

Proposed Rule Change by Chicago Stock Exchange  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial <input checked="" type="checkbox"/>	Amendment <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) <input checked="" type="checkbox"/>	Section 19(b)(3)(A) <input type="checkbox"/>	Section 19(b)(3)(B) <input type="checkbox"/>
Pilot <input type="checkbox"/>			Rule		
Extension of Time Period for Commission Action <input type="checkbox"/>		Date Expires <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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**Description**  
Provide a brief description of the proposed rule change (limit 250 characters).

**Contact Information**  
Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name	<input type="text" value="Ellen"/>	Last Name	<input type="text" value="Neely"/>
Title	<input type="text" value="President &amp; General Counsel"/>		
E-mail	<input type="text" value="eneely@chx.com"/>		
Telephone	<input type="text" value="(312) 663-2496"/>	Fax	<input type="text" value="(312) 663-2231"/>

**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.

Date

By    
(Name) (Title)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

**Form 19b-4 Information**

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

**Exhibit 1 - Notice of Proposed Rule Change**

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

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

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Exhibit Sent As Paper Document

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

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

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Exhibit Sent As Paper Document

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

**Exhibit 4 - Marked Copies**

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

**Exhibit 5 - Proposed Rule Text**

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

**Partial Amendment**

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

## **Form 19b-4 Information**

### **1. Text of Proposed Rule Change**

- (a) The Chicago Stock Exchange, Incorporated (the “CHX” or the “Exchange”), pursuant to Rule 19b-4 of the Securities Exchange Act of 1934 (the “Act”), proposes to amend its rules to implement a new trading model that provides the opportunity for entirely automated executions to occur within a central matching system accessible by all Exchange participants. The new model also will end the Exchange’s operation of a physical trading floor and will comply with the requirements of Regulation NMS, 17 CFR 242.600 et seq. (“Reg NMS”). The text of the proposed rule change is included in Exhibit 5.
- (b) Not applicable.
- (c) Not applicable.

### **2. Procedures of Self-Regulatory Organization**

The Exchange’s Board of Directors unanimously approved these rule changes at meetings on June 16, 2005, September 15, 2005, November 15, 2005 and January 19, 2006.

### **3. Self-Regulatory Organization’s Statement on the Purpose of, and Statutory Basis for, the Proposed Rule Change**

(a) Through this submission, the Exchange seeks to implement a new trading model that allows its participants to interact in a fully-automated matching system. In this model, the Exchange would no longer operate a physical trading floor where on-floor specialists, brokers and market makers seek execution of their orders. Instead, the Exchange would operate an automated system where its participants – from any location – could submit orders for immediate execution. The Exchange believes that this new model provides an opportunity for its participants and their customers to receive efficient, low-cost executions, while giving the Exchange enhanced capabilities for surveilling its participants’ trading activities.

In this new model, the Exchange anticipates that most of its participants would continue to be “off-Exchange” order-sending firms that would simply send orders to the Matching System for execution. These firms would not be required to register with the Exchange to act in any specific capacity other than as trading participants.<sup>1</sup> The Exchange would, however, allow participant firms to register

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<sup>1</sup> Since its demutualization in February 2005, the Exchange has not had “members.” Instead, a broker-dealer that seeks to effect transactions directly on the Exchange must become an Exchange “participant.”

in two special categories – to operate as proprietary market makers on the Exchange or to act as institutional brokers. Market makers could choose to post two-sided quotations and trade for their proprietary accounts. Any customer order would be accepted off the Exchange and a market maker could then choose whether or not to enter the order in the Exchange’s Matching System or submit the order to a different venue. In contrast, any customer orders accepted by institutional brokers would be deemed to be on the Exchange when accepted. These market makers and institutional brokers would operate on the Exchange, even if they are not physically located on a single trading floor.<sup>2</sup>

Because the Exchange is taking this opportunity to modernize many of its long-standing procedures and rules, the implementation of the new trading model will result in change to virtually every section of the Exchange’s rule book. The most significant changes can be found in new Article 20 of the Exchange’s rules, which describes the operation of the Exchange’s central matching system. Article 16 details the new role of market makers on the Exchange and Article 17 describes the role and responsibilities of the Exchange’s institutional brokers. Changes to other sections of the rules are designed to eliminate obsolete provisions – including those that relate to the operation of a physical trading floor – and to update other responsibilities to reflect the more automated trading that is the hallmark of the Exchange’s new model. Efforts also have been made to better organize the rules. After describing the provisions of new Articles 20, 16 and 17, this submission will review each of the other sets of proposed rule changes beginning with Article 1.<sup>3</sup>

#### **A. The Matching System.**

The Exchange’s Matching System would be the core facility of the Exchange. It would provide the only means for the display of orders and a central point for the execution of orders. On one hand, the Matching System is simply an extension of the operation of the Exchange’s electronic book to all securities traded on the Exchange.<sup>4</sup> On the other hand, this Matching System would provide a much more robust platform for the interaction of orders than is possible on the Exchange today.

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<sup>2</sup> To the extent that any market makers would be handling agency orders, these firms would be required to be members of the National Association of Securities Dealers (“NASD”) and their order-handling obligations would be subject to NASD, not CHX, trading rules.

<sup>3</sup> Throughout its rule book, the Exchange is replacing the Roman numerals currently used to identify each of its articles with an easier-to-understand Arabic number.

<sup>4</sup> See Release No. 34-52094 (July 21, 2005), 70 FR 43913 (July 29, 2005) (approving the electronic book for the trading of securities not assigned to a specialist firm).

1. *Trading hours.* The Matching System would operate a regular trading session and a late trading session each day.<sup>5</sup> The regular trading session would begin immediately after the primary market for a security opens its market and would end at 3:00 p.m. each day for all securities except specified exchange-traded funds, which would trade until 3:15 p.m.<sup>6</sup> The second trading session – the late trading session – would begin immediately after the close of the first session and would end at 3:30 p.m.<sup>7</sup>

2. *Access to the Matching System.* Exchange participants could route orders to the Matching System through any communications line approved by the Exchange.<sup>8</sup> To the extent that the Exchange participates in the Intermarket Trading System (“ITS”) Plan or any other linkage plan, ITS commitments and other intermarket orders could be sent to the Matching System through those linkages.<sup>9</sup>

3. *Eligible orders – basic requirements.* The Exchange’s Matching System would only accept day orders – orders designated good-till-canceled would not be accepted.<sup>10</sup> Similarly, except for immediate-or-cancel market orders or specially-designated cross orders, the Matching System would only accept limit orders and orders for regular-way settlement.<sup>11</sup> Finally, the Matching System would only accept orders that comply with the subpenny requirements of Reg NMS set out in Rule 612<sup>12</sup> and that do not exceed any size and/or price limitations imposed by the Exchange to help eliminate erroneous transactions or orders and transactions that cannot be processed by the Exchange’s systems.<sup>13</sup>

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<sup>5</sup> See Article 20, Rule 1(b).

<sup>6</sup> All times referenced in this filing are expressed in Central Time.

<sup>7</sup> These sessions are similar to the trading sessions that occur on the Exchange today, except that the late trading session in the new model (unlike the extended session under the current rules, in which the MAX system is not operational) would be a fully automated trading session. See Article IX, Rule 10(b).

<sup>8</sup> See Article 20, Rule 8(a)(1).

<sup>9</sup> See Article 20, Rule 8(a)(2). So long as it is required by the OTC/UTP Plan, the Exchange would also provide telephonic access to NASD market makers. See Article 20, Rule 8(a)(3).

<sup>10</sup> See Article 20, Rule 4(a)(2).

<sup>11</sup> See Article 20, Rules 4(a)(1), 4(a)(3) and 4(a)(6). A special type of order – a non-regular way cross order – could be submitted for execution and non-regular way settlement. See Article 20, Rule 4(b)(15).

<sup>12</sup> Because cross and cross with size orders (described later in this filing) are not initially priced in subpennies, but result in subpenny executions as permitted by Reg NMS, these transactions could be submitted to the Matching System in subpenny increments down to \$0.0001. See Article 20, Rule 4(a)(6)(b), confirming that cross and cross with size orders can be submitted in subpenny increments, whether the orders are priced less than or at or above \$1.00.

<sup>13</sup> See Article 20, Rule 4(a)(5). The Exchange intends to develop a set of parameters that would be used to identify orders that either appear to be erroneous (based on their relationship to current market conditions)

4. *Order types and conditions.* The Matching System would accept a wide variety of order types and conditions, which are set out in Article 20, Rule 4(b). Some of the more routine order types would include immediate or cancel (“IOC”) limit and market orders, fill or kill (“FOK”) orders, sell short orders, reserve size orders and time in force orders.<sup>14</sup> As required by Reg NMS, IOC orders would be executed against any orders at the Exchange’s best bid or offer (“BBO”), including any reserve size or other undisplayed orders at that price. Reserve size orders would permit a participant to identify a portion of an order to be displayed and a portion that should remain undisplayed, and to provide an instruction that the displayed portion should be refreshed with a specific number of shares whenever the displayed share size falls below a specific threshold. Time in force orders would be eligible for execution within a specified time period, with any unexecuted balance to be immediately cancelled when this period expires.<sup>15</sup>

The Matching System also would accept several different types of cross transactions, including a basic cross, a cross with size, a cross with satisfy, a cross with yield, a midpoint cross, an opening cross and a non-regular way cross. A basic cross transaction would be an order to buy and sell the same security at a specific price that is better than the Exchange’s displayed BBO and, where required by the ITS Plan, another linkage plan or Reg NMS, equal to or better than the NBBO.<sup>16</sup> A cross with size would be an agency cross for at least 5,000 shares that is at a price equal to or better than the Exchange’s displayed BBO (and, where required by the ITS Plan, another linkage plan, or Reg NMS, equal to or better than the NBBO), where the size of the cross transaction is larger than the aggregate size of all interest displayed on the Exchange at that price.<sup>17</sup> A cross

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or that exceed the Exchange’s systems capabilities (such as orders priced higher than a very high dollar level or those for a very large number of shares). These orders would be rejected to permit the continued effective operation of the Matching System.

<sup>14</sup> See Article 20, Rule 4(b)(11) (IOC orders); Rule 4(b)(12) (IOC market orders); Rule 4(b)(10)(FOK orders); Rule 4(b)(20)(sell short orders) and Rule 4(b)(19)(reserve size orders).

<sup>15</sup> See Article 20, Rule 4(b)(21). The Matching System initially would permit participants to identify any time period of a minute or a multiple of a minute as the “time in force” for a particular order. In later upgrades to the Matching System, participants would be allowed to identify an order’s “time in force” in seconds.

<sup>16</sup> See Article 20, Rule 4(b)(3). A cross may represent interest of one or more Exchange participants, trading for a proprietary account. This order or transaction type is already permitted in the Exchange’s electronic book. See Article XXA, Rule 2.

<sup>17</sup> See Article 20, Rule 4(b)(5). A cross with size is already permitted in the Exchange’s electronic book and mirrors the type of transaction that can take place on the Exchange’s trading floor. See Article XXA, Rule 2; Article XX, Rule 23. The proposed definition of a cross with size transaction would reduce the required number of shares in the order to 5,000 shares from 25,000 shares, mirroring similar requirements in the rules of other markets. See Boston Stock Exchange Rules, Chapter II, Section 18; Philadelphia Stock Exchange Rule 126(h). The proposed definition of a cross with size transaction also would confirm that an

with satisfy is designed to provide a participant with an efficient mechanism for clearing out displayed orders in the Matching System that would otherwise have time priority and then effecting a cross transaction at that price.<sup>18</sup> A cross with yield is a similar order type, for use only when a participant seeks to interact against its customer's order, which would automatically yield the participant's interest to any order already displayed in the Matching System at the same or better price.<sup>19</sup> And, finally, as their names suggest, an opening cross is a cross transaction that would be specifically designated to be executed at the opening price; a non-regular way cross would be designated for non-regular way settlement; and a midpoint cross would execute at the midpoint between the NBBO.<sup>20</sup>

The Matching System also would accept several order types that are specifically contemplated by Reg NMS. For example, the Matching System would accept benchmark orders which meet the requirements of Rule 611(b)(7). Initially, the Exchange would limit submission of benchmark orders to the Exchange's institutional brokers.<sup>21</sup> The Matching System would also accept intermarket sweep orders ("ISOs"), which would execute against orders at the Exchange's BBO, without regard to whether the execution would trade through another market's protected quotation.<sup>22</sup> Three other Reg NMS-related orders – an

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order sent on a riskless principal or agency basis to the Matching System is not considered to be for the account of the participant sending the order to the Matching System.

<sup>18</sup> See Article 20, Rule 4(b)(4). With this order type, a participant would send an instruction to execute displayed orders in the Matching System at a particular price (and up to a specified number of shares) against a specified party and then to execute the remaining shares on that side of the order as a cross transaction against the shares on the other side of the order.

<sup>19</sup> See Article 20, Rule 4(b)(6).

<sup>20</sup> See Article 20, Rule 4(b)(16)(opening cross); Rule 4(b)(15)(non-regular way cross) and Rule 4(b)(14)(midpoint cross). As described later in this submission, opening cross orders would execute immediately after the primary market opens in a security, at the opening price. For listed securities, the opening price would be the primary market opening price. For Nasdaq/NM securities, the opening price would be the midpoint of the first unlocked, uncrossed market that occurs on or after 8:30 a.m.

A non-regular way settlement cross would execute without regard to the NBBO or any other orders the Matching System and could represent the interest of one or more participants in the Exchange. The Matching System would not accept one-sided orders for non-regular way settlement. The only way to effect a non-regular way transaction within the Matching System would be through a non-regular way cross.

<sup>21</sup> The Exchange initially has limited the use of this order type to its institutional brokers to ensure that the Exchange can determine whether or not the requirements of Reg NMS Rule 611(b)(7) have been met. See Article 20, Rule 4(b)(2). A benchmark order may execute at any price, without regard to the NBBO or any other orders in the Matching System and may represent interest of one or more Exchange participants.

<sup>22</sup> See Article 20, Rule 4(b)(13).

outbound ISO, a price-penetrating ISO and an “always display” order – would also be accepted by the Exchange’s Matching System.<sup>23</sup>

Finally, the Matching System would accept do not display and do not route orders. A do not route order, as its name implies, would be executed or displayed within the Matching System and could not be routed to another market center.<sup>24</sup> A do not display order would be an order, for at least 1,000 shares when entered, that should not be displayed in whole or in part, but that would remain eligible for execution within the Matching System.<sup>25</sup>

5. *Ranking of orders in the Matching System.* As described in Article 20, Rule 8, all orders received by the Matching System would be ranked by price, time of receipt and, for round-lot orders, any display instructions received with the orders. Specifically, orders received by the Matching System would be ranked as follows:

a. *Orders that are eligible for display, as well as mixed-lot and odd-lot orders.* Limit orders that are eligible to be displayed, including the displayed portion of reserve size orders, and all odd-lot and mixed-lot orders (for which the round lot portion is displayed) would be ranked together, at each price point, in time priority.<sup>26</sup>

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<sup>23</sup> An outbound ISO would allow an Exchange participant to ask the Exchange to execute an order on the Exchange without regard to the protected quotations at other markets while simultaneously routing ISOs to those other markets to execute against their protected quotations. See Article 20, Rule 4(b)(17). A price-penetrating ISO would operate much like a basic ISO, except that it would allow a participant to execute through displayed and undisplayed interest, at multiple price points, on the Exchange. See Article 20, Rule 4(b)(18). And, as further described in the section relating to locking and crossing quotations, an “always display” order would be an order that should be displayed on the Exchange even if its display would appear to either improperly lock or cross the ITS BBO or, when Reg NMS is implemented for a security, to constitute a locking or crossing quotation.

<sup>24</sup> As further described in the section relating to the prevention of trade-throughs, a do not route order would be immediately cancelled if its execution would improperly trade through the ITS BBO or another market’s protected quotations.

<sup>25</sup> A do not display order could receive that designation because a customer specifically instructed a participant not to display the order or because a participant itself decided that the order should not be displayed. As described later in this submission, a do not display order would be ranked, at any given price point, behind displayed orders (and any odd-lot and mixed-lot orders at the price) and behind the undisplayed portions of any reserve size orders. These completely undisplayed orders would both allow a participant to fulfill a customer’s instructions and to otherwise keep trading interest hidden, but to remain within the Matching System where the orders could be executed against inbound orders seeking liquidity.

<sup>26</sup> For the most part, executions in the Matching System would occur on a “share-for-share” basis, regardless of whether the incoming or resting orders were round-lot, mixed-lot or odd-lot orders. The one exception to this share-for-share matching is in the handling of ITS commitments or linkage plan orders, which would only be matched in round-lot increments, for the full amount of round-lot shares available at the price reflected in the NBBO. See Article 20, Rule 8(e)(9). Any remaining portion of the ITS commitment or linkage plan order would then be automatically cancelled.



b. *Orders that are displayed in part, where a portion is not displayed.* At each price point, the undisplayed portions of reserve size orders would be ranked together in time priority and would be ranked after any displayed orders (and any odd-lot and mixed-lot orders) at that price.

c. *Completely undisplayed orders.* Orders that are received with a do not display instruction would be ranked together, at each price point, in time priority and would be ranked after any other orders at that price.

Changes to an order's size or price, or its displayed portion, could impact its ranking within the Matching System. For example, when the displayed portion of a reserve size order is refreshed with new volume, the displayed portion of the order would receive a new ranking based on the time at which it was refreshed.<sup>27</sup> Similarly, if a participant increases the number of shares in a fully-displayed order, that order would receive a new ranking based on the time at which these shares were added to the order.<sup>28</sup> Any change in the price of an order would result in a new price and time ranking for the order, based on the time of the price change.<sup>29</sup> Finally, any change to the display instruction associated with an order would result in a new ranking for the order based on the time that the new instruction was received.<sup>30</sup>

6. *Display of orders within the Matching System.* All orders that are eligible for display would be immediately and publicly displayed through the processes set out in the appropriate transaction reporting plan for each security when they constitute the best round-lot bid or offer in the Matching System for that security. The undisplayed portion of a reserve size order, odd-lot orders, the odd-lot portion of a mixed-lot order and any other orders received with a do not display instruction would not be eligible for display.

The Exchange believes that its disseminated quotations would constitute automated quotations under the definition set out in Reg NMS Rule 600(b)(3).<sup>31</sup>

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<sup>27</sup> See Article 20, Rule 8(b)(4). Any remaining undisplayed portion of the order would continue to be ranked at the price and time at which it was originally received.

<sup>28</sup> See Article 20, Rule 8(b)(5). Any reduction in the number of shares in an order, however, would not change its ranking within the Matching System.

<sup>29</sup> *Id.*

<sup>30</sup> *Id.*

<sup>31</sup> As required by Reg NMS Rule 600(b)(3) in its definition of "automated quotations," the Exchange's Matching System is designed to accept IOC orders; to immediately and automatically execute an IOC order against the displayed BBO, up to its full size; to immediately and automatically cancel any unexecuted portion of the IOC order without routing the order elsewhere; to immediately and automatically transmit a

The Exchange's proposed rules confirm that each order submitted to the Matching System must be a firm order and cannot be identified as a "manual" quotation.<sup>32</sup>

7. *Opening of the regular trading session.* Immediately after the primary market opens by publicly reporting a trade, the Matching System would execute all opening cross orders, then start accepting and matching orders as provided in Article 20, Rule 8(d).<sup>33</sup> If the primary market opens with a quote, but has not reported a trade for 30 seconds following the dissemination of the initial quote, the Matching System would cancel all opening cross orders, and then start accepting and matching all other orders.<sup>34</sup>

8. *Automated matching of orders.* With certain exceptions specifically set out in Article 20, Rule 8(e), and subject to the provisions relating to the prevention of trade throughs that are set out in Article 20, Rule 5, incoming orders would be matched against one or more orders in the Matching System, in the order of their ranking, at the price of each resting order, for the full amount of shares available at that price or for the size of the incoming order, if smaller.<sup>35</sup> If an order could not be immediately matched or matched in full when received (and it is not designated as an order type that should be immediately cancelled), it or its residual portion would be placed in the Matching System and ranked as described above.<sup>36</sup>

The following order types would be subject to specific executions within the Matching System:

a. *Benchmark orders.* Benchmark orders, which are cross transactions submitted by institutional brokers that meet the requirements of Reg NMS Rule 611(b)(7), would execute at any price, without regard to the NBBO or any other order in the Matching System and may represent the interest of one or more participants of the Exchange.<sup>37</sup>

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response to the order-sending participant indicating the action taken on the order; and to immediately and automatically update the BBO to reflect any change that occurred as a result of the execution.

<sup>32</sup> See Article 20, Rule 3(a).

<sup>33</sup> See Article 20, Rule 8(c).

<sup>34</sup> *Id.* This provision would apply only to securities other than Nasdaq/NM securities. As noted above, Nasdaq/NM securities would open based on the first unlocked, uncrossed market that occurs on or after 8:30 a.m.

<sup>35</sup> See Article 20, Rule 8(d)(1).

<sup>36</sup> See Article 20, Rule 8(d)(2). Orders that would be immediately cancelled, if not executed, include FOK orders, IOC limit and market orders and ISOs. See Article 20, Rules 4(b)(10) through (13).

<sup>37</sup> See Article 20, Rule 8(e)(1) and Rule 4(b)(2). A benchmark order is defined in SEC Rule 611(b)(7) as an order that is executed at a price that was not based, directly or indirectly, on the quoted price of the security

b. *Cross and cross with size orders.* Cross and cross with size orders would be automatically executed if they meet the requirements set out in Rule 4(b)(3) and (5) respectively, but would be immediately and automatically cancelled if they do not meet these requirements.<sup>38</sup>

c. *Cross with satisfy orders.* When the side of a cross with satisfy order that is to be executed against one or more orders already displayed in the Matching System is eligible for immediate execution because it is at a price better than the currently displayed best bid or offer in the Matching System and the number of shares identified for immediate execution in the instruction would allow the remainder of the order to be executed as a cross order with the shares on the other side of the order, the cross with satisfy would be immediately executed. If either of these requirements are not met, the cross with satisfy order would be immediately and automatically cancelled.<sup>39</sup>

d. *Cross with yield orders.* When the customer order that is part of a cross with yield order is eligible for an immediate execution because it is at a price better than the currently displayed best bid or offer in the Matching System, the cross with yield order would be automatically executed by matching the participant as principal against the customer order; provided, however, that if there is any order already displayed in the Matching System at the same price as (or better than) the participant's interest, that order or those orders would be matched against the customer order in place of the participant's interest as necessary to exhaust the customer order interest.<sup>40</sup> If the customer order that is part of a cross with yield order is not eligible for an immediate execution because it is not better than the currently displayed bid or offer in the Matching System, the cross with yield order would be immediately and automatically cancelled.

e. *Midpoint cross.* A midpoint cross order would be immediately executed at the midpoint between the NBBO. If the NBBO is locked at the time the order is received, the midpoint cross would be executed at the locked market price. If the NBBO is crossed at the time the order is received, the midpoint cross would be immediately and automatically cancelled.<sup>41</sup>

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at the time of execution and for which the material terms were not reasonably determinable at the time the commitment to execute the order was made.

<sup>38</sup> See Article 20, Rule 8(e)(2).

<sup>39</sup> See Article 20, Rule 8(e)(3).

<sup>40</sup> See Article 20, Rule 8(e)(4).

<sup>41</sup> See Article 20, Rule 8(e)(5).

f. *Non-regular way cross orders.* These orders would be automatically executed without regard to either the NBBO or any orders for regular way settlement that might be in the Matching System.<sup>42</sup>

g. *Sell short orders.* Sell short orders would be displayed and executed only when permissible under the provisions of Rule 10a-1 and Regulation SHO. When a sell short order cannot be executed or displayed at its limit price under the provisions of the Short Sale Rule and Regulation SHO, the order would be automatically repriced (without violating its limit price) to the next available price at which it can be executed or displayed.<sup>43</sup>

h. *Do not display orders.* A do not display order would be executed as provided in Rule 8(d), but would be immediately and automatically cancelled if, at any point, the order would prevent the execution of an inbound order because the do not display order has crossed the CHX market.<sup>44</sup>

i. *Inbound ITS commitment or linkage plan order.* An inbound ITS commitment or linkage plan order, if it is priced at or better than the current Exchange-displayed BBO (or if it is marked “market”), would be automatically matched, in round-lot increments, against the order(s) at the price reflected in the BBO, for the full amount of round-lot shares available at that price, and any remaining portion of the ITS commitment or linkage plan order shall be automatically cancelled.<sup>45</sup>

9. *Prevention of trade-throughs.* The Exchange’s Matching System would prevent the execution of an order if the execution would cause an improper trade-through of another ITS market or if, when Reg NMS is implemented for a security, the execution of the order would be improper under Reg NMS Rule 611.<sup>46</sup> If the execution of an order would cause a trade-through, the Matching

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<sup>42</sup> See Article 20, Rule 8(e)(6).

<sup>43</sup> See Article 20, Rule 8(e)(7).

<sup>44</sup> See Article 20, Rule 8(e)(8).

<sup>45</sup> See Article 20, Rule 8(e)(9). The Exchange believes that this handling of ITS commitments and linkage plan orders is consistent with the ITS Plan and the current draft of the linkage plan that might replace the ITS Plan.

<sup>46</sup> See Article 20, Rule 5. There is one exception to this general rule – at least initially, the Exchange would not apply the “flickering quote” exception to Reg NMS Rule 611 (Reg NMS Rule 611(b)(8)) when determining whether or not the execution of the order would create an improper trade-through.

System would either (a) route the order to another appropriate market; or (b) if the order is marked “do not route,” automatically cancel the order.<sup>47</sup>

The Exchange has developed a series of trade-through policies and procedures that describe how the Exchange will implement the provisions of SEC Rule 611.<sup>48</sup> These procedures describe the Exchange’s clock synchronization practices, as well as its plans for applying the exceptions to Reg NMS Rule 611.<sup>49</sup> Among other things, these procedures confirm that the Exchange would apply the self-help exception (and disregard another market’s quotations for trade-through purposes) when that market has publicly announced that it is not disseminating automated quotations; has not responded, within 30 seconds, to an Exchange inquiry seeking information about possible systems problems; or has not confirmed, within two minutes after an Exchange inquiry, that it is not having systems problems.<sup>50</sup> These procedures also confirm that the Exchange automatically would place an appropriate modifier on trades, before they are publicly reported, if they occur when the NBBO is crossed or if they are subject to other exceptions to Reg NMS Rule 611.<sup>51</sup>

The Exchange’s trade-through policies also describe its plans for confirming that its own bids and offers qualify as automated quotations. Specifically, the Exchange would periodically (no less often than once every five seconds and no more often than once every second) send a test IOC order to the Matching System

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<sup>47</sup> The Exchange plans to operate a router/switch that directs outbound order flow to (a) the intermarket linkage plan (that supersedes the ITS Plan); or to (b) smart-router technology provided by a third party (with whom the CHX would have a contract to provide those services), all at the election of the participant. The CHX currently is working to develop the structure of its relationship with the provider of this smart-routing technology and will supplement this filing with additional information as it becomes available.

<sup>48</sup> See Article 20, Rule 5, Interpretation and Policy .01.

<sup>49</sup> The Exchange’s systems will routinely, throughout the trading day, use processes that capture the time reflected on the atomic clock operated by the National Institute of Standards and Technology and will automatically make adjustments to the time recorded in the Exchange’s Matching System to ensure that the period between the two times does not exceed 500 milliseconds.

<sup>50</sup> See Article 20, Rule 5, Interpretation and Policy .01(c). The Exchange would notify the other market of its use of the self-help exception by using the squawk box or other similar technology made available for intermarket communications from time to time. The Exchange then would continue to apply this self-help exception until the other market has provided reasonable assurance to the Exchange (or to the public) that the problems have been corrected.

<sup>51</sup> See Article 20, Rule 5, Interpretation and Policy .01(d). Specifically, the Exchange would apply appropriate modifiers associated with the execution of a non-regular way cross, a single-price opening trade, an inbound ISO or a benchmark order. See Article 20, Rule 5, Interpretation and Policy .01(g). In addition, if an on-Exchange participant submits an outbound ISO order (consisting of an order to execute on the Exchange, coupled with outbound ISOs to execute against protected quotations of other markets), the Matching System will not execute the order on the Exchange until it receives confirmation that the outbound ISOs were designed to execute against the full size of any other market’s protected bid or offer, as required by Reg NMS Rule 600(b)(30) and Reg NMS Rule 611(b)(6).

to determine whether the Exchange's Matching System accepts the order and would use automated monitoring systems to further measure the Matching System's handling of test IOC orders within the Matching System.<sup>52</sup> These monitoring systems would provide immediate reports to other Exchange systems for further handling. If these systems receive a report that the Matching System has not accepted two or more test IOC orders sent as sequential test messages or has taken more than two seconds to process any one test IOC order in specified ways, the Exchange would automatically append a "manual" identifier to the bids and offers it makes publicly available.<sup>53</sup> The Exchange would not remove this "manual" identifier until it has determined that its quotations qualify as automated quotations. It would then notify other markets that its quotations are automated to ensure that all markets recognize the Exchange's bids and offers as automated quotations.

10. *Locking and crossing quotations.* Except for orders marked "always display," an order would not be displayed on the Exchange if its display would improperly lock or cross the ITS best bid or offer or, when Reg NMS is implemented for a security, if its display would constitute a locking or crossing quotation.<sup>54</sup> These otherwise locking or crossing orders would either be routed to another appropriate market or, if designated as "do not route," would be automatically cancelled.

Orders marked "always display," however would be automatically displayed on the Exchange, even if the orders would appear to lock or cross other markets. The Exchange believes that the display of these orders is consistent with the requirements of Reg NMS, which generally require that the Exchange adopt rules to require that Exchange participants reasonably avoid displaying, and not engage in a pattern or practice of displaying, any quotations that lock or cross a protected quotation, and any manual quotations that lock or cross a quotation previously disseminated pursuant to an effective national market system plan.<sup>55</sup>

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<sup>52</sup> These systems would review, in real time, the Matching System's handling of test IOC orders to determine whether, and within what time frame, (i) IOC orders are executed against the displayed quote, up to its full size; (ii) any unexecuted portion of the IOC order is cancelled; (iii) a confirmation of the action taken is generated and transmitted from the Matching System to the monitoring system (to serve as a proxy for a transmission to the order-sending firm); and (iv) the Matching System transmits a new bid or offer (as appropriate) to the monitoring system (to serve as a proxy for a transmission to the appropriate securities information processor). *See* Article 20, Rule 5, Interpretation and Policy .02(a).

<sup>53</sup> In the event that the Exchange's systems do not permit the Exchange to disseminate a "manual" identifier, the Exchange would announce that its quotes are manual over the squawk box or other similar functionality available for communications with other market centers. *See* Article 20, Rule 5, Interpretation and Policy .02(b).

<sup>54</sup> *See* Article 20, Rule 6(c).

<sup>55</sup> *See* Reg NMS Rule 610(d). The Exchange has included rule provisions meeting these requirements in Article 20, Rule 6(a) - 6(b).

By allowing a participant to identify orders as ones that should be always displayed, the Exchange recognizes that unintentional locks and crosses may occur, even if a participant uses reasonable efforts to avoid those situations, because of a variety of market conditions, including rapid updating or quotations in active stocks and use of the “ship and post” strategy that is permitted by Reg NMS.

11. *Clearing the matching system.* To ensure that orders on the Exchange have an appropriate opportunity to interact with each other, institutional brokers ordinarily would be required to clear the Matching System before sending an order to another market for execution.<sup>56</sup>

12. *Trading halts.* Under the proposed rules, two senior officers of the Exchange would be authorized to suspend and restart trading within a trading session or to halt trading for the remainder of a trading session, in one or more securities, when the officials believe it is in the public interest.<sup>57</sup> If trading in one or more issues is suspended or halted, the Matching System would not accept any additional orders and would resume quoting and matching orders only after the end of the trading halt.<sup>58</sup> Because the Matching System would not be locked or crossed when trading is halted, and because it would not accept orders during the halt, the Matching System would be able to emerge from the halt without any special reopening process, by simply displaying its BBO and then accepting and matching orders as provided by the Matching System rules described above.

13. *Cancelling transactions/handling clearly erroneous transactions.* Under the proposed rules, participants that make a transaction in demonstrable error could agree to cancel and unwind the transaction, subject to the approval of the Exchange.<sup>59</sup> The Exchange also proposes to extend its current electronic book rule for the handling of clearly erroneous transactions, with a few minor changes, to the operation of the Matching System.<sup>60</sup> This rule would allow the Exchange

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<sup>56</sup> If a customer specifically requests otherwise, an institutional broker is not required to clear the Matching System. *See* Article 20, Rule 7(a). Institutional brokers would be required to document any directives for special handling of orders under this rule. *See* Article 20, Rule 7(b).

<sup>57</sup> *See* Article 20, Rule 1(d). Under the Exchange’s current rules, a trading halt could be declared by the chairman or vice chairman of the Exchange’s Board of Directors, or by its president, with the prior approval of a director from a participant firm and a director from the trading floor. The Exchange believes that it no longer is appropriate or effective to require its directors to participate in the decisions to suspend or halt trading, particularly with the automated environment proposed by the new trading model and the fact that the Exchange will no longer be operating a trading floor.

<sup>58</sup> *See* Article 20, Rule 1, Interpretation and Policy .02. Participants could cancel orders during the halt.

<sup>59</sup> *See* Article 20, Rule 9.

<sup>60</sup> *See* Article 20, Rule 10; *see also* Article XXA, Rule 7 (the policy approved for use within the electronic book).

to review, and potentially modify or cancel, executions where one party believes that the terms of the transaction were clearly erroneous when submitted. A related rule relating to systems disruptions and malfunctions would allow the Exchange to modify or cancel executions that result from a disruption or malfunction in the use or operation of the Matching System, or any communications system associated with the Matching System or when extraordinary market conditions or other circumstances exist in which the nullification or modification of transactions may be necessary for the maintenance of a fair and orderly market or the protection of investors and the public interest. The proposed rules set out procedures for each of these reviews, including specific means for participants to appeal the Exchange's decisions.<sup>61</sup>

14. *The late trading session.* The Exchange's Matching System would begin accepting orders for the late trading session immediately after the closing of the regular trading session.<sup>62</sup> Orders for the late trading session would be matched according to the same process used during the regular trading session. As noted above, the late trading session would end at 3:30 p.m.

## **B. Market Makers.**

The Exchange's proposed new trading model would allow participants to register to act as proprietary market makers on the Exchange. The provisions that would govern the activities of these market makers are set out in the proposed rules in Article 16. These proposed rules replace the current market maker rules contained in Article XXXIV.

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<sup>61</sup> For example, a participant seeking review of a "clearly erroneous" transaction would be required to notify the Exchange of the request immediately after the execution by telephone, and within 15 minutes after the execution in writing. The Exchange would promptly notify the other party to the transaction. Both parties then would be required to submit information relating to the disputed transaction, within specified time frames. After reviewing the transaction, an Exchange official would notify both parties of his or her decision, in writing; either party could appeal the decision to a subcommittee of the Exchange's Committee on Exchange Procedure and, if not satisfied, to the full Committee on Exchange Procedure. In making his or her decision, the Exchange official would consider the goals of maintaining a fair and orderly market and protecting investors and the public interest; if an Exchange official determines that a transaction was clearly erroneous, he or she would try to return the parties to the positions that they would have been in (or positions reasonably similar to those positions) if the error had not occurred. Similarly, in the event of a disruption or malfunction that impacts the operation or use of the Matching System (or in the event of extraordinary market conditions or other circumstances), an Exchange official could declare transactions void or modify transactions. Absent extraordinary circumstances, any Exchange action to void or modify transactions in this manner must be taken within 30 minutes of detection of the erroneous transaction, but in no event later than 2:00 p.m. on the trading day following the date of the trade at issue. The official would be required to notify each member involved in the transaction as soon as practicable after making any decision; decisions could be appealed using the procedure set out for the review of decisions addressing clearly erroneous transactions.

<sup>62</sup> See Article 20, Rule 8(c)(2). Orders for the late trading session would not be allowed queue before the close of the regular trading session; they would only be accepted by the Exchange after the close of the regular trading session.



Under the proposed rules, a participant firm seeking to act as a market maker would be required to register with the Exchange.<sup>63</sup> Participant firms would be required to register as market makers; individual traders within those firms would be required to separately register as market maker traders.<sup>64</sup> The proposed rules specifically provide that a market maker that is a participant in the Exchange, but is not a member of the NASD, would be permitted to trade only on a proprietary basis and would not be permitted to handle any agency orders.<sup>65</sup> A CHX market maker that is also a member of the NASD would be permitted to handle agency orders away from the facilities of the Exchange, so long as it is registered as a market maker with the NASD.<sup>66</sup> More than one market maker could register in each security.<sup>67</sup>

A participant would register as a market maker by submitting an application to the Exchange, confirming its ability to comply with applicable rules and identifying the number of securities in which it seeks to make markets.<sup>68</sup> The Exchange would review each application and, using specific criteria, would determine whether or not the participant should be registered in that capacity.<sup>69</sup> The Exchange would notify each participant of the action taken with respect to its application and, if it denies a participant's registration request, would describe the reasons for that denial.<sup>70</sup>

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<sup>63</sup> See Article 16, Rule 1(a). A participant would not be considered to be acting as a market maker unless it was registered in that capacity and was in good standing.

<sup>64</sup> See Article 16, Rule 1, Interpretation and Policy .01.

<sup>65</sup> See Article 16, Rule 1, Interpretation and Policy .02.

<sup>66</sup> *Id.* This proposed rule reflects the Exchange's recognition that market makers handling agency orders likely want to be able, in appropriate circumstances, to interact with the order flow that they receive, a practice that could prove difficult on the Exchange with its price-time priority Matching System into which many different participants can submit orders for execution.

<sup>67</sup> See Article 16, Rule 3, Interpretation and Policy .03.

<sup>68</sup> See Article 16, Rule 2(b).

<sup>69</sup> See Article 16, Rule 3. In considering a participant's request for registration as a market maker, the Exchange would consider: (a) the participant's financial resources; (b) the participant's experience and demonstrated ability in making markets, including the depth and quality of the market quoted by the participant in other securities; (c) the participant's demonstrated ability to make markets in such a manner as to increase the order flow to the Exchange and, as a result, the competitiveness of its market with markets elsewhere; (d) the participant's disciplinary record, including its violations of Exchange rules, the rules of other SROs and federal securities laws; (e) the participant's operational capability, including its ability to comply with the responsibilities set out in Article 16, Rule 8; and (f) the overall best interests of the Exchange.

<sup>70</sup> See Article 16, Rule 2(d).

Under the proposed rules, once a firm's market maker registration is approved, the firm could select the securities in which it would act as market maker by notifying the Exchange.<sup>71</sup> The Exchange would require a firm to seek prior approval before acting as market maker in more than 500 securities and with respect to each increment of an additional 100 securities after that threshold is reached.<sup>72</sup> If a market maker drops a security from its selected list, that participant would not be allowed to trade that security again as market maker for 20 calendar days.<sup>73</sup>

A firm's registration as a market maker could be terminated voluntarily, by the market maker itself, or involuntarily, by the Exchange.<sup>74</sup> The proposed rules would allow market makers to voluntarily deregister by filing the appropriate form with the Exchange. As part of that process, a firm would be permitted to request temporary or partial deregistration as a market maker – and thus avoid the need to complete the registration process again – in specific circumstances that temporarily prevent a market maker from acting in that role.<sup>75</sup> Under the proposed rules, the Exchange could grant a request for temporary or partial deregistration for up to 60 days and could extend that period in its discretion. The proposed rules would allow the Exchange to suspend, terminate or limit a market maker's registration upon a determination of any substantial or continued failure by the participant to engage in dealings as required by Article 16, Rule 8 or as set out in Article 13.<sup>76</sup>

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<sup>71</sup> See Article 16, Rule 5. A market maker would be required to notify the Exchange of a decision to add or drop securities by 9 a.m. on the trading day preceding the date on which the change would take effect, unless the Exchange is able to accommodate a notification closer to the effective date. *Id.*

<sup>72</sup> See Article 16, Rule 5, Interpretation and Policy .01. This process would allow the Exchange to evaluate a market maker's request, using the criteria in Rule 3, to determine whether the firm appears capable of handling its market maker responsibilities in these additional issues.

<sup>73</sup> See Article 16, Rule 5, Interpretation and Policy .02. This prohibition would not apply where a market maker has received approval to voluntarily deregister as a market maker under the provisions of Article 16, Rule 6.

<sup>74</sup> See Article 16, Rules 6 (voluntary deregistration) and 7 (involuntary deregistration). In addition, the Exchange would consider a firm to have deregistered if it is not trading any securities as a market maker (i.e., it is not submitting bids or offers in the securities it has selected). See Article 16, Rule 6. If a firm is deemed to have deregistered, it would be required to complete the registration process again before acting as a market maker on the Exchange.

<sup>75</sup> These reasons include software, hardware, connectivity or other problems that interfere with the market maker's ability to appropriately send bids or offers to the Exchange or otherwise act as market maker; legal or regulatory considerations that temporarily prevent the participant from acting as market maker; or other circumstances, including, but not limited to, those that are beyond a market maker's control, that interfere with the participant's ability to act as market maker. See Article 16, Rule 6, Interpretation and Policy .01.

<sup>76</sup> Article 13 contains the Exchange's rules and procedures relating to the suspension and reinstatement of a participant's ability to act as a participant and to retain its registration in a special capacity (such as a market maker).

Under proposed Rule 8, a market maker would be required to engage in a course of dealings for its own account to assist in the maintenance, to the extent reasonably practicable, of fair and orderly markets on the Exchange. A market maker's responsibilities would specifically include (1) using automated systems to maintain a continuous two-sided quote, for at least a round-lot, in each of the securities in which it is registered; (2) maintaining adequate minimum capital; and (3) meeting specific quotation or trade requirements, with respect to its dealings on the Exchange, over the course of each calendar quarter.<sup>77</sup>

Market makers would have two other specific obligations. First, a market maker that is registered as a market maker solely on the Exchange and engages in other business activities (or that is affiliated with a broker or dealer that engages in other business activities) would be required to establish, and describe to the Exchange, information barriers that prevent the market maker from using material, non-public information or information about customer order flow in its trading activities.<sup>78</sup> And, second, a market maker would be required to record and, transmit to the Exchange in an approved electronic format, its long or short position in a security as of the time that it initiates an order in that security on the Exchange.<sup>79</sup>

### **C. Institutional Brokers.**

Under the Exchange's proposed new trading model, any participant firm that acts as a broker in effecting transactions on the Exchange and for which the Exchange is the designated examining authority would be required to register with the Exchange as an institutional broker.<sup>80</sup> Each individual that would be authorized

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<sup>77</sup> See Article 16, Rule 8(a) through (c). Over the course of each calendar quarter, a market maker would be required to meet either of these requirements: (1) at least 5% of the total number of a market maker's principal bids or offers on the Exchange, in each quarter, for each of its assigned securities, must, when entered on the Exchange, be at the NBBO or improve the NBBO in a manner that attributes market data revenue to the Exchange under the terms of applicable national market system reporting plans; or (2) the shares traded by a market maker for its own account, for each of its assigned issues, must equal or exceed 1% of the total number of shares executed on the Exchange in that issue.

<sup>78</sup> See Article 16, Rule 9. At the time a participant becomes a market maker, the participant would be required to submit a written statement describing its plans for establishing and maintaining the required information barriers, including the internal controls that will be put in place to monitor the barriers' effectiveness. A market maker engaging in these other business activities would not be allowed to act as a market maker on the Exchange until the Exchange had approved the information barrier procedures.

<sup>79</sup> See Article 16, Rule 10. The requirement to report information to the Exchange would apply only to market makers that are not NASD members. NASD members would provide this information directly to the NASD and would be subject to the NASD's oversight with respect to their trading activity.

