carrying the account as applicable), each trading unit or entity whose option positions are required under Exchange Rules to be aggregated with the option positions of such Trading Permit Holder, non-Trading Permit Holder affiliate or customer that is relying on this exemption for purposes of compliance with Exchange position limits or exercise limits. In any such case:

(A) the permitted pricing model shall be applied, for purposes of calculating such Trading Permit Holder's, affiliate's or customer's net delta, only to the positions in or relating to the security underlying any relevant option position owned and controlled by those entities and trading units who are relying on this exemption; and

(B) the net delta of the positions owned or controlled by the entities and trading units who are relying on this exemption shall be aggregated with the non-exempt option positions of all other entities and trading units whose options positions are required under Exchange Rules to be aggregated with the option positions of such Trading Permit Holder, affiliate or customer.

(e) Obligations of Trading Permit Holders.

(1) A Trading Permit Holder that relies on the exemption under paragraph (c) above for a proprietary equity options position:

(A) must provide a written certification to the Exchange that it is using a permitted pricing model pursuant to paragraph (c) above; and

(B) by such reliance authorizes any other person carrying for such Trading Permit Holder an account including, or with whom such Trading Permit Holder has entered into, a position in or relating to a security underlying the relevant option position to provide to the Exchange or the Clearing Corporation such information regarding such account or position as the Exchange or Clearing Corporation may request as part of the Exchange's confirmation or verification of the accuracy of any net delta calculation under this exemption.

(2) The equity option positions of a non-Trading Permit Holder relying on this exemption must be carried by a Trading Permit Holder with which it is affiliated.

(3) A Trading Permit Holder carrying an account that includes an equity option position for a non-Trading Permit Holder affiliate that intends to rely on this exemption must obtain from such non-Trading Permit Holder affiliate and must provide to the Exchange:

(A) a written certification to the Exchange that the non-Trading Permit Holder affiliate is using a permitted pricing model pursuant to paragraph (c) above; and

(B) a written statement confirming that such non-Trading Permit Holder affiliate:

(i) is relying on this exemption;

(ii) will use only a permitted pricing model for purposes of calculating the net delta of its option positions for purposes of this exemption;

(iii) will promptly notify the Trading Permit Holder if it ceases to rely on this exemption;

(iv) authorizes the Trading Permit Holder to provide to the Exchange or the Clearing Corporation such information regarding positions of the non-Trading Permit Holder affiliate as the Exchange or Clearing Corporation may request as part of the Exchange's confirmation or verification of the accuracy of any net delta calculation under this exemption; and

(v) if the non-Trading Permit Holder affiliate is using the OCC Model, has duly executed and delivered to the Trading Permit Holder such documents as the Exchange may require to be executed and delivered to the Exchange as a condition to reliance on this exemption.

(4) A Trading Permit Holder carrying an account that includes an equity option position for a customer who intends to rely on this exemption must obtain from such customer and provide to the Exchange:

(A) a written certification to the Exchange that the customer is using the OCC Model pursuant to subparagraph (c)(1) above; and

(B) a written statement confirming that such customer:

(i) is relying on this exemption;

(ii) will use only the OCC Model for purposes of calculating the net delta of the customer's option positions for purposes of this exemption;

(iii) will promptly notify the Trading Permit Holder if the customer ceases to rely on this exemption; and

(iv) in connection with using the OCC Model, has duly executed and delivered to the Trading Permit Holder such documents as the Exchange may require to be executed and delivered to the Exchange as a condition to reliance on this exemption.

(f) Reporting. Each Trading Permit Holder (other than an Exchange market-maker or DPM using the OCC Model) that holds or carries an account that relies on this exemption shall report, in

accordance with Rule 8.43, all equity option positions (including those that are delta neutral) that are reportable thereunder. Each such Trading Permit Holder on its own behalf or on behalf of a designated aggregation unit pursuant to subparagraph (d) above shall also report, in accordance with Rule 8.43, for each such account that holds an equity option position subject to this exemption in excess of the levels specified in this Rule 8.30, the net delta and the options contract equivalent of the net delta of such position.

(g) *Records.* Each Trading Permit Holder relying on this exemption shall: (1) retain, and undertake reasonable efforts to ensure that any non-Trading Permit Holder affiliate of the Trading Permit Holder or customer relying on this exemption retains, a list of the options, securities and other instruments underlying each option position net delta calculation reported to the Exchange hereunder; and (2) produce such information to the Exchange upon request.

.05 *Market-Maker Exemptions.*

(a) The provisions set forth below apply only to Market-Makers seeking an exemption to the standard position limits in all options traded on the Exchange for the purpose of assuring that there is sufficient depth and liquidity in the marketplace, and not to confer a right upon the Market-Maker applying for an exemption. In light of the procedural safeguards, the purpose of this exemption process, and the prohibition against the granting of retroactive exemptions, decisions granting or denying exemptions are not subject to review under Chapter 15 of the Rules regarding Hearings and Review. The general provisions of the policy are as follows:

(1) An exemption may be granted for the purpose of maintaining a fair and orderly market in the options on a given underlying security.

(2) Generally, an exemption will be granted only to a Market-Maker who has requested an exemption, who holds an appointment to the option class in which the exemption is requested, whose positions are near the current position limit and who is significant in terms of in-person daily volume. The interpretation of this point is that the positions must generally be within 10% of the applicable limits in equity options and 20% of the applicable limits in broad-based index options, bond or note options.

(3) If an exemption is granted, it will be effective at the time the decision is communicated. Retroactive exemptions will not be granted.

(4) The size and length of an exemption will be determined on a case by case basis. (An exemption will usually be granted until the nearest expiration.) The exemption may specify the extent to which the resulting position may be carried in options in one or more expiration cycles.

(b) The following procedures have been established for Market-Makers nearing the limits due to general market conditions.

(1) A request for an exemption from the established position and exercise limits must be in writing and must state the specific reasons why an exemption should be granted.

(2) The request should be submitted to the Department of Market Regulation.

(3) The Exchange will review, among other factors, such matters as Market-Maker positions, trading activity, and comments by trading crowd members concerning market conditions. The Exchange will determine whether or not an exemption will be granted.

(4) To ensure same day review by the Exchange, exemption requests must be submitted to the Department of Market Regulation no later than 2:00 p.m. The Exchange's review will be conducted informally, and it may receive information in such manner as is most effective, in its discretion, to ascertain whether an exemption is necessary to maintain depth and liquidity in the market.

(5) The Market Regulation staff will communicate the exemption decision to the requesting Market-Maker and his clearing firm as soon as possible, generally on the day following Exchange review.

(A) Ordinarily, a first application will be considered by the Exchange without the presence of the applicant. If a Market-Maker's request for an exemption is denied and he wishes to reapply for an exemption, he may make a brief scheduled personal appearance before the Exchange.

(B) Granted exemptions may be reviewed by the Exchange, which can revoke or modify the exemption. Such reviews may be considered by the Exchange without the presence of the Market-Maker that originally received the exemption. If a granted exemption that is reviewed by the Exchange without the presence of the Market-Maker is revoked or modified and the Market-Maker wishes to reapply for the exemption or a modified exemption, the Market-Maker may make a brief scheduled personal appearance before the Exchange.

(c) Requests for instant exemptions should be made by contacting the Department of Market Regulation. Instant exemption requests will be considered in extraordinary situations, such as an order imbalance, an off-floor executable order in the crowd or position limit restrictions of Market-Makers who are near the limits intraday. Following its immediate review of the situation, the Exchange will make a decision whether an exemption is warranted, in accordance with criteria established by the Exchange. Following its decision, the Exchange will prepare the proper form and provide a copy to the Market-Maker. Granted instant exemptions may be reviewed by the Exchange, which can revoke or modify the exemption.

(d) A list of current exemptions will be posted in a generally accessible area and will include, but may not be limited to, the following information: the exemption recipient's name and the class, size, and duration of each exemption.

.06 Firm Facilitation Exemption. To the extent that the following procedures and criteria are satisfied, a TPH organization may receive and maintain for its proprietary account an exemption ("facilitation exemption") from the applicable standard position limit in non-multiply-listed Exchange options for the purpose of facilitating, pursuant to the provisions of Rule 5.87(d), (a) orders for its own customer (one that will have the resulting position carried with the firm) or (b)

orders received from or on behalf of a customer for execution only against the TPH firm's proprietary account.

(a) The TPH organization must receive approval from the Exchange prior to executing facilitating trades. The facilitation exemption shall be granted to the TPH organization owning or controlling the account in which the exempt option positions are held. For purposes of this Interpretation and Policy .06, control shall be determined in accordance with the provision of Interpretation and Policy .03. Exchange approval may be given on the basis of verbal representations, in which event the TPH organization shall, within a period of time to be designated by the Exchange, furnish the Department of Market Regulation with appropriate forms and documentation substantiating the basis for the exemption. The approval for the facilitation exemption will specify the maximum number of contracts that may be exempt under this Interpretation and Policy. In no event may the aggregate exempted position under this Interpretation and Policy .06 exceed the number of contracts specified in the table as follows:

<u>OPTION TYPE</u>	<u>FIRM FACILITATION EXEMPTION</u> <u>(is in addition to standard limit)</u>
<u>Equity</u>	<u>2 × applicable standard limit</u>
<u>Broad-based index (other than DJX,OEX or SPX)</u>	<u>2 × standard overall limit</u>
<u>Narrow-based (industry or sector) index</u>	<u>2 × applicable standard limit</u>
<u>Flexible Exchange (FLEX)</u>	<u>2 × FLEX standard limit</u>
<u>Interest rate</u>	<u>3 × standard limit</u>
<u>Government securities</u>	<u>2 × standard limit value</u>

EXAMPLE: If a firm desires to facilitate customer order(s) in the XYZ option class, which is assumed to be a in a non-multiply listed class of options with a 50,000 contract standard position limit, the firm may qualify for a firm facilitation exemption of up to twice the standard limit or 100,000 contracts.