<sup>80</sup> See Article 17, Rule 1. This requirement would apply to a firm whether or not they were required to register as an NASD member by applicable SEC rules. See Article 17, Rule 1, Interpretation and Policy .01.

to effect trades on behalf of the firm would be required to separately register as an institutional broker representative.<sup>81</sup> The Exchange anticipates that its existing floor brokers would register as institutional brokers in the new model. Importantly, although institutional brokers would operate as participants on the Exchange, they could trade from any location and would not effect transactions from a physical trading floor.<sup>82</sup>

Under the proposed rules, institutional brokers would be required to adhere to trading and business conduct rules that apply to participant firms generally and would be subject to specific obligations set out in Article 17. Among other things, institutional brokers would be required to enter all orders received for execution on the Exchange into an automated system to provide an electronic record of their order handling practices; would be required to maintain separate accounts for handling agency transactions, principal transactions and transactions involving errors; and would be required to enter transactions into the appropriate accounts.<sup>83</sup> Institutional brokers would also be required to maintain required records of their trading activities, including records of their relationships with their customers.<sup>84</sup>

A customer order would be deemed to be on the Exchange when received by an institutional broker, but would not have priority in the Matching System until it is entered into that system. The proposed rules would also set out specific order handling obligations for institutional brokers. Specifically, an institutional broker handling a market order would be required to use due diligence to execute the order at the best price or prices available.<sup>85</sup> Similarly, an institutional broker handling a limit order would be required to use due diligence to execute the order at or better than the limit price, if available. And, an institutional broker who has

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<sup>81</sup> See Article 17, Rule 1, Interpretation and Policy .02. This requirement essentially tracks the current requirement that individual floor brokers separately register with the Exchange and take required examinations. See Article VI, Rules 2 and 3.

<sup>82</sup> As noted above, the Exchange would not operate a physical trading floor in the new trading model. The Exchange anticipates that its current trading floor would be subleased to interested parties for use as office or trading space.

<sup>83</sup> See Article 17, Rule 3(a) and Rule 3(b). The requirement for entering orders into an electronic system to permit the Exchange to more readily surveil broker order handling activities likely will soon be approved by the Commission. See Article 11, Rule 3. The Exchange's brokers will be required to begin complying with this requirement no later than March 20, 2006. In addition, although the Exchange's current rules do not specifically require brokers to maintain specific principal, agency and error accounts, the Exchange's Market Regulation Department has encouraged them to do so as a way to evidence their compliance with general order handling obligations.

<sup>84</sup> See Article 17, Rule 3(e).

<sup>85</sup> In handling a market order, an institutional broker could assign an appropriate limit price to the order and send it to the Matching System, could enter an IOC market order into the Matching System or could route the order to another market center after clearing the Exchange's Matching System.

been given a not held order would be required to use brokerage judgment in the execution of the order, and if he exercises such judgment, would be relieved of all responsibility with respect to the time of the order's execution and the execution price or prices given to the order.<sup>86</sup> These proposed rules are similar to rules that relate to broker trading activities on at least one other market and are designed to establish a specific standard by which institutional broker order handling activities could be measured.<sup>87</sup>

The final new requirement under the proposed rules would require that brokers use reasonable efforts to report all transactions that are not effected through the Exchange's Matching System to the Exchange within 10 seconds after the trade occurs.<sup>88</sup> Although the Exchange anticipates that most executions by its institutional brokers would occur within the Matching System, the Exchange recognizes that its institutional brokers could, from time to time, execute orders outside of that system. To ensure that the Exchange and its institutional brokers can establish compliance with the trade-through provisions of the ITS Plan and Reg NMS Rule 610, the Exchange is developing functionality in its Brokerplex system that would allow an institutional broker to electronically validate whether a trade would constitute a trade-through before the trade occurs and that would create an electronic record that that validation had taken place.<sup>89</sup>

#### **D. Other Rule Changes.**

1. Article 1. (Definitions and General Information). Within this article of the rules, the Exchange proposes to add new definitions for terms that are used elsewhere in the rules.<sup>90</sup> The Exchange also seeks to add two new sections – one new rule that lists and defines types of orders and conditions and one new rule that confirms that all times identified in the rules are Central Time unless otherwise indicated.<sup>91</sup>

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<sup>86</sup> See Article 17, Rule 3(c).

<sup>87</sup> See NYSE Rule 123A.41-.44. The Exchange's Rules do not currently contain any specific order execution standards that apply to its brokers.

<sup>88</sup> See Article 17, Rule 3(d). This provision would also require that an institutional broker mark as "SOLD" any trades reported after this time.

<sup>89</sup> Other possible functionality might allow a broker to enter the details of a proposed cross transaction (such as its price, the number of shares and whether the sell side of the order is "short") into the Brokerplex system, which would send the cross to the Matching System for execution when it could be executed.

<sup>90</sup> These newly-defined terms include "Act" and "Exchange Act," "Amex," "BBO," "CHX," "CHX Holdings," "institutional broker," "NBBO," "Nasdaq," "NYSE," "primary market," "Rule 10a-1 and Regulation SHO," "rules," and "Securities Act." The Exchange also proposes to delete the definitions of "floor" and to delete references to the trading floor from the "trading facilities" definition.

<sup>91</sup> See Article 1, Rules 2 and 3. The order types and conditions set out in Rule 2 primarily are those that are accepted by the Exchange's Matching System. A few new definitions were added to clarify basic information such as the definition of "odd lot," "round lot" and "mixed lot."

2. Article 2. (Committees). The proposed changes to this article eliminate references to the Exchange's trading floor and to the Exchange's current Committee on Specialist Assignment and Evaluation.<sup>92</sup> Under the proposed new model, the Exchange would no longer have specialists who are responsible for handling orders in each issue and thus there is not a need to have a committee to assign securities and evaluate specialist performance.

3. Article 3. (Participants). The primary substantive changes in this article are designed to streamline the process of obtaining a trading permit on the Exchange. Under the Exchange's current rules, the Exchange's staff makes a preliminary determination about an applicant's qualifications and then posts the applicant's name to permit other participants to submit any objections to that applicant's desire to trade on the Exchange. The Exchange believes that this posting process is not a necessary component of the application process – indeed, it appears to relate back to a time when information about a firm's prior business dealings might best be learned by talking with others in the business community. The electronic databases of information that are available today eliminate the need for this sort of process.<sup>93</sup>

There are two other groups of proposed changes within Article 3. In Rule 1, the Exchange seeks to eliminate the definitions that identify when a participant is engaging in a public securities business – these definitions do not relate to any particular requirement applicable to Exchange participants under the current rules. And, in Rule 2, the Exchange proposes to replace references to “co-specialists,” “floor brokers” and “registered market makers” with references to “institutional broker representatives” and “market maker traders,” the terms used in Articles 16 and 17 to refer to the individuals who would have special registration on the Exchange in the new model.

4. Article 4. (Participant Firms). In this article, the Exchange seeks to eliminate references to its trading floor and to floor brokers.<sup>94</sup> It also proposes to change existing requirements relating to the nominees and voting designees named on trading permits to confirm that any person affiliated with a participant firm, not just a general partner of the firm, who is acting as an institutional broker representative or a market maker trader can be named as a nominee on a trading

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<sup>92</sup> See Article 2, Rule 5 (removing references to the trading floor and to the Committee on Specialist Assignment and Evaluation); Rule 6 (deleting the description of the role of the Committee on Specialist Assignment and Evaluation); and Rule 10 (deleting references to the Exchange's trading floor).

<sup>93</sup> See Article 3, Rules 3 and 4. Other changes to the application process would confirm that, with the posting process eliminated, Exchange staff would make the initial determination on each application for a trading permit. These changes also would refer applicants to a new article, Article 15, for a single set of procedures for seeking review of Exchange decisions, such as the denial of a trading permit.

<sup>94</sup> See Article 4, Rules 4 and 15.

permit.<sup>95</sup> Similarly, the Exchange proposes to confirm that any officer of a participant firm can be named as voting designee, not just the firm's president or one of its vice presidents.<sup>96</sup> These changes are designed to reflect the fact that participant firms are structured in various ways – some are partnerships and others are not – and that the Exchange is concerned with an individual's authority to act on behalf of the firm, not whether he or she fits into a narrowly selected job title or role.<sup>97</sup>

5. Article 5. (Access to the Exchange). Under the Exchange's current rules, this article (entitled "Admission to Floor – Communications") contains rules describing visitor and employee access to the trading floor, the making of announcements on the floor and the connections that can be made to and from the Exchange's trading floor.<sup>98</sup> Because the Exchange would not operate a physical trading floor in its new model, the Exchange proposes to delete these rules and to replace them with rules that contemplate remote access to the Exchange's automated trading systems. These proposed new rules would begin by requiring that participants have reasonable procedures to maintain the physical security of the equipment and systems used to access the Exchange and to maintain an updated list of the persons who can obtain access to the Exchange on the Participant's behalf.<sup>99</sup> Another rule would confirm that, as a condition of obtaining access to the Exchange, each participant agrees to pay Exchange fees, including fees associated with the routing of orders to other markets.<sup>100</sup>

The last proposed new rule in this article would set out a structure through which Exchange participants could provide non-participants with access to the Exchange, through clearing arrangements or otherwise.<sup>101</sup> Under this proposed rule, this type of sponsored access could be provided so long as the participant sponsoring access (the "sponsoring participant"), the non-participant and the Exchange entered into appropriate agreements confirming basic information about the roles and responsibilities of the various parties. These agreements would confirm that (1) all orders submitted by the non-participant, and any executions

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<sup>95</sup> See Article 4, Rule 13(b).

<sup>96</sup> See Article 4, Rule 13(c).

<sup>97</sup> Other proposed changes in this article correct a misspelling (Rule 4) and clarify that participants do not "own" trading permits, they "hold" them. (Rule 13(a)).

<sup>98</sup> One of these provisions, Rule 4, contains a new interpretation and policy that requires participants to provide specific information to the Exchange about connections to, and orders handled through, layoff vendors. The Exchange proposes to move this provision to Article 11, its new Books and Records rule.

<sup>99</sup> See Article 5, Rule 1.

<sup>100</sup> See Article 5, Rule 2.

<sup>101</sup> See Article 5, Rule 3.

resulting from those orders, are binding in all respects on the sponsoring participant; (2) the sponsoring participant is responsible for all actions taken and fees incurred in connection with any order submitted or transaction executed by the non-participant; (3) in all matters relating to the non-participant's access to the Exchange and its use of Exchange facilities, the Exchange would communicate with the sponsoring participant and would not be required to communicate with the non-participant at any time; (4) the non-participant would have reasonable procedures to maintain the physical security of the equipment used to access the Exchange to prevent improper use of, or access to, the Exchange; and (5) the sponsoring participant would indemnify and hold the Exchange harmless from any liability, loss, claim or expense which the Exchange may incur in connection with the agreement. The Exchange believes that these provisions provide sufficient assurances to the Exchange, to other participants using the Exchange's facilities and to the non-participants themselves that non-participant access to the Exchange's facilities would be subject to the same standards and obligations that apply to participant access.<sup>102</sup>

6. Article 6. (Registration). In this article, the proposed rule changes would begin by confirming that individuals acting as institutional broker representatives and market maker traders would be required to register with the Exchange and successfully complete certain written examinations.<sup>103</sup> Other proposed changes would set out more specific obligations relating to notifications that would need to be made to the Exchange when a registered or associated person is terminated and would require participant firms to notify the Exchange of any firm-related event constituting a statutory disqualification.<sup>104</sup> Additional changes would update the firm supervision rules to require participants to identify the person(s) responsible for acting as supervisors; to meet, at least annually, with staff about compliance matters; and to establish internal controls to assure that appropriate supervision is being exercised.<sup>105</sup> Finally, the changes in this article would add a new rule relating to fingerprinting of Exchange staff and contractors

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<sup>102</sup> For example, because the sponsoring participant confirms that it is responsible for the non-participant's actions, the Exchange can enforce compliance with its rules through actions taken against the sponsoring participant. In addition, the non-participant (like a participant) would be required to use reasonable procedures to maintain the physical security of the equipment used to access the Exchange and the Exchange would communicate with the participant on all issues relating to the use of the Exchange's facilities.

<sup>103</sup> See Article 6, Rules 2(b)(7) and 3.

<sup>104</sup> See Article 6, Rule 2(e)-(f) and Interpretations and Policies .03 and .04.

<sup>105</sup> See Article 6, Rule 5(a) (designation of persons with supervisory authority) and 5(c) (internal controls and training). These obligations are similar to those required by other SROs and would ensure that the Exchange's participant firms are strengthening the work that they do to supervise their registered and associated persons.



and would incorporate two rules that current occur elsewhere in the Exchange's rules.<sup>106</sup>

7. Article 7. (Financial Responsibility and Reporting).<sup>107</sup> In this article, the proposed rule changes would delete references to requirements that current apply to specialist firms and incorporate three fee-related provisions that currently appear in other articles.<sup>108</sup> The proposed changes also would delete a provision relating to letters of guarantee that would need to be presented by floor brokers that are not self-clearing.<sup>109</sup>

8. Article 8. (Business Conduct). As noted above, as part of its new model filing, the Exchange has sought to better organize its rules. Although there were some minor organizational changes in earlier articles, the proposed changes in Article 8 are somewhat more extensive.<sup>110</sup> Importantly, though, Article 8 does not contain any completely new rule provisions; indeed, twelve of the seventeen proposed rules in this article have not been changed at all.<sup>111</sup> Instead, the rules in

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<sup>106</sup> See Article 6, Rule 10 (fingerprinting) and Rules 8 and 9 (formerly, Article VIII, Rule 16 and Article VIII, Rule 11). Under the proposed fingerprinting rule, the Exchange would conduct fingerprint-based criminal records checks of all prospective employees, as well as of independent contractors and temporary employees who are expected to have access to Exchange facilities for more than 10 days. The Exchange would similarly conduct checks of persons who would have access to premises controlled by CHX Holdings, when those premises are in the same building as Exchange facilities. This proposed rule would codify the Exchange's current practice of conducting these checks for prospective Exchange employees and would extend that practice to independent contractors and temporary workers who have more than fleeting access to Exchange facilities, as well as to other persons who have access to certain CHX Holdings premises.

<sup>107</sup> This article previously was numbered Article XI of the Exchange's Rules. The marked version of the rules in this submission compares the current Article XI to the changes that would be made as part of the Exchange's new trading model, including the change in numbering. The provisions in current Article VII have been moved to new Article 13, as described below.

<sup>108</sup> The specialist-related provisions that would be deleted are shown in Article 7, Rule 3. The three fee-related rules that would be added to this section – so that all fee-related provisions could be gathered as much as possible in one place – formerly were Article XIV, Rules 1 (fixing and paying fees); 10 (failure to pay debts); and 11 (fees for participants in military service).

<sup>109</sup> See Article 7, deleted Rule 10.

<sup>110</sup> To try to enhance a reader's ability to understand which rules the Exchange proposes to keep in force, the Exchange shows the reorganized rules as new text in the first section of Exhibit 5 and the existing rule text as deleted text in the second section of Exhibit 5. Some of these apparently deleted rules have not been completely removed; instead, they have been moved to other articles in the rulebook. See Article VIII, Deleted Rules 3, 7, 9 and 17 (moved to Article 9); Rules 8, 11 and 16 (moved to Article 12); and Rule 23 and 24 (moved to new Article 14).

<sup>111</sup> See Article 8, Rules 2 (formerly Rule 12); 3 (formerly Rule 22); 4 (formerly Rule 1); 5; 6 (formerly Rule 2); 9 (formerly Rule 18); 10 (formerly Rule 19); 12 (formerly Rule 25); 13 (formerly Article XV, Rule 3); 14 (formerly Article XIII); 15 (formerly Article XXXIII) and 16 (formerly Article XV, Rule 1).

this section were gathered from throughout the Exchange's rulebook and, with two exceptions discussed below, are not substantially modified.<sup>112</sup>

In the existing version of Article VIII, Rule 21 extensively details how one participant firm must coordinate with another participant in the transfer of customer accounts. Because the Exchange is not the designated examining authority for any firm that carries participant accounts, the Exchange believes that this detailed recitation of account transfer procedures is not a necessary component of its rules. Instead, the Exchange proposes to adopt, in Article 8, Rule 11, rule language similar to that used by other markets that have similarly constrained examining responsibilities.<sup>113</sup> Also, the Exchange has proposed revisions to Rule 17 that would make the text relating to its policy against harassment and other conduct rules applicable, once the Exchange no longer operates a trading floor, to conduct that occurs on Exchange premises, while conducting business on the Exchange or when interacting with Exchange staff who are conducting Exchange business.

9. Article 9. (General Trading Rules). The Exchange proposes to reorganize Article 9 in much the same manner as Article 8.<sup>114</sup> The proposed changes to Article 9 include only three new rules – relating to the reporting of transactions (including riskless principal transactions) and to the breaking up of orders.<sup>115</sup> Other provisions have been gathered from the text of the existing Article IX and from other sections of the current rulebook and have been modified primarily to remove references to the Exchange's trading floor or to make other clarifications to the text.<sup>116</sup>

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<sup>112</sup> Small modifications include changes that would delete references to the trading floor, eliminate obsolete provisions or clarify wording. *See* Article 8, Rule 1 (replacing the reference to "constitution" with a reference to the Exchange's "bylaws" and deleting the unnecessary word "Firm" in the first few words of the text); Rule 7 (eliminating references to non-participants on the trading floor and to employees of banks, insurance companies and other corporations); and Rule 8 (eliminating references to floor employees).

<sup>113</sup> *See* PCXE Rule 9.19.

<sup>114</sup> As above, the Exchange shows the reorganized rules as new text in the first section of Exhibit 5 and the existing rule text as deleted text in the second section of Exhibit 5.

<sup>115</sup> *See* Article 9, Rules 12-14. At the request of Commission staff, the Exchange has filed proposed Rule 14 as a separate rule filing, CHX-2006-03, to permit the rule to take effect more quickly. Proposed Rules 12 contains provisions that would require Exchange participants to report all executions that occur on the Exchange (except for transactions that occur within the Matching System, because the Exchange has already stored information about those transactions). Proposed Rule 13 sets out riskless principal trade reporting rules that are similar to those put in place by other markets and could be used by institutional brokers in their handling of customer orders. Most frequently, however, the Exchange anticipates that its institutional brokers would continue their current practice of acting on an agency, not riskless principal, basis when representing orders in other markets.

<sup>116</sup> *See* Article 9, Rules 1 (moved from Article XX, Rule 1 and modified to state simply that the trading rules apply to trading on the Exchange); 2 (moved from Article VIII, Rule 7); 3 (moved from Article XX, Rule 4 and modified to eliminate obsolete references to Exchange employees who are authorized to close contracts under the rule); 4 (moved from Article IX, Rule 8); 5 (moved from Article XX, Rule 6); 6 (moved

10. Article 10. (Margins). The Exchange proposes to delete, from this section of its rules, the provisions relating to any margin requirements for specialists.<sup>117</sup>

11. Article 11. (Books and Records). This article is an entirely new article that would include the four primary books and records rule that apply to Exchange participants.<sup>118</sup> Two of these proposed rules contain provisions that already appear, or soon should appear, elsewhere in the Exchange's current rules.<sup>119</sup> One new rule – Rule 2 – would confirm that Exchange participants must make and preserve all books, accounts, records, memoranda and correspondence as required by applicable law, including SEC rules and Exchange rules. Another new rule – Rule 1 – would require that participants provide the Exchange with access to books and records and must furnish requested financial and transaction-related records to the Exchange upon request.

12. Article 12. (Disciplinary Matters and Trial Proceedings). The Exchange's proposal would make two primary changes to this article. First, because the Exchange would not operate a trading floor in the new trading model, the proposal would eliminate the Exchange Procedure Committee's ability to take action against participants with respect to trading floor and other on-site decorum violations.<sup>120</sup> The proposal also would eliminate, from the Minor Rule Violation Plan, any rules that would otherwise be deleted by this proposal.<sup>121</sup>

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from Article XX, Rule 8 and modified to replace references to “bids and offers” with references to “orders”); 7 (moved from Article XX, Rule 3); 8 (moved from Article VIII, Rule 3); 9 (moved from Article XX, Rule 29); 10 (moved from Article IX, Rule 6); 11 (moved from Article IX, Rule 11); 15 (moved from Article VIII, Rule 17); 16 (moved from Article IX, Rule 5); 17 (moved from Article XX, Rule 31 and modified to remove references to public bidding and offering, as on the floor of the Exchange); 18 (moved from Article IX, Rule 1); 19 (combined from Article IX, Rules 2 and 9; Article XX, Rule 32); 20 (moved from Article IX, Rule 3); 21 (moved from Article IX, Rule 4); 22 (combined from Article IX, Rule 15 and Article XX, Rule 33; modified to eliminate references to the trading floor); 23 (moved from Article IX, Rule 17); 24 (moved from Article VIII, Rule 9 and modified to eliminate the definition of “Act” because that definition is already contained in Article 1 of the rules); and 25 (moved from Article XX, Rule 27 and modified both to eliminate references to the Exchange's trading floor and to permit disclosure of names in connection with a dispute relating to the transaction, without requiring the consent of the parties).

<sup>117</sup> See Article 10, Rule 3(c)(6).

<sup>118</sup> The provisions in current Article XI have been moved to Article 7 of the proposed set of rules.

<sup>119</sup> See Proposed Rule 3 (incorporating text that soon should be added to Article XX, Rule 24 by CHX-2004-38) and Proposed Rule 4 (moved from Article V, Rule 4).

<sup>120</sup> See Article 12, deleted Rule 3.

<sup>121</sup> See *e.g.*, proposed deletion of rules relating to the submission of the co-specialist survey, as well as failure to comply with decorum and open outcry requirements.

13. Article 13. (Suspensions and Reinstatements). In this article, which previously was numbered Article VII, the Exchange proposes to make two substantive changes.<sup>122</sup> As an initial matter, the Exchange seeks to add new text that would allow the Exchange to use its emergency suspension authority whenever a participant firm that is registered as an institutional broker or market maker has failed to perform, or is failing to perform, any material responsibility imposed on the participant because of that role and, as a result, cannot be permitted to continue in business with safety to its customers or creditors or to the Exchange.<sup>123</sup> The Exchange believes that it is important to extend its suspension authority in this manner to allow the Exchange to address egregious circumstances that might arise because of an institutional broker's or market maker's failure to meet the obligations that arise because of its specialized role in the market. As its last set of changes to this article, the Exchange would eliminate provisions that contain rules for seeking a review of suspension decisions.<sup>124</sup> As noted above, the Exchange's proposed rule changes would move all of these provisions to a new section – Article 15 – which would contain a uniform set of rules for seeking review of several different types of Exchange decisions.

14. Article 14. (Arbitration). Under the Exchange's proposal, this article would consist of Rules 23 and 24 from former Article VIII. The Exchange does not propose any substantive changes to these provisions, although it has re-numbered provisions to make them somewhat more consistent with the other sets of rules.<sup>125</sup>

15. Article 15. (Hearings and Reviews).<sup>126</sup> The Exchange currently has several disparate provisions that permit participants to seek review of an Exchange decision. These provisions often do not define the specifics associated with any hearing or review; they sometimes (but not always) permit further review by the Board. This new article is designed to consolidate these provisions into one section that can be uniformly applied to all Exchange decisions that do not involve disciplinary matters or appeals from arbitration decisions.<sup>127</sup>

Among other things, this new article would provide details about requesting a hearing (which must be done within 30 days of the initial decision at issue, unless

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<sup>122</sup> The advertising requirements of Article XIII have been moved to Article 8, Rule 14.

<sup>123</sup> See Article 13, Rule 2.

<sup>124</sup> See Article 13, Rule 4.

<sup>125</sup> The current provisions of Article XIV ("Fiscal Policies") were either transferred to Article 7 ("Financial Responsibility and Reporting") or would be deleted as no longer necessary in the new trading model.

<sup>126</sup> The current text of Article XV ("Commissions") has either been moved to other articles (e.g., Article XV, Rule 5 has been moved to Article 22) or it has been deleted.

<sup>127</sup> See Article 15, Rule 1.

an extension of time is granted); the appointment of the hearing panel (which would be the entire Executive Committee, unless the Committee chooses to appoint a panel of five of its members to hear a matter); requesting extensions of time; submitting documents and witness lists (which ordinarily must be done at least 72 hours before the start of the hearing); the notice of hearing; the conduct of the hearing (during which all parties may be represented by counsel and the formal rules of evidence would not apply); the parameters of the decision that would be reached (for example, the decision would be in writing and ordinarily distributed within 90 days after the end of the hearing or the submission of post-hearing briefs, whichever is later); and seeking further review of the decision (which can be done by either party, within 30 days, or by the Board on its own motion).<sup>128</sup> Throughout these proposed rules, the Exchange has sought to provide a central set of rules for these hearings which is similar to, but more expansive than, the various provisions scattered throughout the existing rulebook.

16. Article 21. (Listing). This article is numbered Article XXVIII in the Exchange's current rules.<sup>129</sup> The proposed changes in this section would delete references to the Exchange's specialist firms; correct a telephone number and a typographical error; eliminate references to the Exchange's trading floor; and more accurately describe the work done by Exchange staff in connection with its surveillance of trading in exclusively listed securities.<sup>130</sup> No other changes to the Exchange's listing rules are contemplated in connection with the proposed new trading model.

17. Article 22. (Clearance and Settlement). In this new article, the Exchange seeks to incorporate all of the rules that it believes would be necessary in connection with the clearance and settlement of transactions in the new trading model. These rules have been gathered from various existing articles; the section does not include any entirely new rules, although a few rules have been modified to eliminate references to the trading floor. Among other things, this proposed new article would require participants to maintain accounts with a qualified clearing agency, or with another participant that has such an account, for the

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<sup>128</sup> See Article 15, Rule 2 (submission of requests for hearing); Rule 3 (requests for hearings on emergency actions); Rule 4 (hearing panel); Rule 5 (extensions of time); Rule 6 (submissions of supporting materials); Rule 7 (notice of hearing); Rule 8 (conduct of hearing); Rule 9 (decision); and Rule 10 (seeking review of that decision).

<sup>129</sup> The markings in this article compare the text of Article XXVIII against the proposed rule changes. The rules contained in current Article XXI, which relates to the contracts, tickets and comparisons, would either be moved to other sections of the proposed new trading model rules (e.g., Article XXI, Rules 4 and 13 have been moved to Article 22) or would be deleted in the new trading model because the issues covered by this provision are the subject of clearing depository rules or agreements between participants and their clearing firms and/or a clearing depository.

<sup>130</sup> See Rule 23(a) (correcting the omission of the roman numeral "I"); Interpretations and Policies to Rule 23 (clarifying the work of market surveillance; deleting references to specialists; and correcting a telephone number); and Rule 26 (eliminating references to the Exchange's trading floor).

recording of transactions on the Exchange.<sup>131</sup> The proposed article would also confirm that the Exchange may extend or postpone the time for performance of contracts when required by just and equitable principles of trade or to meet unusual conditions.<sup>132</sup>

18. Other deleted provisions. In addition to the changes noted in the paragraphs above, the Exchange's new trading model proposal would also eliminate the following articles from its rulebook: Article XVI (Insurance as an Ancillary Activity); Article XVII (Suspension and Termination of Special Floor Registration for Unsatisfactory Performance); Article XX (Regular Trading Session); XXIII (Reclamations); XXIV (Lending Securities); XXV (Closing of Contracts); XXVI (Marking to the Market); Article XXIX (Special Offerings); Article XXX (Specialists); Article XXXI (Odd-lots); Article XXXII (Exchange Distribution Plan); XXXIV (Registered Market Makers – Equity Floor); Article XXXV (Secondary Trading Session); Article XXXVI (Baskets); and Article XXXVII (Chicago Match). Each of these sets of rules would no longer be necessary in the new trading model.<sup>133</sup>

#### **E. Proposed Roll-Out of New Trading Model.**

The Exchange anticipates that the systems work associated with the new trading model would be complete in late April 2006, while the additional Reg NMS-specific work would be complete in mid-June 2006. Closer to these dates, the Exchange plans to identify its plans for rolling out the new functionality to specific groups of securities.

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<sup>131</sup> This rule – and a related rule relating to book-entry settlement – currently are found in Article XXII, Rule 3 and Article XXI, Rule 4 of the Exchange's rules.

<sup>132</sup> See Article 22, Rule 3 (formerly, Article XXII, Rule 1). As a final matter, this provision would allow the Exchange to continue to provide services, including back-office clearing work, for participants. See Article 22, Rule 4 (formerly, Article XXI, Rule 13).

<sup>133</sup> A few of these articles contain rules for trading sessions that have been already discontinued. The Exchange, for example, is not conducting a secondary trading session under the rules set out in Article XXXV and is not using the Chicago Match system described in Article XXXVII.

(b) Approval of the rule changes proposed in this submission is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b). In particular, the proposed changes are consistent with Section 6(b)(5) of the Act, because they would promote just and equitable principles of trade, remove impediments to, and perfect the mechanism of, a free and open market and a national market system, and, in general, protect investors and the public interest by permitting the Exchange to operate an efficient, automated market for the trading of securities.

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

The Exchange believes that no burden will be placed on competition as a result of the proposed rule changes.

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

The Exchange has reviewed drafts of various sections of the proposed rule text, and the concept of the new trading model, with various participants. Although some participants provided varying levels of input, the Exchange did not solicit, nor did it receive, written comments with respect to this final version of the proposed rule change.

**6. Extension of the Time Period for Commission Action**

The Exchange does not consent to an extension of the time period specified in Section 19(b)(2) of the Act.

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

Not applicable.

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

The proposed rule change is not specifically based on the rules of other self-regulatory organizations or of the Commission.

**9. Exhibits**

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

Exhibits 2-4: Not applicable.

Exhibit 5: Text of the Proposed Rule Change.



**Exhibit 1**

**SECURITIES AND EXCHANGE COMMISSION**

**(Release No. 34-\_\_\_\_; File No. SR-CHX-2006-05)  
SELF-REGULATORY ORGANIZATIONS**

**Proposed Rule Change By The Chicago Stock Exchange, Inc. To Implement a New Trading Model**

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”), 15 U.S.C. 78s(b)(1), notice is hereby given that on February 2, 2006, the Chicago Stock Exchange, Inc. (the “CHX” or the “Exchange”) 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 CHX. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Chicago Stock Exchange, Inc., pursuant to Rule 19b-4 of the Act, proposes to amend its rules to implement a new trading model that provides the opportunity for entirely automated executions to occur within a central matching system accessible by all Exchange participants. The new model also will end the Exchange’s operation of a physical trading floor and will comply with the requirements of Regulation NMS, 17 CFR 242.600 et seq. (“Reg NMS”). The text of this proposed rule change is available on the Exchange’s website at [http://www.chx.com/rules/proposed\\_rules.htm](http://www.chx.com/rules/proposed_rules.htm) and in the Commission’s Public Reference Room, 100 F Street, NE, Washington, DC 20549.

## **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 CHX included statements concerning the purpose of and basis for the proposed rule changes and discussed any comments it received regarding the proposal. The text of these statements may be examined at the places specified in Item IV below. The CHX 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 Changes*

#### 1. Purpose

Through this submission, the Exchange seeks to implement a new trading model that allows its participants to interact in a fully-automated matching system. In this model, the Exchange would no longer operate a physical trading floor where on-floor specialists, brokers and market makers seek execution of their orders. Instead, the Exchange would operate an automated system where its participants – from any location – could submit orders for immediate execution. The Exchange believes that this new model provides an opportunity for its participants and their customers to receive efficient, low-cost executions, while giving the Exchange enhanced capabilities for surveilling its participants' trading activities.

In this new model, the Exchange anticipates that most of its participants would continue to be “off-Exchange” order-sending firms that would simply send orders to the Matching System for execution. These firms would not be required to register with the

Exchange to act in any specific capacity other than as trading participants.<sup>1</sup> The Exchange would, however, allow participant firms to register in two special categories – to operate as proprietary market makers on the Exchange or to act as institutional brokers. Market makers could choose to post two-sided quotations and trade for their proprietary accounts. Any customer order would be accepted off the Exchange and a market maker could then choose whether or not to enter the order in the Exchange’s Matching System or submit the order to a different venue. In contrast, any customer orders accepted by institutional brokers would be deemed to be on the Exchange when accepted. These market makers and institutional brokers would operate on the Exchange, even if they are not physically located on a single trading floor.<sup>2</sup>

Because the Exchange is taking this opportunity to modernize many of its long-standing procedures and rules, the implementation of the new trading model will result in change to virtually every section of the Exchange’s rule book. The most significant changes can be found in new Article 20 of the Exchange’s rules, which describes the operation of the Exchange’s central matching system. Article 16 details the new role of market makers on the Exchange and Article 17 describes the role and responsibilities of the Exchange’s institutional brokers. Changes to other sections of the rules are designed to eliminate obsolete provisions – including those that relate to the operation of a physical trading floor – and to update other responsibilities to reflect the more automated trading

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<sup>1</sup> Since its demutualization in February 2005, the Exchange has not had “members.” Instead, a broker-dealer that seeks to effect transactions directly on the Exchange must become an Exchange “participant.”

<sup>2</sup> To the extent that any market makers would be handling agency orders, these firms would be required to be members of the National Association of Securities Dealers

that is the hallmark of the Exchange's new model. Efforts also have been made to better organize the rules. After describing the provisions of new Articles 20, 16 and 17, this submission will review each of the other sets of proposed rule changes beginning with Article 1.<sup>3</sup>

**A. The Matching System.**

The Exchange's Matching System would be the core facility of the Exchange. It would provide the only means for the display of orders and a central point for the execution of orders. On one hand, the Matching System is simply an extension of the operation of the Exchange's electronic book to all securities traded on the Exchange.<sup>4</sup> On the other hand, this Matching System would provide a much more robust platform for the interaction of orders than is possible on the Exchange today.

1. *Trading hours.* The Matching System would operate a regular trading session and a late trading session each day.<sup>5</sup> The regular trading session would begin immediately after the primary market for a security opens its market and would end at 3:00 p.m. each day for all securities except specified exchange-traded funds, which

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("NASD") and their order-handling obligations would be subject to NASD, not CHX, trading rules.

<sup>3</sup> Throughout its rule book, the Exchange is replacing the Roman numerals currently used to identify each of its articles with an easier-to-understand Arabic number.

<sup>4</sup> See Release No. 34-52094 (July 21, 2005), 70 FR 43913 (July 29, 2005) (approving the electronic book for the trading of securities not assigned to a specialist firm).

<sup>5</sup> See Article 20, Rule 1(b).

would trade until 3:15 p.m.<sup>6</sup> The second trading session – the late trading session – would begin immediately after the close of the first session and would end at 3:30 p.m.<sup>7</sup>

2. *Access to the Matching System.* Exchange participants could route orders to the Matching System through any communications line approved by the Exchange.<sup>8</sup> To the extent that the Exchange participates in the Intermarket Trading System (“ITS”) Plan or any other linkage plan, ITS commitments and other intermarket orders could be sent to the Matching System through those linkages.<sup>9</sup>

3. *Eligible orders – basic requirements.* The Exchange’s Matching System would only accept day orders – orders designated good-till-canceled would not be accepted.<sup>10</sup> Similarly, except for immediate-or-cancel market orders or specially-designated cross orders, the Matching System would only accept limit orders and orders for regular-way settlement.<sup>11</sup> Finally, the Matching System would only accept orders that

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<sup>6</sup> All times referenced in this filing are expressed in Central Time.

<sup>7</sup> These sessions are similar to the trading sessions that occur on the Exchange today, except that the late trading session in the new model (unlike the extended session under the current rules, in which the MAX system is not operational) would be a fully automated trading session. *See* Article IX, Rule 10(b).

<sup>8</sup> *See* Article 20, Rule 8(a)(1).

<sup>9</sup> *See* Article 20, Rule 8(a)(2). So long as it is required by the OTC/UTP Plan, the Exchange would also provide telephonic access to NASD market makers. *See* Article 20, Rule 8(a)(3).

<sup>10</sup> *See* Article 20, Rule 4(a)(2).

<sup>11</sup> *See* Article 20, Rules 4(a)(1), 4(a)(3) and 4(a)(6). A special type of order – a non-regular way cross order – could be submitted for execution and non-regular way settlement. *See* Article 20, Rule 4(b)(15).

comply with the subpenny requirements of Reg NMS set out in Rule 612<sup>12</sup> and that do not exceed any size and/or price limitations imposed by the Exchange to help eliminate erroneous transactions or orders and transactions that cannot be processed by the Exchange's systems.<sup>13</sup>

4. *Order types and conditions.* The Matching System would accept a wide variety of order types and conditions, which are set out in Article 20, Rule 4(b). Some of the more routine order types would include immediate or cancel ("IOC") limit and market orders, fill or kill ("FOK") orders, sell short orders, reserve size orders and time in force orders.<sup>14</sup> As required by Reg NMS, IOC orders would be executed against any orders at the Exchange's best bid or offer ("BBO"), including any reserve size or other undisplayed orders at that price. Reserve size orders would permit a participant to identify a portion of an order to be displayed and a portion that should remain undisplayed, and to provide an instruction that the displayed portion should be refreshed with a specific number of shares whenever the displayed share size falls below a specific

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<sup>12</sup> Because cross and cross with size orders (described later in this filing) are not initially priced in subpennies, but result in subpenny executions as permitted by Reg NMS, these transactions could be submitted to the Matching System in subpenny increments down to \$0.0001. *See* Article 20, Rule 4(a)(6)(b), confirming that cross and cross with size orders can be submitted in subpenny increments, whether the orders are priced less than or at or above \$1.00.

<sup>13</sup> *See* Article 20, Rule 4(a)(5). The Exchange intends to develop a set of parameters that would be used to identify orders that either appear to be erroneous (based on their relationship to current market conditions) or that exceed the Exchange's systems capabilities (such as orders priced higher than a very high dollar level or those for a very large number of shares). These orders would be rejected to permit the continued effective operation of the Matching System.

<sup>14</sup> *See* Article 20, Rule 4(b)(11) (IOC orders); Rule 4(b)(12) (IOC market orders); Rule 4(b)(10)(FOK orders); Rule 4(b)(20)(sell short orders) and Rule 4(b)(19)(reserve size orders).

threshold. Time in force orders would be eligible for execution within a specified time period, with any unexecuted balance to be immediately cancelled when this period expires.<sup>15</sup>

The Matching System also would accept several different types of cross transactions, including a basic cross, a cross with size, a cross with satisfy, a cross with yield, a midpoint cross, an opening cross and a non-regular way cross. A basic cross transaction would be an order to buy and sell the same security at a specific price that is better than the Exchange's displayed BBO and, where required by the ITS Plan, another linkage plan or Reg NMS, equal to or better than the NBBO.<sup>16</sup> A cross with size would be an agency cross for at least 5,000 shares that is at a price equal to or better than the Exchange's displayed BBO (and, where required by the ITS Plan, another linkage plan, or Reg NMS, equal to or better than the NBBO), where the size of the cross transaction is larger than the aggregate size of all interest displayed on the Exchange at that price.<sup>17</sup> A

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<sup>15</sup> See Article 20, Rule 4(b)(21). The Matching System initially would permit participants to identify any time period of a minute or a multiple of a minute as the "time in force" for a particular order. In later upgrades to the Matching System, participants would be allowed to identify an order's "time in force" in seconds.

<sup>16</sup> See Article 20, Rule 4(b)(3). A cross may represent interest of one or more Exchange participants, trading for a proprietary account. This order or transaction type is already permitted in the Exchange's electronic book. See Article XXA, Rule 2.

<sup>17</sup> See Article 20, Rule 4(b)(5). A cross with size is already permitted in the Exchange's electronic book and mirrors the type of transaction that can take place on the Exchange's trading floor. See Article XXA, Rule 2; Article XX, Rule 23. The proposed definition of a cross with size transaction would reduce the required number of shares in the order to 5,000 shares from 25,000 shares, mirroring similar requirements in the rules of other markets. See Boston Stock Exchange Rules, Chapter II, Section 18; Philadelphia Stock Exchange Rule 126(h). The proposed definition of a cross with size transaction also would confirm that an order sent on a riskless principal or agency basis to the Matching System is not considered to be for the account of the participant sending the order to the Matching System.

cross with satisfy is designed to provide a participant with an efficient mechanism for clearing out displayed orders in the Matching System that would otherwise have time priority and then effecting a cross transaction at that price.<sup>18</sup> A cross with yield is a similar order type, for use only when a participant seeks to interact against its customer's order, which would automatically yield the participant's interest to any order already displayed in the Matching System at the same or better price.<sup>19</sup> And, finally, as their names suggest, an opening cross is a cross transaction that would be specifically designated to be executed at the opening price; a non-regular way cross would be designated for non-regular way settlement; and a midpoint cross would execute at the midpoint between the NBBO.<sup>20</sup>

The Matching System also would accept several order types that are specifically contemplated by Reg NMS. For example, the Matching System would accept benchmark

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<sup>18</sup> See Article 20, Rule 4(b)(4). With this order type, a participant would send an instruction to execute displayed orders in the Matching System at a particular price (and up to a specified number of shares) against a specified party and then to execute the remaining shares on that side of the order as a cross transaction against the shares on the other side of the order.

<sup>19</sup> See Article 20, Rule 4(b)(6).

<sup>20</sup> See Article 20, Rule 4(b)(16)(opening cross); Rule 4(b)(15)(non-regular way cross) and Rule 4(b)(14)(midpoint cross). As described later in this submission, opening cross orders would execute immediately after the primary market opens in a security, at the opening price. For listed securities, the opening price would be the primary market opening price. For Nasdaq/NM securities, the opening price would be the midpoint of the first unlocked, uncrossed market that occurs on or after 8:30 a.m.

A non-regular way settlement cross would execute without regard to the NBBO or any other orders the Matching System and could represent the interest of one or more participants in the Exchange. The Matching System would not accept one-sided orders for non-regular way settlement. The only way to effect a non-regular way transaction within the Matching System would be through a non-regular way cross.



orders which meet the requirements of Rule 611(b)(7). Initially, the Exchange would limit submission of benchmark orders to the Exchange's institutional brokers.<sup>21</sup> The Matching System would also accept intermarket sweep orders ("ISOs"), which would execute against orders at the Exchange's BBO, without regard to whether the execution would trade through another market's protected quotation.<sup>22</sup> Three other Reg NMS-related orders – an outbound ISO, a price-penetrating ISO and an "always display" order – would also be accepted by the Exchange's Matching System.<sup>23</sup>

Finally, the Matching System would accept do not display and do not route orders. A do not route order, as its name implies, would be executed or displayed within the Matching System and could not be routed to another market center.<sup>24</sup> A do not display order would be an order, for at least 1,000 shares when entered, that should not be

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<sup>21</sup> The Exchange initially has limited the use of this order type to its institutional brokers to ensure that the Exchange can determine whether or not the requirements of Reg NMS Rule 611(b)(7) have been met. *See* Article 20, Rule 4(b)(2). A benchmark order may execute at any price, without regard to the NBBO or any other orders in the Matching System and may represent interest of one or more Exchange participants.

<sup>22</sup> *See* Article 20, Rule 4(b)(13).

<sup>23</sup> An outbound ISO would allow an Exchange participant to ask the Exchange to execute an order on the Exchange without regard to the protected quotations at other markets while simultaneously routing ISOs to those other markets to execute against their protected quotations. *See* Article 20, Rule 4(b)(17). A price-penetrating ISO would operate much like a basic ISO, except that it would allow a participant to execute through displayed and undisplayed interest, at multiple price points, on the Exchange. *See* Article 20, Rule 4(b)(18). And, as further described in the section relating to locking and crossing quotations, an "always display" order would be an order that should be displayed on the Exchange even if its display would appear to either improperly lock or cross the ITS BBO or, when Reg NMS is implemented for a security, to constitute a locking or crossing quotation.

<sup>24</sup> As further described in the section relating to the prevention of trade-throughs, a do not route order would be immediately cancelled if its execution would improperly trade through the ITS BBO or another market's protected quotations.

displayed in whole or in part, but that would remain eligible for execution within the Matching System.<sup>25</sup>

5. *Ranking of orders in the Matching System.* As described in Article 20, Rule 8, all orders received by the Matching System would be ranked by price, time of receipt and, for round-lot orders, any display instructions received with the orders. Specifically, orders received by the Matching System would be ranked as follows

a. *Orders that are eligible for display, as well as mixed-lot and odd-lot orders.* Limit orders that are eligible to be displayed, including the displayed portion of reserve size orders, and all odd-lot and mixed-lot orders (for which the round lot portion is displayed) would be ranked together, at each price point, in time priority.<sup>26</sup>

b. *Orders that are displayed in part, where a portion is not displayed.* At each price point, the undisplayed portions of reserve size orders would be ranked together in time priority and would be ranked after any displayed orders (and any odd-lot and mixed-lot orders) at that price.

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<sup>25</sup> A do not display order could receive that designation because a customer specifically instructed a participant not to display the order or because a participant itself decided that the order should not be displayed. As described later in this submission, a do not display order would be ranked, at any given price point, behind displayed orders (and any odd-lot and mixed-lot orders at the price) and behind the undisplayed portions of any reserve size orders. These completely undisplayed orders would both allow a participant to fulfill a customer's instructions and to otherwise keep trading interest hidden, but to remain within the Matching System where the orders could be executed against inbound orders seeking liquidity.

<sup>26</sup> For the most part, executions in the Matching System would occur on a "share-for-share" basis, regardless of whether the incoming or resting orders were round-lot, mixed-lot or odd-lot orders. The one exception to this share-for-share matching is in the handling of ITS commitments or linkage plan orders, which would only be matched in round-lot increments, for the full amount of round-lot shares available at the price reflected in the NBBO. See Article 20, Rule 8(e)(9). Any remaining portion of the ITS commitment or linkage plan order would then be automatically cancelled.

c. *Completely undisplayed orders.* Orders that are received with a do not display instruction would be ranked together, at each price point, in time priority and would be ranked after any other orders at that price.

Changes to an order's size or price, or its displayed portion, could impact its ranking within the Matching System. For example, when the displayed portion of a reserve size order is refreshed with new volume, the displayed portion of the order would receive a new ranking based on the time at which it was refreshed.<sup>27</sup> Similarly, if a participant increases the number of shares in a fully-displayed order, that order would receive a new ranking based on the time at which these shares were added to the order.<sup>28</sup> Any change in the price of an order would result in a new price and time ranking for the order, based on the time of the price change.<sup>29</sup> Finally, any change to the display instruction associated with an order would result in a new ranking for the order based on the time that the new instruction was received.<sup>30</sup>

6. *Display of orders within the Matching System.* All orders that are eligible for display would be immediately and publicly displayed through the processes set out in the appropriate transaction reporting plan for each security when they constitute the best round-lot bid or offer in the Matching System for that security. The undisplayed

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<sup>27</sup> See Article 20, Rule 8(b)(4). Any remaining undisplayed portion of the order would continue to be ranked at the price and time at which it was originally received.

<sup>28</sup> See Article 20, Rule 8(b)(5). Any reduction in the number of shares in an order, however, would not change its ranking within the Matching System.

<sup>29</sup> *Id.*

<sup>30</sup> *Id.*

portion of a reserve size order, odd-lot orders, the odd-lot portion of a mixed-lot order and any other orders received with a do not display instruction would not be eligible for display.

The Exchange believes that its disseminated quotations would constitute automated quotations under the definition set out in Reg NMS Rule 600(b)(3).<sup>31</sup> The Exchange's proposed rules confirm that each order submitted to the Matching System must be a firm order and cannot be identified as a "manual" quotation.<sup>32</sup>

7. *Opening of the regular trading session.* Immediately after the primary market opens by publicly reporting a trade, the Matching System would execute all opening cross orders, then start accepting and matching orders as provided in Article 20, Rule 8(d).<sup>33</sup> If the primary market opens with a quote, but has not reported a trade for 30 seconds following the dissemination of the initial quote, the Matching System would cancel all opening cross orders, and then start accepting and matching all other orders.<sup>34</sup>

8. *Automated matching of orders.* With certain exceptions specifically set out in Article 20, Rule 8(e), and subject to the provisions relating to the

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<sup>31</sup> As required by Reg NMS Rule 600(b)(3) in its definition of "automated quotations," the Exchange's Matching System is designed to accept IOC orders; to immediately and automatically execute an IOC order against the displayed BBO, up to its full size; to immediately and automatically cancel any unexecuted portion of the IOC order without routing the order elsewhere; to immediately and automatically transmit a response to the order-sending participant indicating the action taken on the order; and to immediately and automatically update the BBO to reflect any change that occurred as a result of the execution.

<sup>32</sup> See Article 20, Rule 3(a).

<sup>33</sup> See Article 20, Rule 8(c).

prevention of trade throughs that are set out in Article 20, Rule 5, incoming orders would be matched against one or more orders in the Matching System, in the order of their ranking, at the price of each resting order, for the full amount of shares available at that price or for the size of the incoming order, if smaller.<sup>35</sup> If an order could not be immediately matched or matched in full when received (and it is not designated as an order type that should be immediately cancelled), it or its residual portion would be placed in the Matching System and ranked as described above.<sup>36</sup>

The following order types would be subject to specific executions within the Matching System:

a. *Benchmark orders.* Benchmark orders, which are cross transactions submitted by institutional brokers that meet the requirements of Reg NMS Rule 611(b)(7), would execute at any price, without regard to the NBBO or any other order in the Matching System and may represent the interest of one or more participants of the Exchange.<sup>37</sup>

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<sup>34</sup> *Id.* This provision would apply only to securities other than Nasdaq/NM securities. As noted above, Nasdaq/NM securities would open based on the first unlocked, uncrossed market that occurs on or after 8:30 a.m.

<sup>35</sup> See Article 20, Rule 8(d)(1).

<sup>36</sup> See Article 20, Rule 8(d)(2). Orders that would be immediately cancelled, if not executed, include FOK orders, IOC limit and market orders and ISOs. See Article 20, Rules 4(b)(10) through (13).

<sup>37</sup> See Article 20, Rule 8(e)(1) and Rule 4(b)(2). A benchmark order is defined in SEC Rule 611(b)(7) as an order that is executed at a price that was not based, directly or indirectly, on the quoted price of the security at the time of execution and for which the material terms were not reasonably determinable at the time the commitment to execute the order was made.

b. *Cross and cross with size orders.* Cross and cross with size orders would be automatically executed if they meet the requirements set out in Rule 4(b)(3) and (5) respectively, but would be immediately and automatically cancelled if they do not meet these requirements.<sup>38</sup>

c. *Cross with satisfy orders.* When the side of a cross with satisfy order that is to be executed against one or more orders already displayed in the Matching System is eligible for immediate execution because it is at a price better than the currently displayed best bid or offer in the Matching System and the number of shares identified for immediate execution in the instruction would allow the remainder of the order to be executed as a cross order with the shares on the other side of the order, the cross with satisfy would be immediately executed. If either of these requirements are not met, the cross with satisfy order would be immediately and automatically cancelled.<sup>39</sup>

d. *Cross with yield orders.* When the customer order that is part of a cross with yield order is eligible for an immediate execution because it is at a price better than the currently displayed best bid or offer in the Matching System, the cross with yield order would be automatically executed by matching the participant as principal against the customer order; provided, however, that if there is any order already displayed in the Matching System at the same price as (or better than) the participant's interest, that order or those orders would be matched against the customer order in place of the participant's interest as necessary to exhaust the customer order interest.<sup>40</sup> If the

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<sup>38</sup> See Article 20, Rule 8(e)(2).

<sup>39</sup> See Article 20, Rule 8(e)(3).

<sup>40</sup> See Article 20, Rule 8(e)(4).

customer order that is part of a cross with yield order is not eligible for an immediate execution because it is not better than the currently displayed bid or offer in the Matching System, the cross with yield order would be immediately and automatically cancelled.

e. *Midpoint cross.* A midpoint cross order would be immediately executed at the midpoint between the NBBO. If the NBBO is locked at the time the order is received, the midpoint cross would be executed at the locked market price. If the NBBO is crossed at the time the order is received, the midpoint cross would be immediately and automatically cancelled.<sup>41</sup>

f. *Non-regular way cross orders.* These orders would be automatically executed without regard to either the NBBO or any orders for regular way settlement that might be in the Matching System.<sup>42</sup>

g. *Sell short orders.* Sell short orders would be displayed and executed only when permissible under the provisions of Rule 10a-1 and Regulation SHO. When a sell short order cannot be executed or displayed at its limit price under the provisions of the Short Sale Rule and Regulation SHO, the order would be automatically repriced (without violating its limit price) to the next available price at which it can be executed or displayed.<sup>43</sup>

h. *Do not display orders.* A do not display order would be executed as provided in Rule 8(d), but would be immediately and automatically cancelled

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<sup>41</sup> See Article 20, Rule 8(e)(5).

<sup>42</sup> See Article 20, Rule 8(e)(6).

<sup>43</sup> See Article 20, Rule 8(e)(7).

if, at any point, the order would prevent the execution of an inbound order because the do not display order has crossed the CHX market.<sup>44</sup>

i. *Inbound ITS commitment or linkage plan order.* An inbound ITS commitment or linkage plan order, if it is priced at or better than the current Exchange-displayed BBO (or if it is marked “market”), would be automatically matched, in round-lot increments, against the order(s) at the price reflected in the BBO, for the full amount of round-lot shares available at that price, and any remaining portion of the ITS commitment or linkage plan order shall be automatically cancelled.<sup>45</sup>

9. *Prevention of trade-throughs.* The Exchange’s Matching System would prevent the execution of an order if the execution would cause an improper trade-through of another ITS market or if, when Reg NMS is implemented for a security, the execution of the order would be improper under Reg NMS Rule 611.<sup>46</sup> If the execution of an order would cause a trade-through, the Matching System would either (a) route the order to another appropriate market; or (b) if the order is marked “do not route,” automatically cancel the order.<sup>47</sup>

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<sup>44</sup> See Article 20, Rule 8(e)(8).

<sup>45</sup> See Article 20, Rule 8(e)(9). The Exchange believes that this handling of ITS commitments and linkage plan orders is consistent with the ITS Plan and the current draft of the linkage plan that might replace the ITS Plan.

<sup>46</sup> See Article 20, Rule 5. There is one exception to this general rule – at least initially, the Exchange would not apply the “flickering quote” exception to Reg NMS Rule 611 (Reg NMS Rule 611(b)(8)) when determining whether or not the execution of the order would create an improper trade-through.

<sup>47</sup> The Exchange plans to operate a router/switch that directs outbound order flow to (a) the intermarket linkage plan (that supersedes the ITS Plan); or to (b) smart-router technology provided by a third party (with whom the CHX would have a contract to provide those services), all at the election of the participant. The CHX currently is



The Exchange has developed a series of trade-through policies and procedures that describe how the Exchange will implement the provisions of SEC Rule 611.<sup>48</sup> These procedures describe the Exchange's clock synchronization practices, as well as its plans for applying the exceptions to Reg NMS Rule 611.<sup>49</sup> Among other things, these procedures confirm that the Exchange would apply the self-help exception (and disregard another market's quotations for trade-through purposes) when that market has publicly announced that it is not disseminating automated quotations; has not responded, within 30 seconds, to an Exchange inquiry seeking information about possible systems problems; or has not confirmed, within two minutes after an Exchange inquiry, that it is not having systems problems.<sup>50</sup> These procedures also confirm that the Exchange automatically would place an appropriate modifier on trades, before they are publicly

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working to develop the structure of its relationship with the provider of this smart-routing technology and will supplement this filing with additional information as it becomes available.

<sup>48</sup> See Article 20, Rule 5, Interpretation and Policy .01.

<sup>49</sup> The Exchange's systems will routinely, throughout the trading day, use processes that capture the time reflected on the atomic clock operated by the National Institute of Standards and Technology and will automatically make adjustments to the time recorded in the Exchange's Matching System to ensure that the period between the two times does not exceed 500 milliseconds.

<sup>50</sup> See Article 20, Rule 5, Interpretation and Policy .01(c). The Exchange would notify the other market of its use of the self-help exception by using the squawk box or other similar technology made available for intermarket communications from time to time. The Exchange then would continue to apply this self-help exception until the other market has provided reasonable assurance to the Exchange (or to the public) that the problems have been corrected.

reported, if they occur when the NBBO is crossed or if they are subject to other exceptions to Reg NMS Rule 611.<sup>51</sup>

The Exchange's trade-through policies also describe its plans for confirming that its own bids and offers qualify as automated quotations. Specifically, the Exchange would periodically (no less often than once every five seconds and no more often than once every second) send a test IOC order to the Matching System to determine whether the Exchange's Matching System accepts the order and would use automated monitoring systems to further measure the Matching System's handling of test IOC orders within the Matching System.<sup>52</sup> These monitoring systems would provide immediate reports to other Exchange systems for further handling. If these systems receive a report that the Matching System has not accepted two or more test IOC orders sent as sequential test messages or has taken more than two seconds to process any one test IOC order in

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<sup>51</sup> See Article 20, Rule 5, Interpretation and Policy .01(d). Specifically, the Exchange would apply appropriate modifiers associated with the execution of a non-regular way cross, a single-price opening trade, an inbound ISO or a benchmark order. See Article 20, Rule 5, Interpretation and Policy .01(g). In addition, if an on-Exchange participant submits an outbound ISO order (consisting of an order to execute on the Exchange, coupled with outbound ISOs to execute against protected quotations of other markets), the Matching System will not execute the order on the Exchange until it receives confirmation that the outbound ISOs were designed to execute against the full size of any other market's protected bid or offer, as required by Reg NMS Rule 600(b)(30) and Reg NMS Rule 611(b)(6).

<sup>52</sup> These systems would review, in real time, the Matching System's handling of test IOC orders to determine whether, and within what time frame, (i) IOC orders are executed against the displayed quote, up to its full size; (ii) any unexecuted portion of the IOC order is cancelled; (iii) a confirmation of the action taken is generated and transmitted from the Matching System to the monitoring system (to serve as a proxy for a transmission to the order-sending firm); and (iv) the Matching System transmits a new bid or offer (as appropriate) to the monitoring system (to serve as a proxy for a transmission to the appropriate securities information processor). See Article 20, Rule 5, Interpretation and Policy .02(a).

specified ways, the Exchange would automatically append a “manual” identifier to the bids and offers it makes publicly available.<sup>53</sup> The Exchange would not remove this “manual” identifier until it has determined that its quotations qualify as automated quotations. It would then notify other markets that its quotations are automated to ensure that all markets recognize the Exchange’s bids and offers as automated quotations.

10. *Locking and crossing quotations.* Except for orders marked “always display,” an order would not be displayed on the Exchange if its display would improperly lock or cross the ITS best bid or offer or, when Reg NMS is implemented for a security, if its display would constitute a locking or crossing quotation.<sup>54</sup> These otherwise locking or crossing orders would either be routed to another appropriate market or, if designated as “do not route,” would be automatically cancelled.

Orders marked “always display,” however would be automatically displayed on the Exchange, even if the orders would appear to lock or cross other markets. The Exchange believes that the display of these orders is consistent with the requirements of Reg NMS, which generally require that the Exchange adopt rules to require that Exchange participants reasonably avoid displaying, and not engage in a pattern or practice of displaying, any quotations that lock or cross a protected quotation, and any manual quotations that lock or cross a quotation previously disseminated pursuant to an

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<sup>53</sup> In the event that the Exchange’s systems do not permit the Exchange to disseminate a “manual” identifier, the Exchange would announce that its quotes are manual over the squawk box or other similar functionality available for communications with other market centers. *See* Article 20, Rule 5, Interpretation and Policy .02(b).

<sup>54</sup> *See* Article 20, Rule 6(c).

effective national market system plan.<sup>55</sup> By allowing a participant to identify orders as ones that should be always displayed, the Exchange recognizes that unintentional locks and crosses may occur, even if a participant uses reasonable efforts to avoid those situations, because of a variety of market conditions, including rapid updating or quotations in active stocks and use of the “ship and post” strategy that is permitted by Reg NMS.

11. *Clearing the matching system.* To ensure that orders on the Exchange have an appropriate opportunity to interact with each other, institutional brokers ordinarily would be required to clear the Matching System before sending an order to another market for execution.<sup>56</sup>

12. *Trading halts.* Under the proposed rules, two senior officers of the Exchange would be authorized to suspend and restart trading within a trading session or to halt trading for the remainder of a trading session, in one or more securities, when the officials believe it is in the public interest.<sup>57</sup> If trading in one or more issues is suspended or halted, the Matching System would not accept any additional orders and would resume

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<sup>55</sup> See Reg NMS Rule 610(d). The Exchange has included rule provisions meeting these requirements in Article 20, Rule 6(a) - 6(b).

<sup>56</sup> If a customer specifically requests otherwise, an institutional broker is not required to clear the Matching System. See Article 20, Rule 7(a). Institutional brokers would be required to document any directives for special handling of orders under this rule. See Article 20, Rule 7(b).

<sup>57</sup> See Article 20, Rule 1(d). Under the Exchange’s current rules, a trading halt could be declared by the chairman or vice chairman of the Exchange’s Board of Directors, or by its president, with the prior approval of a director from a participant firm and a director from the trading floor. The Exchange believes that it no longer is appropriate or effective to require its directors to participate in the decisions to suspend or halt trading, particularly with the automated environment proposed by the new trading model and the fact that the Exchange will no longer be operating a trading floor.

quoting and matching orders only after the end of the trading halt.<sup>58</sup> Because the Matching System would not be locked or crossed when trading is halted, and because it would not accept orders during the halt, the Matching System would be able to emerge from the halt without any special reopening process, by simply displaying its BBO and then accepting and matching orders as provided by the Matching System rules described above.

13. *Cancelling transactions/handling clearly erroneous transactions.*

Under the proposed rules, participants that make a transaction in demonstrable error could agree to cancel and unwind the transaction, subject to the approval of the Exchange.<sup>59</sup> The Exchange also proposes to extend its current electronic book rule for the handling of clearly erroneous transactions, with a few minor changes, to the operation of the Matching System.<sup>60</sup> This rule would allow the Exchange to review, and potentially modify or cancel, executions where one party believes that the terms of the transaction were clearly erroneous when submitted. A related rule relating to systems disruptions and malfunctions would allow the Exchange to modify or cancel executions that result from a disruption or malfunction in the use or operation of the Matching System, or any communications system associated with the Matching System or when extraordinary market conditions or other circumstances exist in which the nullification or modification of transactions may be necessary for the maintenance of a fair and orderly market or the

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<sup>58</sup> See Article 20, Rule 1, Interpretation and Policy .02. Participants could cancel orders during the halt.

<sup>59</sup> See Article 20, Rule 9.

<sup>60</sup> See Article 20, Rule 10; see also Article XXA, Rule 7 (the policy approved for use within the electronic book).

protection of investors and the public interest. The proposed rules set out procedures for each of these reviews, including specific means for participants to appeal the Exchange's decisions.<sup>61</sup>

14. *The late trading session.* The Exchange's Matching System would begin accepting orders for the late trading session immediately after the closing of the regular trading session.<sup>62</sup> Orders for the late trading session would be matched according to the same process used during the regular trading session. As noted above, the late trading session would end at 3:30 p.m.

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<sup>61</sup> For example, a participant seeking review of a "clearly erroneous" transaction would be required to notify the Exchange of the request immediately after the execution by telephone, and within 15 minutes after the execution in writing. The Exchange would promptly notify the other party to the transaction. Both parties then would be required to submit information relating to the disputed transaction, within specified time frames. After reviewing the transaction, an Exchange official would notify both parties of his or her decision, in writing; either party could appeal the decision to a subcommittee of the Exchange's Committee on Exchange Procedure and, if not satisfied, to the full Committee on Exchange Procedure. In making his or her decision, the Exchange official would consider the goals of maintaining a fair and orderly market and protecting investors and the public interest; if an Exchange official determines that a transaction was clearly erroneous, he or she would try to return the parties to the positions that they would have been in (or positions reasonably similar to those positions) if the error had not occurred. Similarly, in the event of a disruption or malfunction that impacts the operation or use of the Matching System (or in the event of extraordinary market conditions or other circumstances), an Exchange official could declare transactions void or modify transactions. Absent extraordinary circumstances, any Exchange action to void or modify transactions in this manner must be taken within 30 minutes of detection of the erroneous transaction, but in no event later than 2:00 p.m. on the trading day following the date of the trade at issue. The official would be required to notify each member involved in the transaction as soon as practicable after making any decision; decisions could be appealed using the procedure set out for the review of decisions addressing clearly erroneous transactions.

<sup>62</sup> See Article 20, Rule 8(c)(2). Orders for the late trading session would not be allowed queue before the close of the regular trading session; they would only be accepted by the Exchange after the close of the regular trading session.

**B. Market Makers.**

The Exchange's proposed new trading model would allow participants to register to act as proprietary market makers on the Exchange. The provisions that would govern the activities of these market makers are set out in the proposed rules in Article 16. These proposed rules replace the current market maker rules contained in Article XXXIV.

Under the proposed rules, a participant firm seeking to act as a market maker would be required to register with the Exchange.<sup>63</sup> Participant firms would be required to register as market makers; individual traders within those firms would be required to separately register as market maker traders.<sup>64</sup> The proposed rules specifically provide that a market maker that is a participant in the Exchange, but is not a member of the NASD, would be permitted to trade only on a proprietary basis and would not be permitted to handle any agency orders.<sup>65</sup> A CHX market maker that is also a member of the NASD would be permitted to handle agency orders away from the facilities of the

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<sup>63</sup> See Article 16, Rule 1(a). A participant would be not be considered to be acting as a market maker unless it was registered in that capacity and was in good standing.

<sup>64</sup> See Article 16, Rule 1, Interpretation and Policy .01.

<sup>65</sup> See Article 16, Rule 1, Interpretation and Policy .02.

Exchange, so long as it is registered as a market maker with the NASD.<sup>66</sup> More than one market maker could register in each security.<sup>67</sup>

A participant would register as a market maker by submitting an application to the Exchange, confirming its ability to comply with applicable rules and identifying the number of securities in which it seeks to make markets.<sup>68</sup> The Exchange would review each application and, using specific criteria, would determine whether or not the participant should be registered in that capacity.<sup>69</sup> The Exchange would notify each participant of the action taken with respect to its application and, if it denies a participant's registration request, would describe the reasons for that denial.<sup>70</sup>

Under the proposed rules, once a firm's market maker registration is approved, the firm could select the securities in which it would act as market maker by notifying the

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<sup>66</sup> *Id.* This proposed rule reflects the Exchange's recognition that market makers handling agency orders likely want to be able, in appropriate circumstances, to interact with the order flow that they receive, a practice that could prove difficult on the Exchange with its price-time priority Matching System into which many different participants can submit orders for execution.

<sup>67</sup> See Article 16, Rule 3, Interpretation and Policy .03.

<sup>68</sup> See Article 16, Rule 2(b).

<sup>69</sup> See Article 16, Rule 3. In considering a participant's request for registration as a market maker, the Exchange would consider: (a) the participant's financial resources; (b) the participant's experience and demonstrated ability in making markets, including the depth and quality of the market quoted by the participant in other securities; (c) the participant's demonstrated ability to make markets in such a manner as to increase the order flow to the Exchange and, as a result, the competitiveness of its market with markets elsewhere; (d) the participant's disciplinary record, including its violations of Exchange rules, the rules of other SROs and federal securities laws; (e) the participant's operational capability, including its ability to comply with the responsibilities set out in Article 16, Rule 8; and (f) the overall best interests of the Exchange.

<sup>70</sup> See Article 16, Rule 2(d).



Exchange.<sup>71</sup> The Exchange would require a firm to seek prior approval before acting as market maker in more than 500 securities and with respect to each increment of an additional 100 securities after that threshold is reached.<sup>72</sup> If a market maker drops a security from its selected list, that participant would not be allowed to trade that security again as market maker for 20 calendar days.<sup>73</sup>

A firm's registration as a market maker could be terminated voluntarily, by the market maker itself, or involuntarily, by the Exchange.<sup>74</sup> The proposed rules would allow market makers to voluntarily deregister by filing the appropriate form with the Exchange. As part of that process, a firm would be permitted to request temporary or partial deregistration as a market maker – and thus avoid the need to complete the registration process again – in specific circumstances that temporarily prevent a market maker from

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<sup>71</sup> See Article 16, Rule 5. A market maker would be required to notify the Exchange of a decision to add or drop securities by 9 a.m. on the trading day preceding the date on which the change would take effect, unless the Exchange is able to accommodate a notification closer to the effective date. *Id.*

<sup>72</sup> See Article 16, Rule 5, Interpretation and Policy .01. This process would allow the Exchange to evaluate a market maker's request, using the criteria in Rule 3, to determine whether the firm appears capable of handling its market maker responsibilities in these additional issues.

<sup>73</sup> See Article 16, Rule 5, Interpretation and Policy .02. This prohibition would not apply where a market maker has received approval to voluntarily deregister as a market maker under the provisions of Article 16, Rule 6.

<sup>74</sup> See Article 16, Rules 6 (voluntary deregistration) and 7 (involuntary deregistration). In addition, the Exchange would consider a firm to have deregistered if it is not trading any securities as a market maker (i.e., it is not submitting bids or offers in the securities it has selected). See Article 16, Rule 6. If a firm is deemed to have deregistered, it would be required to complete the registration process again before acting as a market maker on the Exchange.

acting in that role.<sup>75</sup> Under the proposed rules, the Exchange could grant a request for temporary or partial deregistration for up to 60 days and could extend that period in its discretion. The proposed rules would allow the Exchange to suspend, terminate or limit a market maker's registration upon a determination of any substantial or continued failure by the participant to engage in dealings as required by Article 16, Rule 8 or as set out in Article 13.<sup>76</sup>

Under proposed Rule 8, a market maker would be required to engage in a course of dealings for its own account to assist in the maintenance, to the extent reasonably practicable, of fair and orderly markets on the Exchange. A market maker's responsibilities would specifically include (1) using automated systems to maintain a continuous two-sided quote, for at least a round-lot, in each of the securities in which it is registered; (2) maintaining adequate minimum capital; and (3) meeting specific quotation or trade requirements, with respect to its dealings on the Exchange, over the course of each calendar quarter.<sup>77</sup>

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<sup>75</sup> These reasons include software, hardware, connectivity or other problems that interfere with the market maker's ability to appropriately send bids or offers to the Exchange or otherwise act as market maker; legal or regulatory considerations that temporarily prevent the participant from acting as market maker; or other circumstances, including, but not limited to, those that are beyond a market maker's control, that interfere with the participant's ability to act as market maker. *See* Article 16, Rule 6, Interpretation and Policy .01.

<sup>76</sup> Article 13 contains the Exchange's rules and procedures relating to the suspension and reinstatement of a participant's ability to act as a participant and to retain its registration in a special capacity (such as a market maker).

<sup>77</sup> *See* Article 16, Rule 8(a) through (c). Over the course of each calendar quarter, a market maker would be required to meet either of these requirements: (1) at least 5% of the total number of a market maker's principal bids or offers on the Exchange, in each quarter, for each of its assigned securities, must, when entered on the Exchange, be at the NBBO or improve the NBBO in a manner that attributes market data revenue to the Exchange under the terms of applicable national market system reporting plans; or (2) the

Market makers would have two other specific obligations. First, a market maker that is registered as a market maker solely on the Exchange and engages in other business activities (or that is affiliated with a broker or dealer that engages in other business activities) would be required to establish, and describe to the Exchange, information barriers that prevent the market maker from using material, non-public information or information about customer order flow in its trading activities.<sup>78</sup> And, second, a market maker would be required to record and, transmit to the Exchange in an approved electronic format, its long or short position in a security as of the time that it initiates an order in that security on the Exchange.<sup>79</sup>

### **C. Institutional Brokers.**

Under the Exchange's proposed new trading model, any participant firm that acts as a broker in effecting transactions on the Exchange and for which the Exchange is the designated examining authority would be required to register with the Exchange as an

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shares traded by a market maker for its own account, for each of its assigned issues, must equal or exceed 1% of the total number of shares executed on the Exchange in that issue.

<sup>78</sup> See Article 16, Rule 9. At the time a participant becomes a market maker, the participant would be required to submit a written statement describing its plans for establishing and maintaining the required information barriers, including the internal controls that will be put in place to monitor the barriers' effectiveness. A market maker engaging in these other business activities would not be allowed to act as a market maker on the Exchange until the Exchange had approved the information barrier procedures.

<sup>79</sup> See Article 16, Rule 10. The requirement to report information to the Exchange would apply only to market makers that are not NASD members. NASD members would provide this information directly to the NASD and would be subject to the NASD's oversight with respect to their trading activity.

institutional broker.<sup>80</sup> Each individual that would be authorized to effect trades on behalf of the firm would be required to separately register as an institutional broker representative.<sup>81</sup> The Exchange anticipates that its existing floor brokers would register as institutional brokers in the new model. Importantly, although institutional brokers would operate as participants on the Exchange, they could trade from any location and would not effect transactions from a physical trading floor.<sup>82</sup>

Under the proposed rules, institutional brokers would be required to adhere to trading and business conduct rules that apply to participant firms generally and would be subject to specific obligations set out in Article 17. Among other things, institutional brokers would be required to enter all orders received for execution on the Exchange into an automated system to provide an electronic record of their order handling practices; would be required to maintain separate accounts for handling agency transactions, principal transactions and transactions involving errors; and would be required to enter transactions into the appropriate accounts.<sup>83</sup> Institutional brokers would also be required

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<sup>80</sup> See Article 17, Rule 1. This requirement would apply to a firm whether or not they were required to register as an NASD member by applicable SEC rules. See Article 17, Rule 1, Interpretation and Policy .01.

<sup>81</sup> See Article 17, Rule 1, Interpretation and Policy .02. This requirement essentially tracks the current requirement that individual floor brokers separately register with the Exchange and take required examinations. See Article VI, Rules 2 and 3.

<sup>82</sup> As noted above, the Exchange would not operate a physical trading floor in the new trading model. The Exchange anticipates that its current trading floor would be subleased to interested parties for use as office or trading space.

<sup>83</sup> See Article 17, Rule 3(a) and Rule 3(b). The requirement for entering orders into an electronic system to permit the Exchange to more readily surveil broker order handling activities likely will soon be approved by the Commission. See Article 11, Rule 3. The Exchange's brokers will be required to begin complying with this requirement no later than March 20, 2006. In addition, although the Exchange's current rules do not specifically require brokers to maintain specific principal, agency and error accounts, the

to maintain required records of their trading activities, including records of their relationships with their customers.<sup>84</sup>

A customer order would be deemed to be on the Exchange when received by an institutional broker, but would not have priority in the Matching System until it is entered into that system. The proposed rules would also set out specific order handling obligations for institutional brokers. Specifically, an institutional broker handling a market order would be required to use due diligence to execute the order at the best price or prices available.<sup>85</sup> Similarly, an institutional broker handling a limit order would be required to use due diligence to execute the order at or better than the limit price, if available. And, an institutional broker who has been given a not held order would be required to use brokerage judgment in the execution of the order, and if he exercises such judgment, would be relieved of all responsibility with respect to the time of the order's execution and the execution price or prices given to the order.<sup>86</sup> These proposed rules are similar to rules that relate to broker trading activities on at least one other market and are designed to establish a specific standard by which institutional broker order handling activities could be measured.<sup>87</sup>

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Exchange's Market Regulation Department has encouraged them to do so as a way to evidence their compliance with general order handling obligations.

<sup>84</sup> See Article 17, Rule 3(e).

<sup>85</sup> In handling a market order, an institutional broker could assign an appropriate limit price to the order and send it to the Matching System, could enter an IOC market order into the Matching System or could route the order to another market center after clearing the Exchange's Matching System.

<sup>86</sup> See Article 17, Rule 3(c).

<sup>87</sup> See NYSE Rule 123A.41-.44. The Exchange's Rules do not currently contain any specific order execution standards that apply to its brokers.

The final new requirement under the proposed rules would require that brokers use reasonable efforts to report all transactions that are not effected through the Exchange's Matching System to the Exchange within 10 seconds after the trade occurs.<sup>88</sup> Although the Exchange anticipates that most executions by its institutional brokers would occur within the Matching System, the Exchange recognizes that its institutional brokers could, from time to time, execute orders outside of that system. To ensure that the Exchange and its institutional brokers can establish compliance with the trade-through provisions of the ITS Plan and Reg NMS Rule 610, the Exchange is developing functionality in its Brokerplex system that would allow an institutional broker to electronically validate whether a trade would constitute a trade-through before the trade occurs and that would create an electronic record that that validation had taken place.<sup>89</sup>

#### **D. Other Rule Changes.**

1. Article 1. (Definitions and General Information). Within this article of the rules, the Exchange proposes to add new definitions for terms that are used elsewhere in the rules.<sup>90</sup> The Exchange also seeks to add two new sections – one new

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<sup>88</sup> See Article 17, Rule 3(d). This provision would also require that an institutional broker mark as "SOLD" any trades reported after this time.

<sup>89</sup> Other possible functionality might allow a broker to enter the details of a proposed cross transaction (such as its price, the number of shares and whether the sell side of the order is "short") into the Brokerplex system, which would send the cross to the Matching System for execution when it could be executed.

<sup>90</sup> These newly-defined terms include "Act" and "Exchange Act," "Amex," "BBO," "CHX," "CHX Holdings," "institutional broker," "NBBO," "Nasdaq," "NYSE," "primary market," "Rule 10a-1 and Regulation SHO," "rules," and "Securities Act." The Exchange also proposes to delete the definitions of "floor" and to delete references to the trading floor from the "trading facilities" definition.

rule that lists and defines types of orders and conditions and one new rule that confirms that all times identified in the rules are Central Time unless otherwise indicated.<sup>91</sup>

2. Article 2. (Committees). The proposed changes to this article eliminate references to the Exchange's trading floor and to the Exchange's current Committee on Specialist Assignment and Evaluation.<sup>92</sup> Under the proposed new model, the Exchange would no longer have specialists who are responsible for handling orders in each issue and thus there is not a need to have a committee to assign securities and evaluate specialist performance.

3. Article 3. (Participants). The primary substantive changes in this article are designed to streamline the process of obtaining a trading permit on the Exchange. Under the Exchange's current rules, the Exchange's staff makes a preliminary determination about an applicant's qualifications and then posts the applicant's name to permit other participants to submit any objections to that applicant's desire to trade on the Exchange. The Exchange believes that this posting process is not a necessary component of the application process – indeed, it appears to relate back to a time when information about a firm's prior business dealings might best be learned by talking with others in the

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<sup>91</sup> See Article 1, Rules 2 and 3. The order types and conditions set out in Rule 2 primarily are those that are accepted by the Exchange's Matching System. A few new definitions were added to clarify basic information such as the definition of "odd lot," "round lot" and "mixed lot."

<sup>92</sup> See Article 2, Rule 5 (removing references to the trading floor and to the Committee on Specialist Assignment and Evaluation); Rule 6 (deleting the description of the role of the Committee on Specialist Assignment and Evaluation); and Rule 10 (deleting references to the Exchange's trading floor).

business community. The electronic databases of information that are available today eliminate the need for this sort of process.<sup>93</sup>

There are two other groups of proposed changes within Article 3. In Rule 1, the Exchange seeks to eliminate the definitions that identify when a participant is engaging in a public securities business – these definitions do not relate to any particular requirement applicable to Exchange participants under the current rules. And, in Rule 2, the Exchange proposes to replace references to “co-specialists,” “floor brokers” and “registered market makers” with references to “institutional broker representatives” and “market maker traders,” the terms used in Articles 16 and 17 to refer to the individuals who would have special registration on the Exchange in the new model.

4. Article 4. (Participant Firms). In this article, the Exchange seeks to eliminate references to its trading floor and to floor brokers.<sup>94</sup> It also proposes to change existing requirements relating to the nominees and voting designees named on trading permits to confirm that any person affiliated with a participant firm, not just a general partner of the firm, who is acting as an institutional broker representative or a market maker trader can be named as a nominee on a trading permit.<sup>95</sup> Similarly, the Exchange proposes to confirm that any officer of a participant firm can be named as voting

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<sup>93</sup> See Article 3, Rules 3 and 4. Other changes to the application process would confirm that, with the posting process eliminated, Exchange staff would make the initial determination on each application for a trading permit. These changes also would refer applicants to a new article, Article 15, for a single set of procedures for seeking review of Exchange decisions, such as the denial of a trading permit.

<sup>94</sup> See Article 4, Rules 4 and 15.

<sup>95</sup> See Article 4, Rule 13(b).



designee, not just the firm's president or one of its vice presidents.<sup>96</sup> These changes are designed to reflect the fact that participant firms are structured in various ways – some are partnerships and others are not – and that the Exchange is concerned with an individual's authority to act on behalf of the firm, not whether he or she fits into a narrowly selected job title or role.<sup>97</sup>

5. Article 5. (Access to the Exchange). Under the Exchange's current rules, this article (entitled "Admission to Floor – Communications") contains rules describing visitor and employee access to the trading floor, the making of announcements on the floor and the connections that can be made to and from the Exchange's trading floor.<sup>98</sup> Because the Exchange would not operate a physical trading floor in its new model, the Exchange proposes to delete these rules and to replace them with rules that contemplate remote access to the Exchange's automated trading systems. These proposed new rules would begin by requiring that participants have reasonable procedures to maintain the physical security of the equipment and systems used to access the Exchange and to maintain an updated list of the persons who can obtain access to the Exchange on the Participant's behalf.<sup>99</sup> Another rule would confirm that, as a condition

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<sup>96</sup> See Article 4, Rule 13(c).

<sup>97</sup> Other proposed changes in this article correct a misspelling (Rule 4) and clarify that participants do not "own" trading permits, they "hold" them. (Rule 13(a)).

<sup>98</sup> One of these provisions, Rule 4, contains a new interpretation and policy that requires participants to provide specific information to the Exchange about connections to, and orders handled through, layoff vendors. The Exchange proposes to move this provision to Article 11, its new Books and Records rule.

<sup>99</sup> See Article 5, Rule 1.

of obtaining access to the Exchange, each participant agrees to pay Exchange fees, including fees associated with the routing of orders to other markets.<sup>100</sup>

The last proposed new rule in this article would set out a structure through which Exchange participants could provide non-participants with access to the Exchange, through clearing arrangements or otherwise.<sup>101</sup> Under this proposed rule, this type of sponsored access could be provided so long as the participant sponsoring access (the “sponsoring participant”), the non-participant and the Exchange entered into appropriate agreements confirming basic information about the roles and responsibilities of the various parties. These agreements would confirm that (1) all orders submitted by the non-participant, and any executions resulting from those orders, are binding in all respects on the sponsoring participant; (2) the sponsoring participant is responsible for all actions taken and fees incurred in connection with any order submitted or transaction executed by the non-participant; (3) in all matters relating to the non-participant’s access to the Exchange and its use of Exchange facilities, the Exchange would communicate with the sponsoring participant and would not be required to communicate with the non-participant at any time; (4) the non-participant would have reasonable procedures to maintain the physical security of the equipment used to access the Exchange to prevent improper use of, or access to, the Exchange; and (5) the sponsoring participant would indemnify and hold the Exchange harmless from any liability, loss, claim or expense which the Exchange may incur in connection with the agreement. The Exchange believes that these provisions provide sufficient assurances to the Exchange, to other participants

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<sup>100</sup> See Article 5, Rule 2.

<sup>101</sup> See Article 5, Rule 3.

using the Exchange's facilities and to the non-participants themselves that non-participant access to the Exchange's facilities would be subject to the same standards and obligations that apply to participant access.<sup>102</sup>

6. Article 6. (Registration). In this article, the proposed rule changes would begin by confirming that individuals acting as institutional broker representatives and market maker traders would be required to register with the Exchange and successfully complete certain written examinations.<sup>103</sup> Other proposed changes would set out more specific obligations relating to notifications that would need to be made to the Exchange when a registered or associated person is terminated and would require participant firms to notify the Exchange of any firm-related event constituting a statutory disqualification.<sup>104</sup> Additional changes would update the firm supervision rules to require participants to identify the person(s) responsible for acting as supervisors; to meet, at least annually, with staff about compliance matters; and to establish internal controls to assure that appropriate supervision is being exercised.<sup>105</sup> Finally, the changes in this

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<sup>102</sup> For example, because the sponsoring participant confirms that it is responsible for the non-participant's actions, the Exchange can enforce compliance with its rules through actions taken against the sponsoring participant. In addition, the non-participant (like a participant) would be required to use reasonable procedures to maintain the physical security of the equipment used to access the Exchange and the Exchange would communicate with the participant on all issues relating to the use of the Exchange's facilities.

<sup>103</sup> See Article 6, Rules 2(b)(7) and 3.

<sup>104</sup> See Article 6, Rule 2(e)-(f) and Interpretations and Policies .03 and .04.

<sup>105</sup> See Article 6, Rule 5(a) (designation of persons with supervisory authority) and 5(c) (internal controls and training). These obligations are similar to those required by other SROs and would ensure that the Exchange's participant firms are strengthening the work that they do to supervise their registered and associated persons.

article would add a new rule relating to fingerprinting of Exchange staff and contractors and would incorporate two rules that current occur elsewhere in the Exchange's rules.<sup>106</sup>

7. Article 7. (Financial Responsibility and Reporting).<sup>107</sup> In this article, the proposed rule changes would delete references to requirements that current apply to specialist firms and incorporate three fee-related provisions that currently appear in other articles.<sup>108</sup> The proposed changes also would delete a provision relating to letters of guarantee that would need to be presented by floor brokers that are not self-clearing.<sup>109</sup>

8. Article 8. (Business Conduct). As noted above, as part of its new model filing, the Exchange has sought to better organize its rules. Although there were

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<sup>106</sup> See Article 6, Rule 10 (fingerprinting) and Rules 8 and 9 (formerly, Article VIII, Rule 16 and Article VIII, Rule 11). Under the proposed fingerprinting rule, the Exchange would conduct fingerprint-based criminal records checks of all prospective employees, as well as of independent contractors and temporary employees who are expected to have access to Exchange facilities for more than 10 days. The Exchange would similarly conduct checks of persons who would have access to premises controlled by CHX Holdings, when those premises are in the same building as Exchange facilities. This proposed rule would codify the Exchange's current practice of conducting these checks for prospective Exchange employees and would extend that practice to independent contractors and temporary workers who have more than fleeting access to Exchange facilities, as well as to other persons who have access to certain CHX Holdings premises.

<sup>107</sup> This article previously was numbered Article XI of the Exchange's Rules. The marked version of the rules in this submission compares the current Article XI to the changes that would be made as part of the Exchange's new trading model, including the change in numbering. The provisions in current Article VII have been moved to new Article 13, as described below.

<sup>108</sup> The specialist-related provisions that would be deleted are shown in Article 7, Rule 3. The three fee-related rules that would be added to this section – so that all fee-related provisions could be gathered as much as possible in one place – formerly were Article XIV, Rules 1 (fixing and paying fees); 10 (failure to pay debts); and 11 (fees for participants in military service).

<sup>109</sup> See Article 7, deleted Rule 10.

some minor organizational changes in earlier articles, the proposed changes in Article 8 are somewhat more extensive.<sup>110</sup> Importantly, though, Article 8 does not contain any completely new rule provisions; indeed, twelve of the seventeen proposed rules in this article have not been changed at all.<sup>111</sup> Instead, the rules in this section were gathered from throughout the Exchange's rulebook and, with two exceptions discussed below, are not substantially modified.<sup>112</sup>

In the existing version of Article VIII, Rule 21 extensively details how one participant firm must coordinate with another participant in the transfer of customer accounts. Because the Exchange is not the designated examining authority for any firm that carries participant accounts, the Exchange believes that this detailed recitation of account transfer procedures is not a necessary component of its rules. Instead, the Exchange proposes to adopt, in Article 8, Rule 11, rule language similar to that used by

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<sup>110</sup> To try to enhance a reader's ability to understand which rules the Exchange proposes to keep in force, the Exchange shows the reorganized rules as new text in the first section of Exhibit 5 and the existing rule text as deleted text in the second section of Exhibit 5. Some of these apparently deleted rules have not been completely removed; instead, they have been moved to other articles in the rulebook. *See* Article VIII, Deleted Rules 3, 7, 9 and 17 (moved to Article 9); Rules 8, 11 and 16 (moved to Article 12); and Rule 23 and 24 (moved to new Article 14).

<sup>111</sup>*See* Article 8, Rules 2 (formerly Rule 12); 3 (formerly Rule 22); 4 (formerly Rule 1); 5; 6 (formerly Rule 2); 9 (formerly Rule 18); 10 (formerly Rule 19); 12 (formerly Rule 25); 13 (formerly Article XV, Rule 3); 14 (formerly Article XIII); 15 (formerly Article XXXIII) and 16 (formerly Article XV, Rule 1).