The facilitation exemption is in addition to the standard limit and other exemptions available under Exchange rules, interpretations and policies. A TPH organization so approved is hereinafter referred to as a “facilitation firm”.

(b) The facilitation firm must provide all information required by the Exchange on approved forms and keep such information current. The facilitation firm shall promptly provide to the Exchange any information or documents requested concerning the exempted options positions

and the positions hedging them. A copy of all applicable order tickets must be provided to the Department of Market Regulation on the day of execution.

(c) In addition, the facilitation firm shall comply with the following provisions regarding the execution of its customer's order and its own facilitating order:

(1) neither order may be contingent on "all or none" or "fill or kill" instructions;

(2) the orders may not be executed until Rule 5.87(d) procedures have been satisfied and crowd members have been given a reasonable time to participate pursuant thereto.

(d) To remain qualified, a facilitation firm must, within five business days after the execution of a facilitation exemption order, hedge all exempt options positions that have not previously been liquidated, and furnish the Department of Market Regulation with documentation reflecting the resulting hedging positions.

(e) The facilitation firm shall:

(1) liquidate and establish its customer's and its own options and stock positions or their equivalent in an orderly fashion, and not in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes; and not initiate or liquidate its customer's or its own stock position or its equivalent with an equivalent index option position with a view toward taking advantage of any differential in price between a group of securities and an overlying stock index option;

(2) promptly notify the Exchange of any material change in the exempted options position or the hedge; and

(3) not increase the exempted option position once it is closed unless approval is received again pursuant to a reapplication under this Interpretation.

(f) Violation of any of these provisions, absent reasonable justification or excuse, shall result in withdrawal of the facilitation exemption and may form the basis for subsequent denial of an application for a facilitation exemption hereunder.

.07 *Interests in Registered Investment Companies.* The position limits under this Rule 8.30 applicable to options on shares or other securities that represent interests in registered investment companies (or series thereof) organized as open- end management investment companies, unit investment trusts or similar entities that satisfy the criteria set forth in Rule 4.3.06 shall be the same as the position limits applicable to equity options under Rule this 8.30 and Interpretations and Policies thereunder; except that the position limits under this Rule 8.30 applicable to option contracts on the securities listed in the below chart are as follows:

<u>Security Underlying Option</u>	<u>Position Limit</u>
<u>The DIAMONDS Trust (DIA)</u>	<u>300,000 contracts</u>

<u>The Standard and Poor's Depository Receipts Trust (SPY)</u>	<u>1,800,000 contracts</u>
<u>The iShares Russell 2000 ETF (IWM)</u>	<u>1,000,000 contracts</u>
<u>The PowerShares QQQ Trust (QQQQ)</u>	<u>1,800,000 contracts</u>
<u>The iShares MSCI Emerging Markets ETF (EEM)</u>	<u>1,000,000 contracts</u>
<u>iShares China Large-Cap ETF ("FXI")</u>	<u>500,000 contracts</u>
<u>iShares MSCI EAFE ETF ("EFA")</u>	<u>500,000 contracts</u>
<u>iShares MSCI Brazil Capped ETF ("EWZ")</u>	<u>500,000 contracts</u>
<u>iShares 20+ Year Treasury Bond Fund ETF ("TLT")</u>	<u>500,000 contracts</u>
<u>iShares MSCI Japan ETF ("EWJ")</u>	<u>500,000 contracts</u>

.08 Mini-option Contracts. For purposes of determining compliance with the position limits under this Rule 8.30, 10 mini-option contracts (as permitted under Rule 4.5) shall equal one standard contract overlying 100 shares.

Rule 8.31. Position Limits for Broad-Based Index Options

(a) In determining compliance with Rule 8.30, there shall be no position limits for broad-based index option contracts (including reduced-value option contracts) on Cboe S&P 500 AM/PM Basis, Cboe S&P 500 Three-Month Realized Variance, Cboe S&P 500 Three-Month Realized Volatility and on the BXM (1/10th value), DJX, OEX, XEO, NDX, RUT, VIX, VXN, VXD, VXST, S&P 500 Dividend Index, and SPX classes. All other broad-based index option contracts shall be subject to a contract limitation fixed by the Exchange, which shall not be larger than the limits provided in the chart below.

<u>BROAD-BASED INDEX OPTION TYPE</u>	<u>STANDARD LIMIT (on the same side of the market)</u>	<u>RESTRICTIONS</u>
<u>Dow Jones Equity REIT Index</u>	<u>250,000 contracts</u>	<u>None</u>
<u>Lipper Analytical/Salomon Bros. Growth Fund Index</u> <u>Lipper Analytical/Salomon Bros. Growth and Income</u>	<u>75,000 contracts</u>	<u>no more than 50,000 near- term</u>

Fund Index

<u>S&P 500/Barra Growth or Value</u>	<u>36,000 contracts in the aggregate</u>	<u>no more than 21,500 near-term</u>
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<u>S&P SmallCap 600</u> <u>GSTI Composite</u>	<u>100,000 contracts</u>	<u>no more than 60,000 near-term</u>
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<u>Russell 1000</u> <u>Russell 1000 Growth</u> <u>Russell 1000 Value</u> <u>Russell 2000 Growth</u> <u>Russell 2000 Value</u> <u>Russell 3000</u> <u>Russell 3000 Growth</u> <u>Russell 3000 Value</u> <u>Russell Midcap</u> <u>Russell Midcap Growth</u> <u>Russell Midcap Value</u> <u>Russell Top 200 Index</u> <u>Russell Top 200 Growth Index</u> <u>Russell Top 200 Value Index</u> <u>Mexico 30 Index</u> <u>Germany 25</u> <u>Morgan Stanley Multinational Company Index</u> <u>Cboe Euro 25 Index</u> <u>Cboe Asian 25 Index</u>	<u>50,000 contracts</u>	<u>no more than 30,000 near-term</u>
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<u>Reduced Value NYSE Composite</u>	<u>45,000 contracts</u>	<u>no more than 25,000 near-term</u>
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<u>Cboe Russell 2000 Volatility IndexSM ("RVXSM")</u>	<u>50,000 contracts</u>	<u>no more than 30,000 near-term</u>
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<u>Other broad-based index</u>	<u>25,000 contracts</u>	<u>no more than 15,000 near-term</u>
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(b) Nonstandard Expirations (as provided for in Rule 4.13(e), QIXs, Q-CAPS, Packaged Vertical Spreads and Packaged Butterfly Spreads on a broad-based index shall be aggregated with option contracts on the same broad-based index and shall be subject to the overall position limit.

(c) Index option contracts shall not be aggregated with option contracts on any stocks whose prices are the basis for calculation of the index.

(d) Positions in reduced-value index options shall be aggregated with positions in full-value indices. For example, if an index is reduced by one-tenth, 10 reduced-value contracts shall equal one contract. If an index is reduced by one-fifth, 5 reduced-value contracts shall equal one contract.

(e) Positions in Short Term Option Series, Quarterly Options Series, and Delayed Start Option Series shall be aggregated with positions in options contracts in the same index class.

Interpretations and Policies

.01 Broad-based Index Hedge Exemption. The broad-based index hedge exemption is in addition to the standard limit and other exemptions available under Exchange rules, interpretations and policies. The following procedures and criteria must be satisfied to qualify for a broad-based index hedge exemption:

(a) The account in which the exempt option positions are held ("hedge exemption account") has received prior Exchange approval for the hedge exemption specifying the maximum number of contracts which may be exempt under this Interpretation and Policy .01. The hedge exemption account has provided all information required on Exchange-approved forms and has kept such information current. Exchange approval may be granted on the basis of verbal representations, in which event the hedge exemption account shall within two business days or such other time period designated by the Department of Market Regulation furnish the Department of Market Regulation with appropriate forms and documentation substantiating the basis for the exemption. The hedge exemption account may apply from time to time for an increase in the maximum number of contracts exempt from the position limits.

(b) A hedge exemption account that is not carried by a Cboe Options TPH organization must be carried by a member of a self-regulatory organization participating in the Intermarket Surveillance Group.

(c) The hedge exemption account maintains a qualified portfolio, or will effect transactions necessary to obtain a qualified portfolio concurrent with or at or about the same time as the execution of the exempt options positions, of:

(1) a net long or short position in common stocks in at least four industry groups and contains at least twenty stocks, none of which accounts for more than fifteen percent of the value of the portfolio or in securities readily convertible, and additionally in the case of convertible bonds economically convertible, into common stocks which would comprise a portfolio, and/or

(2) a net long or short position in index futures contracts or in options on index futures contracts, or long or short positions in index options or index warrants, for which the underlying index is included in the same margin or cross-margin product group cleared at the Options Clearing Corporation as the index option class to which the hedge exemption

applies. To remain qualified, a portfolio must at all times meet these standards notwithstanding trading activity.

(d) The exemption applies to positions in broad-based index options dealt in on the Exchange and is applicable to the unhedged value of the qualified portfolio. The unhedged value will be determined as follows: (1) the values of the net long or short positions of all qualifying products in the portfolio are totaled; (2) for positions in excess of the standard limit, the underlying market value (A) of any economically equivalent opposite side of the market calls and puts in broad-based index options, and (B) of any opposite side of the market positions in stock index futures, options on stock index futures, and any economically equivalent opposite side of the market positions, assuming no other hedges for these contracts exist, is subtracted from the qualified portfolio; and (3) the market value of the resulting unhedged portfolio is equated to the appropriate number of exempt contracts as follows—the unhedged qualified portfolio is divided by the correspondent closing index value and the quotient is then divided by the index multiplier or 100.