<sup>112</sup> Small modifications include changes that would delete references to the trading floor, eliminate obsolete provisions or clarify wording. *See* Article 8, Rule 1 (replacing the reference to "constitution" with a reference to the Exchange's "bylaws" and deleting the unnecessary word "Firm" in the first few words of the text); Rule 7 (eliminating references to non-participants on the trading floor and to employees of banks, insurance companies and other corporations); and Rule 8 (eliminating references to floor employees).

other markets that have similarly constrained examining responsibilities.<sup>113</sup> Also, the Exchange has proposed revisions to Rule 17 that would make the text relating to its policy against harassment and other conduct rules applicable, once the Exchange no longer operates a trading floor, to conduct that occurs on Exchange premises, while conducting business on the Exchange or when interacting with Exchange staff who are conducting Exchange business.

9. Article 9. (General Trading Rules). The Exchange proposes to reorganize Article 9 in much the same manner as Article 8.<sup>114</sup> The proposed changes to Article 9 include only three new rules – relating to the reporting of transactions (including riskless principal transactions) and to the breaking up of orders.<sup>115</sup> Other provisions have been gathered from the text of the existing Article IX and from other

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<sup>113</sup> See PCXE Rule 9.19.

<sup>114</sup> As above, the Exchange shows the reorganized rules as new text in the first section of Exhibit 5 and the existing rule text as deleted text in the second section of Exhibit 5.

<sup>115</sup> See Article 9, Rules 12-14. At the request of Commission staff, the Exchange has filed proposed Rule 14 as a separate rule filing, CHX-2006-03, to permit the rule to take effect more quickly. Proposed Rule 12 contains provisions that would require Exchange participants to report all executions that occur on the Exchange (except for transactions that occur within the Matching System, because the Exchange has already stored information about those transactions). Proposed Rule 13 sets out riskless principal trade reporting rules that are similar to those put in place by other markets and could be used by institutional brokers in their handling of customer orders. Most frequently, however, the Exchange anticipates that its institutional brokers would continue their current practice of acting on an agency, not riskless principal, basis when representing orders in other markets.

sections of the current rulebook and have been modified primarily to remove references to the Exchange's trading floor or to make other clarifications to the text.<sup>116</sup>

10. Article 10. (Margins). The Exchange proposes to delete, from this section of its rules, the provisions relating to any margin requirements for specialists.<sup>117</sup>

11. Article 11. (Books and Records). This article is an entirely new article that would include the four primary books and records rule that apply to Exchange participants.<sup>118</sup> Two of these proposed rules contain provisions that already appear, or soon should appear, elsewhere in the Exchange's current rules.<sup>119</sup> One new rule – Rule 2 – would confirm that Exchange participants must make and preserve all books, accounts,

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<sup>116</sup> See Article 9, Rules 1 (moved from Article XX, Rule 1 and modified to state simply that the trading rules apply to trading on the Exchange); 2 (moved from Article VIII, Rule 7); 3 (moved from Article XX, Rule 4 and modified to eliminate obsolete references to Exchange employees who are authorized to close contracts under the rule); 4 (moved from Article IX, Rule 8); 5 (moved from Article XX, Rule 6); 6 (moved from Article XX, Rule 8 and modified to replace references to “bids and offers” with references to “orders”); 7 (moved from Article XX, Rule 3); 8 (moved from Article VIII, Rule 3); 9 (moved from Article XX, Rule 29); 10 (moved from Article IX, Rule 6); 11 (moved from Article IX, Rule 11); 15 (moved from Article VIII, Rule 17); 16 (moved from Article IX, Rule 5); 17 (moved from Article XX, Rule 31 and modified to remove references to public bidding and offering, as on the floor of the Exchange); 18 (moved from Article IX, Rule 1); 19 (combined from Article IX, Rules 2 and 9; Article XX, Rule 32); 20 (moved from Article IX, Rule 3); 21 (moved from Article IX, Rule 4); 22 (combined from Article IX, Rule 15 and Article XX, Rule 33; modified to eliminate references to the trading floor); 23 (moved from Article IX, Rule 17); 24 (moved from Article VIII, Rule 9 and modified to eliminate the definition of “Act” because that definition is already contained in Article 1 of the rules); and 25 (moved from Article XX, Rule 27 and modified both to eliminate references to the Exchange's trading floor and to permit disclosure of names in connection with a dispute relating to the transaction, without requiring the consent of the parties).

<sup>117</sup> See Article 10, Rule 3(c)(6).

<sup>118</sup> The provisions in current Article XI have been moved to Article 7 of the proposed set of rules.

records, memoranda and correspondence as required by applicable law, including SEC rules and Exchange rules. Another new rule – Rule 1 – would require that participants provide the Exchange with access to books and records and must furnish requested financial and transaction-related records to the Exchange upon request.

12. Article 12. (Disciplinary Matters and Trial Proceedings). The Exchange’s proposal would make two primary changes to this article. First, because the Exchange would not operate a trading floor in the new trading model, the proposal would eliminate the Exchange Procedure Committee’s ability to take action against participants with respect to trading floor and other on-site decorum violations.<sup>120</sup> The proposal also would eliminate, from the Minor Rule Violation Plan, any rules that would otherwise be deleted by this proposal.<sup>121</sup>

13. Article 13. (Suspensions and Reinstatements). In this article, which previously was numbered Article VII, the Exchange proposes to make two substantive changes.<sup>122</sup> As an initial matter, the Exchange seeks to add new text that would allow the Exchange to use its emergency suspension authority whenever a participant firm that is registered as an institutional broker or market maker has failed to perform, or is failing to perform, any material responsibility imposed on the participant because of that role and, as a result, cannot be permitted to continue in business with

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<sup>119</sup> See Proposed Rule 3 (incorporating text that soon should be added to Article XX, Rule 24 by CHX-2004-38) and Proposed Rule 4 (moved from Article V, Rule 4).

<sup>120</sup> See Article 12, deleted Rule 3.

<sup>121</sup> See *e.g.*, proposed deletion of rules relating to the submission of the co-specialist survey, as well as failure to comply with decorum and open outcry requirements.

<sup>122</sup> The advertising requirements of Article XIII have been moved to Article 8, Rule 14.



safety to its customers or creditors or to the Exchange.<sup>123</sup> The Exchange believes that it is important to extend its suspension authority in this manner to allow the Exchange to address egregious circumstances that might arise because of an institutional broker's or market maker's failure to meet the obligations that arise because of its specialized role in the market. As its last set of changes to this article, the Exchange would eliminate provisions that contain rules for seeking a review of suspension decisions.<sup>124</sup> As noted above, the Exchange's proposed rule changes would move all of these provisions to a new section – Article 15 – which would contain a uniform set of rules for seeking review of several different types of Exchange decisions.

14. Article 14. (Arbitration). Under the Exchange's proposal, this article would consist of Rules 23 and 24 from former Article VIII. The Exchange does not propose any substantive changes to these provisions, although it has re-numbered provisions to make them somewhat more consistent with the other sets of rules.<sup>125</sup>

15. Article 15. (Hearings and Reviews).<sup>126</sup> The Exchange currently has several disparate provisions that permit participants to seek review of an Exchange decision. These provisions often do not define the specifics associated with any hearing or review; they sometimes (but not always) permit further review by the Board. This new article is designed to consolidate these provisions into one section that can be uniformly

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<sup>123</sup> See Article 13, Rule 2.

<sup>124</sup> See Article 13, Rule 4.

<sup>125</sup> The current provisions of Article XIV (“Fiscal Policies”) were either transferred to Article 7 (“Financial Responsibility and Reporting”) or would be deleted as no longer necessary in the new trading model.

<sup>126</sup> The current text of Article XV (“Commissions”) has either been moved to other articles (e.g., Article XV, Rule 5 has been moved to Article 22) or it has been deleted.

applied to all Exchange decisions that do not involve disciplinary matters or appeals from arbitration decisions.<sup>127</sup>

Among other things, this new article would provide details about requesting a hearing (which must be done within 30 days of the initial decision at issue, unless an extension of time is granted); the appointment of the hearing panel (which would be the entire Executive Committee, unless the Committee chooses to appoint a panel of five of its members to hear a matter); requesting extensions of time; submitting documents and witness lists (which ordinarily must be done at least 72 hours before the start of the hearing); the notice of hearing; the conduct of the hearing (during which all parties may be represented by counsel and the formal rules of evidence would not apply); the parameters of the decision that would be reached (for example, the decision would be in writing and ordinarily distributed within 90 days after the end of the hearing or the submission of post-hearing briefs, whichever is later); and seeking further review of the decision (which can be done by either party, within 30 days, or by the Board on its own motion).<sup>128</sup> Throughout these proposed rules, the Exchange has sought to provide a central set of rules for these hearings which is similar to, but more expansive than, the various provisions scattered throughout the existing rulebook.

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<sup>127</sup> See Article 15, Rule 1.

<sup>128</sup> See Article 15, Rule 2 (submission of requests for hearing); Rule 3 (requests for hearings on emergency actions); Rule 4 (hearing panel); Rule 5 (extensions of time); Rule 6 (submissions of supporting materials); Rule 7 (notice of hearing); Rule 8 (conduct of hearing); Rule 9 (decision); and Rule 10 (seeking review of that decision).

16. Article 21. (Listing). This article is numbered Article XXVIII in the Exchange's current rules.<sup>129</sup> The proposed changes in this section would delete references to the Exchange's specialist firms; correct a telephone number and a typographical error; eliminate references to the Exchange's trading floor; and more accurately describe the work done by Exchange staff in connection with its surveillance of trading in exclusively listed securities.<sup>130</sup> No other changes to the Exchange's listing rules are contemplated in connection with the proposed new trading model.

17. Article 22. (Clearance and Settlement). In this new article, the Exchange seeks to incorporate all of the rules that it believes would be necessary in connection with the clearance and settlement of transactions in the new trading model. These rules have been gathered from various existing articles; the section does not include any entirely new rules, although a few rules have been modified to eliminate references to the trading floor. Among other things, this proposed new article would require participants to maintain accounts with a qualified clearing agency, or with another participant that has such an account, for the recording of transactions on the Exchange.<sup>131</sup>

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<sup>129</sup> The markings in this article compare the text of Article XXVIII against the proposed rule changes. The rules contained in current Article XXI, which relates to the contracts, tickets and comparisons, would either be moved to other sections of the proposed new trading model rules (e.g., Article XXI, Rules 4 and 13 have been moved to Article 22) or would be deleted in the new trading model because the issues covered by this provision are the subject of clearing depository rules or agreements between participants and their clearing firms and/or a clearing depository.

<sup>130</sup> See Rule 23(a) (correcting the omission of the roman numeral "I"); Interpretations and Policies to Rule 23 (clarifying the work of market surveillance; deleting references to specialists; and correcting a telephone number); and Rule 26 (eliminating references to the Exchange's trading floor).

<sup>131</sup> This rule – and a related rule relating to book-entry settlement – currently are found in Article XXII, Rule 3 and Article XXI, Rule 4 of the Exchange's rules.

The proposed article would also confirm that the Exchange may extend or postpone the time for performance of contracts when required by just and equitable principles of trade or to meet unusual conditions.<sup>132</sup>

18. Deleted provisions. In addition to the changes noted in the paragraphs above, the Exchange's new trading model proposal would also eliminate the following articles from its rulebook: Article XVI (Insurance as an Ancillary Activity); Article XVII (Suspension and Termination of Special Floor Registration for Unsatisfactory Performance); Article XX (Regular Trading Session); XXIII (Reclamations); XXIV (Lending Securities); XXV (Closing of Contracts); XXVI (Marking to the Market); Article XXIX (Special Offerings); Article XXX (Specialists); Article XXXI (Odd-lots); Article XXXII (Exchange Distribution Plan); XXXIV (Registered Market Makers – Equity Floor); Article XXXV (Secondary Trading Session); Article XXXVI (Baskets); and Article XXXVII (Chicago Match). Each of these sets of rules would no longer be necessary in the new trading model.<sup>133</sup>

#### **E. Proposed Roll-Out of New Trading Model.**

The Exchange anticipates that the systems work associated with the new trading model would be complete in late April 2006, while the additional Reg NMS-specific

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<sup>132</sup> See Article 22, Rule 3 (formerly, Article XXII, Rule 1). As a final matter, this provision would allow the Exchange to continue to provide services, including back-office clearing work, for participants. See Article 22, Rule 4 (formerly, Article XXI, Rule 13).

<sup>133</sup> A few of these articles contain rules for trading sessions that have been already discontinued. The Exchange, for example, is not conducting a secondary trading session under the rules set out in Article XXXV and is not using the Chicago Match system described in Article XXXVII.

work would be complete in late May 2006. Closer to these dates, the Exchange plans to identify its plans for rolling out the new functionality to specific groups of securities.

## 2. Statutory Basis

The CHX believes the proposal is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b).<sup>134</sup> The CHX believes the proposal is consistent with Section 6(b)(5) of the Act<sup>135</sup> in that it is designed to promote just and equitable principles of trade, to remove impediments, and to perfect the mechanism of, a free and open market and a national market system, and, in general, to protect investors and the public interest by permitting the Exchange to operate an efficient, automated market for the trading of securities.

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

The Exchange does not believe that the proposed rule changes will impose any burden on competition.

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

The Exchange has reviewed drafts of various sections of the proposed rule text, and the concept of the new trading model, with various participants. Although some participants provided varying levels of input, the Exchange did not solicit, nor did it receive, written comments with respect to this final version of the proposed rule change.

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<sup>134</sup> 15 U.S.C. 78(f)(b).

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

Within 35 days of the date of publication of this notice in the Federal Register or within such other period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve the proposed rule changes, or
- (B) institute proceedings to determine whether the proposed rule changes should be disapproved.

**IV. Solicitation of Comments**

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

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File No. SR-CHX-2006-05 on the subject line.

Paper Comments:

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

All submissions should refer to File No. SR-CHX-2006-05. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule changes 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 inspection and copying in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549-1090. Copies of such filing will also be available for inspection and copying at the principal office of the CHX. 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 No. SR-CHX-2006-05 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>136</sup>

Nancy M. Morris  
Secretary

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<sup>136</sup> 17 CFR 200.30-3(a)(12).

**Table of Contents**  
**Proposed Rule Changes relating to the CHX's New Trading Model**

As part of its move to a new trading model, the Exchange seeks to modernize many of its long-standing procedures and to better organize the rules that remain. As a result, the rule changes associated with the new model modify virtually every section of the Exchange's rulebook.

To try to help eliminate the almost-certain confusion that these changes might cause, the Exchange presents the rule change proposals in two sections. The first section – with the articles numbered in Arabic numerals – contains the rules applicable to the Exchange's new trading model. Where the Exchange is amending an existing article of its rules, the text in this section is marked to show changes. Where the Exchange is adding a completely new article or significantly reorganizing rules within one or more articles, the rules are underlined to show that they are either new or reorganized rules.

The second section, beginning on page 228, contains the existing articles that would be deleted if the Exchange's proposal is approved. As described in the Form 19b-4, some of these rules are included in the new model rules; others are completely eliminated.

The notes set out below provide a shorthand way to understand how articles have been renumbered and some of the changes that are proposed; a more detailed description of the proposed changes is included in the Form 19b-4.

**SECTION ONE – NEW MODEL RULES**

<b>Article</b>	<b>Subject</b>	<b>Notes</b>	<b>Page No.</b>
1	Definitions	New definitions and a list of order types have been added to this section; unnecessary definitions have been deleted.	85
2	Exchange Committees	Among other things, changes in this article (formerly Article IV) delete references to the Committee on Specialist Assignment and Evaluation.	91
3	Participants	A variety of changes are made in this article (formerly Article II) to streamline procedures and update rules.	92
4	Participant Firms	Several proposed changes are made to this section of the rules (formerly Article III).	95
5	Access	Trading floor access rules have been replaced with updated rules relating to access to the Exchange's systems.	98



Article	Subject	Notes	Page No.
6	Registration, Supervision & Training	This article gathers together the rules relating to registration, supervision and training. The Exchange's fingerprinting rules are expanded to include independent contractors, temporary employees and others.	102
7	Financial Responsibility & Reporting	The Exchange has attempted to gather all of the financial responsibility provisions into a single section, merging, among other things, the text of Article XI with relevant provisions of Article XIV.	112
8	Business Conduct	All of the general business conduct rules are collected in this section, resulting in an extensive revision of current Article VIII.	115
9	General Trading Rules	The article (a complete overhaul of current Article IX) is designed to include all of the general trading rules that apply to Exchange participants.	125
10	Margins	This article is largely unchanged.	135
11	Books & Records	This new article is comprised of the various books and records rules that apply to Exchange participants.	136
12	Disciplinary Matters and Trial Proceedings	This article has been revised in several respects to, among other things, recognize the fact that the Exchange will not be operating a trading floor.	141
13	Suspension – Reinstatement	Several changes are proposed to this section of the rules (formerly Article VII)	149
14	Arbitration	This new section is comprised of the arbitration rules that were previously in Article VIII, Rules 23 and 24.	152
15	Hearings & Reviews	This new article sets out uniform procedures for seeking review of Exchange decisions.	172
16	Market Makers	This new article contains the rules that govern the role of market makers on the Exchange.	175
17	Institutional Brokers	As its name suggests, this new article sets out the rules specifically relating to institutional brokers	183
18	Reserved for future use		

Article	Subject	Notes	Page No.
19	Intermarket Trading	This article contains the provisions relating to intermarket trading – this draft contains rules applicable to the current ITS System.	186
20	Matching System	The new article describes the operation of the Exchange's proposed new matching system.	206
21	Clearance and Settlement	This article is designed to contain all of the rules relating to clearing and settlement that would be relevant in the Exchange's new model.	223
22	Listed securities	This article (formerly Article XXVIII) has been modified in only a few respects.	226

## SECTION TWO – DELETED ARTICLES

Article	Subject	Notes	Page No.
VIII	Business Conduct	These rules have been extensively revised – some rules have been relocated; others are deleted entirely.	229
IX	Trading Rules	These rules also have been extensively revised and reorganized.	265
XIII	Advertising and Promotion	These rules have been incorporated into Article 8.	274
XIV	Fiscal Policies	Some of these rules have been included in other articles, including Article VII; others have been deleted entirely.	276
XV	Commissions	Some of these rules have been included elsewhere in the rules; others have been deleted entirely.	279
XVI	Insurance as an Ancillary Activity	This article has been deleted entirely.	282
XVII	Suspension and Termination of Special Floor Registration for Unsatisfactory Performance	This article has been deleted entirely.	283
XVIII	Not assigned		
XIX	Not assigned		

<b>Article</b>	<b>Subject</b>	<b>Notes</b>	<b>Page No.</b>
XX	Regular Trading Sessions	A few of these rules have been moved to other articles, including Article IX; others (including those relating to the operation of the MAX system, have been deleted in their entirety.	286
XXA	Electronic Book	These rules have been replaced by the Matching System rules set out in Article 20.	334
XXI	Exchange of Contracts, Tickets and Comparisons	Some of these rules have been moved to other articles, including Article 21; others have been deleted entirely.	341
XXII	Settlement of Exchange Contracts	Many of these rules have been deleted entirely.	345
XXIII	Reclamations	These rules have been deleted entirely.	355
XXIV	Lending Securities	These rules have been deleted entirely.	357
XXV	Closing of Contracts	These rules have been deleted entirely.	358
XXVI	Marking to the Market	These rules have been deleted entirely.	362
XXVII	Dividends, Interest, Rights and Due-Bills	Some of these rules have been moved to other articles, including Article 9; others have been deleted entirely.	363
XXIX	Special Offerings	These rules have been deleted entirely.	366
XXX	Specialists	These rules have been deleted entirely.	370
XXXI	Odd Lots and Odd-Lot Dealers, Dual System	These rules have been deleted entirely.	395
XXXII	Exchange Distribution Plan	These rules have been deleted entirely.	400
XXXIII	Proxies	These rules have been moved to Article 8.	403
XXXIV	Registered Market Makers – Equity Floor	These rules have been deleted entirely.	406
XXXV	Secondary Trading Session	These rules have been deleted entirely.	411
XXXVI	Baskets	These rules have been deleted entirely.	415
XXXVII	Chicago Match	These rules have been deleted entirely.	423

**SECTION ONE OF THE PROPOSED RULES**

**ARTICLE 1[I]**

**Definitions and General Information**

**Definitions**

RULE 1. Whenever and wherever used in these Rules, unless the context requires otherwise, the following terms shall have the respective meanings ascribed to them below:

a. “Act” or “Exchange Act” means the Securities Exchange Act of 1934, as amended.

b[a]. No change to text.

c. “Amex” means the American Stock Exchange.

d.[b.] No change to text.

e. “BBO” means the best bid and/or offer in the Exchange’s Matching System.

f.[c.] No change to text.

g. “CHX” means the Chicago Stock Exchange, Inc. See “Exchange” definition, below.

h. “CHX Holdings” means CHX Holdings, Inc., of which CHX is a wholly-owned subsidiary.

i.[d.] No change to text.

j[e]. No change to text.

k.[f.] No change to text.

l[g.] No change to text.

[h. "Floor" means the trading floor of the Exchange.]

m[i.] No change to text.

n. “Institutional broker” means a member of the Exchange who is registered as an institutional broker and has satisfied all Exchange requirements to operate as an institutional broker on the Exchange.

o. “NBBO” means, for listed securities, the size and price associated with the best bid among the markets participating in the ITS Plan, on a sell order, and the price and size associated with the best offer among the markets participating in the ITS Plan, for a buy order. For Nasdaq/NM securities, "NBBO" means the price and size associated with the best bid disseminated pursuant to SEC Rule 11Ac1-1 on a sell order and the price and size associated with the best offer disseminated pursuant to SEC Rule 11Ac1-1 on a buy order.

p.[j.] No change to text.

q. “Nasdaq” means the Nasdaq Stock Market, Inc.

r. “NYSE” means the New York Stock Exchange.

s.[k.] No change to text.

t.[l.] No change to text.

u. Primary market” means, unless otherwise designated by the Exchange, the listing market for a security; provided however, that if a security is traded by the NYSE, then the primary market for such security is the NYSE and if a security is traded by the Amex, then the primary market for such security is the Amex. If a security is traded on both the NYSE and the Amex, whichever of the two is the listing market is the primary market. If a security is traded on both the NYSE and Nasdaq, the NYSE will be considered the primary market.

v. “Rule 10a-1 and Regulation SHO” means Rule 10a-1 under the Exchange Act (17 CFR 240.10a-1) and Regulation SHO (17 CFR 242.200 et seq.), as amended, and any exemptive, no-action or other relief granted from the requirements of these provisions from time to time.

w. “Rules” means the rules of the Exchange adopted by the Exchange’s Board of Directors and approved by the Commission.

x. “Securities Act” means the Securities Act of 1933, as amended.

y.[m.] "Trading Facilities" means all of the Exchange's facilities for the trading of equity securities, including [Floor space provided by the Exchange and ]any and all electronic or automated order routing, execution and reporting systems provided by the Exchange.

z.[n.] No change to text.

## Order Types and Conditions

RULE 2. Unless otherwise specifically defined elsewhere in the CHX Rules, the following terms shall have the respective meanings ascribed to them, for purposes of all CHX Rules. Additional information about order types and conditions can be found in Article 20.

a. “Always display”: an order that should be displayed on the Exchange, and should not be routed to another market center or cancelled, even if it would appear to improperly lock or cross the ITS best bid or offer, or, when Reg NMS is implemented for a security, to constitute a locking or crossing quotation. This order indicator is designed to recognize that unintentional locks and crosses may occur, even if a participant uses reasonable efforts to avoid those situations, because of a variety of market conditions, including rapid updating of quotations in active stocks and use of the “ship and post” strategy described in Rule 7(c)(3). *(This order type or indication shall become effective with the implementation of Rule 611 of Reg NMS).*

b. “Benchmark”: an order, submitted by an institutional broker, to buy and sell the same security at a specific price, which meets the requirements of Rule 611(b)(7). A benchmark order may execute at any price, without regard to the NBBO or any other orders in the Matching System, and may represent interest of one or more participants of the Exchange. *(This order type or indication shall become effective with the implementation of Rule 611 of Reg NMS).*

c. “Cash settlement” means a transaction for delivery on the day of the contract.

d. “Cross”: an order to buy and sell the same security at a specific price better than the best bid and offer displayed on the Exchange and, for listed securities (and for Nasdaq/NM securities, when Reg NMS is implemented in those issues), equal to or better than the NBBO. A cross order may represent interest of one or more participants of the Exchange.

e. “Cross with satisfy”: an order to buy and sell the same security at a specific price that is equal to the best bid and offer displayed on the Exchange and, for listed securities (and for Nasdaq/NM securities, when Reg NMS is implemented in those issues), equal to or better than the NBBO, where one side of the order contains an instruction to execute orders already displayed in the Matching System at that price (up to a specified number of shares) against a specified party and then to execute the remainder of the shares on that side of the order as a cross order with the shares on the other side of the order.

f. “Cross with size”: an order to buy and sell at least 5,000 shares of the same security (A) at a price equal to or better than the best bid or offer displayed on the Exchange and, for listed securities (and, for Nasdaq/NM securities, when Reg NMS is implemented in those issues), the NBBO; (B) where the size of the order is larger than

the aggregate size of all interest displayed on the Exchange at that price; and (C) where neither side of the order is for the account of the CHX participant sending the order to the Matching System. An order sent on an agency or riskless principal basis to the Matching System shall not be considered to be for the account of the CHX participant sending the order to the Matching System.

g. “Cross with yield”: an order to buy and sell the same security (A) at a price equal to or better than the best bid or offer displayed on the Exchange and, for listed securities (and for Nasdaq/NM securities, when Reg NMS is implemented in those issues); (B) that consists of a customer order, on one side of the market, and an instruction from a participant, on the other side of the market, to match the participant as principal against the customer order, up to a specified number of shares, but to yield the participant’s interest, in whole or in part, to any order already displayed in the Matching System at the same or better price.

h. “Day”: an order that is in effect only for the day on which it is submitted to the Exchange.

i. ”Do not display”: an order, for at least 1,000 shares when entered, that is not to be displayed in whole or in part.

j. “Do not route”: an order that should only be executed or displayed within the Exchange’s Matching System and should not be routed to another market.

k. “Fill or kill” or “FOK”: an order that is to be executed in full at or better than its limit price as soon as the order is received by the Matching System, but that should be immediately cancelled if it cannot be executed in full. An FOK order may be executed at one or more different prices.

l. “Immediate or cancel” or “IOC”: an order that is to be executed, either in whole or in part, at or better than its limit price as soon as the order is received by the Matching System, with any unexecuted balance of the order to be immediately cancelled. IOC orders shall be executed against any orders at the Exchange’s BBO (including any reserve size or other undisplayed orders at that price).

m. “IOC market”: a market order that is to be executed, either in whole or in part, at the Exchange’s BBO (including any reserve size or other undisplayed orders at that price), with any unexecuted balance of the order to be immediately cancelled.

n. “Intermarket sweep” or “ISO”: an order marked as required by SEC Rule 600(b)(30) that is to be executed against any orders at the Exchange’s BBO (including any reserve size or other undisplayed orders at that price) as soon as the order is received by the Matching System, with any unexecuted balance of the order to be immediately cancelled. The Matching System, in executing the ISO, shall not take any of the actions described in Rule 5 to prevent an improper trade-through. *(This order type or indication shall become effective with the implementation of Rule 611 of Reg NMS).*



o. “Limit order” (also known as “limited price order”) means an order to buy or sell a specific amount of a security at a specified price or better if obtainable once the order has been submitted to the market.

p. “Market order” means an order to buy or sell a specific amount of a security at the best price available once the order is presented in the market.

q. “Midpoint cross”: a cross order with an instruction to execute it at the midpoint between the Exchange’s best bid and its best offer.

r. “Mixed Lot” means, unless otherwise determined by the Committee on Exchange Procedure, any number of shares greater than 100 shares, that is not a multiple of a round lot.

s. “Next day settlement” means a transaction for delivery on the next business day following the day of the contract. Next day settlement may also include deliveries within the time specified in the contract which time may include the second full business day following the day of the contract.

t. “Non-regular way cross”: an order to buy and sell the same security that is not for regular way settlement. A non-regular way cross order may execute at any price, without regard to the NBBO or any other orders in the Matching System, and may represent interest of one or more participants of the Exchange.

u. “Non-regular way settlement” means a transaction to be settled on one of the following conditions: cash, seller’s option, or next day.

v. “Not held order” means an order with an instruction, specified by the customer, which permits an Exchange participant to use his judgment in determining the price of execution and/or the time to execute the order.

w. “Odd Lot” means, unless otherwise determined by the Committee on Exchange Procedure, any number of shares less than 100 shares.

x. “Opening cross”: an order to buy and an order to sell the same security at the opening price. For purposes of this definition, the opening price for listed securities shall be the primary market opening price. For Nasdaq/NM securities, the opening price shall be the midpoint of the first unlocked, uncrossed market that occurs on or after 8:30 a.m.

y. “Outbound ISO”: an order marked as required by SEC Rule 600(b)(30)(i) that is to be executed at or better than its limit price as soon as the order is received by the Matching System, with any unexecuted balance of the order to be immediately cancelled, coupled with one or more ISO orders designed to execute against any protected bids or offers at other market centers as required by Rule 600(b)(30)(ii).

Orders marked outbound ISO shall be executed against any eligible orders in the Matching System (including any reserve size or other undisplayed orders). Other than the routing of ISOs to other market centers, no action shall be taken to prevent an improper trade-through. (This order type or indication shall become effective with the implementation of Rule 611 of Reg NMS).

z. “Price-penetrating ISO”: an order marked as required by SEC Rule 600(b)(30) that is to be executed at or better than its limit price as soon as the order is received by the Matching System, with any unexecuted balance of the order to be immediately cancelled. Orders marked as price-penetrating ISO shall be executed against any eligible orders in the Matching System (including any reserve size or other undisplayed orders, through multiple price points). The Matching System, in executing these orders, shall not take any of the actions described in Rule 5 to prevent an improper trade-through. (This order type or indication shall become effective with the implementation of Rule 611 of Reg NMS)

aa. “Regular way settlement” means a transaction for delivery on the third full business day following the day of the contract.

bb. “Reserve size”: an order that identifies a portion of the order that should be displayed and a portion of the order that should not be displayed, along with an instruction that the displayed portion should be refreshed with a specific number of shares whenever the displayed share size falls below a specified threshold.

cc. “Round lot” means, unless otherwise determined by the Committee on Exchange Procedure, 100 shares.

dd. “Sell short”: an order to sell a security that is required to be marked “short” under the provisions of Regulation SHO.

ee. “Seller's option” means a transaction for delivery within the time specified in the option, which time shall not be less than four (4) full business days nor more than 60 days following the day of the contract; except that the Exchange may provide otherwise in specific issues of stocks or classes of stocks.

ff. “Time in force”: an order that is to be executed, in whole or in part, within a specified time period, with any unexecuted balance of the order to be immediately cancelled at the end of the specified time period. No time in force order shall be in force longer than the trading day on which it is received.

### **Time**

RULE 3. All times identified in the Rules, unless otherwise specified, are in Central Time.

**ARTICLE 2[IV]**

**Committees**

\* \* \*

**Committee on Exchange Procedure**

RULE 5. There shall be a Committee on Exchange Procedure which shall have not less than seven members (at least three of whom shall be active on [the Floor of] the Exchange[ as specialists, odd-lot dealers or floor brokers]). The chairman shall be a member of the Executive Committee. It shall have general supervision of the conduct and dealings on the [Floor of the ]Exchange and shall have the power to enforce the Exchange's rules and regulations by recommending staff investigations for violations thereof, in accordance with the procedure in Article 12[XII]. [The Committee shall coordinate with and provide information and assistance to the Committee on Specialist Assignment and Evaluation.]

\* \* \*

**[Committee on Specialist Assignment and Evaluation]**

[RULE 6. There shall be a Committee on Specialist Assignment and Evaluation which shall have not less than five members. The majority of the members of this Committee shall not be affiliated with broker/dealers and no member of the Committee may be affiliated with a specialist unit. The Chairman of this Committee shall not be affiliated with a broker/dealer. The Committee shall have the responsibility for appointing specialists, co-specialists, relief specialists and odd-lot dealers, evaluating and monitoring their performance, and conducting de-registration proceedings in accordance with the provisions of Article XXX. It shall consult and coordinate with the Exchange Procedure Committee where appropriate to ensure that the expertise available through the Exchange Procedure Committee is utilized in connection with the performance of these responsibilities.]

\* \* \*

**Participant Advisory Committee**

RULE 10. There shall be a Participant Advisory Committee, which shall have not less than five members, all of whom shall be Participants. The Committee shall have the responsibility to recommend for adoption by the Board of Directors rules or regulations as may be necessary for the convenient and orderly transaction of business on the Exchange[ 's Floor and through the Exchange's Trading Facilities]. It shall also advise Exchange management regarding enhancements to the Exchange's [Trading F]acilities and other issues affecting Participants.

**ARTICLE 3[II]**

**Participants**

**Qualifications**

RULE 1. No person or entity shall transact business on the Exchange unless they hold a valid Trading Permit. An applicant for a Trading Permit shall meet, and a Participant shall continue to meet, the following basic qualifications:

**Citizenship, Age and Form of Organization**

- (a) No change to text.

**No Statutory Disqualification**

- (b) No change to text.

**Primary Purpose of Participant**

(c) The primary purpose of every Participant shall be the transaction of business as a broker or dealer in securities. With prior approval of the Exchange, Participants may engage in any activities substantially related to the securities business.

[(1) (a) Any transaction for the account of a parent firm (as defined in Rule 1(k) of this Article) not organized and doing business in the United States or Canada which, under the laws or customs of the country of its organization or principal place of business, may act as a broker or dealer in securities and which is acting in such transaction as agent for a non-affiliated customer of such parent firm shall be deemed public business, provided that the Participant shall provide the Exchange with such information and documents as it may request in order to verify the public nature of such transactions.

(b) Any transaction effected on another national securities exchange which, under the rules of such other exchange, is counted toward satisfaction of a public securities business requirement imposed by the rules of such other exchange shall be deemed public business, whether or not such transaction would otherwise be counted toward satisfaction of the public securities business requirement of this Rule.]

\* \* \*

RULE 2. (a) A Trading Permit confers on a Participant the revocable license to execute approved securities transactions [on the Exchange's Floor or ]through the Exchange's trading facilities or to have those transactions executed on its behalf. An individual Participant may function either (i) as an Institutional Broker Representative or

a Market Maker Trader [as a co-specialist, floor broker or registered market maker;] or  
(ii) as a partner or officer of a Participant Firm.

\* \* \*

### **Application Procedure**

RULE 3. Applications for Trading Permits shall be made according to the following procedures:

#### **Application**

(a) Each application for a Trading Permit shall be made in writing and be filed with the [Secretary of the]Exchange. All applications shall be investigated by the staff to determine if the applicant meets applicable [the] requirements[ for Participants].

#### **[Staff] Initial Determination**

(b) The Exchange shall approve an application for a Trading Permit if it finds that the applicant is qualified to hold a Trading Permit. If the Exchange [staff] determines that the applicant is not qualified to hold a Trading Permit, the applicant shall be sent a statement of reasons therefor and may, within [15]30 days of the receipt thereof, file a request with the Secretary of the Exchange [the Executive Committee] for a hearing on the matter, in accordance with the provisions of Article 15. [that it consider his or its application together with a written statement indicating why in his or its opinion the staff determination is in error or insufficient to preclude the issuance of a Trading Permit.]

#### **[Notice and Posting]**

(c) If the staff preliminarily determines that the applicant is qualified to hold a Trading Permit or if the applicant files a request with the Executive Committee pursuant to paragraph (b), the name of the applicant shall be posted upon the bulletin board on the Floor of the Exchange for ten business days and notice thereof mailed to all Participants.]

#### **Term of Trading Permit**

([d]c) No change to text.

#### **[Posting and Voting on Trading Permit Application]**

[RULE 4. During the posting period for a Trading Permit application pursuant to Rule 3 of this Article, any Participant may file an objection to the application with the Chairman of the Executive Committee. The applicant shall be sent a statement of reasons for such objection and may, within 10 business days of the receipt thereof, file a written response thereto with the Executive Committee.]

[If the staff made a preliminary determination that the applicant is qualified to hold a Trading Permit, if no objections were filed during the posting period, and if no material information that adversely reflects upon the applicant comes to the attention of the staff before the expiration of the posting period, the Trading Permit shall automatically become effective at the opening of business on the first business day after the expiration of the posting period. If all three of these conditions are not present for a particular applicant, the staff shall so notify the applicant of such fact and the Executive Committee shall consider the posted application and vote upon the application. The affirmative votes of a majority of the members of the Executive Committee present at the time of voting shall be required to approve the application.]

[In the event the applicant does not receive such majority vote, he, she or it shall have the right to a hearing before the Executive Committee, conducted in accordance with procedures set forth in a notice of such hearing to be given to the applicant. Following the hearing, the Executive Committee shall again vote upon the applicant, a majority vote of the members of the Executive Committee present at the time of voting being required to elect. The decision of the Executive Committee shall be final.]

### **Registration of Participant Firms**

RULE 4[5] No change to text.

### **Transfers of Trading Permits**

RULE 5[6] No change to text.

### **Termination of Trading Permit by Participant**

RULE 6[7] No change to text.

### **Suits Against Officers, Directors and Staff**

RULE 7[8] No change to text.

### **Limitation of Liability**

RULE 8[9] No change to text.

**ARTICLE 4[III]**

**Participant Firms**

\* \* \*

**Filing Requirements  
Parties Bound by Rules of Exchange**

RULE 4. All partnership articles, articles of incorporation, bylaws and all amendments thereto of a Participant Firm for which this Exchange is the Designated Examining Authority ("DEA") or of a Participant Firm subject to examination by another self-regulatory organization not having a comparable rule shall be submitted to and be acceptable to the Exchange. A Participant Firm, for which the Exchange is the DEA, that is a corporation shall also file with the Exchange a current list and descriptive identification of all officers and directors, as well as evidence, satisfactory to the Exchange, that the officers of the Participant Firm are duly authorized to act for the Participant Firm[ in entering into contracts on the floor of the Exchange].

General partners or officers of a Participant Firm who are not themselves Participants, shall be bound by the bylaws and Rules of the Exchange.

\* \* \*

**"Nominee" and "Voting Designee" of Participant Firm**

**RULE 13. Designation**

(a) A Participant Firm [which is such because of the direct ownership of a Trading Permit] shall designate in writing filed with the Exchange a Nominee and a Voting Designee, for each Trading Permit that it holds. The Nominee and Voting Designee [(who may be the same or different persons[])]. A Participant Firm holding[owning] more than one Trading Permit may make the same or different designations for its several Trading Permits. Designations of Nominees shall be subject to approval by the Exchange in accordance with the procedures set forth in Rules 2 and 3 of Article II. The Exchange and all other persons shall be entitled to rely upon such designations until a substitute Nominee or Voting Designee has been designated as provided by paragraph (e) of this Rule or until a new Nominee or Voting Designee has been approved by the Exchange.

**Nominees**

(b) A Nominee of a Participant Firm shall have, subject to the provisions of the Constitution and Rules, all the privileges of an individual Participant and full authority to represent and act for the Participant Firm in all Exchange matters (except those matters upon which the vote, consent or similar formal expression of the Participant

Firm is required or permitted or in connection with meetings of Participants or the obtaining of any such consent or similar formal expression). A Participant Firm shall identify each person acting as an Institutional Broker Representative or a Market Maker Trader on behalf of the firm as the Nominee on a Trading Permit. [Only such Nominee may act as a broker for the Participant Firm if it desires to effect transactions on the Floor without the services of another broker. The Nominee of a Participant Firm shall be one of its general partners or, with the approval of the Board of Directors, another person affiliated with such Participant Firm.] Except as otherwise specifically provided, the word "Participant" whenever used in the Rules shall include and also mean the Nominee of a Participant Firm organization but shall not include the voting designee if a different person.

### **Voting Designees**

(c) A Voting Designee of a Participant Firm shall represent and act for the Participant Firm with respect to any matter upon which its vote, consent or similar formal expression is required or permitted and in connection with all meetings of Participants and the obtaining of any such consent or similar formal expression. A Voting Designee of a Participant Firm shall be one of its general partners, the chairman of its board, or one of its officers[its president or one of its vice presidents].

\* \* \*

### **Transfer of Equity Securities of a Participant Firm**

RULE 15. No Participant Firm for which this Exchange is the Designated Examining Authority and no officer, director or principal stockholder of such a Participant Firm shall, without the prior consent of the Exchange, sell, assign, transfer, pledge or hypothecate equity securities of the Participant Firm except to an officer, director or principal stockholder thereof; provided, however that such consent need not be obtained for any such transaction by an officer, director or principal stockholder involving less than 1% of a class of equity securities of the Participant Firm but a report shall be filed if and when two or more such transactions by any one officer, director or principal stockholder have aggregated 1% or more of a class of equity securities. No Participant Firm shall redeem or purchase its own shares, or in any other manner effect a reduction in its capital stock, without the prior consent of the Exchange.

\* \* \*



• • • *Interpretations and Policies*

\* \* \*

**[.04 Floor Traders and Floor Brokers]**

[The Exchange will not consent to a sale to persons other than officers, directors or principal stockholders of the equity securities of a Participant Firm whose principal purpose and activity are to operate as a floor broker and/or registered floor trader.]

\* \* \*

**ARTICLE 5[V]**

**[Admission to Floor – Communications]**

**Access To The Exchange**

**Access to Exchange Systems**

RULE 1. Each Participant shall have reasonable procedures to maintain the physical security of the equipment used to access the Exchange to prevent improper use of, or access to, the Exchange.

**• • • Interpretations and Policies:**

.01 Each Participant shall maintain and regularly update a list of persons who may obtain access to the Exchange on the Participant’s behalf. Participants must provide that list to the Exchange upon request.

**Required Payment of Fees**

RULE 2. As a condition of access to, and participation in, the Exchange, each participant must agree to pay, to the Exchange, any fees charged by the Exchange, including fees associated with the routing of orders to other markets.

**Non-Participant Access to the Exchange**

RULE 3. (a) A Participant (the “Sponsoring Participant”) may provide authorized access to the Exchange for a non-participant, through a clearing arrangement or otherwise, only if the Sponsoring Participant, the non-participant and the Exchange (as appropriate) enter into one or more written agreements, in a form acceptable to the Exchange, prior to any access to the Exchange, that contain all of the following terms:

(1) All orders submitted by the non-participant, and any executions resulting from those orders, are binding in all respects on the Sponsoring Participant;

(2) The Sponsoring Participant is responsible for all actions taken and fees incurred in connection with any order submitted or transaction executed by the non-participant;

(3) In all matters relating to the non-participant’s access to the Exchange and its use of Exchange facilities, the Exchange shall communicate with the Sponsoring Participant and shall not be required to communicate with the non-participant at any time;

(4) The non-participant agrees that it will have reasonable procedures to maintain the physical security of the equipment used to access the Exchange to prevent improper use of, or access to, the Exchange; and

(5) The Sponsoring Participant agrees that it will indemnify and hold the Exchange harmless from any liability, loss, claim or expense which the Exchange may incur in connection with the agreement.

(b) The Sponsoring Participant must provide signed copies of the agreements required by section (a) to the Exchange prior to the non-participant's access to the Exchange through the Sponsoring Participant.

### **[Visitors on Floor]**

[RULE 1. Visitors shall not be admitted to the Floor of the Exchange except by permission of a member of the Committee on Floor Procedure or an officer of the Exchange.]

### **[Communications and Announcements]**

[RULE 2. Communications and/or announcements shall not be posted on the bulletin board on the Floor of the Exchange or read to the Exchange without the consent of the Chief Executive Officer, or a person authorized by him to give such consent.]

### **[Admission to Floor by Employee of Participant]**

[RULE 3. No employee of a Participant shall be admitted to the Floor of the Exchange unless he is registered with and approved by the Exchange, and upon compliance of both the employer and the employee with such requirements as the Exchange may determine. The privilege of admission to the Floor of the Exchange of any such employee may be revoked by the Exchange for cause it deems to be sufficient.]

### **[• • • Interpretations and Policies:]**

**[.01** Applications for Registration – Registration applications for all employees of Participants for admission to the Floor shall be submitted to the Exchange on the Uniform Application for Securities Industry Registration or Transfer (Form U-4).]

**[.02** Fingerprinting – All Floor employees of Participants and all employees of Participants who have submitted registration applications for admission to the Floor are required to be fingerprinted and to submit, or cause to be submitted, such fingerprints to the Exchange for identification and appropriate processing.]