(e) Positions in broad-based index options that are traded on the Exchange are exempt from the standard limits to the extent specified below.

**BROAD-BASED INDEX
OPTION TYPE**

**BROAD-BASED INDEX HEDGE
EXEMPTION
(is in addition to standard limit)**

S&P 500/Barra Growth or Value

65,000 contracts

Other broad-based index

75,000 contracts

(f) Only the following qualified hedging transactions and positions are eligible for purposes of hedging a qualified portfolio (i.e. stocks, futures, options and warrants) pursuant to this Interpretation and Policy .01:

- (1) Long put(s) used to hedge the holdings of a qualified portfolio;
- (2) Long call(s) used to hedge a short position in a qualified portfolio;
- (3) Short call(s) used to hedge the holdings of a qualified portfolio; and
- (4) Short put(s) used to hedge a short position in a qualified portfolio.

The following strategies may be effected only in conjunction with a qualified stock portfolio:

- (5) (for non-P.M. settled, European style index options only) A short call position accompanied by long put(s), where the short call(s) expires with the long put(s), and the strike price of the short call(s) equals or exceeds the strike price of the long put(s)(a

“collar”). Neither side of the collar transaction can be in-the-money at the time the position is established. For purposes of determining compliance with Rules 8.30 and 8.31, a collar position will be treated as one contract;

(6) (for non-P.M. settled, European style index options only) A long put position coupled with a short put position overlying the same broad-based index and having an equivalent underlying aggregate index value, where the short put(s) expires with the long put(s), and the strike price of the long put(s) exceeds the strike price of the short put(s)(a “debit put spread position”); and

(7) (for non-P.M. settled, European style index options only) A short call position accompanied by a debit put spread position, where the short call(s) expires with the puts and the strike price of the short call(s) equals or exceeds the strike price of the long put(s). Neither side of the short call, long put transaction can be in-the-money at the time the position is established. For purposes of determining compliance with Rule 8.30 and this Rule 8.31, the short call and long put positions will be treated as one contract.

(g) The hedge exemption account shall:

(1) liquidate and establish options, stock positions, their equivalent or other qualified portfolio products in an orderly fashion; not initiate or liquidate positions in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes; and not initiate or liquidate a stock position or its equivalent with an equivalent index option position with a view toward taking advantage of any differential in price between a group of securities and an overlying stock index option.

(2) liquidate any options prior to or contemporaneously with a decrease in the hedged value of the qualified portfolio which options would thereby be rendered excessive.

(3) promptly notify the Exchange of any material change in the qualified portfolio which materially affects the unhedged value of the qualified portfolio.

(h) If an exemption is granted, it will be effective at the time the decision is communicated. Retroactive exemptions will not be granted.

.02 Compliance.

(a) The hedge exemption account shall promptly provide to the Exchange any information requested concerning the qualified portfolio.

(b) Positions included in a qualified portfolio which serve to secure an index hedge exemption may not also be used to secure any other position limit exemption granted by the Exchange or any other self regulatory organization or futures contract market.

(c) Any Trading Permit Holder or TPH organization that maintains a broad-based index option position in such Trading Permit Holder’s or TPH organization’s own account or in a customer account, and has reason to believe that such position is in excess of the applicable limit, shall promptly take the action necessary to bring the position into compliance. Failure to abide by this

provision shall be deemed to be a violation of Rule 8.30 and this Rule 8.31 by the Trading Permit Holder or TPH organization.

(d) Violation of any of the provisions of this Rule 8.31 and the interpretations and policies thereunder, absent reasonable justification or excuse, shall result in withdrawal of the index hedge exemption and may form the basis for subsequent denial of an application for an index hedge exemption hereunder.

.03 Delta-Based Index Hedge Exemption. The Delta-Based Index Hedge Exemption is in addition to the standard limit and other exemptions available under Exchange rules, interpretations and policies. An index option position of a member, non-member affiliate of a member or customer that is delta neutral shall be exempt from established position limits as prescribed under this Rule 8.31, subject to the following:

(a) Delta Neutral Hedged Position. The term “delta neutral” refers to an index option position that is hedged, in accordance with a permitted pricing model, by a position in one or more correlated instruments, for the purpose of offsetting the risk that the value of the option position will change with incremental changes in the value of the underlying index. The term “correlated instruments” means securities and/or other instruments that track the performance of or are based on the same underlying index as the index underlying the option position (but not including baskets of securities). Customers seeking to use the delta-based index hedge exemption may only hedge their positions in accordance with the OCC Model as defined in Rule 8.30.04(c)(1).

(b) Net Delta. An index option position that is not delta neutral shall be subject to position limits in accordance with this Rule 8.31 (subject to the availability of other position limit exemptions). Only the options contract equivalent of the net delta of such position shall be subject to the appropriate position limit. The “options contract equivalent of the net delta” is the net delta divided by units of trade that equate to one option contract on a delta basis. The term “net delta” means, at any time, the number of shares and/or other units of trade (either long or short) required to offset the risk that the value of an index option position will change with incremental changes in the value of the underlying index, as determined in accordance with a permitted pricing model.

(c) Permitted Pricing Model. A “permitted pricing model” shall have the meaning as defined in Rule 8.30.04(c)(3).

(d) Effect on Aggregation of Accounts.

(1) Members, non-member affiliates and customers who rely on this exemption must ensure that the permitted pricing model is applied to all positions in correlated instruments that are owned or controlled by such member, non-member affiliate or customer.

(2) Notwithstanding subparagraph (d)(1) above, the net delta of an option position held by an entity entitled to rely on this exemption, or by a separate and distinct trading unit of such entity, may be calculated without regard to positions in correlated instruments held by an affiliated entity or by another trading unit within the same entity, provided that:

(A) the entity demonstrates to the Exchange's satisfaction that no control relationship, as defined in Rule 8.30.03, exists between such affiliates or trading units*; and

(B) the entity has provided (by the member carrying the account as applicable) the Exchange written notice in advance that it intends to be considered separate and distinct from any affiliate or, as applicable, which trading units within the entity are to be considered separate and distinct from each other for purposes of this exemption.

* Note: The Exchange has set forth in Regulatory Circular RG08-12 the conditions under which it will deem no control relationship to exist between affiliates and between separate and distinct trading units within the same entity.

(3) Notwithstanding subparagraph (d)(1) or (d)(2) above, a member, non-member affiliate or customer who relies on this exemption shall designate, by prior written notice to the Exchange (to be obtained and provided by the member carrying the account as applicable), each trading unit or entity whose option positions are required under Exchange Rules to be aggregated with the option positions of such member, non-member affiliate or customer that is relying on this exemption for purposes of compliance with Exchange position limits or exercise limits. In any such case:

(A) the permitted pricing model shall be applied, for purposes of calculating such member's, affiliate's or customer's net delta, only to the positions in correlated instruments owned and controlled by those entities and trading units who are relying on this exemption; and

(B) the net delta of the positions owned or controlled by the entities and trading units who are relying on this exemption shall be aggregated with the non-exempt option positions of all other entities and trading units whose options positions are required under Exchange Rules to be aggregated with the option positions of such member, affiliate or customer.

(e) *Obligations of Members.*

(1) A member that relies on this exemption for a proprietary index options position:

(A) must provide a written certification to the Exchange that it is using a permitted pricing model pursuant to paragraph (c) above; and

(B) by such reliance authorizes any other person carrying for such member an account including, or with whom such member has entered into, a position in a correlated instrument to provide to the Exchange or the Clearing Corporation such information regarding such account or position as the Exchange or Clearing Corporation may request as part of the Exchange's confirmation or verification of the accuracy of any net delta calculation under this exemption.

(2) The index option positions of a non-member relying on this exemption must be carried by a member with which it is affiliated.

(3) A member carrying an account that includes an index option position for a non-member affiliate that intends to rely on this exemption must obtain from such non-member affiliate and must provide to the Exchange:

(A) a written certification to the Exchange that the non-member affiliate is using a permitted pricing model pursuant to paragraph (c) above; and

(B) a written statement confirming that such non-member affiliate:

(i) is relying on this exemption;

(ii) will use only a permitted pricing model for purposes of calculating the net delta of its option positions for purposes of this exemption;

(iii) will promptly notify the member if it ceases to rely on this exemption;

(iv) authorizes the member to provide to the Exchange or the Clearing Corporation such information regarding positions of the non-member affiliate as the Exchange or Clearing Corporation may request as part of the Exchange's confirmation or verification of the accuracy of any net delta calculation under this exemption; and

(v) if the non-member affiliate is using the OCC Model, has duly executed and delivered to the member such documents as the Exchange may require to be executed and delivered to the Exchange as a condition to reliance on this exemption.

(4) A member carrying an account that includes an index option position for a customer who intends to rely on this exemption must obtain from such customer and provide to the Exchange:

(A) a written certification to the Exchange that the customer is using the OCC Model pursuant to paragraph (c) above; and

(B) a written statement confirming that such customer:

(i) is relying on this exemption;

(ii) will use only the OCC Model for purposes of calculating the net delta of the customer's option positions for purposes of this exemption;

(iii) will promptly notify the member if the customer ceases to rely on this exemption;

(iv) in connection with using the OCC Model, has duly executed and delivered to the member such documents as the Exchange may require to be executed and delivered to the Exchange as a condition to reliance on this exemption.

(f) Reporting. Each member (other than an Exchange market-maker, DPM or LMM using the OCC Model) that holds or carries an account that relies on this exemption shall report, in accordance with Rule 8.43, all index option positions (including those that are delta neutral) that are reportable thereunder. Each such member on its own behalf or on behalf of a designated aggregation unit pursuant to Interpretation and Policy .05(d) above shall also report, in accordance with Rule 8.43, for each such account that holds an index option position subject to this exemption in excess of the levels specified in this Rule 8.31, the net delta and the options contract equivalent of the net delta of such position.