[.03 Termination – Following the termination of a Floor employee, a Participant shall promptly, but in no event later than thirty (30) calendar days after such termination, give written notice of such termination to the Exchange on Form U-5 and concurrently provide a copy of such notice to the person who has been terminated.]

**[Participant Wires from Floor]**

[RULE 4. No Participant shall establish or maintain any telephone or other wire communication between his or its office and the Exchange, without prior approval by the Exchange. The Exchange may direct discontinuance of any communication facility terminating on the Floor of the Exchange. It may deprive any Participant of the privilege of using any public telephone or means of communication installed by the Exchange for the use of Participants.]

[· · · Interpretations and Policies]

[.01 Beginning September 30, 2005 (for Dual Trading System issues) or October 31, 2005 (for NASDAQ/NM securities), no Participant shall use any electronic means of communication for sending orders to trade in another market or trading venue (a “layoff service”), until the Participant, or the provider of the layoff service, has established a process for providing the Exchange for such orders, on a real-time basis and in an electronic format acceptable to the Exchange, the following information:

- (1) Symbol;
- (2) Clearing Participant;
- (3) Order identifier that uniquely identifies the order;
- (4) Identification of Participant recording the order details;
- (5) Number of shares or quantity of security;
- (6) Side of market;
- (7) Designation of order type (e.g., market, limit, stop, stop limit);
- (8) Whether the order is for the account of a customer or for the account of the Participant sending the order;
- (9) Whether the order is short or short exempt;
- (10) Any limit price and/or stop price;
- (11) Date and time of order transmission;
- (12) The market to which the order was transmitted;
- (13) Time in force;
- (14) Designation as held or not held;
- (15) Any special conditions or instructions (including any customer do-not-display instructions and any all-or-none conditions);
- (16) Any modifications to the details set out in (1)- (15) above, for all or part of an order, or any cancellation of all or part of the order;
- (17) Date and time of transmission of any modifications to the order or any cancellation of the order;
- (18) Date and time of any order expiration;
- (19) Identification of the party cancelling or modifying the order;

- (20) Transaction price (if applicable);
- (21) Number of shares executed (if applicable);
- (22) Date and time of execution (if applicable);
- (23) Settlement instructions;
- (24) System-generated time(s) of recording required information; and
- (25) Such other information as the Exchange may from time to time require.]

[.02 Each Participant or layoff service provider shall synchronize its business clocks that are used for purposes of recording the date and time of any event that must be recorded pursuant to this provision with reference to a time source as designated by the Exchange, and shall maintain the synchronization of such business clocks in conformity with such procedures as are prescribed by the Exchange.]

[.03 For purposes of this rule, an order shall be any written, oral or electronic instruction to effect a transaction. Each required record of the time of an event shall be expressed in terms of hours, minutes and seconds. ]

[.04 Failure to comply with the provisions of this rule may be considered conduct inconsistent with just and equitable principles of trade, in violation of Article VIII, Rule 7.]

[.05 No Participant shall use an alternative or additional layoff vendor until it has notified the Exchange of the change.]

[.06 The provisions of this Rule do not replace any record retention obligations to which the Exchange's Participants may be subject under the Exchange Act and the rules thereunder.]

**ARTICLE 6[VI]**

**[Restrictions and Requirements]  
Registration, Supervision and Training**

\* \* \*

**Registration and Approval of Participant Personnel**

**RULE 2. Registration.**

(a) All registered persons (as defined in subsection (b) below) shall be registered with the Exchange; provided that the Exchange may waive this requirement or may permit a short-form registration or notification in the case of an individual who is properly registered with another self-regulatory organization having registration and examination procedures acceptable to the Exchange. Every other employee and person associated with a Participant must also be acceptable to the Exchange.

(b) Registered persons are Participants and persons associated with a Participant who are engaged or will be engaged in the securities business of a Participant, or the management of such securities business, including the functions of supervision, solicitation, conduct of business or the training of persons associated with a Participant for any of these functions. Such registered persons shall include without limitation:

- (1) Sole Proprietors;
- (2) Officers;
- (3) Partners;
- (4) Principal Stockholders (as defined in Article III, Rule 4);
- (5) Directors;
- (6) Branch office managers;
- (7) Persons acting as Institutional Broker Representatives and Market Maker Traders[Nominees ];
- (8) Representatives (including any persons performing the duties customarily performed by a salesperson or registered representative);
- (9) Persons engaged in any of the following functions on behalf of a Participant:
  - (i) underwriting, trading or sales of securities;
  - (ii) research or investment advice, other than general economic

information or advice, with respect to the activities described in subparagraph (i) above; and

(iii) activities other than those specifically mentioned that involve communication, directly or indirectly, with public investors in securities in connection with activities described in subparagraphs (i) and (ii) above; and

(10) Persons listed on Schedules A, B or C of a Participant's Form BD.

**Persons Exempt from Registration.**

(c) No change to text.

**Other Registration Requirements.**

(d) No change to text.

**Associated Persons**

(e) If a Participant knows, or in the exercise of reasonable care should know, that any prospective employee or person associated with the Participant is subject to one or more statutory disqualifications referred to in the Exchange Act, such Participant shall submit details, similar to those required on Form U-4, on such prospective employee or person associated with such Participant to the Exchange and receive Exchange approval before such person becomes associated with the Participant. Each Participant shall take reasonable care to determine the existence of a statutory disqualification prior to employing any prospective person to be associated with the Participant. If a person already associated with a Participant thereafter becomes subject to a statutory disqualification, notice shall be sent to the Exchange promptly, either in the form of an amended Form U-4 (for registered persons) or through a written description that provides the same information as required by the Form U-4 (for associated persons who are not registered).

**Participants and Participant Firms**

(f) If a Participant or Participant Firm becomes subject to a statutory disqualification, the Participant or Participant Firm shall promptly notify the Exchange.

• • • *Interpretations and Policies:*

.01 No change to text.

.02 Termination of Registered Persons. Following the termination of a person associated with a Participant in a registered capacity, such Participant shall promptly, but in no event later than thirty (30) calendar days after such termination, give written notice of such termination to the Exchange on Form U-5, and concurrently provide a copy of such notice to the person whose association has been terminated. [This requirement shall only apply to Participant Firms for which the Exchange is the Designated Examining Authority and to registered persons of other Participant Firms active on the CHX trading floor.]

.03 Termination of Other Associated Persons. Following the termination of a person associated with a Participant, but not in a registered capacity, such Participant shall promptly, but in no event later than thirty (30) calendar days after such termination, give written notice of such termination to the Exchange.

.04 These requirements shall only apply to Participant Firms for which the Exchange is the Designated Examining Authority and to registered persons of other Participant Firms where the registered persons act as Institutional Broker Representatives or Market Maker Traders on the Exchange.

### **Training and Examination of Registrants**

RULE 3. The Exchange may require the successful completion of a training course or an examination, or both, in connection with the registration of Participants and persons associated with a Participant, and may charge fees for such registration and examination. [This provision shall apply to all Participants, including Participants which are to be solely on the Floor of the Exchange.]

• • • *Interpretations and Policies:*

.01 [Floor Participants]Persons Registered in Special Capacities

(a) [Floor Exam]Institutional Broker Exam

All applicants seeking to register as Institutional Broker Representatives [for a Trading Permit and requesting a floor presence ]must successfully complete the Institutional Broker [Floor ]Exam.

(b) Market Maker Exam

Prior to the Exchange approving a Participant's request to qualify as a [m]Market [m]Maker Trader, such Participant must successfully complete the Market Maker Exam. [Successful completion of the Floor Exam is a pre-requisite for the Market Maker Exam.



Anyone holding a special floor registration as a co-specialist shall not be required to take the Market Maker Exam in order to function as a Market Maker.]

[(c) Co-Specialist Exam

In order for a Participant to be qualified as a co-specialist such Participant must take the Co-Specialist Exam. Such Participant may take the Exam no sooner than 90 days after he/she has been recognized by the Exchange Procedure Committee as a Participant/Relief Specialist under supervision. Successful completion of the Floor Exam is a prerequisite for the Co-Specialist Exam. Upon successful completion of the Co-Specialist Exam, a co-specialist may petition the Exchange Procedure Committee to be removed from supervision and to function as a co-specialist.]

(c[d]) Public Business Exam

[Floor ]Participants who successfully complete the Series 7 Examination may conduct a public business which is limited to accepting orders while acting as Institutional Broker Representatives [on the floor ]directly from nonbroker-dealer customers. In lieu of the Series 7 Examination, [Floor ]Participants who act as Institutional Broker Representatives and successfully complete the Series 7A Examination may conduct a public business which is limited to accepting orders directly from professional customers for execution on the Exchange[trading floor]. [Floor c]Clerks, employed by [floor ]Participants that have successfully completed the Series 7 or Series 7A Examination, may accept orders from professional customers for execution on the Exchange[trading floor ]so long as such clerks successfully complete both the Institutional Broker Representative [Floor] Exam and either the Series 7 Examination or the Series 7A Examination. For purposes of this interpretation and policy, a "professional customer" includes a bank; trust company; insurance company; investment trust; a state or political subdivision thereof; a charitable or nonprofit educational institution regulated under the laws of the United States, or any state; a pension or profit sharing plan subject to ERISA or of any agency of the United States or of a state or political subdivision thereof; or any person (other than a natural person) who has, or who has under management, net tangible assets of at least sixteen million dollars.

(e) Joint Back Office Participants

No change to text.

**.02** Other Persons [off the floor]

Associated persons of Participants for which the Exchange is the Designated Examining Authority ("DEA") who execute, make trading decisions with respect to, or otherwise engage in proprietary or agency trading of equities, preferred securities or convertible debt securities, must successfully complete the Uniform Registered Representative Exam, Series 7. This interpretation and policy .02 shall not apply to any associated person who is subject to the examination requirements of interpretation and policy .01[because he or she is physically located on the floor of the Exchange].

\* \* \*

**Supervision of Registered Persons [Participants] and [Their] Branch and Resident Offices**

RULE 5. (a) Designation of persons with supervisory authority. Each Participant Firm for which this Exchange is the Designated Examining Authority must designate a principal executive officer, general partner or managing partner to hold overall authority and responsibility for the firm's internal supervision and compliance with securities laws and regulations. This designated supervisor may formally delegate his or her supervisory authority and responsibility to other persons within the firm. Participants must maintain, for a period of not less than three years, records of the names of all persons who are designated as supervisory personnel and the dates for which those designations are effective.

(b) Written supervisory procedures. Each Participant Firm shall establish, maintain and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of registered and associated persons. Such written procedures must be reasonably designed to achieve compliance with applicable securities laws and regulations, and with the applicable rules of the Exchange.

The Participant Firm's written supervisory procedures shall set forth the supervisory system established by the Participant Firm; the titles, registration status and locations of the required supervisory personnel; and the responsibilities of each supervisor as they relate to the types of business engaged in, applicable securities laws and the rules of the Exchange.

A copy of a Participant Firm's written supervisory procedures, or the relevant portions thereof, shall be maintained at each location where supervisory activities are conducted on behalf of the firm. Each Participant Firm shall amend its written supervisory procedures as appropriate within a reasonable time after changes occur in applicable securities laws and regulations, including the rules of the Exchange, and as changes occur in the supervisory system. Each Participant Firm shall be responsible for communicating these amendments within its organization.

Each Participant Firm shall maintain records evidencing actual review of transactions, systems, programs or other activities by the designated supervisory personnel pursuant the written supervisory procedures.

(c) Internal controls and training. At least annually, each Participant Firm must discuss compliance matters with its registered and associated persons and must maintain records confirming the dates of these discussions and the subject matters that were discussed. Each Participant Firm must also establish internal controls to determine that proper supervision is being exercised.

(d) Branch and resident offices. A Participant Firm for which this Exchange is the Designated Examining Authority or which is subject to examination by another

self-regulatory organization not having a comparable rule, shall not open a branch or resident office unless it has obtained the prior written approval of the Exchange. Application for approval of the opening of a branch or resident office shall be made on a form provided by the Exchange at least one month (or such shorter period as the Exchange may approve) prior to the proposed opening date of the office.

[(b) ]A Participant Firm which maintains branch or resident offices shall establish procedures providing for close supervision of such offices, and shall maintain a close, responsible relationship with the person in charge of such office or offices. A designated partner or officer of the main office shall be personally responsible for proper supervision of such branch or resident office.

[(c) Each Participant shall establish written procedures, and a system for applying such written procedures, to assure that its registered representatives and other employees are adequately and closely supervised. No such system shall be deemed adequate unless it is reasonably designed to prevent and detect, insofar as practicable, violations of the applicable securities laws, the rules and regulations thereunder, and the Constitution and Rules of the Exchange.]

• • • *Interpretations and Policies:*

**.01 Registration of new branch offices. –**

Outlined below are the steps to be taken when registering new branch offices as required by Rule 5(d) above.

(1) Each Participant Firm must forward a completed Schedule E to Form BD to the Exchange.

(2) Before approval of the branch office is granted, the office manager or the registered representative in charge must have completed the Exchange requirements for registration.

The office may begin operating as a branch on receipt of written approval from the Exchange.

[(3) Firms that are also members of the New York Stock Exchange are not subject to these requirements. However, New York Stock Exchange members will be required to notify the Exchange in writing of any openings and closings of a branch office, along with the name of the office manager.]

**[.02 Written supervisory procedures. – ]**

[Every Participant shall establish, maintain, and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of registered representatives, employees and associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with the applicable rules of the Exchange and as required by Section 15(f) of the Exchange Act

and SEC Rule 17a-8. The Participant's written supervisory procedures shall set forth the supervisory system established by the Participant and shall include the titles, registration status and locations of the required supervisory personnel and the responsibilities of each supervisory person as these relate to the types of business engaged in, applicable securities law and regulations, and the rules of the Exchange. The Participant shall maintain internal records of the names of all persons who are designated as supervisory personnel and the dates for which such designation is or was effective. Such record shall be preserved by the Participant for a period of not less than three years, the first two years in an easily accessible place.]

[A copy of a Participant's written supervisory procedures, or the relevant portions thereof, shall be kept and maintained at each location where supervisory activities are conducted on behalf of the Participant. Each Participant shall amend its written supervisory procedures as appropriate within a reasonable time after changes occur in applicable securities laws and regulations, including the rules of the Exchange, and as changes occur in its supervisory system, and each Participant or organization shall be responsible for communicating amendments through its organization.]

### **Employment of Clerks[ on the Floor]**

RULE 6. No Participant shall employ a Participant as a clerk [on the Floor of the Exchange, except ]for [a period of not ]more than six months after he or she is registered as an Institutional Broker Representative or a Market Maker Trader[from his receipt of a Trading Permit].

\* \* \*

### **[Review Procedure]**

[RULE 8.]

### **[Exchange Review]**

[(a) Any person or organization adversely affected by a determination made under this Article or under Rule 6 or Rule 7 of Article III may obtain a review request thereof before the Executive Committee by filing a written request for review with the Secretary of the Exchange within fifteen days after such determination is made known. A party seeking review shall be given adequate notice of the time and place of a hearing before the Executive Committee. He may examine all witnesses and documents presented at the hearing and present such testimony, documents and arguments as he sees fit. Formal rules of evidence shall not apply and the Executive Committee may consider any matter it believes will aid it in reaching a reasonable and just decision on the questions presented in the hearing. A transcript of the hearing shall be made and a decision shall be made by a majority vote of the members of the Executive Committee, present at the hearing. The Executive Committee may affirm, modify or set aside the determination reviewed. Copies of the decision shall be delivered to the Secretary of the Exchange and

to the person or organization who requested review. In the event the Executive Committee affirms the initial determination, the adversely affected party may petition the Board of Governors for review thereof. In the event that the Board of Governors reviews a determination pursuant to this Rule, the Board of Governors shall not overturn the determination of the finder of law and fact if the factual conclusions in such determination are supported by substantial evidence and such decision is not arbitrary, capricious or an abuse of discretion.]

### **[Stay of Enforcement]**

[(b) The enforcement of any determination made under this Article shall be stayed pending the outcome of review by the Executive Committee or Board of Governors provided for by this Rule, subject, however, to the power of the Chief Executive Officer to impose such limitations on the adversely affected party as are necessary or desirable, in the judgment of the Chief Executive Officer, for the protection of such party's customers, its creditors or the Exchange or for the maintenance of just and equitable principles of trade.]

### **Disciplinary Actions by Other Organizations**

RULE 8. Disciplinary Action. Every Participant 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 or law enforcement department or agency against the Participant or its associated persons, and shall similarly notify the Exchange of any disciplinary action taken by the Participant 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.

### **Provision of Information to the Exchange**

RULE 9. (a) No Participant or partner, officer, director or other person associated with a Participant or other person or entity subject to the jurisdiction of the Exchange shall impede or delay an Exchange examination, inquiry or investigation (whether formal or informal) with respect to possible violations within the disciplinary jurisdiction of the Exchange or with respect to possible limitations on access to Exchange services or otherwise with respect to the discharge of its duties nor refuse to permit an inspection and copying of books, records, or accounts or to furnish testimony, documentary materials or other information requested by the Board of Directors or by the Exchange (or by any committee, subcommittee, or officer or employee thereof) during the course of such examination, inquiry or investigation or otherwise in furtherance of the discharge of its or his duties. Failure to permit an inspection and copying of books, records, or accounts or to furnish such testimony, documentary materials or other information requested pursuant to this Rule on the date or within the time period

requested shall be considered obstructive of an Exchange inquiry or investigation and shall be subject to formal disciplinary action.

(b) No Participant, or partner, officer, director or other person associated with a Participant or other person or entity subject to the jurisdiction of the Exchange shall refuse to appear and testify before another exchange or self-regulatory organization in connection with a regulatory investigation, examination or disciplinary proceeding or refuse to furnish documentary materials or other information or otherwise impede or delay such investigation, examination or disciplinary proceeding if the Exchange requests such information or testimony in connection with an inquiry resulting from an agreement entered into by the Exchange pursuant to subsection (c) of this Rule. The requirements of this Rule 9(b) shall apply regardless of whether the Exchange has itself initiated a formal investigation or disciplinary proceeding.

(c) The Exchange may enter into agreements with domestic and foreign self-regulatory organizations providing for the exchange of information and other forms of mutual assistance for market surveillance, investigative, enforcement and regulatory purposes.

**• • • Interpretations and Policies:**

.01 The terms “exchange” and “self-regulatory organization,” as used in Rule 9, shall include, but not be limited to, any member or affiliate member of the Intermarket Surveillance Group.

.02 Any person or entity required to furnish information or testimony pursuant to Rule 9 shall be afforded the same rights and procedural protections as that person or entity would have if the Exchange had initiated the request for information or testimony.

**Fingerprinting**

RULE 10. a. *Participants and Participant Firms.* Each Participant and Participant Firm is responsible for ensuring compliance with Section 17(f)(2) of the Exchange Act and SEC Rule 17f-2 regarding the fingerprinting of securities industry personnel.

b. *Exchange personnel, contractors and others with access to Exchange or CHX Holdings premises.* The Exchange shall conduct a fingerprint-based criminal records check of (1) all prospective employees; (2) all prospective and current independent contractors who have or are anticipated to have access to Exchange facilities for ten business days or longer; (3) all prospective and current temporary employees who have or are anticipated to have access to Exchange facilities for ten business days or longer; and (4) all other persons who have or are anticipated to have access to premises controlled by CHX Holdings, Inc. which are located in the same building as Exchange facilities.

• • • Interpretations and Policies:

.01 Participants may submit fingerprint cards to the Exchange for processing.

.02 The Exchange shall submit fingerprint cards obtained pursuant to sections (a) and (b) above to the Attorney General of the United States or his or her designee for identification and processing. The Exchange shall maintain the security of fingerprint cards and information received from the Attorney General or his or her designee.

In evaluating information received from the Attorney General or his or her designee pursuant to section (b) above, the Exchange shall consider this rule and applicable law. A felony or serious misdemeanor conviction will be a factor in considering whether to hire a prospective employee or to deny prospective or current independent contractors or temporary employees access to the Exchange's facilities or access to premises controlled by CHX Holdings, Inc. which are located in the same building as Exchange facilities.

Persons who refuse to provide fingerprints as required above shall be denied employment or, where applicable, denied access to Exchange facilities or CHX Holdings premises.

**Continuing Education for Registered Persons**

RULE [9]11. No change to text.

**Anti-Money Laundering Compliance Program**

RULE [10]12. No change to text.

**ARTICLE 7[XI]**

**Financial Responsibility and Reporting**

\* \* \*

**Net Capital and Aggregate Indebtedness**

RULE 3. (a)(1) No change to text.

[(2) A Participant that is registered as a specialist on the Exchange whose specialist transactions are effected through and carried in a specialist account cleared by another broker or dealer shall at all times –]

[(i) maintain, at a minimum, net capital that is the greater of (a) \$100,000, or (b) the amount prescribed by SEC 15c3-1 (17 CFR 240.15c3-1), and]

[(ii) maintain subordinated cash borrowings and secured demand notes equal to or greater than 50% of its total subordinated borrowings to the extent that these subordinated borrowings are part of the debt equity total.]

[(3) A Participant that is registered as a specialist on the Exchange and that clears its own specialist account(s) shall at all times –]

[(i) maintain (A) at a minimum, net capital that is equal to the greater of (1) \$100,000 or (2) the amount prescribed by SEC 15c3-1 (17 CFR 240.15c3-1); and (B) excess net capital equal to the greater of (1) \$500,000 (or the minimum amount required by the National Securities Clearing Corporation ("NSCC") for such direct participants), subject to the phase-in period set forth in Interpretation and Policy .01, below or (2) the amount prescribed by SEC 15c3-1.]

[(ii) maintain subordinated cash borrowings and secured demand notes equal to or greater than 50% of its total subordinated borrowings to the extent that these subordinated borrowings are part of the debt equity total.]

[(4) A Participant that clears the specialist accounts of another Participant registered as a specialist on the Exchange shall, at all times –]



[(i) maintain (A) at a minimum, net capital that is equal to the greater of (1) \$250,000 or (2) the amount prescribed by SEC 15c3-1 (17 CFR 240.15c3-1); and (B) excess net capital equal to the greater of (1) \$1,000,000 (or the minimum amount required by NSCC for such direct participants), subject to the phase-in period set forth in Interpretation and Policy .01, below or (2) the amount prescribed by SEC 15c3-1.]

[(ii) maintain subordinated cash borrowings and secured demand notes equal to or greater than 50% of its total subordinated borrowings to the extent that these subordinated borrowings are part of the debt equity total.]

[(5)2] A Participant shall promptly notify the Exchange if it ceases to be in compliance with the requirements of clause[s] (1)[, (2), (3), (4) or (5) (whichever is applicable)] of this paragraph (a) or if it becomes obligated to file monthly reports under paragraph (b) of this Rule.

\* \* \*

[(6)3] No change to text.

• • • *Interpretations and Policies:*

**[.01** Phase-in Periods for Minimum Capital Standards for Self-Clearing Specialists and Firms Clearing Specialist Accounts.]

[On May 8, 2000, the Exchange adopted separate minimum net capital and excess net capital standards for self-clearing specialists and firms clearing other specialist accounts, as specified in subsections (a)(3) and (a)(4) above. These minimum capital standards are to be phased in by June 30, 2000.]

[Self-Clearing Specialists]

[The amount specified in Rule 3(a)(3)(i)(B) above shall be \$350,000 effective on May 31, 2000; and \$500,000 effective on June 30, 2000.]

[Firms Clearing Other Specialists Accounts]

[The amount specified in Rule 3(a)(4)(i)(B) above shall be \$500,000 effective on May 31, 2000; and \$1,000,000 effective on June 30, 2000.]

\* \* \*

**[Guarantee Letters]**

[RULE 10. (a) No Participant registered as a floor broker and which does not clear its own transactions shall act as such on the Exchange unless there is in effect a Letter of Guarantee that has been issued for such floor broker by a clearing Participant Firm. A floor broker may have more than one such letter on file with the Exchange; provided, however, that a Letter of Guarantee with an earlier effective date will afford the clearing Participant Firm issuing such a letter a priority over each subsequent issuer of a Letter of Guarantee for claims made against the Participant.]

[(b) A Letter of Guarantee shall provide that the issuing clearing Participant Firms shall be responsible for the clearance of the Exchange transactions of the floor broker when the name of the clearing Participant Firm is given up.]

**Fixing and Paying Fees and Charges**

RULE 12. The Exchange shall fix the fees and other charges payable by a Participant in such amount as the Exchange deems necessary. Fees and charges shall be payable in accordance with the Exchange's schedule of fees and charges.

**• • • Interpretations and Policies**

.01 Any project, non-budgeted operational activity, capital expenditure, or lease commitment in excess of an amount as established by resolution of the Board of Directors, and any new service which is planned or expected to generate gross annual revenue in excess of an amount established by the Board of Directors, shall be approved by the Board prior to implementation.

**Failure to Pay Debts**

RULE 13. Any Participant or Participant Firm that shall fail to pay any debt for Trading Permit fees, fines, transaction fees, or other sums owing the Exchange or its subsidiaries within 60 days after the same shall become payable shall, after due notice, be suspended from trading on the Exchange until payment is made. If payment is not made within six months after such suspension, the Participant or Participant Firm's Trading Permit may be terminated on at least 10 days' written notice mailed to the Participant or Participant Firm at the address last registered with the Exchange.

**Fees and Charges of Participants in Military Service**

RULE 14. The Board of Directors may, upon written request, waive fees and charges for any Participant who is in the active military or naval service of the United States, or who is devoting all his working time to any public service incident to national defense.

## **ARTICLE 8**

### **Business Conduct**

#### **Adherence to All Rules and Bylaws**

RULE 1. No Participant or partner, officer, director, principal shareholder or registered employee of a Participant Firm shall violate any provision of the Rules or Bylaws of the Exchange or any resolution of the Board of Directors or Executive Committee regulating the conduct or business of Participants or partners, officers, directors or principal shareholders of Participant Firms.

#### **Acts Detrimental to Interest or Welfare of Exchange**

RULE 2. No Participant or partner, officer, director or registered employee of a Participant Firm shall commit any act detrimental to the interest or welfare of the Exchange or engage in conduct inconsistent with the maintenance of a fair and orderly market or the protection of investors.

#### **Responsibility for Acts of Others**

RULE 3. It is the responsibility of Participants and general partners and officers of Participant Firms to effect consistent compliance by their respective organizations with the Bylaws and Rules of the Exchange in areas where they have or should have direct or supervisory responsibility. Participants and general partners and officers of Participant Firms are liable to the same discipline and penalties for acts or omissions of their Participant Firm relating to these areas of responsibility as though such act or omission were their own personal act or omission.

#### **Fraudulent Acts**

RULE 4. No Participant, or partner, officer, director or registered employee of a Participant Firm, shall commit any fraud or fraudulent act.

#### **Prohibition of Misstatements**

RULE 5. No Participant, or partner, officer, director, principal shareholder or registered employee of a Participant Firm shall make a misstatement upon a material point to the Board of Directors, or to a committee, officer or employee of the Exchange. This prohibition shall also apply to applications made prior to acquisition of a trading

permit, registration as a Participant Firm, admission to partnership and election as an officer or director of a Participant Firm.

### **Attempt to Hide Prior Misdealings**

RULE 6. No applicant for a trading permit or registration as a Participant Firm nor any person about to become a partner, officer, director or registered employee of a Participant Firm shall fail to disclose to the Exchange the facts and circumstances of every fraudulent and dishonest act of which he or it has been guilty prior to such application.

### **Prohibited Accounts**

RULE 7. No Participant shall take or carry an account in which an employee of the Exchange or of a Participant is directly or indirectly interested, unless the written consent of the employer has first been obtained. An employee of any corporation, a majority of whose capital stock is owned by the Exchange, shall be deemed an employee of the Exchange within the meaning of this rule.

#### **••• Interpretations and Policies:**

.01 Written consent of the Exchange for accounts of employees of the Exchange shall be conditioned on the employee giving written instructions to the Participant Firm to send duplicate copies of confirmations to the Exchange's internal auditors.

### **Officers and Employees of Exchange and Other Industry Participants**

RULE 8. (a) No Participant shall:

(1) Employ or compensate for services rendered, any officer or employee of the Exchange, or of another Participant, without the prior written consent of the employer;

(2) Give any gratuity in excess of \$100 per person per year to any officer or employee of the Exchange, or of another Participant or to any officer or employee of a news or financial information medium, bank, trust company, insurance company, or any corporation, firm or individual engaged in the business of dealing, either as broker or principal in stocks, bonds or other securities, bills of exchange, acceptances or other forms of commercial paper, without the prior written consent of the employer.

(b) For purposes of this rule, a gift of any kind is considered a gratuity and an officer or employee of a corporation, a majority of whose capital stock is owned by the Exchange is considered an employee of the Exchange.

(c) A record shall be retained and be available for inspection by the Exchange for at least three years of each gratuity given to a person covered by (a)(2) above, including gratuities of \$100 or less per person per year.

### **Pledged Securities**

RULE 9. No agreement between a Participant Firm and a customer, authorizing the Participant Firm to pledge securities, either alone or with other securities carried for the account of the customer, either for the amount due thereon or for a greater amount, or to loan such securities, shall justify the Participant Firm in pledging or loaning more of such securities than is fair and reasonable in view of the indebtedness of such customer to such firm or corporation.

### **Mailing Communications to Non-Participant Customer**

RULE 10. No Participant Firm shall mail confirmations, statements or other communications to a non-participant customer in care of such Participant Firm or in care of any other Participant or in care of an employee of any Participant unless such Participant shall have been so directed in writing by such customer and unless duplicate copies of such confirmations, statements or other communications are mailed to such customer at his place of business or residence or at some other address designated in writing by such customer; however, the Exchange, may in specific instances, waive the requirement that duplicate copies be sent.

### **Customer Dealings -- Account Transfers**

RULE 11. When a customer whose securities account is carried by a Participant Firm elects to transfer the entire account to another Participant Firm, both Participant Firms must expedite and coordinate activities with respect to the transfer.

### **Customer Dealings -- Suitability**

RULE 12. (a) In recommending to a customer the purchase, sale or exchange of any security, a Participant shall have reasonable grounds for believing that the recommendation is suitable for such customer upon the basis of the facts, if any, disclosed by such customer as to his other security holdings and as to his financial situation and needs.

(b) Prior to the execution of a transaction recommended to a customer, other than transactions with customers where investments are limited to money market mutual funds, a Participant shall make reasonable efforts to obtain information concerning:

(i) the customer's financial status;

(ii) the customer's tax status;

(iii) the customer's investment objectives;

(iv) such other information used or considered to be reasonable by such participant or registered representative in making recommendations to the customer.

**••• Interpretations and Policies:**

**.01** The following is a non-exclusive list of practices that the Exchange deems to violate a Participant's duty to recommend to a customer only securities suitable for that customer.

(a) Recommending speculative low-priced securities to customers without knowledge of or an attempt to obtain information concerning the customers' other securities holdings, their financial situation and other necessary data.

(b) Excessive activity in a customer's account, often referred to as "churning" or "overtrading." There are no specific standards to measure excessiveness of trading in customer accounts, because this must be related to the objectives and financial situation of the customer involved.

(c) Trading in mutual fund shares, particularly on a short-term basis. It is clear that normally these securities are not proper trading vehicles and such activity on its face may raise the question of trade violation.

(d) Fraudulent activity, including: establishing fictitious accounts in order to execute transactions which otherwise would be prohibited; executing transactions in discretionary accounts in excess of or without actual authority from customers; causing the execution of transactions which are unauthorized by customers or the sending of confirmations in order to cause customers to accept transactions not actually agreed upon; and unauthorized use or borrowing of customers' funds and securities.

(e) Recommending the purchase of securities or the continuing purchase of securities in amounts that are inconsistent with the reasonable expectation that the customer has the financial ability to meet such a commitment.

**.02** Derivatives and Other New Financial Products. As new financial products are introduced into the marketplace, it is important that Participants make every effort to

familiarize themselves with each customer's financial situation, trading experience, and ability to meet the risks involved with such products and to make every effort to make customers aware of the pertinent information regarding new financial products. Moreover, Participants should be careful to always comply with all Exchange requirements regarding the trading of such products.

### **Interest in Customer Accounts**

RULE 13. No Participant or person associated therewith shall guarantee any customer against loss in his account or take or receive directly or indirectly a share in the profits of any customer's account or share in any loss sustained in any such account. For the purposes of this Rule the term customer shall not be deemed to include the Participant or any joint, group, or syndicate account with such Participant.

### **Advertising and Promotion**

RULE 14. a. *False or Misleading Advertisement Prohibited.* It shall be considered conduct or proceeding inconsistent with just and equitable principles of trade for a Participant, directly or indirectly, to publish circulate or distribute any advertisement, sales literature or market letter that the Participant knows, or in the exercise of reasonable care could have known, contains any untrue statement of a material fact or is otherwise false or misleading.

b. *Categories and Standards of Advertisement.* No Participant for which this Exchange is the designated examining authority shall publish, circulate or distribute any advertisement, sales literature or market letter which fails to meet the standards set forth in this Rule. Advertisements include any material for use in any newspaper or magazine or other public media or by radio, telephone recording, motion picture or television. Sales literature and market letters include any communication for general distribution to customers or the public in which a particular security or insurance policy is featured or recommended, any such communication containing forecasts of business or market trends, and notices, circulars, reports, newsletters, research reports, form letters or reprints of published articles.

1. *Making Recommendations.* In making a recommendation, whether or not labeled as such, the Participant must have a reasonable basis for the recommendation; and the following facts should be disclosed: the price at the time the original recommendation is made; that the Participant usually makes a market in the issue if such is the case; and, in addition if applicable, that the Participant intends to buy or sell the securities recommended for his own account, and ownership, if any, of options, rights or warrants to purchase any security of the issuer whose securities are recommended unless the extent of such ownership is merely nominal. The Participant must also provide or offer to furnish upon request appropriate investment or insurance information supporting the recommendations.

2. Promises and Exaggerated Claims Prohibited. Advertisements, sales literature or market letters must not contain promises of specific results, exaggerated or unwarranted claims or unwarranted superlatives, opinions for which there is no reasonable basis, or forecasts of future events which are unwarranted, or which are not clearly labeled as forecasts. Nor may references to past specific recommendations state or imply that the recommendations were or would have been profitable to any person and that they are indicative of the general quality of a Participant's recommendations.

3. Research Reportings in Advertisements. No claim or implication may be made for research or other facilities beyond those which the Participant actually possesses or has reasonable capacity to provide. A market letter or report not prepared by the distributing firm should state that it was prepared by another firm or organization.

c. Market Letters and Sales Literature. All advertisements, market letters and sales literature prepared and issued by a Participant Firm for which this Exchange is the designated examining authority shall be approved by a partner or officer of the Participant Firm. Market letters and sales literature which refer to the market or to specific companies, insurance policies, or securities, listed or unlisted, shall be retained for at least three years by the Participant Firm organization which prepared the material. The copies retained shall contain the name of the partner or officer approving its issuance and the name or names of the persons who prepared the material, and shall at all times within the three-year period be readily available for examination by the Exchange.

### Proxies

RULE 15. This rule sets out the proxy requirements that apply to Participant Firms, their nominees and employees with respect to securities listed exclusively on the Exchange.

a. Giving of Proxies Restricted. No Participant shall give a proxy to vote stock registered in its name, except as required or permitted under the provisions of Rule 15(c), unless the organization is the beneficial owner of such stock.

b. Transmission of Proxy Material to Customers. (1) Whenever a person soliciting proxies shall furnish a Participant Firm:

(a) copies of all soliciting material which such person is sending to registered holders, and

(b) satisfactory assurance that he will reimburse such Participant Firm for all out-of-pocket expenses, including reasonable clerical expenses, if any, incurred by such firm or corporation, in obtaining instructions from the beneficial owners of stock,



such organization shall transmit to each beneficial owner of stock which is in its possession or control, the material furnished; and

(2) Such organization shall transmit with such material either:

(a) a request for voting instructions and also a statement to the effect that, if such instructions are not received by the tenth day before the meeting, the proxy may be given at discretion by the owner of record of the stock. (However, when the proxy soliciting material is transmitted to the beneficial owner of the stock twenty-five days or more before the meeting, the statement accompanying such material shall be to the effect that the proxy may be given fifteen days before the meeting at the discretion of the owner of record of the stock.) or

(b) a signed proxy indicating the number of shares held for such beneficial owner and bearing a symbol identifying the proxy with proxy records of such firm or corporation, and also a letter informing the beneficial owner of the necessity for completing the proxy form and forwarding it to the person soliciting proxies in order that the shares may be represented at the meeting.

This rule shall not apply to beneficial owners outside the United States.

c. *Instructions of Beneficial Owner.* A Participant Firm shall give a proxy for stock registered in its name, at the direction of the beneficial owner. If the stock is not in the control or possession of the Participant Firm, satisfactory proof of the beneficial ownership as of the record date may be required.

A Participant Firm may give a proxy to vote any stock registered in its name if such organization holds such stock as executor, administrator, guardian, trustee, or in a similar representative or fiduciary capacity with authority to vote.

A Participant Firm which was transmitted proxy soliciting material to the beneficial owner of stock and solicited voting instructions in accordance with the provisions of Rule 15(b), and which has not received instructions from the beneficial owner by the date specified in the statement accompanying such material may give a proxy to vote such stock, except for voting on equity compensation plans as set forth below, provided the person signing the proxy has no knowledge of any contest as to the action to be taken at the meeting and provided such action does not include authorization for a merger, consolidation or any other matter which may affect substantially the legal rights or privileges of such stock.

A Participant Firm may not give a proxy to vote without instructions from beneficial owners when the matter to be voted upon authorizes the implementation of any equity compensation plan, or any material revision to the terms of any existing equity

compensation plan (whether or not shareholder approval of such plan is required by Article 22, Rules 19 or 21). The provision will become effective for any meeting of shareholders that occurs on or after the 90th day following Commission approval of the change.

A Participant Firm which has in its possession or control stock registered in the name of another Participant Firm, and which has solicited voting instructions in accordance with the provisions of Rule 15(b)(1), shall

(1) forward to the second Participant Firm any voting instructions received from the beneficial owner, or

(2) if the proxy-soliciting material has been transmitted to the beneficial owner of the stock in accordance with Rule 15(b) and no instructions have been received by the date specified in the statement accompanying such material, notify the second Participant Firm of such fact in order that such organization may give the proxy as provided in the third paragraph of this rule.

A Participant Firm which has in its possession or control stock registered in the name of another Participant Firm, and which desires to transmit signed proxies pursuant to the provisions of Rule 15(b)(2)(b), shall obtain the requisite number of signed proxies from such holder of record.

d. *Statement of Number of Shares.* In all cases in which a proxy is given by a Participant Firm the proxy shall state the actual number of shares for which the proxy is given.

e. *Committee Instructions to Transfer Securities.* A Participant Firm when so requested by the Exchange, shall transfer certificates of stock held either for its own account or for the account of others, if registered in the name of a previous holder of record, into its own name, prior to the taking of the record of stockholders, to facilitate the convenient solicitation of proxies.

The Exchange shall make such request at the insistence of the issuer or of persons owning in the aggregate at least ten percent of such stock, provided, if the Exchange so requires, the issuer or persons making such request agree to indemnify Participant Firms against transfer taxes. The Exchange may make such a request whenever it deems it advisable.

f. *Transmission of Interim Reports and Other Material.* A Participant Firm, when so requested by a company, and upon being furnished with:

(1) copies of interim reports of earnings or other material being sent to stockholders, and

(2) satisfactory assurance that it will be reimbursed by such company for all out-of-pocket expenses, including reasonable clerical expenses, shall transmit such reports or material to each beneficial owner of stock of such company held by such organization and registered in a name other than the name of the beneficial owner.

This rule shall not apply to beneficial owners outside the United States.

### **Commissions**

RULE 16. Nothing contained in the Rules of this Exchange or its practices shall be construed to require or authorize its Participants, or any person associated with its Participants, to agree or arrange directly or indirectly, for the charging of fixed rates of commission for transactions effected on, or effected by the use of, the facilities of this Exchange.

### **Conduct on Exchange Premises And Conduct Involving Participants or Exchange Employees**

RULE 17. No Participant shall engage in the following conduct while on Exchange premises, while transacting business on the Exchange or with respect to Exchange employees who are conducting Exchange business:

- (a) Fighting;
- (b) Profanity, vulgarity or any threatening or intimidating speech or conduct;
- (c) Any conduct which is detrimental to the interest or welfare of the Exchange, or which endangers the personal safety of others on the Exchange premises or the operation of the machines and property of the Exchange;
- (d) Indecorous, inappropriate or unnecessary repetitive administrative/execution messages sent over the Intermarket Trading System; or
- (e) Violations of the Exchange's Policy Against Harassment.

### **••• Interpretations and Policies:**

#### **.01 Policy Against Harassment**

(1) The Chicago Stock Exchange is committed to fostering and maintaining an environment that allows each person to contribute fully to the Exchange's success. For that reason, Participants, Participant Firm employees and guests, when on Exchange premises, must not engage in the following conduct:

- (a) Sexual harassment, or harassment based on race, age, national origin, gender, disability, religion, sexual orientation or any other basis prohibited by law; or

(b) Retaliation against a person who makes a good faith complaint of harassment or who participates in an investigation arising from that complaint.

Harassment or retaliation, in any form, is detrimental to the interest and welfare of the Exchange and will not be tolerated.

(2) Harassment occurs when a person engages in unwelcome or offensive conduct that is based on, for example, another person's race or gender and that conduct interferes with a person's work or creates an intimidating, hostile or offensive work environment. Inappropriate conduct includes, but is not limited to: sexual innuendoes, suggestive comments or obscene gestures; racial comments or ethnic slurs; the display of sexually suggestive or pornographic images; and unwelcome sexual advances or physical touching.

**ARTICLE 9**  
**General Trading Rules**

**Application**

RULE 1. Unless expressly stated otherwise, the provisions of Article IX shall govern all trading activity conducted on the Exchange. For purposes of this Article IX, a Participant who issues an order, commitment or other obligation to trade from the Exchange to another market center, through ITS or any other linkage, shall be deemed to be initiating a purchase or a sale of a security on the Exchange.

**Just and Equitable Trade Principles**

RULE 2. No Participant, Participant Firm or partner, officer, director or registered employee of a Participant Firm shall engage in conduct or proceeding inconsistent with just and equitable principles of trade. The willful violation of any provision of the Exchange Act or any rule or regulation thereunder shall be considered conduct or proceeding inconsistent with just and equitable principles of trade.

**• • • Interpretations and Policies**

.01 A pattern or practice of violations of the Exchange's rules and regulations may be considered conduct inconsistent with just and equitable principles of trade.

**Permitted Contra Parties**

RULE 3. No transaction in any security admitted to dealings on the Exchange shall be made on the Exchange except with a Participant.

**Securities Dealt In**

RULE 4. Only securities admitted to dealings on an "issued," "when issued," "when distributed" or "unlisted trading" basis shall be dealt in upon the Exchange.

**Transactions in Rights to Subscribe**

RULE 5. Except as otherwise designated by the Exchange, transactions in rights to subscribe shall be on the basis of one right accruing on each share of issued stock and the unit of trading in rights shall be 100 rights.

### **Orders, "When Issued," "When Distributed"**

RULE 6. Orders in securities admitted to dealings on a "when issued" basis shall be made only "when issued," i.e., for delivery when issued as determined by the Exchange.

Orders in securities admitted to dealings on a "when distributed" basis shall be made only "when distributed," i.e., for delivery when distributed as determined by the Exchange.

### **Contracts Due on Certain Business Days**

RULE 7. On any business day that the banks, transfer agencies and depositories for securities in the State of Illinois are closed:

#### Deliveries or Payments

(a) Deliveries or payments ordinarily due on such a day (exclusive of cash contracts made on such a day) shall be due on the following business day. This does not, however apply to payment from customers under Regulation T or delivery of securities sold by customers under SEC Rule 15c-3;

#### Day for Settlement

(b) Such a day shall not be considered as a business day in determining the day for settlement of a contract, the day on which stock shall be quoted ex-dividend or ex-rights, or in computing interest on contracts and bonds or premiums on loans of securities; and

#### Right to Market, Reclamation or Close

(c) The right to mark to market, to make reclamation or to close contracts under the Rules (other than "cash" contracts made on such a day) shall not be exercised on such a day.

### **Fictitious Transactions**

RULE 8. No Participant or partner, officer, director or registered employee of a Participant Firm shall make a fictitious transaction or give an order for the purchase or sale of securities, the execution of which would involve no change of ownership, or execute such order with knowledge of its character.