(g) Records. Each member relying on this exemption shall: (1) retain, and undertake reasonable efforts to ensure that any non-member affiliate of the member or customer relying on this exemption retains, a list of the options, securities and other instruments underlying each option position net delta calculation reported to the Exchange hereunder; and (2) produce such information to the Exchange upon request.

Rule 8.32. Position Limits for Industry Index Options

(a) In determining compliance with Rule 8.30, option contracts on an industry index shall, subject to the procedures specified in paragraph (c) below, be subject to the following position limits:

(1) 18,000 contracts if the Exchange determines, at the time of a review conducted pursuant to paragraph (b) below, that any single underlying stock accounted, on average, for 30% or more of the index value during the 30-day period immediately preceding the review; or

(2) 24,000 contracts if the Exchange determines, at the time of a review conducted pursuant to paragraph (b) below, that any single underlying stock accounted, on average, for 20% or more of the index value or that any five underlying stocks together accounted, on average, for more than 50% of the index value, but that no single stock in the group accounted, on average, for 30% or more of the index value, during the 30-day period immediately preceding the review; or

(3) 31,500 contracts if the Exchange determines that the conditions specified above which would require the establishment of a lower limit have not occurred.

(b) The Exchange shall make the determinations required by paragraph (a) above with respect to options on each industry index at the commencement of trading of such options on the Exchange and thereafter review the determination semi- annually on January 1 and July 1.

(c) If the Exchange determines, at the time of a semi-annual review, that the position limit in effect with respect to options on a particular industry index is lower than the maximum position

limit permitted by the criteria set forth in paragraph (a) above, the Exchange may effect an appropriate position limit increase immediately. If the Exchange determines, at the time of a semi-annual review, that the position limit in effect with respect to options on a particular industry index exceeds the maximum position limit permitted by the criteria set forth in paragraph (a) above, the Exchange shall reduce the position limit applicable to such options to a level consistent with such criteria; provided, however, that such a reduction shall not become effective until after the expiration date of the most distantly expiring option series relating to the industry index, which is open for trading on the date of the review; and provide further that such a reduction shall not become effective if the Exchange determines, at the next succeeding semi-annual review, that the existing position limit applicable to such options is consistent with the criteria set forth in paragraph (a) above.

(d) Index option contracts shall not be aggregated with option contracts on any stocks whose prices are the basis for calculation of the index.

(e) Positions in reduced-value index options shall be aggregated with positions in full-value index options. For such purposes, ten reduced-value options shall equal one full-value contract.

(f) Positions in Short Term Option Series, Quarterly Options Series, and Delayed Start Option Series shall be aggregated with positions in options contracts in the same index class.

Interpretations and Policies

.01 Industry Index Hedge Exemption.

(a) The industry (narrow-based) index hedge exemption is in addition to the standard limit and other exemptions available under Exchange rules, interpretations and policies, and may not exceed twice the standard limit established under this Rule 8.32. Industry index option positions may be exempt from established position limits for each option contract “hedged” by an equivalent dollar amount of the underlying component securities or securities convertible into such components; provided that, in applying such hedge, each option position to be exempted is hedged by a position in at least 75% of the number of component securities underlying the index. In addition, the underlying value of the option position may not exceed the value of the underlying portfolio. The value of the portfolio is:

(1) the total market value of the net stock position; and

(2) for positions in excess of the standard limit, subtract the underlying market value of:

(A) any offsetting calls and puts in the respective index option; and

(B) any offsetting positions in related stock index futures or options; and

(C) any economically equivalent positions (assuming no other hedges for these contracts exist).

(b) The following procedures and criteria must be satisfied to qualify for an industry index hedge exemption:

(1) The account in which the exempt option positions are held (“hedge exemption account”) has received prior Exchange approval for the hedge exemption specifying the maximum number of contracts which may be exempt under this Interpretation and Policy .01. The hedge exemption account has provided all information required on Exchange-approved forms and has kept such information current. Exchange approval may be granted on the basis of verbal representations, in which event the hedge exemption account shall within two business days or such other time period designated by the Department of Market Regulation furnish the Department of Market Regulation with appropriate forms and documentation substantiating the basis for the exemption. The hedge exemption account may apply from time to time for an increase in the maximum number of contracts exempt from the position limits.

(2) A hedge exemption account that is not carried by a Cboe Options TPH organization must be carried by a member of a self-regulatory organization participating in the Intermarket Surveillance Group.

(3) The hedge exemption account shall liquidate and establish options, stock positions, or economically equivalent positions in an orderly fashion; not initiate or liquidate positions in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes; and not initiate or liquidate a stock position or its equivalent with an equivalent index option position with a view toward taking advantage of any differential in price between a group of securities and an overlying stock index option. The hedge exemption account shall liquidate any options prior to or contemporaneously with a decrease in the hedged value of the portfolio which options would thereby be rendered excessive. The hedge exemption account shall promptly notify the Exchange of any change in the portfolio which materially affects the unhedged value of the portfolio.

(c) If an exemption is granted, it will be effective at the time the decision is communicated. Retroactive exemptions will not be granted.

.02 Compliance.

(a) The hedge exemption account shall promptly provide to the Exchange any information requested concerning the portfolio.

(b) Positions included in a portfolio which serve to secure an index hedge exemption may not also be used to secure any other position limit exemption granted by the Exchange or any other self-regulatory organization or futures contract market.

(c) Any Trading Permit Holder or TPH organization that maintains an industry index option position in such Trading Permit Holder’s or TPH organization’s own account or in a customer account, and has reason to believe that such position is in excess of the applicable limit, shall promptly take the action necessary to bring the position into compliance. Failure to abide by this provision shall be deemed to be a violation of Rule 8.30 and this Rule 8.32 by the Trading Permit Holder or TPH organization.

(d) Violation of any of the provisions of this Rule 8.32 and the interpretations and policies thereunder, absent reasonable justification or excuse, shall result in withdrawal of the index hedge exemption and may form the basis for subsequent denial of an application for an index hedge exemption hereunder.

.03 Delta-Based Industry Index Hedge Exemption.

The Delta-Based Index Hedge Exemption provided under Rule 8.31.05 may also be applied to industry index option positions. The Delta-Based Industry Index Hedge Exemption is in addition to the standard limit and other exemptions available under Exchange rules, interpretations and policies.

Rule 8.33. Position Limits for Options on Micro Narrow-Based Indexes

In determining compliance with Rule 8.30, cash-settled option contracts on any Micro Narrow-Based Index, as defined and determined under Rule 4.10(d), shall be subject to the following methodologies for determining the applicable position limits.

(a) *Determining the Position Limits.* The position limit for a cash-settled option on a Micro Narrow-Based Index that meets the criteria under Rule 4.10(d) shall be calculated in accordance with the following methodology:

(1) Determine the Market Capitalization of the S&P 500 Index.

(2) Calculate the Notional Value of a position at the limit in the Chicago Mercantile Exchange's ("CME") S&P 500 futures contract. The position limit for that contract is 20,000 (in all months combined) and the Index Multiplier is \$250.

Notional Value for the purposes of subparagraph (a)(1) above = Index Level * Index Multiplier. Therefore,

Notional Value of 20,000 S&P 500 futures contracts = 20,000 * S&P 500 Index Level * 250.

(3) Calculate the Market Capitalization Ratio of the S&P 500 Index Market Capitalization to the Notional Value of a position limit at the limit.

Market Capitalization Ratio = Market Capitalization of the S&P 500 ÷ Notional Value of 20,000 S&P 500 futures contract positions.

(4) Determine the Market Capitalization of the Micro Narrow-Based Index by adding together the market capitalization of each underlying security component.

(5) Determine the Notional Value of the Micro Narrow-Based Index Option (Index Level * Contract Multiplier).

(6) Calculate the Position Limit of the Micro Narrow-Based Index using the following formula:

Contract Position Limit on the Micro Narrow-Based Index = Market Capitalization of Micro Narrow-Based Index ÷ (Notional Value of Micro Narrow-Based Index Option * Market Capitalization Ratio).

(b) Establishing the Position Limit. After the applicable position limit has been determined pursuant to paragraph (a) above, round the calculated position limit to the nearest 1,000 contracts using standard rounding procedures. For position limits that are 400 or greater, but less than 1000 contracts, round up to 1,000 contracts. Rule 4.10(d) shall not apply to any Micro Narrow-Based Index in which the applicable position limit, as calculated using paragraph (a) above, for that Micro Narrow-Based Index is less than 400 contracts.

(c) Aggregation of Positions. Positions in Short Term Option Series, Quarterly Options Series, and Delayed Start Option Series shall be aggregated with positions in options contracts in the same index class.

Rule 8.34. Position Limits for Individual Stock or ETF Based Volatility Index Options

(a) In determining compliance with Rule 8.30, Individual Stock or ETF Based Volatility Index options (as defined in Rule 4.11) shall have a position limit equal to 50,000 contracts on either side of the market, and no more than 30,000 contracts in the nearest expiration month.

(b) In determining compliance with the position limits set forth in paragraph (a) above, Individual Stock or ETF Based Volatility Index options shall not be aggregated with the index component option contracts on the corresponding underlying security (e.g., individual stock or exchange-traded fund).

(c) Positions in Short Term Options Series, Quarterly Options Series, and Delayed Start Options Series will be aggregated with position in options contracts on the same Individual Stock or ETF Based Volatility Index class.

Interpretations and Policies

.01 Hedge Exemption.

The hedge exemption for Individual Stock or ETF Based Volatility Index options is in addition to the standard limit and other exemptions available under Exchange rules, interpretations and policies. The following procedures and criteria must be satisfied to qualify for the hedge exemption:

(a) The account in which the exempt option positions are held (“hedge exemption account”) has received prior Exchange approval for the hedge exemption specifying the maximum number of contracts which may be exempt under this Interpretation and Policy. The hedge exemption account has provided all information required on Exchange-approved forms and has kept such information current. Exchange approval may be granted on the basis of verbal representations, in which event the hedge exemption account shall within two business days or such other time period designated by the Department of Market Regulation furnish the Department of Market Regulation with appropriate forms and documentation substantiating the basis for the exemption.

The hedge exemption account may apply from time to time for an increase in the maximum number of contracts exempt from the position limits.

(b) A hedge exemption account that is not carried by a Cboe Options TPH organization must be carried by a member of a self-regulatory organization participating in the Intermarket Surveillance Group.

(c) The hedge exemption account maintains a qualified portfolio, or will effect transactions necessary to obtain a qualified portfolio concurrent with or at or about the same time as the execution of the exempt options positions, of a net long or short position in Individual Stock or ETF Based Volatility Index futures contracts or in options on Individual Stock or ETF Based Volatility Index futures contracts, or long or short positions in Individual Stock or ETF Based Volatility Index options, for which the underlying Individual Stock or ETF Based Volatility Index is included in the same margin or cross-margin product group cleared at the Clearing Corporation as the Individual Stock or ETF Based Volatility Index option class to which the hedge exemption applies. To remain qualified, a portfolio must at all times meet these standards notwithstanding trading activity.

(d) The exemption applies to positions in Individual Stock or ETF Based Volatility Index options dealt in on the Exchange and is applicable to the unhedged value of the qualified portfolio. The unhedged value will be determined as follows: (1) the values of the net long or short positions of all qualifying products in the portfolio are totaled; (2) for positions in excess of the standard limit, the underlying market value (A) of any economically equivalent opposite side of the market calls and puts in broad-based index options, and (B) of any opposite side of the market positions in Individual Stock or ETF Based Volatility Index futures, options on Individual Stock or ETF Based Volatility Index futures, and any economically equivalent opposite side of the market positions, assuming no other hedges for these contracts exist, is subtracted from the qualified portfolio; and (3) the market value of the resulting unhedged portfolio is equated to the appropriate number of exempt contracts as follows—the unhedged qualified portfolio is divided by the correspondent closing index value and the quotient is then divided by the index multiplier or 100.

(e) Only the following qualified hedging transactions and positions are eligible for purposes of hedging a qualified portfolio (i.e., futures and options) pursuant to this Interpretation and Policy .01:

- (1) Long put(s) used to hedge the holdings of a qualified portfolio;
- (2) Long call(s) used to hedge a short position in a qualified portfolio;
- (3) Short call(s) used to hedge the holdings of a qualified portfolio; and
- (4) Short put(s) used to hedge a short position in a qualified portfolio.

The following strategies may be effected only in conjunction with a qualified stock portfolio:

(5) A short call position accompanied by long put(s), where the short call(s) expires with the long put(s), and the strike price of the short call(s) equals or exceeds the strike price of the long put(s)(a “collar”). Neither side of the collar transaction can be in-the-money at the time the position is established. For purposes of determining compliance with Rule 8.30 and this Rule 8.34, a collar position will be treated as one contract;

(6) A long put position coupled with a short put position overlying the same Individual Stock or ETF Based Volatility Index and having an equivalent underlying aggregate index value, where the short put(s) expires with the long put(s), and the strike price of the long put(s) exceeds the strike price of the short put(s) (a “debit put spread position”); and

(7) A short call position accompanied by a debit put spread position, where the short call(s) expires with the puts and the strike price of the short call(s) equals or exceeds the strike price of the long put(s). Neither side of the short call, long put transaction can be in-the-money at the time the position is established. For purposes of determining compliance with Rule 8.30 and this Rule 8.34, the short call and long put positions will be treated as one contract.

(f) The hedge exemption account shall:

(1) liquidate and establish options, their equivalent or other qualified portfolio products in an orderly fashion; not initiate or liquidate positions in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes.

(2) liquidate any options prior to or contemporaneously with a decrease in the hedged value of the qualified portfolio which options would thereby be rendered excessive.

(3) promptly notify the Exchange of any material change in the qualified portfolio which materially affects the unhedged value of the qualified portfolio.

(g) If an exemption is granted, it will be effective at the time the decision is communicated. Retroactive exemptions will not be granted.

Rule 8.35. Position Limits for FLEX Options

(a) FLEX Index Options.

(1) In determining compliance with Rules 8.30, 8.31, 8.32 and 8.33, FLEX Index Options shall be subject to FLEX contract position limitations fixed by the Exchange in accordance with the provisions of this Rule.

(2) Except as otherwise provided in paragraph (b) below of this Rule, in no event shall the position limits for a broad-based FLEX Index Option class exceed in the aggregate 200,000 contracts on the same side of the market.

(3) In no event shall the position limits for an industry-based FLEX Index Option class exceed one times the applicable number of Non-FLEX Index Option contracts (whether long or short) of the put class and the call class on the same side of the market, as

determined on the basis of the position limits established pursuant to Rule 8.32 provided, however, the position limits for an industry-based FLEX Index Option class shall not exceed four times the applicable position limits established pursuant to Rule 8.32, instead of one times as provided above, for: (1) the Dow Jones Transportation Average or the Dow Jones Utility Average; or (2) an underlying industry-based index that is not a “narrow-based security index,” as defined under Section 3(a)(55)(B) of the Exchange Act.

(4) In no event shall the position limits for a micro narrow-based FLEX Index Option class exceed one times the applicable number of Non-FLEX Index Option contracts (whether long or short) of the class on the same side of the market, as determined on the basis of the position limits established pursuant to Rule 8.33.

(5) The position limits for FLEX Individual Stock or ETF Based Volatility Index Options are equal to the position limits for Non-FLEX Individual Stock or ETF Based Volatility Index Options established pursuant to Rule 8.34.

(5) The position limits for FLEX Index options on the FTSE 100 Index (1/10 th), FTSE China 50 Index (1/100 th), FTSE Emerging Index, FTSE Developed Europe Index, MSCI EAFE Index and MSCI Emerging Market Index are equal to the position limits for Non-FLEX options on the FTSE 100 Index (1/10 th), FTSE China 50 Index (1/100 th), FTSE Emerging Index, FTSE Developed Europe Index, MSCI EAFE Index and MSCI Emerging Market Index.

(b) *Certain Broad-Based FLEX Index Options.* There shall be no position limits for FLEX BXM (1/10th value), DJX, NDX, OEX, RUT, S&P 500 Dividend Index, SPX, VIX, VXN, VXD, Cboe S&P 500 AM/PM Basis, Cboe S&P 500 Three-Month Realized Variance, Cboe S&P 500 Three-Month Realized Volatility or XEO option contracts (including reduced-value option contracts). However, each Trading Permit Holder or TPH organization (other than a FLEX Market-Maker) that maintains a FLEX broad-based index option position on the same side of the market in excess of 100,000 contracts for NDX, OEX, RUT, S&P 500 Dividend Index, SPX, VIX, VXN, VXD, Cboe S&P 500 AM/PM Basis, Cboe S&P 500 Three-Month Realized Variance, Cboe S&P 500 Three-Month Realized Volatility or XEO and 1 million contracts for BXM (1/10th value) and DJX, for its own account or for the account of a customer, shall report information as to whether the positions are hedged and provide documentation as to how such contracts are hedged, in the manner and form prescribed by the Exchange. In calculating the applicable contract-reporting amount, reduced-value contracts will be aggregated with full-value contracts and counted by the amount by which they equal a full-value contract (e.g., 10 XSP options equal 1 SPX full-value contract). The Exchange may specify other reporting requirements of this interpretation as well as the limit at which the reporting requirement may be triggered. In addition, whenever the Exchange determines that a higher margin is warranted in light of the risks associated with an under-hedged FLEX BXM (1/10th value), DJX, NDX, OEX, RUT, S&P 500 Dividend Index, SPX, VIX, VXN, VXD, Cboe S&P 500 AM/PM Basis, Cboe S&P 500 Three-Month Realized Variance, Cboe S&P 500 Three-Month Realized Volatility or XEO options position, the Exchange may consider imposing additional margin upon the account maintaining such under-hedged position, pursuant to its authority under Rule 10.10. Additionally, it should be noted that the clearing firm carrying the account will be subject to

capital charges under Rule 15c3-1 under the Exchange Act to the extent of any margin deficiency resulting from the higher margin requirements.

(c) *FLEX Equity Options.* There shall be no position limits for FLEX Equity Options. However, each Trading Permit Holder or TPH organization (other than a Market-Maker or a Designated Primary Market- Maker) that maintains a position on the same side of the market in excess of the standard limit under Rule 8.30 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, pursuant to its authority under Rule 12.10. Additionally, it should be noted that the clearing firm carrying the account will be subject to capital charges under Rule 15c3-1 under the Exchange Act to the extent of any margin deficiency resulting from the higher margin requirement.

Rule 8.36. Position Limits for Binary Options

(a) *Fixed Limit.* In determining compliance with Rule 8.30, the position limit for binary options on a broad-based index for which traditional options on the same broad-based index have no position limit, as set forth in Rule 8.31, shall be 15,000 contracts, provided that the exercise settlement amount is \$10,000. For binary options that have an exercise settlement amount that is not equal to \$10,000, the position limit shall be 15,000 times the ratio of 10,000 to the exercise settlement amount (e.g., if the binary option exercise settlement amount is \$1,000, then the position limit is 150,000 contracts. If the binary option exercise settlement amount is \$12,000, then the position limit is 12,500 contracts).