### **Prearranged Trades**

RULE 9. An offer to sell coupled with an offer to buy back at the same or an advanced price, or the reverse, is a prearranged trade and is prohibited. This Rule applies both to transactions in the unit of trading and in lesser and greater amounts.

### **Price Manipulation**

RULE 10. No Participant or partner, officer or director of a Participant Firm shall execute or cause to be executed on the Exchange the purchase of any security at successively higher prices or the sale of any security at successively lower prices for the purpose of creating or inducing a false, misleading, or artificial appearance of activity in such security, or for the purpose of unduly or improperly influencing the market price of such security, or for the purpose of making a price which does not reflect the true state of the market in such security.

### **Manipulative Operations**

RULE 11. No Participant 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, (A) any pool, syndicate or joint account, whether in corporate form or otherwise, organized or used intentionally for the purpose 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; (B) 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 (C) 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.

### **Reporting Transactions**

RULE 12. Subject to Rule 12 regarding the reporting of riskless principal transactions, a Participant must report, to the Exchange, every transaction it executes on the Exchange. A Participant must promptly and accurately report each execution (and any cancellation thereof).

• • • *Interpretations and Policies*

.01 Participants shall not be required to report any executions that occur within the Exchange's Matching System because the Exchange shall report those transactions to the appropriate consolidated transaction reporting system. Participants shall not be required to report to the Exchange any executions that occur in other markets.

.02 Where an Institutional Broker has acted as a broker in executing a transaction on the Exchange, the Institutional Broker, not its customer(s), must report the transaction to the Exchange.

**Reporting Riskless Principal Transactions**

RULE 13. A riskless principal transaction is a two-component transaction in which a Participant (i) after having received an order to buy a security that it holds for execution on the Exchange, contemporaneously purchases the security in another market as principal at the same price, exclusive of markups, commissions and other fees, and then sells the security at that price to satisfy all or a portion of the order to buy or (ii) after having received an order to sell a security that it holds for execution on the Exchange, contemporaneously sells the security in another market as principal at the same price, exclusive of markups, markdowns, commissions and other fees, and then buys the security at that price to satisfy all or a portion of the order to sell.

(a) The initial component of the transaction shall be reported to the appropriate consolidated transaction reporting system in accordance with the rules and procedures of the market where the transaction occurred. Participants must report the second, "riskless principal," component of the transaction to the Exchange as with any other order, but the Exchange will not report that leg of the transaction to the respective consolidated tape. As applicable, the riskless principal component may be submitted to the Exchange for execution as either (i) a non-tape, clearing-only order with a "riskless principal" indicator if a clearing report is necessary to clear the transaction; or (ii) a non-tape, non-clearing order with a "riskless principal" indicator if a clearing report is not necessary to clear the transaction.

(b) A Participant must have written policies and procedures to assure that its riskless principal transactions comply with this Rule. At a minimum, these policies and procedures must require that the customer order be received prior to the offsetting transactions, and that the offsetting riskless principal transaction be executed contemporaneously with the original transaction. A Participant must also have supervisory systems in place that produce records that enable the Participant and the Exchange to accurately and readily reconstruct, in a time-sequenced manner, all orders for which a Participant relies on the riskless principal exemption.



### **Breaking Up Orders**

RULE 14. No Participant shall break customer orders into multiple smaller orders for the primary purpose of maximizing rebates or other payments to the Participant without regard for the customer's interest. Similarly, no Participant shall submit proprietary orders in small increments for the primary purpose of maximizing rebates or other payments to the Participant.

#### **• • • Interpretations and Policies**

.01 No Participant or partner, officer or director of a Participant Firm shall combine the orders given by several different customers to buy or sell odd lots of the same stock, into an order for one or more full-lot units without the prior approval of the customers interested.

.02 When a person gives, either for his own account or for various accounts in which he has an actual monetary interest, buy or sell odd-lot orders which aggregate 100 shares or more, such orders shall, as far as possible, be consolidated into full-lot units, except that selling orders marked "long" need not be so consolidated with selling orders marked "short."

### **Transactions for or with Unapproved Customers**

RULE 15. No Participant Firm shall make any transaction for the account of or with a customer unless, prior to or promptly after the completion thereof, a general partner or officer of the Participant Firm shall specifically approve the opening of such account.

### **Personal Selling and Purchasing Prohibited**

RULE 16. No Participant or partner, officer or director in a Participant Firm shall (1) personally buy or initiate the purchase of any security for his own account or for any account in which the Participant Firm or any partner, officer or director thereof, is directly or indirectly interested, while he personally holds or has knowledge that the Participant Firm or any partner, officer or director thereof holds an unexecuted market order to buy such security in the unit of trading for a customer; or (2) personally sell or initiate the sale of any security for any such account, while he personally holds or has knowledge that the Participant Firm or any partner, officer or director thereof holds an unexecuted market order to sell such security in the unit of trading for a customer.

No Participant or partner, officer or director thereof shall (1) personally buy or initiate the purchase of any security for any such account at or below the price at which he personally holds or has knowledge that his Participant Firm or any partner, officer or director thereof holds an unexecuted limit order to buy such security in the unit of trading for a customer or (2) personally sell or initiate the sale of any security for any such

account at or above the price at which he personally holds or has knowledge that his Participant Firm or any partner, officer or director thereof holds an unexecuted limit order to sell such security in the unit of trading for a customer.

**• • • Interpretations and Policies:**

.01 A Participant shall be deemed to have violated this prohibition if, while aware of or holding a customer market order or customer limit order priced at the NBBO, the Participant, for its account, trades with an incoming order at a price which is less than one penny better than the existing customer limit order.

.02 The provisions of this rule do not apply to the purchase or sale of any security upon terms for delivery other than those specified in an unexecuted market or limit order.

.03 If a Participant has adequate information barriers in place between segments of its business that handle customer orders and that engage in proprietary trading, as provided in Article 16, Rule 8, the segment of the Participant's business that is engaging in proprietary trading shall be deemed not to hold or have knowledge of any customer order that is being handled by the segment of the business on the other side of the information barrier.

**Taking or Supplying Securities to Fill Customer's Order**

RULE 17. No Participant who has accepted an order for the purchase of securities shall fill such order by selling such securities for any account in which the Participant or any partner, officer or director thereof has a direct or indirect interest, or having so accepted an order for the sale of securities, shall fill such order by buying such securities for such an account, except as follows:

(a) *Failure to execute order.* A Participant who neglects to execute an order may be compelled to take for or supply from its account the securities named in the order;

(b) *Taking or supplying securities.* A Participant, acting for another Participant, may take or supply the securities named in the order provided the price is justified by the condition of the market and provided that the Participant that gave the order shall directly, or through a broker authorized to act for him or her, after prompt notification, accept the trade;

(c) A Participant, acting as a broker, is permitted to report to its principal a transaction as made with itself when it has offsetting orders from two principals to buy and to sell and not to give up;

(d) A Participant may purchase or sell for its principal account, such securities named in its customer's order provided that: (i) the price is consistent with the market;

and (ii) full disclosure to the customer is made on the confirmation of the transaction in a manner that defines the Participant's interest.

### **Excessive Purchases or Sales—Personal Interest**

RULE 18. No Participant, or any partner or officer in a Participant Firm, shall effect on the Exchange purchases or sales for any account in which he or it is directly or indirectly interested, if such purchases or sales are excessive in view of his or its financial resources, or in view of the market for such security.

### **Joint Accounts**

RULE 19. No Participant or partner, officer or director of a Participant Firm, shall, directly or indirectly, hold any interest or participation in any joint account for buying or selling any security on the Exchange unless such joint account is reported to and not disapproved by the Exchange. Such reports in form required by the Exchange shall be filed with the Exchange before any transaction is completed on the Exchange for such joint account.

The Exchange shall require weekly reports in form prescribed by the Exchange to be filed with it with respect to every substantial joint account for buying or selling any specific security on the Exchange, and with respect to every joint account which actively trades in any security on the Exchange (a) in which any Participant or partner, officer or director of a Participant Firm holds any interest or participation; or (b) of which such Participant or partner, officer or director of a Participant Firm has knowledge by reason of transactions executed by or through such Participant or partner, officer or director of a Participant Firm.

### **Discretion of Participants Prohibited**

RULE 20. No Participant or partner, officer or director of a Participant Firm shall execute or cause to be executed on the Exchange, or through ITS or any other linkage with another market, any transaction for the purchase or sale of any security with respect to which transaction such Participant, partner, officer or director of a Participant Firm is vested with discretion as to (1) the choice of security to be bought or sold, (2) the total amount of any security to be bought or sold, or (3) whether any such transaction shall be one of purchase or sale.

The provisions of the preceding paragraph of this Rule shall not apply to any discretionary transaction executed by such Participant, partner, officer or director of a Participant Firm for any bona fide cash investment account or for the account of any person, who due to illness, absence or similar circumstance, is actually unable to effect transactions for his own account; provided the person executing or causing to be executed

any such transaction shall keep available for inspection a detailed record of any such transaction and the grounds for exercising such discretion and shall file with the Exchange a quarterly report of all such transactions, each such report shall be filed not more than ten days after the end of the period in which it occurs and shall show the name of each account for which any such transaction was executed, the amount of such discretionary purchases or sales and the grounds for exercising such discretion with respect to each account.

No Participant or partner, officer or director of a Participant Firm shall execute or cause to be executed on the Exchange purchases or sales of any stock for any account with respect to which such Participant is vested with any discretionary power, which purchases or sales are excessive in size or frequency in view of the financial resources of such account.

### **Discretion of Employees Prohibited**

RULE 21. No Participant shall permit any person employed by such Participant or by any other Participant to exercise discretion in the handling of a transaction for a customer of such Participant and no Participant or partner, officer or director of a Participant Firm, shall delegate to any such employee any discretionary power vested by a customer in such Participant, partner, officer or director, unless prior written authorization of the customer has been received and, if such discretionary authority runs, directly or by re-delegation, to any employee of another Participant, the carrying firm or corporation must obtain the prior written consent of the employer of the individual authorized to exercise discretion. A general partner of the carrying firm or an officer of the carrying corporation shall approve and initial each discretionary order entered by an employee of such firm or corporation or of another Participant on the day the order is entered.

### **Dealing in Stocks on Put, Call, Straddle or Option**

RULE 22. No Participant or partner, officer or director in a Participant firm shall initiate the purchase or sale on the Exchange for his own account or for any account in which he, his Participant Firm or any partner, officer or director thereof is, directly or indirectly, interested, of any security in which he holds or has granted any put, call, straddle or option, or in which he has knowledge that his Participant firm or any partner, officer or director thereof, holds or has granted any put, call, straddle or option; provided, however, that the preceding prohibition shall not be applicable in respect of any option issued by the Options Clearing Corporation that was acquired or granted in a publicly reported transaction. Each person able to initiate the purchase or sale of any stock on the Exchange shall report to the Exchange, in such form and at such times as the Exchange requires, all options that he holds or has granted, or that his Participant Firm or any partner, officer or director thereof, holds or has granted.

### **Short Sales**

RULE 23. (a) No Participant shall effect a sell order or sale of any security unless such sell order or sale is effected in compliance with SEC Rule 10a-1 and Regulation SHO promulgated under the Exchange Act.

(b) In the event that a market maker has a position (long or short) in a security of a company, and such position is greater than or equal to 5% of the outstanding public float of that security, as determined by the company's most recent report on Form 10-K, then such market maker shall give the Exchange immediate written notice of such fact.

#### **••• Interpretations and Policies:**

.01 In the event that the exemption as set forth in paragraph (e)(5) ("equalizing exemption") of SEC Rule 10a-1 would otherwise apply to short sales in exclusive issues by market makers, the Exchange has determined to foreclose the use of such exemption. As such, no market maker shall effect on the Exchange for his or its own account, or for the account of any other person a short sale of any exclusive issue in reliance upon the equalizing exemption of the Short Sale Rule, if otherwise applicable.

### **Transactions Off the Exchange**

RULE 24. (a) No rule, stated policy or practice of this exchange shall prohibit or condition, or be construed to prohibit, condition or otherwise limit, directly or indirectly, the ability of any Participant to effect any transaction otherwise than on this exchange in any reported security listed and registered on this exchange or as to which unlisted trading privileges on this exchange have been extended which is not a covered security.

(b) For purposes of this rule,

(1) The term "exchange" shall mean a national securities exchange registered as such with the Securities and Exchange Commission pursuant to Section 6 of the Act.

(2) The term "covered security" shall mean

(i) any equity security or class of equity securities which (A) was listed and registered on an exchange on April 26, 1979, and (B) remains listed and registered on at least one exchange continuously thereafter;

(ii) any equity security or class of equity securities which (A) was traded on one or more exchanges on April 26, 1979, pursuant to unlisted trading privileges permitted by section 12(f)(1)(A) of the Act, and (B) remains traded on any such exchange pursuant to such unlisted trading privileges continuously thereafter; and

(iii) any equity security or class of equity securities which (A) is issued in connection with a statutory merger, consolidation or similar plan or reorganization (including a reincorporation or change of domicile) in exchange for an equity security or class of equity securities described in paragraphs (d)(3)(i) or (d)(3)(ii) of this rule, (B) is listed and registered on an exchange after April 26, 1979, and (C) remains listed and registered on at least one exchange continuously thereafter.

(3) The term "reported security" shall mean any security or class of securities for which transaction reports are collected, processed and made available pursuant to an effective transaction reporting plan.

(4) The term "transaction report" shall mean a report containing the price and volume associated with a completed transaction involving the purchase or sale of a security.

(5) The term "effective transaction reporting plan" shall mean any plan approved by the Commission pursuant to Section 240.11Aa3-1 (Rule 11Aa3-1 under the Act) for collecting, processing and making available transaction reports with respect to transactions in an equity security or class of equity securities.

### **Disseminating Customer Information Prohibited**

RULE 25. No Participant shall disseminate to any other person the name of the Participant and/or customer that submitted an order to the Participant or to the Exchange's Matching System, except (a) when sending a customer order to another market as permitted by Article 19 (Inter-market Trading); (b) when sending to the Participant's own office a written report containing the name of the opposite party to the transaction, solely for the purpose of processing the transaction; (c) when relevant to the handling of a dispute involving the transaction.

#### **••• Interpretations and Policies:**

.01 Nothing in this rule shall prohibit the Exchange from disseminating information about orders contained in the Exchange's Matching System.

**ARTICLE 10[X]**

**Margins**

\* \* \*

**Initial Margin Rule**

**RULE 3.**

- (a) No change to text.
- (b) No change to text.
- (c) No change to text.

(1)-(5) No change to text.

[(6) Specialists' Accounts. –]

[(A) The account of a Participant in which are effected only transactions in securities in which he is registered and acts as a specialist may be carried upon a margin basis which is satisfactory to the specialist and the Participant Firm. The amount of any deficiency between the margin deposited by the specialist and the margin required by the other provisions of this Rule shall be considered as a debit item in the computation of the Net Capital of the Participant Firm under the Exchange's Capital Requirements.]

[(B) In the case of joint accounts carried by Participant Firms for specialists, in which the Participant Firms participate, the margin deposited by the other participants may be in any amount which is mutually satisfactory. The amount of any deficiency between the amount deposited by the other participant, or participants, based upon their proportionate share of the margin required by the other provisions of this Rule, shall be considered as a debit item in the computation of the Net Capital of the Participant Firm under the Exchange's Capital Requirements.]

\* \* \*

## **ARTICLE 11**

### **Participant Books and Records**

#### **Furnishing of Records**

RULE 1. Each Participant shall furnish to the Exchange, upon request and in a time and manner required by the Exchange, current copies of any financial information filed with the Commission, as well as any records, files, or financial information pertaining to the financial condition of the participant or to transactions executed on or through the Exchange. Further, the Exchange shall be allowed access, at any time, to the books and records of the Participant in order to obtain or verify information related to transactions executed on or through the Exchange or activities relating to the Exchange.

#### **Maintenance of Books and Records**

RULE 2. Each Participant shall make and preserve books, accounts, records, memoranda, and correspondence in conformity with all applicable laws, rules, regulations, and statements of policy promulgated thereunder and with the Rules of this Exchange and as prescribed by SEC Rule 17a-3. The record keeping format, medium, and retention period shall comply with Rule 17a-4 under the Securities Exchange Act of 1934.

#### **Records of Orders and Executions**

RULE 3. (a) Every Participant shall preserve for at least three years (or any longer period of time required by Exchange Act Rule 17a-4) a record, meeting the criteria set out in paragraph (b) below, of:

(1) every order originating with the Participant that is given to (or received from) another Participant for execution and any execution of that order, and

(2) every order issued by the Participant to any other market or trading venue and any execution of that order; and

(3) every order originating off the Exchange, transmitted by any person, whether or not that person is a Participant, to such Participant and any execution of that order; provided, however, that the Exchange may, upon application, grant exemption from the provisions of this Rule.

(b) Subject to the exceptions set out in Interpretations .01, .03, .04 and .06 below, each Participant must record, in such electronic system(s) as the Exchange shall designate, the following details about each order and execution identified in (a)(1) through (3) above:



- (1) Symbol;
- (2) Clearing Participant;
- (3) Order identifier that uniquely identifies the order;
- (4) Identification of Participant recording the order details;
- (5) Number of shares or quantity of security;
- (6) Side of market;
- (7) Designation of order type (e.g., market, limit, stop, stop limit);
- (8) Whether the order is short or short exempt;
- (9) Whether the order is a bona fide arbitrage order;
- (10) Any limit price and/or stop price;
- (11) Date and time of order receipt or transmission (as applicable);
- (12) The market or Participant to which the order was transmitted or from which the order was received (if applicable);
- (13) Time in force;
- (14) Designation as held or not held;
- (15) Any special conditions or instructions (including any customer do-not-display instructions or any all-or-none condition);
- (16) Any modifications to the details set out in (1)-(15) above, for all or part of the order, or any cancellation of all or part of the order;
- (17) Date and time of receipt or transmission of any modifications to the order or any cancellation of the order;
- (18) Date and time of any order expiration;
- (19) Identification of the party cancelling or modifying the order;
- (20) Transaction price (if applicable);
- (21) Number of shares executed (if applicable);
- (22) Date and time of execution (if applicable);
- (23) Contra party to the execution (if applicable);
- (24) Settlement instructions (if applicable);
- (25) System-generated time(s) of recording required information; and
- (26) Such other information as the Exchange may from time to time require.

(c) Participants must record the information required by (b) above immediately after such information is received or becomes available.

(d) Before any such order is executed, including the case where an order is to be executed by the issuance from the Exchange of a commitment or obligation to trade through ITS or any other market linkage, there shall be recorded the name or designation of the account for which such order is to be executed. No change to the name or designation of the account for which an order is to be executed shall be made unless the change has been authorized by the Participant or by a partner or officer of the Participant Firm, who shall, prior to giving his approval of such change, be personally informed of the essential facts relative thereto and shall indicate his approval of such change in writing on the order.

(e) These rule provisions shall apply to all Participants acting as institutional brokers or market makers on the Exchange and any other Participant for which the Exchange is the Designated Examining Authority. Other Participants shall be required to maintain the information set out above, to the extent that this information is required by the rules of the other self-regulatory organizations of which they are members.

· · · **Interpretations and Policies:**

.01 For purposes of this rule, an order shall be any written, oral or electronic instruction to effect a transaction. A decision by a participant to buy or sell securities for his or her own account on the Exchange shall not constitute an order for which a record must be made under this rule.

.02 Each required record of the time of an event shall be expressed in terms of hours, minutes and seconds.

.03 These rules shall not apply to orders sent or received through the Exchange's matching system or through any other electronic systems that the Exchange expressly recognizes as providing the required information in a format acceptable to the Exchange. The Exchange will not recognize a non-Exchange system as providing information in an acceptable format unless that system has synchronized its business clocks for recording data with reference to a time source designated by the Exchange and maintains that synchronization in conformity with procedures prescribed by the Exchange.

.04 Any orders which the Exchange has expressly recognized as incompatible for entry in an Exchange system relied on by a Participant to record the details of the order in compliance with this Rule shall be exempt from the order entry requirements of paragraph (b) above; provided, however, that Participants shall retain a written record of those orders which includes as much of the information set out in paragraph (b) as is possible, but no less than the name and the amount of the security, the terms of the order, the time when such order was so given or transmitted, the date and time of any modifications or cancellations of the order, the date and time of execution and the execution price.

.05 With respect to a bona fide arbitrage order, a Participant may execute such order before entering the order into an electronic system as required by paragraph (b) above, but such Participant must enter such order into such electronic system no later than 60 seconds after the execution of such order. With respect to an order to offset a transaction made in error, a Participant may, upon discovering such error within the same trading session, effect an offsetting transaction without first entering such order into an electronic system, but such Participant must enter such order into such electronic system no later than 60 seconds after the execution of such order.

.06. A Participant who receives orders to buy and sell the same security and executes those orders immediately upon receipt shall record only the information set out in (b)(1), (2), (4), (5), (8) and (20) through (26) above.

.07. Failure to comply with the provisions of this Rule may be considered conduct inconsistent with just and equitable principles of trade, in violation of Article 9, Rule \_\_\_\_.

.08. The provisions of this Rule do not replace any record retention obligations to which the Exchange's Participants may be subject under the Exchange Act and the rules thereunder.

### **Participant Communications**

RULE 4. No Participant shall establish or maintain any telephone or other communication between his or its office and the Exchange, without prior approval by the Exchange. The Exchange may direct discontinuance of any communication facility terminating on the Exchange. It may deprive any Participant of the privilege of using any public telephone or means of communications installed by the Exchange for the use of Participants.

### **. . . Interpretations and Policies**

.01 Beginning August 1, 2005, no Participant shall use any electronic means of communication for sending orders from the Exchange to trade in another market or trading venue (a "layoff service"), until the Participant, or the provider of the layoff service, has established a process for providing the Exchange for such orders, on a real-time basis and in an electronic format acceptable to the Exchange, the following information:

- (1) Symbol;
- (2) Clearing Participant;
- (3) Order identifier that uniquely identifies the order;
- (4) Identification of Participant recording the order details;
  
- (5) Number of shares or quantity of security;
- (6) Side of market;
- (7) Designation of order type (e.g., market, limit, stop, stop limit);
- (8) Whether the order is for the account of a customer or for the account of the Participant sending the order
- (9) Whether the order is short or short exempt;
- (10) Any limit price and/or stop price;
- (11) Date and time of order transmission;
- (12) The market to which the order was transmitted;
- (13) Time in force;
- (14) Designation as held or not held;
- (15) Any special conditions or instructions (including any customer do-not-display instructions or all-or-none conditions);

- (16) Any modifications to the details set out in (1)- (15) above, for all or part of an order, or any cancellation of all or part of the order;
- (17) Date and time of transmission of any modifications to the order or any cancellation of the order;
- (18) Identification of the party cancelling or modifying the order;
- (19) Date and time of any order expiration;
- (20) Transaction price (if applicable);
- (21) Number of shares executed (if applicable);
- (22) Date and time of execution (if applicable);
- (23) Contra party to the execution (if applicable);
- (24) Settlement instructions;
- (25) System-generated time of recording required information; and
- (26) Such other information as the Exchange may from time to time require.

.02 Each Participant or layoff service provider shall synchronize its business clocks that are used for purposes of recording the date and time of any event that must be recorded pursuant to this provision with reference to a time source as designated by the Exchange, and shall maintain the synchronization of such business clocks in conformity with such procedures as are prescribed by the Exchange.

.03 For purposes of this rule, an order shall be any written, oral or electronic instruction to effect a transaction. Each required record of the time of an event shall be expressed in terms of hours, minutes and seconds.

.04 Failure to comply with the provisions of this rule may be considered conduct inconsistent with just and equitable principles of trade, in violation of Article 9, Rule \_\_\_\_.

.05 No participant shall use an alternative or additional layoff vendor until it has notified the Exchange of the change.

.06. The provisions of this Rule do not replace any record retention obligations to which the Exchange's Participants may be subject under the Exchange Act and the rules thereunder.

**ARTICLE 12[XII]**  
**Disciplinary Matters and Trial Proceedings**

**[Discipline and Trial Proceedings]**  
**Investigation and Charges**

RULE 1. No change to text.

**Summary Procedure**

RULE 2. No change to text.

**[Committee on Exchange Procedure]**

[RULE 3. (a) Without prejudice to the authority vested in the Chief Executive Officer under any other Exchange Rule, the Committee on Exchange Procedure or its appropriately designated subcommittee shall have authority to summarily fine any Participant or person associated with a Participant whose conduct on the Exchange premises it deems to be improper, in an amount not to exceed \$2,500 and to exclude such Participant or person associated with such Participant from the Exchange premises for a period not to exceed five full business days and shall have authority to recommend investigations pursuant to Rule 1 of this Article, with respect to any default or offense relating to conduct and dealings on the Floor of the Exchange.]

[(b) Anything herein to the contrary notwithstanding, for violative conduct classified as Class B offenses, any member of the Committee, or a member of its appropriately designated subcommittee, may, to assure decorum on the Exchange premises, summarily fine any Participant or person associated with a Participant whose conduct on such premises he deems to be improper in an amount not to exceed \$100.]

[(c) Anything herein to the contrary notwithstanding, for violative conduct classified as Class A offenses, any member of the Committee, or a member of its appropriately designated subcommittee, with the concurrence of two other floor officials, two of whom shall be floor Directors if immediately available, may impose a summary fine not to exceed \$2,500 and summarily exclude a Participant or person associated with a Participant from the Exchange premises for not longer than the remainder of the trading day.]

[(d) Any Participant or person associated with a Participant adversely affected by a determination made by any person or body other than the full Exchange Procedure Committee, regarding any action taken pursuant to this Rule 3, other than a summary exclusion pursuant to this Rule 3(c), may appeal to the full Exchange Procedure Committee within five days of receiving notice of the action by making a written request therefor specifically stating the action complained of, the specific reasons why exception is taken thereto, and the relief sought. Any action not specifically appealed shall

constitute an admission and acceptance of the sanction imposed. Upon appeal, the full Exchange Procedure Committee may, upon review, increase or diminish the amount of any summary fine or exclusion from the Exchange premises. However, in no event shall the full Exchange Procedure Committee increase such fine to an amount in excess of \$2,500 nor exclude such Participant from the Exchange premises for a period in excess of five (5) full business days. The determination of the Exchange Procedure Committee shall be final with respect to any action involving not more than a \$100 fine. Any action appealed shall be stayed until the appeal is decided.]

[Any Participant or person associated with a Participant adversely affected by a determination of the full Exchange Procedure Committee, regarding any action taken pursuant to this Rule 3 involving more than a \$100 fine, may obtain a review thereof by the Executive Committee by submitting a written request therefor to the Secretary of the Exchange within 10 days of the Committee's action stating the specific action complained of, the specific reasons why the applicant takes exception thereto and the relief sought. Any action not specifically appealed will constitute an admission and acceptance of the sanction imposed. Unless the Executive Committee shall decide to open the record for the introduction of evidence or to hear argument, such review shall be based on a report of the action referred to above, as certified to the Executive Committee by the Secretary. Upon appeal, the Executive Committee may, upon review, increase or diminish the amount of any summary fine or exclusion from the Exchange premises. However, in no event shall the Executive Committee increase such fine to an amount in excess of \$2,500 nor exclude such Participant or person associated with a Participant from the Exchange premises for a period in excess of five (5) full business days. The decision of the Executive Committee shall be final. Any action appealed shall be stayed until the appeal is decided.]

[In hearing a review pursuant to this Rule, the Executive Committee shall not overturn the determination of the finder of law and fact if the factual conclusions in such determination are supported by substantial evidence and such decision is not arbitrary, capricious or an abuse of discretion.]

[••• *Interpretations and Policies:*]

[.01 With respect to Rule 3 above, the following sets forth Class A and Class B violations of the Exchange's Decorum Rules:]

[Class A

- (a) Fighting on Exchange Premises.
- (b) Profanity, vulgarity or any threatening or intimidating speech or conduct directed at anybody while on Exchange premises.
- (c) Smoking in an undesignated area on the trading floor at any time (second offense or thereafter).
- (d) Any conduct which is detrimental to the interest or welfare of the Exchange, or which endangers the personal safety of others on the Exchange premises or the operation of the machines and property of the Exchange.]

## [Class B

- (a) All violations of the Exchange's Dress Code.
- (b) Unwarranted excessive speed in moving about the trading floor.
- (c) Cabinet areas and counter tops cluttered with coats or other extraneous materials.
- (d) Posters or pictures which are taped on cabinets.
- (e) Smoking in an undesignated area on the trading floor at any time (first offense).
- (f) Indecorous, inappropriate or unnecessary repetitive administrative/execution messages sent over the Intermarket Trading System or the Midwest Automated Execution System.]

[.02 Where a Participant or person associated with a Participant is summarily excluded from the trading floor pursuant to this Rule 3(c), such Participant or person associated with such Participant, as the case may be, shall have the right to petition the body who took such action for reinstatement after a sufficient "cooling-off" period has elapsed. If, in the judgment of the body that took such action, the Participant or person associated with the Participant no longer poses an immediate threat to the safety of persons or property, such Participant or person associated with such Participant shall be permitted to return to the trading floor.]

[.03 *Dress Code.* The following dress code, as may be amended and supplemented by written guidelines issued by the Committee on Exchange Procedure, applies to Participants, their employees and guests. Participants, clerks, employees and visitors not in compliance with dress and appearance regulations will be denied access to the Trading Floor by the security guard.

- (1) The following forms of attire shall be mandatory:
  - (a) All males shall wear dress shirts with ties properly knotted in an acceptable manner.
  - (b) All individuals on the trading floor shall dress in a manner representative of a business atmosphere.
  - (c) Conventional business footwear—**No Gym/Tennis Shoes.**
  - (d) All visitors on the trading floor shall wear appropriate business attire. The floor Participant who signs the visitor onto the floor will be responsible for his/her attire and conduct.
  - (e) Every Participant, employee, and visitor must wear an identification badge provided by the Exchange.
- (2) The following forms of dress and appearance are not acceptable:
  - (a) Blue jeans.
  - (b) A general unkempt or ungroomed personal appearance.]

**[.04 Policy Against Harassment.]**

[(1) The Chicago Stock Exchange is committed to fostering and maintaining an environment that allows each person to contribute fully to the Exchange's success. For that reason, Participants, Participant Firm employees and guests[, when on Exchange premises,] must not engage in the following conduct:

(a) Sexual harassment, or harassment based on race, age, national origin, gender, disability, religion, sexual orientation or any other basis prohibited by law; or

(b) Retaliation against a person who makes a good faith complaint of harassment or who participates in an investigation arising from that complaint. Harassment or retaliation, in any form, is detrimental to the interest and welfare of the Exchange and will not be tolerated.]

[(2) Harassment occurs when a person engages in unwelcome or offensive conduct that is based on, for example, another person's race or gender and that conduct interferes with a person's work or creates an intimidating, hostile or offensive work environment. Inappropriate conduct includes, but is not limited to: sexual innuendoes, suggestive comments or obscene gestures; racial comments or ethnic slurs; the display of sexually suggestive or pornographic images; and unwelcome sexual advances or physical touching.]

**Admission of Charges by Accused**

RULE 3[4]. No change to text.

**Trial Procedure**

RULE 4[5]. No change to text.

**Review**

RULE 5[6]. No change to text.

**Effective Date of Judgment**

RULE 6[7]. No change to text.

**Disciplinary Jurisdiction**

RULE 7[8]. No change to text.

**Minor Rule Violations**

RULE 8[9]. (a) No change to text



(b) Procedure for Imposing Fines. In the event that the staff of the Exchange determines that a Participant, associated person or registered or nonregistered employee of a Participant has violated a rule of the Exchange set forth in paragraph (h) of this Rule, and the Exchange staff desires to take action under this Rule[ 9], the staff shall present the facts supporting the violative conduct to a Minor Rule Violation Panel. The accused shall not have the right to attend such presentation nor shall the accused have the right to present any evidence or testimony at such presentation. A Minor Rule Violation Panel may (i) accept the staff's recommendation and impose sanctions on behalf of the Exchange in accordance with this Rule[ 9], (ii) reject the staff's recommendation, or (iii) recommend that the Exchange commence a formal disciplinary proceeding. A Minor Rule Violation Panel shall have no authority, however, to authorize the initiation of a formal disciplinary proceeding. In the event a Minor Rule Violation Panel recommends that the Exchange commence a formal disciplinary proceeding, the staff shall either (i) issue a report to the Chief Executive Officer in accordance with Article 12[XII], Rule 1(a), recommending that formal charges be brought or (ii) advise the Minor Rule Violation Panel that the staff will not recommend that the Exchange commence a formal disciplinary proceeding. In the event that the staff chooses alternative (ii) from the preceding sentence, the matter shall be returned to the Minor Rule Violation Panel that recommended the commencement of the formal disciplinary proceeding, which shall then impose a fine in accordance with the provisions of this Rule[ 9].

One or more Minor Rule Violation Panels shall be appointed, from time to time, by the Chief Executive Officer and shall each consist of three persons.

[Notwithstanding anything in this paragraph (b) to the contrary, the Committee on Exchange Procedure shall have jurisdiction to impose a fine pursuant to this Rule for violations of (h)(ii)(7) and (8) of this Rule relating to decorum on the trading floor. However, the Committee on Exchange Procedure and a Minor Rule Violation Panel shall not, collectively, impose more than one fine pursuant to this Rule 9 relating to the same underlying violation and incident.]

(c) In any action taken by the Exchange pursuant to this Rule, the person against whom a fine is imposed shall be served (as provided in Rule 1(c) of Article 12[XII]) with a written statement, signed by [a Floor Official or] an officer of the Exchange, setting forth (i) the rule(s) or policy(ies) alleged to have been violated; (ii) the act or omission constituting each such violation; (iii) the fine imposed for each such violation; (iv) the date on which such action is taken; and (v) the date on which such determination becomes final and such fine becomes due and payable to the Exchange, or on which such action must be contested as provided in paragraph (e), such date to be not less than 15 days after the date of service of the written statement.

(d) No change to text.

(e) [Except for fines imposed by the Committee on Floor Procedure or its appropriately designated subcommittee pursuant to Article XII, Rule 3, a] Any person against whom a fine is imposed pursuant to this Rule may contest the Exchange's

determination by filing with the Secretary of the Exchange not later than the date by which such determination must be contested, a written response meeting the requirements of an Answer as provided in Article 12[XII], Rule 5 of the Exchange Rules at which point the matter shall become a “Disciplinary Proceeding” subject to the provisions of Article 12[XII] applicable to disciplinary proceedings. [Fines imposed by the Committee on Floor Procedure or its appropriately designated subcommittee may be appealed pursuant to the procedures set forth in Rule 3 of this Article.]

- (f) No change to text.
- (g) No change to text.
- (h) Exchange Rules and Policies subject to the Minor Rule Violation Plan:
  - (i) Reporting and Record Retention Violations
    - (1) Acquisition of Trading Permit by general or limited partner or officer (Article 4[II], Rule 1)
    - (2) General partners bound by rules of Exchange (Article 4[II], Rule 4)
    - (3) Notice of death or retirement of partner (Article 4[II], Rule 9)
    - (4) Filing and approval of articles of incorporation (Article 4[III], Rule 4)
    - (5) [Authorization of officers to act (Article III, Rule 5)] Reserved.
    - (6) Officers, directors and principal stockholders (Article [III]4, Rules 3 and 4 [6])
    - (7) [Death or retirement of registrant member (Article III, Rule 11)] Reserved.
    - (8) Reserved.
    - (9) [Records of orders transmitted (Article IX, Rule 7)] Reserved.
    - (10) Dealing in stocks on put, call, straddle or option (Article 9[IX], Rule 22[15])
    - (11) Record of margin calls and receipt of margin (Article 10[X], Rule 2)
    - (12) Record of orders (Article 11[XX], Rule 4[24])
    - (13) Reserved.
    - (14) [Written reports of transactions (Article XXX, Rule 5)] Reserved.
    - (15) [Record of orders (Article XXX, Rule 11)] Reserved.
    - (16) Financial Operational Reports (Article 7[XI], Rule 4)
    - (17) Notification of change in bond coverage (Article 7[XI], Rule 6)

- (18) Filing Requirements on Change of Examining Authority (Article 7[XI], Rule 7)
  - (19) Reserved.
  - [(20) Submission of Evaluation of Co-Specialists Survey (Article VIII, Rule 11)]
- (ii) [Floor Decorum and] Minor Trading Rule Violations
- (1) Failure to issue ITS pre-opening notification or properly issue a pre-opening response (Article 19[XX], Rule 1[39])
  - (2) Failure to comply with trade-through, locked markets and block trade rules (Article 19[XX], Rule 2[40])
  - ~~(3) Violations of the rule relating to conduct on Exchange premises or involving Participants or Exchange employees (Article 8, Rule 16)~~
  - [(3) Failure to adjust limit order executions to the block price upon automatic execution of such limit orders due to primary market price penetration (Article XX, Rule 7, interpretation and policy .06)]
  - (4) [Failure to comply with 50% requirement (Article XXXIV, Rule 3)] Reserved.
  - (5) Failure by [floor] Participants to comply with rules relating to short sales when selling short for their own account (Article 9[IX], Rule 23[17]).
  - [(6) Failure to comply with public outcry rule (Article XXXIV, Rule 10)]
  - [(7) Violation of Class A decorum rules (Article XII, Rule 3, Interpretation and Policy .01)]
  - [(8) Violation of Class B decorum rules (Article XII, Rule 3, Interpretation and Policy .01)]
  - [(9) Reserved.]
  - ~~(6)~~[(10)] Failure to clear the Matching System[post] (Article 20[XX], Rule 7[10])
  - [(11) Reserved for future use]
  - ~~(7)~~[(12)] Failure to comply with minimum fractional changes. (Article 20[XX], Rule 4[22]).
  - ~~(8)~~[(13)] Reserved.
  - [(14) Failure to comply with “Stopped” Order Rule (Article XX, Rule 28 and Article XX, Rule 37(a)(6))]
  - ~~(9)~~[(15)] Improper use of SOLD designator (Article 9[VIII], Rule 2[7])
  - ~~(10)~~[(16)] Trading ahead of customer orders (Article 9[XXX], Rule 16[2])

- [(17) Violation of Preference Solely on Competitive Basis Rule (Article XXX, Rule 3)]
- [(18) Failure to display a limit order in the quotation (Article XX, Rule 7, Interpretation and Policy .05)]
- (11)[(19)] Failure to comply with the firm quote rule, other than in response to ITS commitments (Reg NMS 602[Exchange Act Rule 11Ac1-1 “Dissemination of Quotations”])
- (12)[(20)] Failure to meet [“BEST Rule”] best execution obligations (Article 17[XX], Rule 3[37(a)(2), (3)])
- [(21) Failure to properly obtain floor official approval of switch from automatic execution mode to manual execution mode (Article XX, Rule 37, Interpretation and Policy .04)]

\* \* \*

**Pending Proceedings**

RULE 10. No change to text.

**ARTICLE 13[VII]****Suspension—Reinstatement**

\* \* \*

**Emergency Suspension**

RULE 2. (a) Whenever it shall appear to the Chief Executive Officer (after such verification and with such opportunity for comment by the Participant as the circumstances reasonably permit) that a Participant (i) has failed to perform his or its contracts or is insolvent or is in such financial or operational condition or otherwise conducting his or its business in such a manner that he or it cannot be permitted to continue in business with safety to his or its customers or creditors or to the Exchange, including but not limited to, the reasonable belief that the Participant is violating and will continue to violate any material provision of the Rules of the Exchange or the federal securities laws (or rules promulgated thereunder); or (ii) has failed to perform or is failing to perform any material responsibility imposed on the Participant as a result of its registration as an Institutional Broker or Market Maker and, as a result, cannot be permitted to continue in business with safety to its customers or creditors or to the Exchange; or (iii)[(ii)] has been and is expelled or suspended from any self-regulatory organization or barred or suspended from being associated with a member of any self-regulatory organization, the Chief Executive Officer may suspend such Participant's Trading Permit or limit or prohibit such Participant's access to services offered by the Exchange, or limit or revoke such Participant's registration as Institutional Broker or Proprietary Market Maker and if so suspended, revoked, [or] limited or prohibited, prompt notice of action [such suspension, limitation or prohibition] shall be given to all Participants. Unless the Chief Executive Officer shall determine after further inquiry that lifting the suspension, revocation, limitation or prohibition without further proceedings is appropriate, such suspension, limitation, revocation or prohibition shall continue until the Participant's Trading Permit is reinstated or terminated pursuant to the provisions of Rule 3 of this Article or unless otherwise determined pursuant to Rule 2(b) of this Article.

\* \* \*

(b) Any appeal from a decision of the Chief Executive Officer shall be made pursuant to the procedures set out in Article 15. [In the event that the Chief Executive Officer takes any action pursuant to paragraph (a) above, any person affected by such action shall have the right to appeal. Appeals pursuant to this paragraph shall be made by filing a written notice of appeal with the secretary of the Exchange within five days after notification of the action. The notice shall state with particularity the action complained of, the appellant's reasons for taking exception to the decision and the relief sought. Appeals filed under this paragraph shall be considered and decided by a panel appointed by the Board, composed of three members of the Board. No member of such panel shall have any direct or indirect interest in the matter presented before them which might preclude such member from rendering an objective and impartial determination. All

appeals heard pursuant to this paragraph shall be expedited to the maximum extent possible and, in any event, shall be heard within ten days. Appellants shall be notified of the composition of the panel and the time, place and date when the panel will meet. Written materials in support of the appeal or requests to make an oral presentation shall be filed with the panel prior to the date when the panel will meet. The panel will grant requests for oral presentation. After consideration of the appeal, the panel shall, by vote of a majority of its members, affirm, reverse, or modify the action upon which the appeal was made. All decisions of the panel shall be final.]

\* \* \*

### **Procedure for Reinstatement**

#### **RULE 4. Application**

- (a) No change to text.

#### **Staff Recommendation and Review**

(b) If the staff recommends that the applicant not be reinstated, the applicant shall be sent a statement of reasons therefor and may seek a review of this determination by following the procedures set out in Article 15. [, within 15 days of the receipt thereof, file a request with the Executive Committee that it consider his or its application together with a written statement indicating why in his or its opinion the staff recommendation is in error or insufficient to preclude his or its reinstatement.]

#### **[Executive Committee Consideration]**

[(c) If the staff recommends that the applicant be reinstated or if the applicant files a request with the Executive Committee pursuant to paragraph (b), the Executive Committee shall consider and vote upon the application for reinstatement. The affirmative vote of two-thirds of the members of the Executive Committee present at the time of voting shall be required for reinstatement.]

#### **[Hearing]**

[(d) In the event the applicant does not receive such two-thirds vote, he or it shall have the right to a hearing before the Executive Committee, conducted in accordance with procedures set forth in a notice of such hearing to be given to the applicant. Following the hearing, the Executive Committee shall again vote upon the applicant, a two-thirds vote of the members of the Executive Committee present at the time of voting being required for reinstatement. The applicant may petition the Board of Governors for review of any adverse determination made by the Executive Committee following a hearing, a two-thirds vote of the members of the Board present at the time of voting being required for reinstatement. The Board shall not reverse, modify or remand

for further consideration any determination made by the Executive Committee if the factual conclusions in such determination are supported by substantial evidence and such determination is not arbitrary, capricious or an abuse of discretion.]

\* \* \*

## **ARTICLE 14**

### **Arbitration**

#### **Arbitration of Participant Controversies**

RULE 1. (a) Any controversy between parties who are Participants or their nominees or associated persons which arises out of the Exchange business of such parties shall be submitted to arbitration, through the Director of Arbitration, to an Arbitration Panel composed of members of the Committee on Exchange Procedure in accordance with Rule 1(b), unless non-Participants are also parties to the controversy. To the extent that any such claim alleges employment discrimination, including any sexual harassment claim, in violation of a statute, such claim shall be eligible for arbitration only where the parties have agreed to arbitrate the claim after it has arisen. If such non-Participants are also parties to such controversies, the arbitrators shall be appointed in accordance with Section 8 of Rule 2 under this Article unless such non-Participants consent to arbitration before an Arbitration Panel selected by parties as provided in this Rule 1. However, controversies shall be resolved by the Committee on Exchange Procedure, if the parties to such controversy agree to be bound by the decision of that Committee or if Exchange rules otherwise require resolution by the Committee on Exchange Procedure. The rules and procedures applicable to arbitrations which are set forth in Rule 2 do not apply to controversies which are to be resolved by the Committee on Exchange Procedure.