(b) *Formulaic Limit.* For binary options on a broad-based index for which traditional options on the same broad-based index have a position limit, as set forth in Rule 8.31, the position limit shall be calculated in accordance with the following methodology:

(1) Determine the Market Capitalization of the S&P 500 Index.

(2) Determine the Market Capitalization of the broad-based index underlying the binary option.

(3) Calculate the Market Capitalization Ratio of the broad-based index underlying the binary option to the Market Capitalization of the S&P 500 Index.

(4) The position limit for binary options subject to a formulaic limit with an exercise settlement amount of \$10,000 shall be:

(A) 10,000 contracts if the Market Capitalization Ratio is greater than or equal to 0.50;

(B) 5,000 contracts if the Market Capitalization Ratio is less than 0.50 but greater than or equal to 0.25;

(C) 2,500 contracts if the Market Capitalization Ratio is less than 0.25 but greater than or equal to 0.10.

(D) The Exchange will seek Commission approval prior to establishing position limits for binary options on broad-based indexes that have a Market Capitalization Ratio that is less than 0.10.

(5) For binary options that have an exercise settlement amount that is not equal to \$10,000, the position limit shall be the ratio of 10,000 to the exercise settlement amount multiplied by the applicable formulaic limit.

(c) *Aggregated Positions.* Positions in binary options on the same broad-based index that have different exercise settlement amounts shall be aggregated.

(d) *Non-binary.* In determining compliance with the position limits set forth in this Rule 8.36, binary options shall not be aggregated with non-binary option contracts on the same or similar underlying security or broad-based index. In addition, binary options on broad-based indexes shall not be aggregated with non-binary option contracts on an underlying stock or stocks included within such broad-based index, and binary options on one broad-based index shall not be aggregated with binary options on any other broad-based index.

(e) *Market Side.* For purposes of the position limits established under this Rule 8.36, long positions in put binary options and short positions in call binary options shall be considered to be on the same side of the market; and short positions in put binary options and long positions in call binary options shall be considered to be on the same side of the market.

(f) *Hedge Exemption.* Binary options shall not be subject to the hedge exemption to the standard position limits found in Rule 8.30. The following qualified hedge exemption strategies and positions shall be exempt from the established position limits as prescribed in the Rule above. For purposes of this Rule, qualified hedge strategies or positions are defined as follows:

(1) A binary option position “hedged” or “covered” by an appropriate amount of cash to meet the settlement obligation (e.g., \$1,000 for a binary option with an exercise settlement amount of \$1,000).

(2) A binary option position “hedged” or “covered” by a sufficient amount of a related or similar security to meet the settlement obligation.

(3) A binary option position “hedged” or “covered” by a traditional option covering the same underlying broad-based index sufficient to meet the settlement obligation.

Rule 8.37. Position Limits for Range Options

In determining compliance with Rules 8.30, 8.31, 8.32, and 8.33, cash-settled Range Option contracts shall have a position limit equal to those for options on the same underlying index.

Range Options shall be aggregated with option contracts on the same underlying index, including other classes of Range Options overlying the same index.

Rule 8.38. Position Limits for Corporate Debt Security Options

Establishment of Position Limit. In determining compliance with Rule 8.30, options contracts on Corporate Debt Securities shall be subject to a contract limitation fixed by the Exchange, of the put type and the call type on the same side of the market, which shall not be larger than the limits provided in the chart below:

<u>Issue Float</u>	<u>Position Limit</u>
<u>\$200,000,000 - \$499,999,000</u>	<u>200 contracts</u>
<u>\$500,000,000 - \$749,999,000</u>	<u>500 contracts</u>
<u>\$750,000,000 - \$999,999,000</u>	<u>750 contracts</u>
<u>\$1,000,000,000 - \$2,499,999,000</u>	<u>1,000 contracts</u>
<u>\$2,500,000,000 and greater</u>	<u>2,500 contracts]</u>

Rule 8.39. Position Limits for Credit Options

(a) In determining compliance with Rule 8.30, Credit Default Option contracts with a cash settlement value of \$100,000 per contract (equal to an exercise settlement value of \$100 multiplied by a contract multiplier of 1,000) shall have a position limit equal to 5,000 contracts on the same side of the market. In calculating the applicable position limits, reduced-value contracts (i.e., Credit Default Options with a cash settlement value of less than \$100,000 per contract) will be aggregated with full-value contracts and counted by the amount by which they equal a full-value contract (e.g., 10 Credit Default Option contract with a cash settlement value of \$10,000 per contract (equal to an exercise settlement value of \$100 multiplied by a contract multiplier of 100) equal one full-value contract). Cash-settled Credit Default Basket Options shall have a position limit equal to 50,000 contracts on the same side of the market.

(b) In determining compliance with the position limits set forth in paragraph (a) above, Credit Options shall not be aggregated with option contracts on the same or similar underlying security.

(c) Credit Options shall not be subject to the hedge exemption to the standard position limits found in Rule 8.30.04. The following qualified hedge exemption strategies and positions shall be exempt from the established position limits as prescribed in the Rule above:

(1) A Credit Option position “hedged” or “covered” by an appropriate amount of cash to meet the cash settlement amount obligation (e.g., \$100,000 for a Credit Default Option with an exercise settlement value of \$100 and a contract multiplier of 1,000 or \$100,000 for a Credit Default Basket Option with a Notional Face Value of Basket of \$100,000).

(2) A Credit Default Option position “hedged” or “covered” by a sufficient amount of the underlying Relevant Obligation(s) and/or other securities, instruments or interests related to the Reference Entity to meet the cash settlement amount obligation (e.g., a long Credit Default Option position could be offset by a long position in a debt security of the Reference Entity that is worth \$100,000 per contract (or the applicable adjusted amount) and short Credit Default Option position could be offset by a short position in a debt security of the Reference Entity that is worth \$100,000 per contract (or the applicable adjusted amount)).

(3) A Credit Default Basket Option position “hedged” or “covered” by a sufficient amount of any of the Basket Component debt securities, instruments or interests related to the Reference Entity that equals the sum of the cash settlement amounts for Basket Components for a Multiple Payout Credit Default Basket Option or equals the maximum Basket Component cash settlement amount for a Single Payout Credit Default Basket Option.

(d) Credit Options shall be subject to the Market-Maker hedge and firm facilitation exemptions to the standard position limits found in Rule 8.30.05 and .06, respectively. With respect to the Market-Maker hedge exemption, the positions must generally be within 20% of the applicable limits of the Credit Option before an exemption will be granted as described in Rule 8.30.05(a) (2). With respect to the firm facilitation exemption, the aggregate exemption position may not exceed $3 \times$ the standard limits set forth in paragraph (a) above and be consistent with the procedures described in Rule 8.30.06.

Rule 8.40. Position Limits for Government Security Options

(a) *Establishment of Position Limit.* In determining compliance with Rule 8.30, options on a Treasury security shall be subject to a contract limitation (whether long or short) of the put type and the call type on the same side of the market covering a value no greater than 10% of the value of the initial or reopened public issuance, rounded to the next lower \$100 million interval, combining for purposes of this position limit long positions in put options with short positions in call options, and short positions in put options with long positions in call options, or such other lower amount of options as may be fixed from time to time by the Exchange as the position limit for one or more classes or series of options. Reasonable notice shall be given of each new position limit fixed by the Exchange, by posting notice thereof on the bulletin board of the Exchange. In no event shall the position limit exceed a position on either side of the market covering a value in excess of \$1,200,000,000 of the underlying securities.

(b) *Maintenance of Position Limit.* In the event that any of the underlying Treasury Securities are reported as “separate trading of registered interest and principal of securities” (“strips”) in the Monthly Statement of the Public Debt of the United States Government (hereinafter “Monthly Report”), or such other report or compilation as may be selected from time to time by the Exchange, such stripping shall be taken into account in determining whether the position limit as initially established under paragraph (a) above (“the established position limit”) can be maintained (the remaining non-stripped underlying securities are hereinafter referred to as “the non-stripped securities”). The established position limit may remain so long as the position limit covers a principal amount of underlying securities not in excess of 12% of the non-stripped

securities. In the event that the established position limit covers a principal amount of securities in excess of 12% of the non-stripped securities, the Exchange shall reestablish the position limit to cover a principal amount of underlying securities not in excess of 12% of the non- stripped securities. Revisions to the position limits as provided herein will become effective the Monday following the provision of notice thereof. Except as otherwise exempted under Rule 8.30, persons whose positions exceed revised position limits may only engage in liquidating transactions until their positions are lower than the revised position limits.

Rule 8.41. Position Limits for Interest Rate Options

(a) In determining compliance with Rule 8.30, interest rate options shall be subject to a contract limitation (whether long or short) of the put class and the call class on the same side of the market covering no more than:

(1) 5,000 contracts in the case of an option on an interest rate measure respecting a short term Treasury Security or Securities; and

(2) 25,000 contracts in the case of an option on an interest rate measure respecting a long term Treasury Security or Securities.

(b) Bona fide hedging positions that are traded on the Exchange and held in the aggregate by a public customer (whose orders would be eligible to be placed on the book under Rule 6.11) are exempt from subparagraph (a)(2) above to the extent that the following procedures and criteria are satisfied:

(1) Only the following bona fide hedging transactions and positions are eligible for exemption hereunder:

(A) Long call(s) used to hedge a long position in a qualified portfolio (as defined below in subparagraph (b)(2));

(B) Long put(s) used to hedge a short position in a qualified portfolio;

(C) Short put(s) used to hedge a long position in a qualified portfolio (a “covered yield write position”);

(D) Short call(s) used to hedge a short position in a qualified portfolio;

(E) A covered yield write position accompanied by long call(s) where the short put(s) expire with the long call(s), and the strike price of the short put(s) equals or is less than the strike price of the long call(s);

(F) A long call position coupled with a short call position, where the short call(s) expires with the long call(s), and the strike price of the long call(s) equals or is less than the strike price of the short call(s), and where the total position is used to hedge a long position in a qualified portfolio (a “debit yield call spread position”);

(G) A covered yield write position accompanied by a debit yield call spread position, where the short put(s) expires with the call(s) and the strike price of the short put(s) equals or is less than the strike price of the long call(s).

(2) A “qualified portfolio,” as that term is used in this Rule 8.41, is a portfolio of net long or short positions in long-term Treasury Securities.

(3) The customer must receive approval for the hedge exemption from the Department of Market Regulation. Exchange approval may be granted on the basis of verbal representations, in which event the customer shall, within a time period to be designated by the Exchange, furnish the Department of Market Regulation with appropriate forms and documentation substantiating the basis for the exemption. Where applicable, the hedge exemption shall be granted to an individual or organization controlling or managing the customer account in which the exempt option positions are held (the “money manager”). For purposes of this subparagraph (b)(3), control shall be determined as provided in Rule 8.30.03 and positions in all accounts controlled or managed by the money manager shall be aggregated for position limit purposes. In no event shall any money manager hold:

(A) in its aggregated accounts, more than 125,000 exempted same- side of the market option contracts; or

(B) in any single account, more than 75,000 exempted same-side of the market option contracts.

A customer or money manager that obtains Exchange approval for the hedge exemption is hereinafter referred to as a “hedge exemption market participant.”

(4) The hedge exemption market participant must provide all information required on Exchange-approved forms and must keep such information current.

(5) The hedge exemption applies to positions in Interest Rate options to the extent the underlying value thereof does not exceed the unhedged value of the qualified portfolio. The unhedged value is determined as follows: (i) the values of the net cash position for each of the securities in the qualified portfolio are totaled; and (ii) the value of (a) any opposite side of the market calls and puts in the given Interest Rate option, (b) any opposite side of the market positions in corresponding Treasury futures, and (c) any economically equivalent opposite side of the market positions in other Interest Rate options and Treasury futures is subtracted from the total. In no event may exempted positions hereunder exceed 75,000 same-side of the market option contracts except as provided in the provisions of subparagraphs (b)(3)(A) and (B).

(6) The hedge exemption market participant shall agree promptly to provide the Exchange with any information requested concerning the dollar value and composition of the market participant’s portfolio, the current hedged and aggregate options positions, and any Treasury futures positions.

(7) The hedge exemption market participant shall agree to, and any Trading Permit Holder carrying an account for the hedge exemption market participant, shall:

(A) liquidate and establish options and corresponding Treasury positions in an orderly fashion; not initiate or liquidate positions in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes; and not initiate or liquidate a securities position or its equivalent option position with a view toward taking advantage of any differential in price between a Treasury security or group of Treasury securities and an overlying option;

(B) liquidate any options prior to or contemporaneously with a decrease in the hedged value of the qualified portfolio where the failure to liquidate the options would cause the underlying value of the options to exceed the value of the hedged securities; and

(C) promptly notify the Exchange of any material change in the value of the qualified portfolio or the options or futures positions that materially affects the unhedged value of the portfolio.

(8) If any Trading Permit Holder or TPH organization carrying an account for a hedge exemption market participant that includes Interest Rate option positions established on the Exchange has reason to believe that the hedge exemption market participant, acting alone or in concert with others, is violating this exemption, then the Trading Permit Holder or TPH organization is deemed to have violated Rule 8.42(f).

(9) Violation of any of these positions, absent reasonable justification or excuse, shall result in withdrawal of approval of the hedge exemption and may form the basis for denial of a subsequent application for a hedge exemption hereunder.

Rule 8.42. Exercise Limits

(a) General. Except with the prior permission of the President or his designee, to be confirmed in writing, no Trading Permit Holder shall exercise, for any account in which it has an interest or for the account of any customer, a long position in any option contract where such Trading Permit Holder or customer, acting alone or in concert with others, directly or indirectly:

(1) has or will have exercised within any five consecutive business days aggregate long positions in any class of options dealt in on the Exchange in excess of 25,000 or 50,000 or 75,000 or 200,000, or 250,000 option contracts or such other number of options contracts as may be fixed from time to time by the Exchange as the exercise limit for that class of options; or

(2) has or will have exceeded the applicable exercise limit fixed from time to time by another exchange for an option class not dealt in on the Exchange, when the Trading Permit Holder is not a member of the other exchange which lists the option class.

Reasonable notice shall be given of each new exercise limit fixed by the Exchange by publicly posting notice thereof. Limits shall be determined in the manner described in Interpretation and Policy .02 or in the case of a hedged position under Rule 8.30.04 or in the case of facilitation exempted position in accordance with Rule 8.30.06. Whether option positions should be aggregated under this rule shall be determined in the manner described in Rule 8.30.03.

(b) *Index Options.* In determining compliance with this Rule 8.42, exercise limits for index option contracts shall be equivalent to the position limits prescribed for option contracts with the nearest expiration date in Rule 8.31, 8.32, or 8.34. There shall be no exercise limits for broad-based index options (including reduced-value option contracts) on Cboe S&P 500 AM/PM Basis, Cboe S&P 500 Three-Month Realized Variance, Cboe S&P 500 Three-Month Realized Volatility and on the BXM (1/10th value), DJX, OEX, XEO, NDX, RUT, VIX, VXN, VXD, VXST, S&P 500 Dividend Index, or SPX.

(1) For a Market-Maker granted an exemption to position limits pursuant to Rule 8.30.05 the number of contracts which can be exercised over a five business day period shall equal the Market-Maker's exempted position.

(2) CAPS and Q-CAPS will not be included when calculating exercise limits for index option contracts.

(3) With respect to index options contracts for which an exemption has been granted in accordance with the provisions of Rule 8.31, the exercise limit shall be equal to the amount of the exemption.

(4) With respect to Individual Stock or ETF Based Volatility Index options contracts for which an exemption has been granted in accordance with the provisions of Rule 8.34.01, the exercise limit shall be equal to the amount of the exemption.

(c) *Range Options.* Exercise limits for Range Options shall be the same as those for options on the same underlying index.

(d) *Corporate Debt Security Options.* Exercise limits for options on a Corporate Debt Security shall be equivalent to the position limits prescribed in Rule 8.38.

(e) *Government Security Options.* Exercise limits for options on a Treasury security shall be equivalent to the position limits prescribed in Rule 8.40.

(f) *Interest Rate options.* Exercise limits for interest rate options shall be equivalent to the position limits prescribed in Rule 8.41.

(g) *FLEX Options.* Exercise limits for FLEX Index and FLEX Individual Stock or ETF Based Volatility Index Options shall be equivalent to the FLEX position limits prescribed in Rule 8.35. There shall be no exercise limits for broad-based FLEX Index Options (including reduced-value option contracts) on BXM (1/10th value), DJX, NDX, OEX, RUT, S&P 500 Dividend Index, SPX, VIX, VXN, VXD, Cboe S&P 500 AM/PM Basis, Cboe S&P 500 Three-Month Realized Variance, Cboe S&P 500 Three-Month Realized Volatility and XEO.

(1) The minimum value size for FLEX Equity Option exercises shall be 25 contracts or the remaining size of the position, whichever is less.

(2) The minimum value size for FLEX Index Option exercises shall be \$1 million Underlying Equivalent Value or the remaining Underlying Equivalent Value of the position, whichever is less.

(3) Except as provided in Rule 8.43(d)(3), FLEX Options shall not be taken into account when calculating exercise limits for Non-FLEX Option contracts.

(h) Options Not Subject to Exercise Limits. Binary options and credit options are not subject to exercise limits.

Interpretations and Policies

.01 For a Market-Maker granted an exemption to position limits pursuant to Rule 8.30.05, the number of contracts which can be exercised over a five business day period shall equal the Market-Maker's exempted position.

.02 The exercise limits established under paragraph (a) above in respect of options on shares or other securities that represent interests in registered investment companies (or series thereof) organized as open-end management investment companies, unit investment trusts or similar entities that satisfy the criteria set forth in Rule 4.3.06 shall be equivalent to the position limits prescribed for such options in Rule 8.30.07, subject to any exemptions granted in respect of such position limits.

Rule 8.43. Reports Related to Position Limits

(a) Reporting. In a manner and form prescribed by the Exchange, each Trading Permit Holder shall report to the Exchange, the name, address, and social security or tax identification number of any customer who, acting alone, or in concert with others, on the previous business day maintained aggregate long or short positions on the same side of the market of 200 or more contracts of any single class of option contracts dealt in on the Exchange. The report shall indicate for each such class of options, the number of option contracts comprising each such position and, in the case of short positions, whether covered or uncovered.

(b) Hedged Position Report. In addition to the reporting requirement described in paragraph (a) above, each Trading Permit Holder (other than an Exchange market-maker or DPM) that maintains a position in excess of 10,000 non-FLEX equity option contracts on the same side of the market on behalf of its own account or for the account of a customer, shall report information as to whether such positions are hedged, and provide documentation as to how such contracts are hedged, in a manner and form prescribed by the Exchange. In addition, whenever the Exchange determines based on a report to the Department of Market Regulation or otherwise, that a higher margin requirement is necessary in light of the risks associated with an under-hedged Non-FLEX equity option position in excess of 10,000 contracts on the same side of the market, the Exchange may consider imposing additional margin upon the account maintaining such under-hedged position, pursuant to its authority under Rule 10.10. Additionally, it should be

noted that the clearing firm carrying the account will be subject to capital charges under SEC Rule 15c3-1 to the extent of any margin deficiency resulting from the higher margin requirements.