(b) Unless the parties to the controversy agree to be bound by the Committee's determination, resolution shall be by an Arbitration Panel whose resolution of the dispute shall be binding and final. The Arbitration Panel shall be composed of an odd number of arbitrators who shall be selected as follows:

Each of the parties to the controversy shall select one member of the Committee on Exchange Procedure to serve as an arbitrator on the Arbitration Panel. The arbitrators so selected shall then among them agree on the selection of one or more additional arbitrators, provided that the additional arbitrators so selected are either Participants or representatives of Participant Firms of the Exchange, and provided further that no member of the Arbitration Panel may be a person with a direct or indirect financial interest in the claim. In the event that the initial arbitrators selected by the parties to the controversy cannot agree on the selection of the above-mentioned additional arbitrator or arbitrators, as the case may be, or if any party to a controversy, after due notice, fails to select a member of the Committee on Exchange Procedure to serve as an arbitrator, then in that event such arbitrator or additional arbitrator(s) shall be appointed by the Committee on Exchange Procedure, except that any members of the Committee who either have already been selected to serve on the Arbitration Panel or who have a direct or indirect financial interest in the claim shall not participate in the selection of such additional arbitrator(s). Except as otherwise provided in this Rule, the rules and procedures applicable to arbitrations concerning Participant controversies which are to be resolved by an Arbitration Panel shall be those set forth hereinafter under Rule 2.



## Arbitration Rules

### RULE 2.

#### Section 1.—Arbitration.

(a) Except as provided otherwise in these Rules, any dispute, claim or controversy between a customer or non-Participant and a Participant or associated person arising in connection with the business of such Participant or associated person in connection with his activities as an associated person shall be arbitrated under this Rule of the Exchange as provided by any duly executed and enforceable written agreement or upon the request of the customer or non-Participant.

(b) Under this Rule, the Exchange shall have the right to decline the use of the arbitration facilities in any dispute, claim, or controversy, where having due regard for the purposes of the Exchange and the intent of this Rule such dispute.

(c) Class Action Claims.

(i) A claim submitted as a class action shall not be eligible for arbitration under this Rule at the Exchange.

(ii) Any claim filed by a member or members of a putative or certified class action is also ineligible for arbitration at the Exchange if the claim is encompassed by a putative or certified class action filed in federal or state court, or is ordered by a court to a non self-regulatory organization arbitration forum for classwide arbitration. However, such claims shall be eligible for arbitration in accordance with Rule 24 of this Article or pursuant to the parties' contractual agreement, if any, if a claimant demonstrates that it has elected not to participate in the putative or certified class action or, if applicable, has complied with any conditions for withdrawing from the class prescribed by the court.

Disputes concerning whether a particular claim is encompassed by a putative or certified class action shall be referred by the Director of Arbitration to a panel of arbitrator(s) in accordance with Section 2(f) or Section 8 of Rule 24 of this Article, as applicable. Either party may elect instead to petition the court with jurisdiction over the putative or certified class action to resolve such disputes. Any such petition to the court must be filed within ten business days of receipt of notice that the Director of Arbitration is referring the dispute to a panel of arbitrator(s).

(iii) No Participant or associated person shall seek to enforce any agreement to arbitrate against a customer that has initiated in court a putative class action or is a member of a putative or certified class with respect to any claims encompassed by the class action unless and until; (a) the class certification is denied; (b) the class is decertified; (c) the customer is excluded from the class by the court; or (d) the customer elects not to participate in the putative or

certified class action or, if applicable, has complied with any conditions for withdrawing from the class prescribed by court.

(iv) No Participant or associated person shall be deemed to have waived any of its rights under this Rule or under any agreement to arbitrate to which it is party except to the extent stated in this paragraph.

(d) Any claim alleging employment discrimination, including any sexual harassment claim, in violation of a statute, that is otherwise eligible for arbitration under this Rule, shall be eligible for arbitration only where the parties have agreed to arbitrate the claim after it has arisen.

**••• Interpretations and Policies:**

.01 The Exchange will not exercise its right to decline the use of its arbitration facilities as set forth in Rule 24(b) of this Article VIII in the event that the Exchange is the Designated Examining Authority of the Respondent Participant or the enforcement of the applicable rules has not been ceded to another self-regulatory organization pursuant to its Rule 17d-2 Agreement. In other instances, the Exchange may exercise its right to decline the use of its arbitration facilities set forth in Rule 24 (b) of this Article VIII in the event that the nexus between the dispute and the Exchange is minimal.

.02 For purposes of this Rule and Rule 23 under this Article VIII, the terms Participant, Participant Firm, associated person and an employee of a Participant, shall be deemed to encompass those persons and entities who were Exchange Participant or persons associated with a Participant at the time the circumstances occurred which gave rise to the controversy.

**Section 2.—Simplified Arbitration.**

(a) Any dispute, claim or controversy, arising between a public customer(s) and an associated person or a Participant subject to arbitration under this Rule involving a dollar amount not exceeding \$10,000 exclusive of attendant costs and interest, shall be arbitrated as hereinafter provided.

(b) The Claimant shall file with the Director of Arbitration an executed Submission Agreement and a copy of the Statement of Claim of the controversy in dispute and the required deposit, together with documents in support of the Claim. Sufficient additional copies of the Submission Agreement and the Statement of Claim and supporting documents shall be provided to the Director of Arbitration for each party and the arbitrator. The Statement of Claim shall specify the relevant facts, the remedies sought, and whether a hearing is demanded.

(c) The Claimant shall pay a filing fee and remit a hearing deposit as specified in Section 30 of this Rule upon filing of the Submission Agreement. The final disposition of the sum shall be determined by the arbitrator.

(d) The Director of Arbitration shall endeavor to serve promptly by mail or other wise on the Respondent(s) one (1) copy of the Submission Agreement and one (1) copy of the Statement of Claim. Within twenty (20) calendar days from receipt of the Statement of Claim, Respondent(s) shall serve each party with an executed Submission Agreement and a copy of Respondent's Answer. Respondent's executed Submission Agreement and Answer shall also be filed with the Director of Arbitration with sufficient additional copies for the arbitrator(s) along with any deposit required under the schedule of fees. The Answer shall designate all available defenses to the Claim and may set forth any related Counterclaim or related Third-Party Claim the Respondent(s) may have against the Claimant or any other person. If the Respondent(s) has interposed a Third-Party Claim, the Respondent(s) shall serve the Third-Party Respondent with an executed Submission Agreement, a copy of Respondent's Answer containing the Third-Party Claim, and a copy of the original Claim filed by the Claimant. The Third-Party Respondent(s) shall respond in the manner herein provided for response to the Claim. If the Respondent(s) files a related Counterclaim exceeding \$10,000, the arbitrator may refer the Claim, Counterclaim, or Third-Party Claim, if any, to a panel of three (3) or more arbitrators in accordance with Section 8 of this Rule, or he may dismiss the Counterclaim or Third-Party Claim, without prejudice to the Counterclaimant(s) or Third-Party Claimant(s) pursuing the Counterclaim or Third-Party Claim in a separate proceeding. The costs to the Claimant under either proceeding shall in no event exceed the total amount specified in Section 30 of this Rule.

(e) All parties shall serve promptly by mail or otherwise on all other parties and the Director of Arbitration, with sufficient additional copies for the arbitrator(s), a copy of the Answer, Counterclaim, Third-Party Claim, Amended Claim or other responsive pleading, if any. The Claimant, if a Counterclaim is asserted against him, shall within ten (10) calendar days either (i) serve on each party and on the Director of Arbitration with sufficient additional copies for the arbitrator(s) a Reply to any Counterclaim or, (ii) if the amount of the Counterclaim exceeds the Claim, shall have the right to file a statement withdrawing the Claim. If the Claimant withdraws the Claim, the proceedings shall be discontinued without prejudice to the rights of the parties.

(f) The dispute, claim or controversy shall be submitted to a single public arbitrator knowledgeable in the securities industry selected by the Director of Arbitration. Unless the public customer demands or consents to a hearing, or the arbitrator calls a hearing, the arbitrator shall decide the dispute, claim, or controversy solely upon the pleadings and evidence filed by the parties. If a hearing is necessary, such hearing shall be held as soon as practicable at a locale selected by the Director of Arbitration.

(g) The Director of Arbitration may grant extensions of time to file any pleading upon a showing of good cause.

(h) (i) The arbitrator shall be authorized to require the submission of further documentary evidence as he, in his sole discretion, deems advisable.

(ii) If a hearing is demanded or consented to, in accordance with Section 2(f), the general provision governing a pre-hearing proceeding under Section 20 shall apply.

(iii) If no hearing is demanded or consented to, all requests for document production shall be submitted in writing to the Director of Arbitration within ten (10) business days of notification of the identity of the arbitrator selected to decide the case. The requesting party shall serve simultaneously its requests for document production on all parties. Any response or objection to the requested document production shall be served on all parties and filed with the Director of Arbitration within five (5) business days of receipt of the requests for production. The selected arbitrator shall resolve all requests under this section on the papers submitted.

(i) Upon the request of the arbitrator, the Director of Arbitration shall appoint two (2) additional arbitrators to the panel which shall decide the matter in controversy.

(j) In any case where there is more than one (1) arbitrator, the majority will be public arbitrators.

(k) In his discretion, the arbitrator may, at the request of any party, permit such party to submit additional documentation relating to the pleadings.

(l) Except as otherwise provided herein, the general arbitration rules of the Exchange shall be applicable to proceedings instituted under this Rule.

### **Section 3.—Hearing Requirements—Waiver of Hearing.**

(a) Any dispute, claim or controversy, except as provided in Section 2 (Simplified Arbitration), shall require a hearing unless all parties waive such hearing in writing and request that the matter be resolved solely upon the pleadings and documentary evidence.

(b) Notwithstanding a written waiver of a hearing by the parties, a majority of the arbitrators may call for and conduct a hearing. In addition, any arbitrator may request the submission of further evidence.

### **Section 4.—Time Limitation upon Submission.**

No dispute, claim or controversy shall be eligible for submission to arbitration under this Rule where six (6) years shall have elapsed from the occurrence or event giving rise to the act or the dispute, claim or controversy. This section shall not extend applicable

statutes of limitations, nor shall it apply to any case which is directed to arbitration by a court of competent jurisdiction.

**Section 5.—Dismissal of Proceedings.**

At any time during the course of an arbitration, the arbitrators may, either upon their own initiative or at the request of a party, dismiss the proceeding and refer the parties to the remedies provided by law. The arbitrators shall, upon the joint request of the parties, dismiss the proceedings.

**Section 6.—Settlements.**

All settlements upon any matter submitted shall be at the election of the parties.

**Section 7.—Tolling of Time Limitation(s) for the Institution of Legal Proceedings and Extension of Time Limitation(s) for Submission to Arbitration.**

(a) Where permitted by law, the time limitation(s) which would otherwise run or accrue for the institution of legal proceedings shall be tolled when a duly executed Submission Agreement is filed by the claimant(s). The tolling shall continue for such period as the Exchange shall retain jurisdiction upon the matter submitted.

(b) The six (6) year time limitation upon submission to arbitration shall not apply when the parties have submitted the dispute, claim, or controversy to a court of competent jurisdiction. The six (6) year time limitation shall not run for such period as the court shall retain jurisdiction upon the matter submitted.

**Section 8.—Designation of the Number of Arbitrators.**

(a)(1) In all arbitration matters involving public customers and other non-Participants where the matter in controversy exceeds \$10,000, or where the matter in controversy does not involve or disclose a money claim, the Director of Arbitration shall appoint an arbitration panel which shall consist of no less than three (3) arbitrators, at least a majority of whom shall not be from the securities industry, unless the public customer or other non-Participant requests a panel consisting of at least a majority from the securities industry.

(2) An arbitrator will be deemed as being from the securities industry if he or she:

(i) Is a person associated with a Participant, broker-dealer, government securities broker, government securities dealer, municipal securities dealer, or registered investment advisor, or

(ii) Has been associated with any of the above within the past five (5) years, or

(iii) Is retired from, or spent a substantial part of his or her business career in, any of the above, or

(iv) Is an attorney, accountant, or other professional who devoted twenty percent (20%) or more of his or her professional work effort to securities industry clients within the last two (2) years.

(v) Is an individual who is registered under the Commodity Exchange Act or is a member of a registered futures association or any commodities exchange or is associated with any such person(s).

(3) An arbitrator who is not from the securities industry shall be deemed a public arbitrator. A person will not be classified as a public arbitrator if he or she has a spouse or other member of the household who is a person associated with a registered broker dealer, municipal securities dealer, government securities broker, government securities dealer, or investment advisor.

(b) Composition of Panels. The individuals who shall serve on a particular arbitration panel shall be determined by the Director of Arbitration. The Director of Arbitration may name the chairman of each panel.

### **Section 9.—Notice of Selection of Arbitrators.**

The Director of Arbitration shall inform the parties of the arbitrators' names, employment histories for the past ten (10) years, as well as information disclosed pursuant to Section 11, at least eight (8) business days prior to the date fixed for the first hearing session. A party may make further inquiry of the Director of Arbitration concerning an arbitrator's background. In the event that prior to the first hearing session, any arbitrator should become disqualified, resign, die, refuse, or otherwise be unable to perform as an arbitrator, the Director of Arbitration shall appoint a replacement arbitrator to fill the vacancy on the panel. The Director of Arbitration shall inform the parties as soon as possible of the name and employment history of the replacement arbitrator for the past ten (10) years, as well as information disclosed pursuant to Section 11. A party may make further inquiry of the Director of Arbitration concerning the replacement arbitrator's background and, within the time remaining prior to the first hearing session or the five (5) day period provided under Section 10, whichever is shorter, may exercise its right to challenge the replacement arbitrator as provided in Section 10.

### **Section 10.—Challenges.**

In any arbitration proceeding, each party shall have the right to one preemptory challenge. In arbitrations where there are multiple Claimants, Respondents, or Third-Party Respondents, the Claimants shall have one preemptory challenge, the Respondents shall have one preemptory challenge, and the Third-Party Respondents shall have one preemptory challenge, unless the Director of Arbitration determines that the interests of justice would be best served by awarding additional preemptory challenges. Unless extended by the Director of Arbitration, a party wishing to exercise a preemptory challenge must do so by notifying the Director of Arbitration in writing within five (5)

business days of notification of the identity of the person(s) named under Section 20(d), (e) or Section 9, whichever comes first. There shall be unlimited challenges for cause.

**Section 11.—Disclosures Required by Arbitrators.**

(a) Each arbitrator shall be required to disclose to the Director of Arbitration any circumstances that might preclude such arbitrator from rendering an objective and impartial determination. Each arbitrator shall disclose:

(1) All direct or indirect financial or personal interest in the outcome of the arbitration.

(2) Any existing or past financial, business, professional, family or social relationships that are likely to affect impartiality or might reasonably create an appearance of partiality or bias. Persons requested to serve as arbitrators should disclose all such relationships that they personally have with any party or its counsel, or with any individual whom they have been told will be a witness. They should also disclose all such relationships involving members of their families, or their current employers' partners or business associates.

(b) Persons who are requested to accept appointment as arbitrators should make a reasonable effort to inform themselves of any interests or relationships described in paragraph (a) above.

(c) The obligation to disclose interests, relationships, or circumstances that might preclude an arbitrator from rendering an objective and impartial determination described in subsection (a) hereof is a continuing duty that requires a person who accepts appointment as an arbitrator to disclose, at any stage of the arbitration, all such interests, relationships, or circumstances that arise, or that are recalled or discovered.

(d) Prior to the commencement of the first hearing session, the Director of Arbitration may remove an arbitrator based on information disclosed pursuant to this section. The Director of Arbitration shall also inform the parties of all information disclosed pursuant to this section if the arbitrator who disclosed the information is not removed.

**Section 12.—Disqualification or Other Disability of Arbitrators.**

In the event that any arbitrator, after the commencement of the first hearing session but prior to the rendition of the award, should become disqualified, resign, die, refuse, or otherwise be unable to perform as an arbitrator, the remaining arbitrator(s) may continue with the hearing and determination of the controversy unless such continuation is objected to by any party within five (5) days of notification of the vacancy on the panel. Upon objection, the Director of Arbitration shall appoint a new member to the panel to fill any vacancy. The Director of Arbitration shall inform the parties as soon as possible of the name and employment history for the past ten (10) years of the replacement

arbitrator, as well as information disclosed pursuant to Section 11. A party may further ask the Director of Arbitration about the replacement arbitrator's background and, within the time remaining prior to the next scheduled hearing session or the five (5) day period provided under Section 10, whichever is shorter, may exercise its rights to challenge the replacement arbitrator as provided in Section 10.

### **Section 13.—Initiation of Proceedings.**

Except as otherwise provided herein, an arbitration proceeding under this Rule shall be instituted as follows:

(a) *Statement of Claim.*

The Claimant shall file with the Director of Arbitration an executed Submission Agreement, a Statement of Claim together with the documents in support of the Claim and the required deposit. Sufficient additional copies of the Submission Agreement and the Statement of Claim and supporting documents shall be provided to the Director of Arbitration for each party and for each arbitrator. The Statement of Claim shall specify the relevant facts and the remedies sought. The Director of Arbitration shall endeavor to serve promptly by mail or otherwise on the Respondent(s) one (1) copy of the Submission Agreement and one (1) copy of the Statement of Claim.

(b) *Service and Filing with the Director of Arbitration.*

For purposes of this Rule, service may be effected by mail or other means of delivery. Service and filing are accomplished on the date of mailing either by first-class postage prepaid or by means of overnight mail service or, in the case of other means of service, on the date of delivery. Filing with the Director of Arbitration shall be made on the same date as service.

(c) *Answers—Defenses, Counterclaims, and Cross-Claims.*

(1) Within twenty (20) business days from receipt of the Statement of Claim, the Respondent(s) shall serve each party with an executed Submission Agreement and a copy of Respondent(s) Answer. An executed Submission Agreement and Answer of the Respondent(s) shall also be filed with the Director of Arbitration with sufficient additional copies for the arbitrator(s), along with any deposit required under the schedule of fees. The Answer shall specify all available defenses and relevant facts that will be relied upon at the hearing. It also may set forth any related Counterclaim the Respondent(s) may have against the Claimant, any Cross-Claim the Respondent(s) may have against any other named Respondent(s), and any Third-Party Claim against any other party or person based upon any existing dispute, claim, or controversy subject to arbitration under this Rule.



(2)

(i) A Respondent, Responding Claimant, Cross-Claimant, Cross-Respondent or Third-Party Respondent who pleads only a general denial as an answer may upon objection by a party, in the discretion of the arbitrators, be barred from presenting such fact or defense at the time of the hearing.

(ii) A Respondent, Responding Claimant, Cross-Claimant, Cross-Respondent or Third-Party Respondent who fails to specify all available defenses and relevant facts in such party's Answer, may, upon objection by a party, in the discretion of the arbitrators, be barred from presenting such facts or defenses not included in such party's Answer at the hearing.

(iii) A Respondent, Responding Claimant, Cross-Claimant, Cross-Respondent or Third-Party Respondent who fails to file an answer within twenty (20) business days from receipt of service of a Claim, unless the time to answer has been extended pursuant to paragraph (c)(5), may, in the discretion of the arbitrators, be barred from presenting any matter, arguments or defenses at the hearing.

(3) Respondent(s) shall serve each party with a copy of all Third-Party Claim. The Third Party Claim shall also be filed with the Director of Arbitration with sufficient additional copies for the arbitrator(s), along with any deposit required under the schedule of fees. Third-Party Respondent(s) shall answer in the manner provided for response to the Claim, as provided in (1) and (2) above.

(4) The Claimant shall serve each party with a Reply to a Counterclaim within ten (10) business days of receipt of an Answer containing a Counterclaim. The Reply shall also be filed with the Director of Arbitration with sufficient additional copies for the arbitrator(s).

(5) The Director of Arbitration may extend any time period in this section (whether such be denominated as a Claim, Answer, Counterclaim, Cross-Claim, Reply, or Third-Party pleading).

(d) *Joining and Consolidation—Multiple Parties.*

(1) Permissive Joinder. All persons may join in one action as claimants if they assert any right to relief jointly, severally, or arising out of the same transaction, occurrence, or series of transactions or occurrences and if any question of law or fact common to all these claimants will arise in the action. All persons may be joined in one action as respondents if there is asserted against them jointly or severally any right to relief arising out of the same transaction, occurrence, or series of transactions or occurrences and if any question of law or fact common to all respondents will arise in the action. A claimant or respondent

need not assert rights to or defend against all the relief demanded. Judgment may be given for one or more of the claimants according to their respective rights to relief, and against one or more respondents according to their respective liabilities.

(2) In arbitrations where there are multiple Claimants, Respondents or Third Party Respondents, the Director or Arbitration shall be authorized to determine preliminarily whether such parties should proceed in the same or separate arbitrations. Such determinations will be considered subsequent to the filing of all responsive pleadings.

(3) The Director of Arbitration shall be authorized to determine preliminarily whether claims filed separately are related and shall be authorized to consolidate such claims for hearing and award purposes.

(4) Further determinations with respect to joining, consolidation, and multiple parties under this subsection shall be made by the arbitration panel and shall be deemed final.

**Section 14.—Designation of Time and Place of Hearings.**

The time and place for the initial hearing shall be determined by the Director of Arbitration and each hearing thereafter by the arbitrators. Notice of the time and place for the initial hearing shall be given at least eight (8) business days prior to the date fixed for the hearing by personal service, registered, or certified mail to each of the parties unless the parties shall, by their mutual consent, waive the notice provisions under this section. Notice for each hearing, thereafter, shall be given as the arbitrators may determine. Attendance at a hearing waives notice thereof.

**Section 15.—Representation by Counsel.**

All parties shall have the right to representation by counsel at any stage of the proceedings.

**Section 16.—Attendance at Hearings.**

The attendance or presence of all persons at hearings, including witnesses, shall be determined by the arbitrators. However, all parties to the arbitration and their counsel shall be entitled to attend all hearings.

**Section 17.—Failure to Appear.**

If any of the parties, after due notice, fails to appear at a hearing or at any continuation of a hearing session, the arbitrators may, in their discretion, proceed with the arbitration of the controversy. In such cases, all awards shall be rendered as if each party had entered an appearance in the matter submitted.

**Section 18.—Adjournments.**

(a) The arbitrators may, in their discretion, adjourn any hearing(s) either on their own initiative or on the request of any party to the arbitration.

(b) A party requesting an adjournment after arbitrators have been appointed shall, if an adjournment is granted, deposit a fee, equal to the initial deposit of forum fees for the first adjournment and twice the initial deposit of forum fees, not to exceed \$1,000, for a second or subsequent adjournment requested by that party. The arbitrators may waive the deposit of this fee or in their awards may direct the return of the adjournment fee.

(c) Upon receiving a third request consented to by all parties for an adjournment, the arbitrators may dismiss the arbitration without prejudice to the Claimant filing a new arbitration.

**Section 19.—Acknowledgment of Pleadings.**

The arbitrators shall acknowledge to all parties present that they have read the pleadings filed by the parties.

**Section 20. (Redesignated from Section 14)—General Provisions Governing Pre-Hearing Proceeding.**

(a) *Requests for Documents and Information.*

The parties shall cooperate to the fullest extent practicable in the voluntary exchange of documents and information to expedite the arbitration. Any request for documents or other information should be specific, relate to the matter in controversy, and afford the party to whom the request is made a reasonable period of time to respond without interfering with the time set for the hearing.

(b) *Document Production and Information Exchange.*

(1) Any party may serve a written request for information or documents ("information request") upon another party twenty (20) business days or more after service of the Statement of Claim by the Director of Arbitration or upon filing of the Answer, whichever is earlier. The requesting party shall serve the information request on all parties and file a copy with the Director of Arbitration. The parties shall endeavor to resolve disputes regarding an information request prior to serving any objection to the request. Such efforts shall be set forth in the objection.

(2) Unless a greater time is allowed by the requesting party, information requests shall be satisfied or objected to within thirty (30) calendar days from the date of service. Any objection to an information request shall be

served by the objecting party on all parties and filed with the Director of Arbitration.

(3) Any response to objection to information requests shall be served on all parties and filed with the Director of Arbitration within ten (10) calendar days of receipt of the objection.

(4) Upon the written request of a party whose information request is unsatisfied, the matter will be referred by the Director of Arbitration to either a pre-hearing conference under paragraph (d) of this section or to a selected arbitrator under paragraph (e) of this section.

(c) *Pre-Hearing Exchange.*

At least ten (10) calendar days prior to the first scheduled hearing date, all parties shall serve on each other copies of documents in their possession and shall identify witnesses they intend to present at the hearing. The arbitrator(s) may exclude from the arbitration any documents not exchanged or witnesses not identified at that time. This paragraph does not require service of copies of documents or identification of witnesses that parties may use for cross-examination or rebuttal.

(d) *Pre-Hearing Conference.*

(1) Upon the written request of a party, an arbitrator, or at the discretion of the Director of Arbitration, a pre-hearing conference shall be scheduled. The Director of Arbitration shall set the time and place of a pre-hearing conference and appoint a person to preside. The pre-hearing conference may be held by telephone conference call. The presiding person shall seek to achieve agreement among the parties on any issues that relate to the pre-hearing process or to the hearing, including but not limited to, the exchange of information, exchange or production of documents, identification of witnesses, identification and exchange of hearing documents, stipulations of fact, identification and briefing of contested issues, and any other matters that will expedite the arbitration proceedings.

(2) Any issues raised at the pre-hearing conference that are not resolved may be referred by the Director of Arbitration to a single member (a public member in the event of a matter involving a public customer) of the Arbitration Panel for decision.

(e) *Decisions by Selected Arbitrator.*

The Director of Arbitration may appoint a single member of the Arbitration Panel to decide all unresolved issues referred to under this section. In matters involving public customers, such single arbitrator shall be a public arbitrator except that the arbitrator may be either public or industry if the public customer has requested a panel consisting of a

majority of arbitrators from the securities industry. Such arbitrator shall be authorized to act on behalf of the panel to issue subpoenas, direct appearances of witnesses, production of documents, set deadlines and issue any other appropriate ruling which will expedite the arbitration proceedings or is necessary to permit any party to develop fully its case. Decisions under this paragraph shall be based upon the papers submitted by the parties, unless the arbitrator calls a hearing. The arbitrator may elect to refer any issue under this paragraph to the full panel.

(f) *Subpoenas.*

The arbitrator(s) and any counsel of record to the proceeding shall have the power of the subpoena process as provided by law. All parties shall be given a copy of the subpoena upon its issuance. The parties shall produce witnesses and present proofs to the fullest extent possible without resort to the subpoena process.

(g) *Power to Direct Appearances and Production of Documents.*

The arbitrator(s) shall be empowered without resort to the subpoena process to direct the appearance of any person employed by or associated with any member or member organization of the Exchange or the production of any records in the possession or control of such persons or members. Unless the arbitrator(s) direct otherwise, the party requesting the appearance of a person or the production of documents under this section shall bear all reasonable costs of such appearance or production.

**Section 21.—Evidence.**

The arbitrators shall determine the materiality and relevance of any evidence proffered and shall not be bound by rules governing the admissibility of evidence.

**Section 22.—Interpretation and Enforcement of Arbitrator Rulings.**

The arbitrator(s) shall be empowered to interpret and determine the applicability of all provisions under this Rule and to take appropriate action to obtain compliance with any ruling by the arbitrator(s). Such interpretations and actions to obtain compliance shall be final and binding upon the parties.

**Section 23.—Determinations of Arbitrators.**

All rulings and determinations of the panel shall be by a majority of the arbitrators.

**Section 24.—Record of Proceedings.**

A verbatim record by stenographic reporter or tape recording of all arbitration hearings shall be kept. If a party or parties to a dispute elect to have the record transcribed, the party or parties making the request shall bear the cost of such transcription unless the arbitrators direct otherwise. The arbitrators may also direct that the record be transcribed.

If the record is transcribed at the request of any party, a copy shall be provided to the arbitrator.

**Section 25.—Oaths of the Arbitrators and Witnesses.**

Prior to the commencement of the first session, an oath or affirmation shall be administered to the arbitrator(s). All testimony shall be under oath or affirmation.

**Section 26.—Amendments.**

(a) After the filing of any pleadings, if a party desires to file a new or different pleading, such change must be made in writing and filed with the Director of Arbitration with sufficient additional copies for each arbitrator. The party filing a new or different pleading shall serve on all other parties, a copy of the new or different pleading in accordance with the provisions set forth in Section 13(b). The other parties may, within ten (10) business days from the receipt of service, file a response with all other parties and the Director of Arbitration in accordance with Section 13(b).

(b) After a panel has been appointed, no new or different pleading may be filed except for a responsive pleading as provided for in (a) above or with the panel's consent.

**Section 27.—Reopenings of Hearings.**

Where permitted by law, the hearings may be reopened by the arbitrators on their own motion or in the discretion of the arbitrators upon application of a party at any time before the award is rendered.

**Section 28.—Awards.**

(a) All awards shall be in writing and signed by a majority of the arbitrators or in such manner as is required by law. Such awards may be entered as a judgment in any court of competent jurisdiction.

(b) Unless the law directs otherwise, all awards rendered pursuant to this Rule shall be deemed final and not subject to review or appeal.

(c) The Director of Arbitration shall endeavor to serve a copy of the award:

(i) by registered or certified mail upon all parties, or their counsel, at the address of record; or

(ii) by personally serving the award upon the parties; or

(iii) by filing or delivering the award in such manner as may be authorized by law.

(d) The arbitrator(s) shall endeavor to render an award within thirty (30) business days from the date the record is closed.

(e) The Award shall contain the name of the parties, the name(s) of counsel, if any, a summary of the issues, including the type(s) of any security or product, in controversy, the damages or other relief requested, the damages or other relief awarded, a statement of any other issues resolved, the names of the arbitrators, the date the Claim was filed and the Award rendered, the number and dates of hearing sessions, the location of the hearing(s), and the signatures of the arbitrators concurring in the Award.

(f) The Awards shall be made publicly available, provided however, that the name of the customer party to the arbitration will not be publicly available if he or she so requests in writing.

(g) All monetary awards shall be paid within thirty (30) days of receipt unless a motion to vacate has been filed with a court of competent jurisdiction. An award shall bear interest from the date of the award (i) if not paid within thirty (30) days of receipt, (ii) if the award is the subject of a motion to vacate which is denied, or (iii) as specified by the arbitrator(s) in the award. Interest shall be assessed at the legal rate, if any, then prevailing in the state where the award was rendered, or at a rate set by the arbitrator(s).

#### **Section 29.—Agreement to Arbitrate.**

This Rule shall be deemed a part of and incorporated by reference in every agreement to arbitrate under the Constitution and Rules of the Exchange including a duly-executed Submission Agreement.

#### **Section 30.—Schedule of Fees.**

(a) At the time of filing a Claim, Counterclaim, a Third-Party Claim, or Cross-Claim, a party shall pay a non-refundable filing fee and shall remit a hearing session deposit with the Exchange in the amounts indicated in the schedules below unless such fee or deposit is specifically waived by the Director of Arbitration.

Where multiple hearing sessions are required, the arbitrator(s) may require any of the parties to make additional hearing deposits for each additional hearing session. In no event shall the amount deposited by all parties per hearing session exceed the amount of the largest initial hearing deposit made by any party under the schedule below.

(b) A hearing session is any meeting between the parties and the arbitrator(s), including a pre-hearing conference with an arbitrator, which lasts four (4) hours or less. The forum fee for a pre-hearing conference with an arbitrator shall be the amount set forth in the schedules below as a hearing session deposit for a hearing with a single arbitrator.

(c) The arbitrators, in their award, shall determine the amount chargeable to the parties as forum fees and shall determine who shall pay such forum fees. Forum fees chargeable to the parties shall be assessed on a per hearing session basis and the aggregate for each hearing session may equal but shall not exceed the amount of the largest initial hearing deposit deposited by any party, except in a case where claims have been joined subsequent to filing in which cases hearing session fees shall be computed as provided in paragraph (d). The arbitrators may determine in the award that a party shall reimburse to another party any non-refundable filing fee it has paid.

If a customer is assessed forum fees in connection with an industry claim, forum fees assessed against the customer shall be based on the hearing deposit required under the industry claims schedule for the amount awarded to industry parties to be paid by the customer and not based on the size of the industry claim. No fees shall be assessed against a customer in connection with an industry claim that is dismissed. However, in cases where there is also a customer claim, the customer may be assessed forum fees based on the customer claim under the procedures set out above.

Amounts deposited by a party as hearing deposits shall be applied against forum fees, if any. In addition to forum fees, the arbitrator(s) may determine in their award the amount of costs incurred pursuant to Sections 18, 20, and 24 and, unless applicable law directs otherwise, other costs and expenses of the parties and arbitrator(s) which are within the scope of the agreement of the parties. The arbitrator(s) shall determine by whom such costs shall be borne.

If the hearing session fees are not assessed against a party who had made a hearing deposit, the hearing deposit will be refunded unless the arbitrators determine otherwise.

(d) For claims filed separately and subsequently joined or consolidated under Section 13(d) of this Rule, the hearing deposit and forum fees assessable per hearing session after joinder or consolidation shall be based on the cumulative amount in dispute. The arbitrator(s) shall determine by whom such forum fees shall be borne.

(e) If the dispute, claim, or controversy does not involve, disclose or specify a money claim, the non-refundable filing fee shall be \$250 and the hearing session deposit to be remitted by a party shall be \$600 or such greater or lesser amounts as the Director of Arbitration or the panel of arbitrators may require, but shall not exceed \$1,500.

(f) The Exchange shall retain the total initial amount deposited as hearing session deposits by all the parties in any matter submitted and settled or withdrawn within eight business days of the first scheduled hearing session other than a pre-hearing conference.

(g) Any matter submitted and thereafter settled or withdrawn subsequent to the commencement of the first hearing session, including a pre-hearing conference with an arbitrator, shall be subject to an assessment of forum fees and costs incurred pursuant to Sections 18, 20, and 24 based on hearing sessions held and scheduled within eight



business days of the Exchange received notice that the matter has been settled or withdrawn. The arbitrator(s) shall determine by whom such forum fees and costs shall be borne.

**Schedule of Fees**  
**Public Customer Claimant**

<u>Amount In Dispute</u>	<u>Filing</u>		<u>Hearing Deposit</u>	
	<u>Fee</u>	<u>Paper</u>	<u>1 Arb.</u>	<u>* 3 Arb.</u>
<u>\$1,000 or less</u>	<u>\$15</u>	<u>\$15</u>	<u>\$ 15</u> *	<u>-</u>
<u>\$1,001—\$2,500</u>	<u>\$25</u>	<u>\$25</u>	<u>\$ 25</u> *	<u>-</u>
<u>\$2,501—\$5,000</u>	<u>\$50</u>	<u>\$75</u>	<u>\$100</u> *	<u>-</u>
<u>\$5,001—\$10,000</u>	<u>\$75</u>	<u>\$75</u>	<u>\$200</u> *	<u>-</u>
<u>\$10,001—\$30,000</u>	<u>\$100</u>	<u>-</u>	<u>\$300</u>	<u>\$400</u>
<u>\$30,001—\$50,000</u>	<u>\$120</u>	<u>-</u>	<u>\$300</u>	<u>\$400</u>
<u>\$50,001—\$100,000</u>	<u>\$150</u>	<u>-</u>	<u>\$300</u>	<u>\$500</u>
<u>\$100,001—\$500,000</u>	<u>\$200</u>	<u>-</u>	<u>\$300</u>	<u>\$750</u>
<u>\$500,001—\$5,000,000</u>	<u>\$250</u>	<u>-</u>	<u>\$300</u>	<u>\$1,000</u>
<u>Over \$5,000,000</u>	<u>\$300</u>	<u>-</u>	<u>\$300</u>	<u>\$1,500</u>

\* The 1 Arbitrator column also sets forth the forum fees for pre-hearing conferences with a single arbitrator.

**Industry Claimant**\*

<u>Amount In Dispute</u>	<u>Filing</u>		<u>Hearing Deposit</u>	
	<u>Fee</u>	<u>Paper</u>	<u>1 Arb.</u>	<u>3 Arb.</u>
<u>\$1,000 or less</u>	<u>\$500</u>	<u>\$75</u>	<u>\$300</u> *	<u>-</u>
<u>\$1,001—\$2,500</u>	<u>\$500</u>	<u>\$75</u>	<u>\$300</u> *	<u>-</u>
<u>\$2,501—\$5,000</u>	<u>\$500</u>	<u>\$75</u>	<u>\$300</u> *	<u>-</u>
<u>\$5,001—\$10,000</u>	<u>\$500</u>	<u>\$75</u>	<u>\$300</u> *	<u>-</u>
<u>\$10,001—\$30,000</u>	<u>\$500</u>	<u>-</u>	<u>\$300</u>	<u>\$600</u>
<u>\$30,001—\$50,000</u>	<u>\$500</u>	<u>-</u>	<u>\$300</u>	<u>\$600</u>
<u>\$50,001—\$100,000</u>	<u>\$500</u>	<u>-</u>	<u>\$300</u>	<u>\$600</u>
<u>\$100,001—\$500,000</u>	<u>\$500</u>	<u>-</u>	<u>\$300</u>	<u>\$750</u>
<u>\$500,001—\$5,000,000</u>	<u>\$500</u>	<u>-</u>	<u>\$300</u>	<u>\$1,000</u>
<u>Over \$5,000,000</u>	<u>\$500</u>	<u>-</u>	<u>\$300</u>	<u>\$1,500</u>

\* This is the fee schedule for claims submitted by Participants or Participant Firms, against public customers, registered representatives or non-Participants

other than public customers, and for claims submitted by registered representatives or non-Participants other than public customers against Participants or Participant Firms or non-Participants. The one arbitrator column also sets forth the forum fee for pre-hearing conferences with a single arbitrator.

### **Controversies**

<b><u>Amount In Dispute</u></b>	<b><u>Filing Fee</u></b>	<b><u>Pre-Hearing Conference</u></b>	<b><u>Hearing Deposit</u></b>
<u>\$10,000 or less</u>	<u>\$100</u>	<u>\$150</u>	<u>\$200</u>
<u>\$10,001 to \$100,000</u>	<u>\$200</u>	<u>\$300</u>	<u>\$750</u>
<u>\$100,001 or more</u>	<u>\$300</u>	<u>\$500</u>	<u>\$1,000</u>

### **Section 31.—Requirements When Using Pre-Dispute Arbitration Agreements With Customers.**

(a) Any pre-dispute arbitration clause shall be highlighted and shall be immediately preceded by the following disclosure language (printed in outline form as set forth herein) which shall also be highlighted:

(1) Arbitration is final and binding on the parties.

(2) The parties are waiving their right to seek remedies in court, including the right to jury trial.

(3) Pre-arbitration discovery is generally more limited than and different from court proceedings.

(4) The arbitrator's award is not required to include factual findings or legal reasoning and any party's right to appeal or to seek modification of rulings by the arbitrators is strictly limited.

(5) The panel of arbitrators will typically include a minority of arbitrators who were or are affiliated with the securities industry.

(b) Immediately preceding the signature line, there shall be a statement that shall be highlighted that the agreement contains a pre-dispute arbitration clause. This statement shall also indicate at what page and paragraph the arbitration clause is located.

(c) A copy of the agreement containing any such clause shall be given to the customer who shall acknowledge receipt thereof on the agreement or on a separate document.

(d) No agreement shall include any condition that limits or contradicts the rules of any self-regulatory organization or limits the ability of a party to file any claim in arbitration or limits the ability of the arbitrators to make any award.

(e) All agreements shall include a statement that "No person shall bring a putative or certified class action to arbitration, nor seek to enforce any pre-dispute arbitration agreement against any person who has initiated in court a putative class action; who is a member of a putative class who has not opted out of the class with respect to any claims encompassed by the putative class action until (i) the class certification is denied; or (ii) the class is decertified; or (iii) the customer is excluded from the class by the court. Such forbearance to enforce an agreement to arbitrate shall not constitute a waiver of any rights under this agreement except to the extent stated herein."

(f) The requirements of this section shall apply only to new agreements signed by an existing or new customer of a member or member organization after 120 days have elapsed from the date of Commission approval of this Rule.

## **ARTICLE 15**

### **Hearings and Reviews**

RULE 1. (a) *Applicability.* This rule sets out the procedures that may be used to seek an opportunity to be heard and to appeal from the following decisions made by the Exchange:

(1) The denial of a trading permit (Article 3);

(2) The barring of any person from being associated with a Participant (Article 6);

(3) The suspension or cancellation of trading privileges or special registrations (including registration as an institutional broker or market maker (Articles 13, 16 and 17));

(4) The limitation or prohibition of access to Exchange services (Article 5); and

(5) Decisions to suspend and/or delist a security (Article 22).

(b) This rule shall not apply to appeals from disciplinary actions or to actions in arbitration. This rule shall permit appeals only by the person or entity that was the subject of the Exchange's decision.

RULE 2. *Submission of Requests for Hearing.* A person who is aggrieved by any action of the Exchange within the scope of this rule and who seeks an opportunity to be heard shall file a written request, with the Secretary of the Exchange, within thirty (30) calendar days after receiving notice of the Exchange's decision. The request shall identify the action complained of, the specific reasons for taking exception to the decision and the relief sought.

RULE 3. *Requests for Hearings on Emergency Actions.* A person who is aggrieved by an emergency action of the Exchange taken pursuant to Article \_\_, Rule 2 and who seeks an opportunity to be heard shall file a written request, with the Secretary of the Exchange, within five (5) calendar days after receiving notice of the Exchange's action. All hearings on these matters shall be expedited to the maximum extent possible and, in any event, shall be held within ten days.

RULE 4. *Hearing Panel.* All hearings under this article shall be held by the Exchange's Executive Committee, unless the Executive Committee determines, in its sole discretion, to appoint a panel of five of its members to consider the matter. No member of the Executive Committee may hear a matter if he or she has any direct or indirect

interest in the matter which might preclude that person from rendering an objective and impartial determination.

RULE 5. *Extensions of Time.* The Executive Committee or, if applicable, the panel of the Executive Committee hearing the matter may grant the aggrieved party an extension of time to submit a request for hearing, upon a showing of good cause. The applicant seeking the extension of time must submit the extension request, to the Secretary of the Exchange, within the time periods set out in Rules 2 or 3, whichever is applicable to the matter. Rulings on requests for extensions of time are not subject to appeal.

RULE 6. *Submission of Supporting Materials.* Copies of all materials that will be submitted by any party, and a list of any witnesses that will testify, shall be submitted to the Secretary of the Exchange at least 72 hours before the hearing is scheduled to begin. The Secretary of the Exchange shall make these materials available for review by all other parties to the matter.

RULE 7. *Notice of Hearing.* The Secretary of the Exchange shall notify each party of the date and time of the hearing at least 72 hours before the hearing is scheduled to begin.

RULE 8. *Conduct of Hearing.* Each party to the proceeding shall have the right to be represented by counsel. Formal rules of evidence shall not apply; the Executive Committee (or, where applicable, the panel of the Executive Committee hearing the matter) may consider any matter it believes will aid it in reaching a reasonable and just decision. A transcript of the proceeding shall be made. The Executive Committee (or, where applicable, the panel hearing the matter) shall regulate the conduct of the hearing, but shall permit each party to make an opening statement, present witnesses and documentary evidence, cross-examine opposing witnesses and present closing arguments, either orally or in writing. The Executive Committee (or the panel hearing the matter) shall also have the right to question all parties and witnesses. The Executive Committee (or the panel hearing the matter) shall hear the case on a de novo basis.

RULE 9. *Decision.* The Executive Committee, or the panel hearing the matter, shall determine, by a majority vote of those present, whether to affirm, reverse or modify the underlying decision that formed the basis for the hearing. The decision shall be placed in writing, shall set forth the reasons upon which the decision is based and shall be issued within 90 days of the later to occur of the last day of the hearing or the last day on which any post-hearing briefs were submitted, unless good cause exists for an extension of this date.

RULE 10. *Appeal from Executive Committee decision.* Any decision of the Executive Committee (or a panel hearing a matter) can be reviewed by the Board of Directors on its own motion or at the request of any party to the underlying hearing. Any request for review must be made in writing, within 30 days after the decision is issued.