(c) *Customer Exceeding Position Limit.* In addition to the reports required by paragraph (a) above, each Trading Permit Holder shall report promptly to the Department of Market Regulation any instance in which the Trading Permit Holder has reason to believe that a customer, acting alone or in concert with others, has exceeded or is attempting to exceed the position limits established pursuant to the applicable position limit Rule.

(d) *Customer Definition.* For purposes of this Rule, the term “customer” in respect of any Trading Permit Holder shall include the Trading Permit Holder, any general or special partner of the Trading Permit Holder, any officer or director of the Trading Permit Holder, or any participant, as such, in any joint, group or syndicate account with the Trading Permit Holder or with any partner, officer or director thereof.

(e) *Range Options.* Range Options shall be subject to the same reporting and other requirements triggered for options on the same underlying index. In computing reportable Range Options, Range Options shall be aggregated with option contracts on the same underlying index, including other classes of Range Options overlying the same index.

(f) *Binary Options.* In computing reportable binary options under this Rule 8.43: (1) positions in binary options on the same broad-based index that have different exercise settlement amounts shall be aggregated, (2) positions in binary options shall not be aggregated with non-binary option contracts on the same or similar underlying security or broad-based index, (3) positions in binary options on broad-based indexes shall not be aggregated with non-binary option contracts on an underlying stock or stocks included within such broad-based index, and (4) positions in binary options on one broad-based index shall not be aggregated with binary options on any other broad-based index.

(g) *Corporate Debt Security Options.* The reference in paragraph (a) above to reports required of positions of 200 or more option contracts shall, in the case of Corporate Debt Security options, be revised to positions of 20 option contracts.

(h) *Credit Options.* In computing reportable Credit Options under this Rule 8.43, Credit Options shall not be aggregated with non-Credit Options contracts. In addition, Credit Options of a given class shall not be aggregated with any other class of Credit Options. The applicable hedge reporting requirement described in paragraph (b) above shall apply to a position in excess of 1,000 Credit Option contracts on the same side of the market. In calculating the applicable position for Credit Default Option contracts, reduced-value contracts (i.e., Credit Default Options with a cash settlement value of less than \$100,000 per contract) will be aggregated with full-value contracts and counted by the amount by which they equal a full-value contract (e.g., 10 Credit Default Option contract with a cash settlement value of \$10,000 per contract (equal to an exercise settlement value of \$100 multiplied by a contract multiplier of 100) equal one full-value contract).

(i) *Government Securities Options.* The reference in paragraph (a) above to reports required of positions of 200 or more options shall, in the case of Treasury security options, be revised to positions of options covering \$20 million or more principal amount of underlying Treasury securities, for example, the 14% bonds due in the year 2019.

(j) *Aggregation of FLEX Positions.* For purposes of the position limits and reporting requirements set forth in Rule 8.35 and this Rule, FLEX Option positions shall not be aggregated with positions in Non-FLEX Options other than as provided below, and positions in FLEX Index Options on a given index shall not be aggregated with options on any stocks included in the index or with FLEX Index Option positions on another index.

(1) Commencing at the close of trading two business days prior to the last trading day of the calendar quarter, positions in P.M. Settled FLEX Index Options (i.e., FLEX Index Options having an exercise settlement value determined by the level of the index at the close of trading on the last trading day before expiration) shall be aggregated with positions in Quarterly Index Options on the same index with the same expiration (“comparable QIX options”) and shall be subject to the position limits set forth in Rule 8.31, 8.32 or 8.33, as applicable.

(2) Commencing at the close of trading two business days prior to the last trading day of the week, positions in FLEX Options that are cash settled (i.e., FLEX Index Options or Credit Default Options) shall be aggregated with positions in Short Term Option Series on the same underlying (e.g., same underlying index as a FLEX Index Option) with the same means for determining exercise settlement value (e.g., opening or closing prices of the underlying index) and same expiration (“comparable Weekly options”) and shall be subject to the position limits set forth in Rule 8.31, 8.32, 8.33 or 8.39, as applicable.

(3) As long as the options positions remain open, positions in FLEX Options that expire on a third Friday-of-the-month expiration day shall be aggregated with positions in Non-FLEX Options on the same underlying (“comparable Non-FLEX Options”) and shall be subject to the position limits set forth in Rule 8.30, 8.31, 8.32, 8.33 or 8.39, as applicable, and the exercise limits set forth in Rule 8.42, paragraph (b) or (h) above, as applicable.

(4) As long as the options positions remain open, positions in FLEX Individual Stock or ETF Based Volatility Index Options that expire on the same day as Non-FLEX Individual Stock or ETF Based Volatility Index Options, as determined pursuant to Rule 4.13(a)(5), shall be aggregated with positions in Non-FLEX Options on the same Individual Stock or ETF Based Volatility Index and shall be subject to the position limits set forth in Rules 8.30, 8.31, 8.32, 8.33, and 8.34 and the exercise limits set forth in Rules 8.42 and paragraph (b) above.

Rule 8.44. Liquidation of Positions

Whenever the President or his designee shall find, on the basis of a report of the Department of Market Regulation or otherwise, that a person or group of persons acting in concert holds or controls, or is obligated in respect of, an aggregate position (whether long or short) in all option contracts of one or more classes or series dealt in on the Exchange in excess of the applicable

position limit established pursuant to the applicable position limit Rule, he or his designee may order all Trading Permit Holders carrying a position in option contracts of such classes or series for such person or persons to liquidate such position as expeditiously as possible consistent with the maintenance of an orderly market. Whenever such an order is given by the President or his designee, no Trading Permit Holder shall accept any order to purchase, sell or exercise any option contract for the account of the person or persons named in the order, unless and until the President or his designee expressly approves such person or persons for options transactions.

Rule 8.45. Limit on Outstanding Uncovered Short Positions

Whenever it is determined from the reports of uncovered short positions submitted pursuant to Rule 7.2, viewed in light of current market conditions in options and in underlying securities, that there are outstanding an excessive number of uncovered short positions in option contracts of a given class dealt in on the Exchange or that an excessively high percentage of outstanding short positions in option contracts of a given class dealt in on the Exchange are uncovered, the Board may prohibit any further opening writing transactions on any exchange in option contracts of that class unless the resulting short position will be covered, and it may prohibit the uncovering of any existing covered short positions in one or more series of options of that class, as it deems appropriate in the interest of maintaining a fair and orderly market in option contracts or in underlying securities. The Board may exempt transactions of Market-Makers from restrictions imposed under this rule and it shall rescind such restrictions upon its determination that they are no longer appropriate.

Rule 8.46. Other Restrictions on Options Transactions and Exercises

(a) The Board shall be empowered to impose such restrictions on transactions or exercises in one or more series of options of any class dealt in on the Exchange as the Board in its judgment deems advisable in the interests of maintaining a fair and orderly market in option contracts or in underlying securities, or otherwise deems advisable in the public interest or for the protection of investors. During the effectiveness of any such restriction, no Trading Permit Holder shall, for any account in which it has an interest or for the account of any customer, engage in any transaction or exercise in contravention of such restriction. Notwithstanding the foregoing, during the 10 business days prior to the expiration date of a given series of options, other than index options, no restriction on exercise may be in effect with respect to that series of options. With respect to index options, restrictions on exercise may be in effect until the opening of business on the last business day before the expiration date.

(b) Exercises of American-style, cash-settled index options shall be prohibited during any time when trading in such options is delayed, halted, or suspended, subject to the following exceptions:

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

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

(3) Exercises of American-style, cash-settled index options shall not be prohibited during a trading halt that occurs at or after 4:00 p.m. In the event of such a trading halt, exercises may occur through 4:20 p.m. In addition, if trading resumes following such a trading halt (such as by closing rotation), exercises may occur during the resumption of trading and for five minutes after the close of the resumption of trading. The provisions of this subparagraph (b)(3) are subject to the authority of the Board to impose restrictions on transactions and exercises pursuant to paragraph (a) of this Rule.

(4) The President or his designee may determine to permit the exercise of American-style, cash-settled index options while trading in such options is delayed, halted, or suspended.

In the case of an American-style, cash-settled FLEX Index Option, the references in this paragraph (b) to a trading delay, halt, suspension, resumption, or closing rotation shall mean the occurrence of the applicable condition in the standardized option on the index underlying the FLEX Index Option (rather than the occurrence of the applicable condition in the FLEX Index Option itself).

(c) Binary options and index options are not subject to paragraph (b) above and Interpretation and Policy .01.

Interpretations and Policies

.01 Whenever the issuer of a security underlying a call option traded on the Exchange is engaged or proposes to engage in a public underwritten distribution ("public distribution") of such underlying security or securities exchangeable for or convertible into such underlying security, the underwriters may request that the Exchange impose restrictions upon all opening writing transactions in such options at a "discount" (as defined below in Interpretation and Policy .02) where the resulting short position will be uncovered ("uncovered opening writing transactions"). Upon receipt of such a request, the Exchange shall impose the requested restrictions as promptly as possible but no earlier than 15 minutes after it has been announced on the floor of the Exchange and shall terminate such restrictions upon request of the underwriters or when the Exchange otherwise discovers that the stabilizing transaction by the underwriters has been terminated. In addition to a request, the following conditions are necessary for the imposition of restrictions:

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

(b) the underwriters agree to notify the Exchange upon the termination of their stabilization activities and

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

.02 For purposes of Interpretation and Policy .01 above, an uncovered opening writing transaction in a call option will be deemed to be effected at a “discount” when the premium in such transaction is either:

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

(b) in the case of a distribution being offered pursuant to rights, less than the amount by which the underwriters’ stabilization bid in the underlying security at the Subscription Price exceeds the exercise price of such option.

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