The request for review must identify the findings and conclusions to which exceptions are taken, together with the reasons for such exceptions. The other party may submit a response to the request for review. The Board of Directors may permit the parties to submit additional briefing materials and may determine a schedule for the submission of those materials.

The Board of Directors shall review materials submitted by all parties, as well as the hearing transcript and any materials that submitted at the hearing, in making its determination. The Board of Directors may determine, in its sole discretion, whether or not to permit oral argument. The Board of Directors shall determine, by a majority vote of those present, whether to affirm, reverse or modify the decision of the Executive Committee (or of the Executive Committee panel), but shall not overturn that decision if the factual conclusions are supported by substantial evidence and the decision is not arbitrary, capricious or an abuse of discretion. The Board's decision shall be placed in writing, shall set forth the reasons upon which the decision is based and shall be issued within 90 days of the later to occur of the last day of the oral argument (if any) or the last date on which the Board considered the matter, unless good cause exists for an extension of this date.

## **ARTICLE 16**

### **Market Makers**

#### **Registration and Appointment**

RULE 1. a. A participant firm may act as a market maker in a particular security only if it has registered, and been approved by, the Exchange to act in that capacity, and is in good standing.

b. A participant's status as a market maker can be suspended or terminated by the Exchange as set out in Article 13 and Rule 7 below or by the market maker itself as set out in Rule 6, below.

c. A market maker is designated as a dealer for all purposes under the Securities Exchange Act of 1934 and the rules and regulations thereunder.

#### **• • • Interpretations and Policies:**

.01 A participant firm, not an individual participant, may seek registration as a market maker in an issue. Each individual trader authorized to enter bids and offers and execute transactions on behalf of a market maker is a market maker trader ("MMT") and must be registered with the Exchange as provided in Article 6.

.02 A market maker that is a participant in the Exchange, but is not a member of any other self-regulatory organization, may trade only on a proprietary basis and may not handle any agency orders. A market maker that is a member of the NASD may handle agency orders away from the facilities of the Exchange provided that it is registered as a market maker with the NASD.

#### **Initial Registration Procedures**

RULE 2. A participant can seek registration as a market maker pursuant to these procedures:

a. The Exchange will post on its website a list of all issues that are, or soon will be, trading on the Exchange and that are available for assignment to a market maker.

b. Any participant seeking to act as a market maker in one or more securities must submit a completed application to the Exchange in such form as the Exchange may require from time to time. The application shall certify the participant's good standing with the Exchange, shall demonstrate the applicant's ability to comply with the responsibilities set out in Rule 8, below and shall indicate the number of securities in which it wants to make a market.

c. The Exchange shall review all applications and, based on the criteria set out in Rule 3, shall appoint participants to serve as market makers.

d. The Exchange will announce the names of all successful applicants and, if it denies an applicant's request to register as a market maker, will provide that participant a summary of the Exchange's reasons for making that decision.

### **Approval by the Exchange**

RULE 3. In considering a participant's request for registration as a market maker, the Exchange may consider:

- a. the participant's financial resources;
- b. the participant's experience and demonstrated ability in making markets, including the depth and quality of the market quoted by the participant in other securities;
- c. the participant's demonstrated ability to make markets in such a manner as to increase the order flow to the Exchange and, as a result, the competitiveness of its market with markets elsewhere;
- d. the participant's disciplinary record, including its violations of Exchange rules, the rules of other SROs and federal securities laws;
- e. the participant's operational capability, including its ability to comply with the responsibilities set out in Rule 8, below; and
- f. the overall best interests of the Exchange.

### **• • • Interpretations and Policies:**

.01 There may be more than one market maker in each security traded on the Exchange.

### **Temporary Appointment of Market Maker**

RULE 4. Where emergency circumstances require the expedited appointment of a market maker, the Exchange may make any such temporary appointment as it deems necessary.



### **Identification of Securities Traded as Market Maker**

RULE 5. A participant whose application to register as a market maker has been approved by the Exchange may select the securities in which it seeks to act as a market maker by notifying the Exchange in the manner required by the Exchange. A market maker's decision to add or drop securities from its existing selection must be communicated to the Exchange no later than 9 a.m. on the trading day immediately preceding the date on which the change is to take effect, unless the Exchange permits a later date and/or time.

#### **• • • Interpretations and Policies:**

.01 A market maker must seek prior Exchange approval for an initial request to trade more than 500 securities and each request to trade each increment of an additional 100 securities after that threshold is reached. In reviewing these requests, the Exchange shall consider the factors set out in Rule 3 above.

.02 Except for temporary and/or partial de-registrations approved by the Exchange in accordance with Rule 6 below, if a market maker drops a security from its selected list, that participant may not register again as an market maker in that security for twenty (20) calendar days.

### **Voluntary De-Registration as Market Maker**

RULE 6. A market maker may terminate its registration as an market maker by completing the appropriate form and submitting it to the Exchange. A participant that has been registered as an market maker, but that is not trading any securities as a market maker, will be deemed to have de-registered and will be required to complete the registration process set out in Rules 2 and 3 above before again acting as an market maker on the Exchange.

#### **• • • Interpretations and Policies:**

.01 Temporary and/or partial de-registration as market maker. A market maker may receive Exchange approval for a temporary de-registration as a market maker in one or more securities in the following circumstances:

a. Software, hardware, connectivity or other problems interfere with the market maker's ability to appropriately send bids or offers to the Exchange or otherwise act as market maker;

b. Legal or regulatory considerations temporarily prevent the participant from acting as market maker; or

c. Other circumstances, including, but not limited to, those that are beyond a market maker's control, that interfere with the participant's ability to act as market maker.

Each request for a temporary and/or partial deregistration as a market maker must be made in writing and, wherever practicable, must be made prior to the condition that cause a participant to be unable to continue in that role. The Exchange may grant a request for a temporary and/or partial deregistration for up to sixty (60) days and may extend that period in its discretion.

### **Involuntary De-Registration as Market Maker**

RULE 7. The Exchange may suspend, terminate or otherwise limit a market maker's registration upon a determination of any substantial or continued failure by the participant to engage in dealings in accordance with Rule 8 or in accordance with the provisions of Article 13.

### **Responsibilities**

RULE 8. Each market maker must engage in a course of dealings for its own account to assist in the maintenance, to the extent reasonably practicable, of fair and orderly markets on the Exchange in accordance with this rule. The responsibilities and duties of a market maker specifically include, but are not limited to, the following:

a. Continuous two-sided quotation. Each market maker must use automated system(s) to maintain a continuous two-sided principal quotation, for at least a round lot, in each of the securities in which it is registered.

b. Adequate capital. Each market maker must maintain adequate minimum capital in accordance with Article 7.

c. Specific quotation or trade requirement. Over the course of each calendar quarter, a market maker must meet either of these requirements: (1) at least 5% of the total number of a market maker's principal bids or offers on the Exchange, in each quarter, for each of its assigned securities, must, when entered on the Exchange, be at the NBBO or improve the NBBO in a manner that attributes market data revenue to the Exchange under the terms of applicable national market system reporting plans; or (2) the shares traded by a market maker for its own account, for each of its assigned issues, must equal or exceed 1% of the total number of shares executed on the Exchange in that issue.

### **Limitation on Dealings**

RULE 9. a. Basic requirement. A market maker may engage in other business activities, or it may be affiliated with a broker or dealer that engages in other business activities, only if there is an information barrier between the market-making activities and the other business activities.

b. Documenting and reporting of information barrier procedures. At the time a participant becomes a market maker, it shall submit a written statement to the Exchange that contains the following information:

(1) the manner in which the marker maker intends to satisfy the requirements of this rule (including the compliance and audit procedures it proposes to implement to ensure that the information barrier is maintained);

(2) the names and titles of the person or persons responsible for maintenance and surveillance of the procedures;

(3) a commitment to provide the Exchange with such information and reports relating to its transactions as the Exchange may request;

(4) a commitment to take appropriate remedial action against any person violating this rule or the participant's internal compliance and audit procedures adopted pursuant to subparagraph (b)(1) above, and confirmation that it recognizes that the Exchange may take appropriate remedial action, including, without limitation, reallocation of the securities in which the firm serves as agency market maker, in the event of such a violation;

(5) Whether the participant or an affiliate intends to clear its proprietary trades and, if so, the procedures established to ensure that information with respect to such clearing activities will not be used to compromise the participant's information barrier (which procedures, at a minimum, must be the same as those used by the participant or the affiliate to clear for unaffiliated third parties); and

(6) That it recognizes that any trading by a person while in possession of material, non-public information received as a result of the breach of the internal controls required under the rule may be a violation of Rules 10b-5 and 14e-3 under the Exchange Act or one or more other provisions of the Exchange Act, the rules thereunder or the rules of the Exchange and that the Exchange intends to review carefully any such trading of which it becomes aware to determine whether a violation has occurred.

c. Approval of information barrier procedures. The written statement required by paragraph (c) of this rule must detail the internal controls that the participant will implement to satisfy each of the conditions stated in the rule, and the compliance and

audit procedures proposed to implement and ensure that the controls are maintained. If the Exchange determines that the organizational structure and the compliance and audit procedures proposed by the participant are acceptable under this rule, the Exchange shall so inform the participant, in writing. Unless the Exchange finds that a participant's information barrier procedures are acceptable, a agency market maker may not conduct other business activities.

d. *Clearing arrangements.* Subparagraph (b)(5) above permits a participant to clear the participant's agency market maker transactions if it establishes procedures to ensure that information with respect to such clearing activities will not be used to compromise the information barrier. In this regard:

(1) The procedures must provide that any information pertaining to agency market maker securities positions and trading activities, and information derived from any clearing and margin financing arrangements, may be made available only to those employees (other than employees actually performing clearing and margin functions) specifically authorized under this rule to have access to such information or to such other employees in senior management positions who are involved in exercising general managerial oversight with respect to the market making activity.

(2) Any margin financing arrangements must be sufficiently flexible so as not to limit the ability of any market maker to meet market making or other obligations under the Exchange's rules.

**• • • *Interpretations and Policies:***

.01 The provisions of this rule apply only to market makers in a security who are not also registered as NASD market makers in the same security.

.02 For purposes of this rule, "other business activities" include: (a) conducting an investment banking or public securities business; (b) making markets in the options overlying the security in which it makes markets; or (c) functioning as a order entry firm on the Exchange, except where that order entry firm (or a broker-dealer with which the order entry firm is affiliated) engages solely in proprietary trading and does not, under any circumstance, maintain customer accounts or solicit or accept orders or funds from or on behalf of public customers, including broker-dealers and other securities firms.

.03 For purposes of this rule, an "information barrier" is an organizational structure in which:

a. The proprietary market making functions are conducted in a physical location separate from the locations in which the other business activities are conducted, in a manner that effectively impedes the free flow of communications between MMTs, on the one hand, and persons conducting the other business activities, on the other. However, upon request and not on his or her own initiative, an MMT performing the

function of a market maker may furnish to persons at the same firm or an affiliated firm (“affiliated persons”), the same sort of market information that the MMT would make available in the normal course of its market making activity to any other person. The MMT must provide such information to affiliated persons in the same manner that he or she would make such information available to a non-affiliated person.

b. There are procedures implemented to prevent the use of material non-public corporate or market information in the possession of persons on one side of the barrier from influencing the conduct of persons on the other side of the barrier. These procedures, at a minimum, must provide that:

(1) the MMT performing the function of a proprietary market maker does not take advantage of knowledge of pending transactions, order flow information, corporate information or recommendations arising from the other business activities; and

(2) all information pertaining to the market maker’s positions and trading activities is kept confidential and not made available to persons on the other side of the information barrier.

c. Persons on one side of the barrier may not exercise influence or control over persons on the other side of the barrier, provided that:

(1) the proprietary market making function and the other business activities may be under common management as long as any general management oversight does not conflict with or compromise the market maker’s responsibilities under Exchange rules;

(2) the same person or persons (“the supervisor”) may be responsible for the supervision of the market making and other proprietary trading functions of the same or affiliated firms in order to monitor the overall risk exposure of the firm or affiliated firms. While the supervisor may establish general trading parameters with respect to both market making and other proprietary trading other than on an order-specific basis, the supervisor may not:

(a) actually perform the function of an market MMT or another proprietary trader;

(b) provide to any person performing the function of a proprietary trader any information relating to market making activity beyond the information that a MMT may provide under subparagraph (a) above; nor

(c) provide an MMT performing the functions of a registered market maker with specific information regarding the firm’s pending transactions or order flow arising from its other business activities.

### **Reporting of Position Information**

RULE 10. a. *Recording of information.* A market maker must record its long or short position in a security, including the number of shares which it is long or short, as of the time that it initiates an order in such security on the trading facilities of the Exchange.

b. *Transmission of information.* Market makers that are not NASD members (or a designated reporting agent for non-NASD market makers that is deemed acceptable to the Exchange) shall transmit the information required to be recorded under paragraph (a) of this rule to the Exchange in an electronic format as designated by the Exchange from time to time.

## **ARTICLE 17**

### **Institutional Brokers**

#### **Registration and Appointment**

RULE 1. Any participant that acts as a broker in effecting transactions on the Exchange and for which the Exchange is the designated examining authority shall register with the Exchange as an institutional broker.

• • • Interpretations and Policies:

.01 The provisions of this Rule shall apply to participants whether or not they are required by Section 15(b)(8) of the Exchange Act and Rule 15b9-1 thereunder to register as members of a national securities association.

.02 A participant firm, not an individual participant, may seek registration as an institutional broker. Each individual person authorized to enter bids and offers and execute transactions on behalf of an institutional broker is an institutional broker representative ("IBR") and must be registered with the Exchange as provided in Article 6.

#### **Registration Procedures**

RULE 2. A participant can register as an institutional broker by submitting a completed application to the Exchange in such form as the Exchange may require from time to time. The application shall certify the participant's good standing with the Exchange and shall demonstrate the applicant's ability to comply with the responsibilities set out in Rule 3, below.

#### **Responsibilities**

RULE 3. The responsibilities and duties of an institutional broker specifically include, but are not limited to, the following:

a. Entry of orders into an automated system. Each institutional broker must enter all orders it receives for execution on the Exchange into an automated system as required by the provisions of Article 11.

b. Maintenance of specific accounts. Each institutional broker must maintain separate accounts for handling (1) agency transactions; (2) principal transactions; and (3) transactions involving errors, and must enter transactions into the appropriate accounts.

c. Obligations in handling orders. Institutional brokers must follow these guidelines in executing orders:

(1) An institutional broker handling a market order must use due diligence to execute the order at the best price or prices available.

(2) An institutional broker handling a limit order must use due diligence to execute the order at or better than the limit price, if available.

(3) An institutional broker who has been given a not held order must use brokerage judgment in the execution of the order, and if he exercises such judgment, is relieved of all responsibility with respect to the time of the order's execution and the execution price or prices given to the order.

d. *Reporting of transactions.* Institutional brokers must use reasonable efforts to report all transactions that are not effected through the Exchange's Matching System to the Exchange within 10 seconds after the trade occurs. Any trades reported after this time must be marked "SOLD."

e. *Maintenance of certain records.* Institutional brokers must maintain the records required by Article 11, including, but not limited to, the records associated with their arrangements with customers.

**• • • *Interpretations and Policies:***

.01 Institutional brokers essentially are order-entry firms that act primarily as brokers on the Exchange and for which the Exchange is the designated examining authority. The Exchange requires institutional brokers to register with the Exchange to permit better monitoring of their trading activities.

.02 Institutional brokers are bound by other provisions of the Exchange's rules, including, but not limited to, the business conduct rules set out in Article 8 and the trading rules set out in Article 9.



**ARTICLE 18**

**Reserved for Future Use**

**ARTICLE 19**

**Intermarket Trading**

**Intermarket Trading System**

RULE 1. (a) Definitions.

(1) "CTA Plan" means the plan filed with the Securities and Exchange Commission ("SEC") pursuant to SEC Rule 17a-15 (subsequently amended and redesignated as Rule 11Aa3-1), approved by the SEC and declared effective as of May 17, 1974, as from time to time amended.

(2) "Eligible Listed Security" means any security listed on the Exchange that can be traded through the System.

(3) "Intermarket Trading System" ("ITS") means the application of the System that permits intra-day trading in Eligible Listed Securities between Participant markets as set forth in the ITS Plan.

(4) "ITS Plan" means the plan pursuant to which the Exchange, other national securities exchanges and the National Association of Securities Dealers, Inc. ("NASD") (collectively, the "Participants") act jointly in planning, developing and operating the System and its applications, as from time to time amended in accordance with its provisions, and that has been approved by the SEC pursuant to section 11A(a)(3)(B) of the Securities Exchange Act of 1934, as amended, and SEC Rule 11Aa3-2.

(5) "Participant('s) Market" means each Exchange Market and the ITS/ CAES Third Market.

(6) "Network A Eligible Security" has the meaning assigned to that term in the CTA Plan.

(7) "Network B Eligible Security" has the meaning assigned to that term in the CTA Plan.

(8) "Pre-Opening Application" means the application of the System that permits a market maker in one Participant market who wishes to open his market in an Eligible Listed Security to obtain from other market makers registered in that security in other Participant markets any pre-opening interests such other market makers might decide to disclose as set forth in the ITS Plan.

(9) "Previous day's consolidated closing price" means the last price at which a transaction in a security was reported by the consolidated last sale reporting system on the last previous day on which transactions in the security were reported by such system; Provided, however, that the Exchange may specify that the "previous day's consolidated

closing price" for all Network A or Network B Eligible Securities shall be the last price at which a transaction in the stock was reported by the New York Stock Exchange, Inc. ("NYSE") or the American Stock Exchange, Inc. ("AMEX"), if, because of unusual market conditions, the NYSE or AMEX price is designated as such pursuant to the ITS Plan.

(10) "System" means the communications network and related equipment that links electronically the Participant markets as described in the ITS Plan.

(b) Provisions of the Plan. By subscribing to and submitting the ITS Plan for filing with the SEC, the Exchange has agreed to comply to the best of its ability, and, absent reasonable justification or excuse, to enforce compliance by its Participants, with the provisions of the ITS Plan. For purposes of the ITS Plan, a Participant (as referenced in Rules 39-42 of this Article XX) shall be deemed to be a "member" of the Exchange. In this connection, the following shall apply:

### **Intermarket Trading System (ITS)**

(1) All transactions effected through ITS shall be on a "regular way" basis. Each transaction effected through ITS shall be cleared and settled through a clearing agency registered with the Commission which maintains facilities through which ITS transactions may be compared and settled and which agrees to supply each participating market center with data reasonably requested in order to permit such market center to enforce compliance by its Participants with the provisions of the Act, the rules and regulations thereunder, and the rules of such market center.

(2) Any "commitment to trade", which is transmitted by a Participant to another participating market center through ITS, shall be firm and irrevocable for the period of time following transmission as is chosen by the sender of the commitment. All commitments to trade shall, at a minimum:

- (A) identify one or more clearing Participants,
- (B) direct the commitment to a particular participating market center,
- (C) specify the security which is the subject of the commitment,
- (D) designate the commitment as either a commitment to buy or a commitment to sell,
- (E) specify the amount of the security to be bought or sold, which amount shall be for one unit of trading or any multiple thereof,
- (F) specify the price at or below which the security is to be bought or the price at or above which the security is to be sold, or specify that the commitment is a commitment to trade "at the market",
- (G) designate the commitment "short" or "short exempt" whenever it is a commitment to sell which, if it should result in an execution in the market of the receiving market center, would result in a short sale to which the provisions of Rule 10a-1 under the Act would apply.]
- (H) specify the time period during which the commitment shall be irrevocable,

but if the time period is not specified in the commitment, the longer of the two options available under the Plan shall be assumed by ITS.

(3) Each commitment to trade sent through ITS (other than a commitment to trade "at the market"), if a commitment to buy, shall be priced at the offer price then being displayed from the market center to which the commitment is sent and, if a commitment to sell, shall be priced at the bid price then being displayed from such market center.

(A) A "commitment to trade" received on the Floor through ITS shall be treated in the same manner, and entitled to the same privileges, as would an immediate or cancel order that reached the Floor at the same time except as otherwise provided in the Plan and except further that such a commitment may not be "stopped" and the commitment shall remain irrevocable for the time period chosen by the sender of the commitment.

(4) The Participant or Participants on the Floor who made the bid or offer which is sought by a commitment to trade received on the Floor through ITS shall accept such commitment to trade up to the amount of the bid or offer if the bid or offer is still available on the Floor when the commitment to trade is received by such Participant or Participants, unless acceptance is precluded by the rules of the Exchange. In the event that the bid or offer which is sought by a commitment to trade is no longer available on the Floor when the commitment is received, but a new bid or offer is available on the Floor which would enable the commitment to trade to be executed at a price which is as or more favorable than the price specified in such commitment, then the Participant or Participants who has made such new bid or offer shall accept such commitment at the price, and up to the amount of, his bid or offer, unless acceptance is precluded by the rules of the Exchange.

(5) Any Participant to whom a commitment to trade received through ITS is communicated and who intends to reject that commitment shall notify the market center from which the commitment was sent of such rejection as promptly as possible.

(6) Any commitment to trade received on the Floor through ITS and any execution thereof and any commitment to trade issued by a Participant through ITS shall be subject to rules as the Exchange may from time to time determine.

### **Pre-Opening Application**

(7) The provisions of subparagraph (1) above shall also be applicable to any transaction effected through the Pre-Opening Application. The Pre-Opening Application applies in two instances. First, it applies whenever a market maker in any Participant Market, in arranging an opening transaction in his market in a System Security, anticipates that the opening transaction will be at a price that represents a change from the security's "previous day's consolidated closing price" at more than the "applicable price change." Second, it applies whenever an "indication of interest" (i.e., an anticipated

opening price range) is sent to the CTA Plan Processor as required or permitted by the CTA Plan or a Participant market's rules.

(c) Openings on the Exchange.

(1) Notification Requirements

(A) Applicable Price Change

(1) Initial Notification—Whenever an Exchange specialist, in arranging an opening transaction on the Exchange in any Eligible Listed Security, anticipates that the opening transaction on the Exchange will be at a price that represents a change from the security's previous day's consolidated closing price of more than the "applicable price change" (as defined below), he shall notify the other Participant markets of the situation by sending a "pre-opening notification" through the System. Thereafter, the specialist shall not open the security in his market until not less than three minutes (four minutes prior to May 1, 1984) after his transmission of the pre-opening notification. The "applicable price changes" are:

<u>Security</u>	<u>Consolidated Closing Price</u>	<u>Applicable Price Change</u> <u>(\$)(More Than)</u>
<u>Network A</u>	<u>Under \$15</u>	<u>1/8 point or, for stocks trading in decimals, 0.10</u>
	<u>\$15 or over<sup>1</sup></u>	<u>1/4 point or, for stocks trading in decimals, 0.25</u>
<u>Network B</u>	<u>Under \$5</u>	<u>1/8 point or, for stocks trading in decimals, 0.10</u>
	<u>\$5 or over</u>	<u>1/4 point, or for stocks trading in decimals, 0.25<sup>2</sup></u>

<sup>1</sup>If the previous day's consolidated closing price of a Network A Eligible Security exceeded \$100 and the security does not underlie an individual stock option contract listed and currently trading on a national securities exchange, the "applicable price change" is one dollar.

<sup>2</sup>If the previous day's consolidated closing price of a Network B Eligible Security exceeded \$75 and the security is not a Portfolio Depositary Receipt, Index Fund Share or Trust Issued Receipt, or does not underlie an individual stock option contract listed and currently trading on a national securities exchange, the "applicable price change" is one dollar.

A pre-opening notification shall:

- (A) be designated as a pre-opening notification ("IND"),
- (B) identify the Exchange ("X"), the Exchange specialist and the security ("XYZ"), and

(C) indicate the "applicable price range" by being formatted as a standardized pre-opening administrative message as follows:

IND X/XYZ [RANGE]

The price range shall not exceed the "applicable price range" shown below:

	<u>Consolidated</u>	<u>Applicable</u>
<u>Security</u>	<u>Closing Price</u>	<u>Price Range (\$)</u>
<u>Network</u>		<u>1/2 point or, for stocks</u>
<u>A</u>	<u>Under \$50</u>	<u>trading in decimals, 0.50</u>
	<u>\$50 or over</u>	<u>1 point or, for stocks</u>
		<u>trading in decimals, 1.00<sup>3</sup></u>
<u>Network</u>		<u>1/2 point or, for stocks</u>
<u>B</u>	<u>Under \$10</u>	<u>trading in decimals, 0.50</u>
	<u>\$10 or over</u>	<u>1 point or, for stocks</u>
		<u>trading in decimals, 1.00<sup>4</sup></u>

<sup>3</sup> If the previous day's consolidated closing price of a Network A Eligible Security exceeded \$100 and the security does not underlie an individual stock option contract listed and currently trading on a national securities exchange, the "applicable price range" is two dollars.

<sup>4</sup> If the previous day's consolidated closing price of a Network B Eligible Security exceeded \$75 and the security is not a Portfolio Depositary Receipt, Index Fund Share or Trust Issued Receipt, or does not underlie an individual stock option contract listed and currently trading on a national securities exchange, the "applicable price range" is two dollars.

The price range also shall not straddle the previous day's consolidated closing price, although it may include it as an endpoint (e.g., a 1/8-5/8 or, for stocks trading in decimals, a 40.15-40.65 price range would be permissible if the previous day's consolidated closing price were 1/8 or 5/8 or, for stocks trading in decimals, \$40.15 or 40.65, but not if the closing price were 1/4, 3/8 or 1/2 or, for stocks trading in decimals, within the price range of 40.16— 40.64).

(2) Subsequent Notifications—If, after sending a pre-opening notification, the situation in an Exchange specialist's market changes, he may have to issue a subsequent pre-opening notification. The three situations requiring subsequent notifications are described below. Subsequent pre-opening notifications shall be standardized pre-opening administrative messages. After sending a subsequent notification, the specialist shall wait either (A) one minute or (B) until the balance of the original three-minute waiting period expires (four-minute period prior to May 1, 1984), whichever is longer, before opening his market (i.e., if more than one minute of the initial waiting period has not yet expired at the time the subsequent notification is sent, the specialist must wait for the rest of the period to pass before opening his market).

(i) Increase or Decrease in Applicable Price Range—Where, prior to the specialist's opening of his market in the security, his anticipated opening price shifts so that it (1) is outside of the price range specified in his pre-opening notification but (2) still represents a change from the previous day's consolidated closing price of more than the applicable price change, he shall issue a replacement pre-opening notification (an "additional" notification) through the System before opening his market in the security. An additional notification contains the same kind of information as is required in an original pre-opening notification.

(ii) Shift to Within Applicable Price Change Parameter—(1) The specialist shall, by issuing a "cancellation" notification, notify the Participant market(s) of the receiving market maker(s) prior to opening the security if the price at which he anticipates opening his market shifts so that it (a) is outside of the price range specified in his pre-opening notification but (b) does not represent a change from the previous day's consolidated closing price of more than the applicable price change. (2) Notwithstanding the preceding sentence, in situations where the price range in an initial or additional notification includes price variations equal to or less than the applicable price change parameters, the "cancellation" notification signifies that the anticipated opening price: (1) may or may not be outside of the price range specified in the pre-opening notification and (2) does not represent a change from the previous day's consolidated closing price of more than the applicable price change.<sup>1</sup>

(iii) Participation as Principal Precluded ("Second Look")—If a responding market maker who has shown in his pre-opening response interest as principal at a price better than the anticipated opening price would be precluded from participation as principal in the opening transaction (e.g., his responding principal interest is to sell at a price 1/8 or more or for stocks trading in decimals, 0.01 or more below the opening price established by paired agency orders), the specialist shall send a "second look" notification through the System notifying such responding market maker of the price and size at which he could participate as principal (i.e., in the parenthetical example above, the total amount of the security that he would have to sell at the better price to permit the opening transaction to occur at that price).

(B) Tape Indications—If the CTA Plan or the Exchange's rules require or permit that an "indication of interest" (i.e., an anticipated opening price range) in a security be furnished to the consolidated last sale reporting system prior to the opening of trading, or the reopening of trading following a halt or suspension in trading in one or more Eligible Listed Securities, then the furnishing of an indication of interest, in such situations shall, without any other additional action required of the specialist, (1) initiate the Pre-Opening process, and, (2) if applicable, substitute for and satisfy the requirements of paragraphs (c)(1)(A)(1), (c)(1)(A)(2)(i) and (c)(1)(A)(2)(ii). (While the furnishing of an indication of

interest to the consolidated last sale reporting system satisfies the notification requirements of this rule, a specialist should also transmit the indication through the System in the format of a standardized pre-opening administrative message.) In any such situation the specialist shall not open or reopen the security until not less than three minutes after his transmission of the opening or reopening indication of interest. For the purpose of paragraphs (c)(2)(A-E) and (c)(3), "pre-opening notification" includes an indication of interest furnished to the consolidated last sale reporting service.

## (2) Pre-Opening Responses

(A) Decision on Opening Transaction—Subject to paragraph (c)(2)(B), if an Exchange specialist who has issued a pre-opening notification receives "pre-opening responses" through the System containing "obligations to trade" from market makers in other Participant markets ("responding market makers"), he shall combine those obligations with orders he already holds in the security and, on the basis of this aggregated information, decide upon the opening transaction in the security. If the specialist has received more than one pre-opening response from a Participant market, he shall include in such combination only those obligations to trade from such Participant Market as are specified in the most recent response, whether or not the most recent response expressly cancels the preceding response(s). An original or revised response received after the specialist has effected his opening transaction shall be to no effect.

(B) Pre-Opening Responses from Open Markets—An Exchange specialist must accept only those pre-opening responses sent to the Exchange by market makers in other Participant Markets prior to the opening of their markets for trading in the security. \* Following a halt or suspension in trading on the Exchange, a specialist must accept only those pre-opening responses sent by market makers to the Exchange from other Participant Markets that halted trading in the security contemporaneously with the Exchange and that had not resumed trading in the security at the time the pre-opening response is sent.]

[In the event that one or more market makers from Participant Markets that have already opened trading in a security or, with respect to a halt or suspension in trading, either did not halt trading in a security contemporaneously with the Exchange, or has already resumed trading in a security, respond to a pre-opening notification in that security, the specialist need not, but may in his discretion, accept such responses for the purpose of inclusion in the opening or reopening transaction. In the event that a Participant Market opens or, with respect to a halt or suspension in trading, resumes trading in a security subsequent to a market maker in that Participant Market sending a pre-opening response but prior to the opening or reopening transaction on the Exchange, the market maker who sent the pre-opening response to the Exchange must confirm the pre-opening response by sending an administrative message through the System stating that the response remains valid: if the market maker fails to so confirm the pre-opening response,



the specialist need not, but may in his discretion, accept the original response for the purpose of inclusion in the opening or reopening transaction.

(C) Allocation of Imbalances—Whenever pre-opening responses from one or more responding market makers include obligations to take or supply as principal more than 50 percent of the opening imbalance, the Exchange specialist may take or supply as principal 50 percent of the imbalance at the opening price, rounded up or down as may be necessary to avoid the allocation of odd lots. In any such case, where the pre-opening response is from more than one responding market maker, the specialist shall allocate the remaining imbalance (which may be greater than 50 percent if the specialist elects to take or supply less than 50 percent of the imbalance) among them in proportion to the amount each obligated himself to take or supply as principal at the opening price in his pre-opening response, rounded up or down as may be necessary to avoid the allocation of odd lots. For the purpose of this paragraph (c)(2)(C), multiple responding market makers in the same Eligible Listed Security in the same Participant market shall be deemed to be a single responding market maker.

(D) Treatment of Obligations to Trade—In receiving a pre-opening response, an Exchange specialist shall accord to any obligation to trade as agent included in the response the same treatment as he would to an order entrusted to him as agent on the Exchange at the same time such obligation was received.

(E) Responses Increasing the Imbalance—An Exchange specialist shall not reject a pre-opening response that has the effect of further increasing the existing imbalance for that reason alone.

(3) Reports of Participation—Promptly following the opening in any security as to which an Exchange specialist issued a pre-opening notification, the specialist shall report to each Participant responsible for a market in which one or more responding market makers are located (A) the amount of the security purchased and/or sold, if any, by the responding market maker(s) in the opening transaction and the price thereof or (B) if the responding market maker(s)'s response included agency or principal interest at the opening price that did not participate in the opening transaction, the fact that such interest did not so participate.

(d) Openings in Other Participating Markets

(1) Pre-Opening Responses—Subject to paragraph (d)(2), whenever an Exchange specialist who has received a pre-opening notification as provided in the ITS Plan in any Eligible Listed Security as to which he is registered as a specialist wishes to participate in the opening of that security in the Participant market from which the pre-opening notification was issued, he may do so by sending obligations to trade through the System to such Participant market in a pre-opening response. A pre-opening response shall:

(A) be designated as a pre-opening response ("RES"),

(B) identify the Exchange ("X"), the specialist and the security ("XYZ"), and

(C) show the specialist's interest (if any), both as principal for his own account ("P") and as agent for orders left with him ("A"), at each price level within the price-range indicated in the pre-opening notification (e.g., 403/8 or, for stocks trading in decimals, 40.40), reflected on a netted share basis by being formatted as a standardized pre-opening administrative message as follows:

RE X/XYZ BUY [SELL] A-P 403/8, or for stocks trading in decimals, 40.40

The response may also show market orders separately.

(2) Responses When the Exchange is Open—Notwithstanding paragraph (d)(1), an Exchange specialist who has received a pre-opening notification in any Eligible Listed Security in which he is registered as a specialist should not send a pre-opening response to the originator of such notification if (A) the market for trading in the security is open on the Exchange or (B) the Participant market from which the notification emanated had declared a halt or suspension in trading in such security, and the Exchange either had not halted trading in the security reasonably contemporaneously with the Participant market or had resumed trading during the halt or suspension in trading.

(3) Revised Responses—An Exchange specialist may cancel or modify his pre-opening response by sending through the System a revised response that cancels the obligations to trade contained in his original response and, if a modification is desired, that substitutes new obligations to trade stating the specialist's aggregate interest (i.e., his interest reflected in the original response plus any additional interest and/or minus any withdrawn interest) at each price level. Each succeeding response, even if it fails to expressly cancel its predecessor response, shall supersede the predecessor response in its entirety. Any revised response shall be to no effect if received in the Participant market from which the pre-opening notification was issued after the security has opened in such Participant market.

(4) Sole Means of Pre-Opening Routing—Once a pre-opening notification as to any security is received on the Exchange, the one or more Exchange specialists in such security shall submit any obligations to trade that security as principal for his or their own accounts to the Participant market from which the pre-opening notification was issued only through the Pre-Opening Application and shall not send orders to trade that security for his or their own accounts to such Participant market for participation at the opening in that market by any other means. The foregoing sentence shall have no application to orders sent to that market by the specialist(s) prior to the issuance of a pre-opening notification.

(5) Use of System Before Opening or Reopening—No Exchange Participant, whether acting as principal or agent, shall send an obligation to trade, commitment to trade or order in any security from the Exchange through the System to any other

Participant market prior to the opening of trading in the security in the Participant market (or prior to the resumption of trading in the security in the Participant market following the initiation of a halt or suspension in trading in the security) until a pre-opening notification in the security has been issued from the other Participant market or, if no pre-opening notification is required, until the market in the security has opened in such other Participant market.

(6) Duration of Obligations to Trade—Responses to pre-opening notifications shall be voluntary, but each obligation to trade that an Exchange specialist includes in any pre-opening response, or in any modification of a pre-opening response, shall remain binding on him, and on any person for whom he is acting, until the security has opened in the Participant market from which the pre-opening notification was issued or until a cancellation or modification of such obligation has been received in such Participant market, and any such modification shall itself be binding on the Exchange specialist or such person until a subsequent cancellation or modification thereof has been received in such Participant market. The preceding sentence applies to obligations to trade even if included in pre-opening responses contravening paragraph (c)(2).

(7) Request for Participation Reports—The ITS Plan anticipates that an Exchange Participant who has sent one or more obligations to trade in response to a pre-opening notification will request a report through the System as to his participation if he does not receive a report as required promptly following the opening. If, on or following trade date, he does request a report through the System as to his participation before 3:00 p.m. central time, and he does not receive a response by 8:30 a.m. central time on the next trading day, he need not accept a later report. If he fails to so request a report, he must accept a report until 3:00 p.m. central time on the third trading day following the trade date (e.g., on T+3). The Exchange does not intend this paragraph (d)(7) to relieve him of the obligation, when he does not receive a report to request a report as soon as he reasonably should expect to have received it.

**••• Interpretations and Policies:**

.01 No Participant shall buy against a commitment or obligation to sell designated as "short" which is received on the Floor through ITS or any other Application of the System if the resulting transaction would violate the short selling rules as in effect on the Exchange.

.02 Any purchase or sale against a commitment to trade received on the Floor through ITS shall be effected in accordance with the rules applicable to the making of bids, offers and transactions on the Floor. In addition, the following rules shall be applicable in the case where commitments or obligations to trade are issued (transmitted) from the Floor of the Exchange through ITS or any other Application of the System: Article IX, Rules 3 and 5; Article XX, Rules 3, 25 and 33; Article XXI, Rules 17 and 18; Article XXX, Rules 2 and 10; Article XXXI, Rule 13.

.03 For the purposes of this rule, the market in a security is opened (or reopened) with either a trade or quotation, if trades are being reported to the Consolidated Tape and quotes are being disseminated to the Consolidated Quotation System.

### **ITS "Trade-Throughs" and "Locked Markets"**

#### RULE 40. (a) Definitions.

(1) An "Exchange trade-through", as that term is used in this Rule, occurs whenever a Participant on the Exchange initiates the purchase on the Exchange of a security traded through ITS (an "ITS Security") at a price which is higher than the price at which the security is being offered (or initiates the sale on the Exchange of such a security at a price which is lower than the price at which the security is being bid for) at the time of the purchase (or sale) in another ITS participating market center as reflected by the offer (bid) then being displayed on the Exchange from such other market center. The Participant described in the foregoing sentence is referred to in this Rule as the "Participant who initiated an Exchange trade-through."

(2) A "third participating market center trade-through", as that term is used in this Rule, occurs whenever a Participant on the Exchange initiates the purchase of an ITS Security by sending a commitment to trade through the System and such commitment results in an execution at a price which is higher than the price at which the security is being offered (or initiates the sale of such a security by sending a commitment to trade through the System and such commitment results in an execution at a price which is lower than the price at which the security is being bid for) at the time of the purchase (or sale) in another ITS participating market center as reflected by the offer (bid) then being displayed on the Exchange from such other market center. The Participant described in the foregoing sentence is referred to in this Rule as the "Participant who initiated a third participating market center trade-through".

(3) A "trade-through", as that term is used in this Rule, means either an Exchange trade-through or a third participating market center trade-through.]

(4) A "locked market", as that term is used in this Rule, occurs whenever the Exchange disseminates a bid (offer) for an ITS Security at a price that equals or exceeds (is less than) the price of the offer (bid) for the security then being displayed from another ITS participating market center (the "locked offer (bid)"). This Rule refers to the bid (offer) that causes the locked market as the "locking bid (offer)".

(5) As used in this Rule in reference to the Cincinnati Stock Exchange, Inc. ("CSE"), a contra party shall be "within another ITS participating market center" if he is a "User" (which has the meaning assigned to it in CSE Rule 11.9 as in effect on January 26, 1981) participating in the transaction through the CSE's "National Securities Trading System."

(6) "ITS/CAES Market Maker", as that term is used in this Rule, means a NASD member that is registered as a market maker with the NASD for the purposes of the

Applications with respect to one or more specified "ITS/ CAES securities" as more fully described in the ITS Plan.

(b) Trade-Throughs.

(1) When purchasing or selling, either as principal or agent, any ITS Security on the Exchange or by issuing a commitment to trade through the System, Participants on the Exchange should avoid initiating a trade-through unless one or more of the provisions of paragraph (b)(3) below are applicable.

(2)

(A) Except as provided in paragraph (b)(3) below, if a trade through occurs and a complaint thereof is received by the Exchange through the System from the party whose bid or offer was traded-through (the "aggrieved party"), then:

(i) except as provided in paragraph (b)(2)(A)(ii) below, (a) the Participant who initiated the trade-through shall satisfy, or cause to be satisfied, through the System the bid or offer traded-through in its entirety either at the price of such bid or offer or at the price that caused the trade-through (as determined in accordance with paragraph (b)(2)(B) below) or (b) if he elects not to do so (and, in the case of a third participating market center trade-through, he obtains the agreement of the contra party within the ITS participating market center that received the commitment that caused the trade-through), then the price of the transaction that constituted the trade-through shall be corrected to a price at which a trade-through would not have occurred and the price correction shall be reported through the consolidated last sale reporting system; or

(ii) in the case of an Exchange trade-through only, if the Participant who initiated the trade-through and the Participant on the contra side of the transaction had each originated his side of the transaction while on the Exchange for his own account or for any account in which he has an interest, the transaction shall be deemed void and a cancellation thereof shall be reported through the consolidated last sale reporting system.

(B) The Price at which the bid or offer traded-through shall be satisfied pursuant to clause (a) of paragraph (b)(2)(A)(i) shall be the price of such bid or offer except if (i) the transaction that constituted the trade-through was of "block size" but did not constitute a "block trade" (as those terms are defined in the Exchange's ITS Block Trade Policy) and (ii) the Participant who initiated the trade-through did not make every reasonable effort to satisfy, or cause to be satisfied, through the System the bid or offer traded through at its price and in its entirety within two (2) minutes from the time the report of the transaction that constituted the trade-through was disseminated over the high speed line of the

consolidated last sale reporting system. In the case of such exception, the price at which the bid or offer traded-through shall be satisfied shall be the price that caused the trade-through.

(C) Whenever paragraph (b)(2)(A)(i) applies, if the Participant who initiated the trade-through, or the Participant (or the broker-dealer within another ITS participating market center) on the contra side of the transaction, was, or if both such parties were, executing (in whole or in part) orders that originated from off their respective floors (or, in the case of a contra party who is a User or an ITS/CAES Market Maker, as to which he acts as agent for another person), each such order or portion thereof that was executed in the transaction that constituted the trade-through (whether such order or portion thereof was executed by the Participant who initiated the trade-through or by the Participant (or the broker-dealer within another ITS participating market center) on the contra side of the transaction) shall receive the price that caused the trade-through, or the price at which the bid or offer traded-through was satisfied, if it was satisfied, pursuant to clause (a) of paragraph (b)(2)(A)(i), or the adjusted price, if there was an adjustment, pursuant to clause (b) of paragraph (b)(2)(A)(i), whichever price is most beneficial to the order or portion. Resulting money differences shall be the liability of the Participant who initiated the trade-through.

(3) Paragraph (b)(2) above shall not apply under the following conditions:

(A) the size of the bid or offer traded-through was for 100 shares;

(B) the Participant who initiated the trade-through made every reasonable effort to avoid the trade-through, but was unable to because of a systems/equipment failure or malfunction;

(C) the transaction which constituted the trade-through was not a "regular way" contract;

(D) the trade-through was an Exchange trade-through and occurred during a period when, with respect to the ITS Security which was the subject of the trade-through, on the Exchange were relieved of their obligations under paragraph (c)(2) of Rule 11Ac1-1 pursuant to the "unusual market" exception of paragraph (b)(3) of Rule 11Ac1-1; provided, however, that, unless one of the conditions of paragraph (b)(3) of this Rule (other than that of this subparagraph (D)) applies, during any such period Participants shall make every reasonable effort to avoid trading-through any bid or offer displayed on the Exchange from another ITS participating market center whose members are not so relieved of their obligations with respect to such bid or offer under paragraph (c)(2) of Rule 11Ac1-1;

(E) the bid or offer traded-through was being displayed from another ITS participating market center whose members were relieved of their obligations

with respect to such bid or offer under paragraph (c)(2) of Rule 11Ac1-1 pursuant to the "unusual market" exception of paragraph (b)(3) of Rule 11Ac1-1;

(F) the bid or offer traded-through had caused a locked market in the ITS Security which was the subject of such bid or offer;

(G) in the case of an Exchange trade-through, a complaint with respect to the trade-through was not received by the Exchange through the system from the aggrieved party promptly following the trade-through and, in any event, within five (5) minutes from the time the report of the transaction that constituted the trade-through was disseminated over the high speed line of the consolidated last sale reporting system; or

(H) in the case of a third participating market-center trade-through, either:

(i) the Participant who initiated the trade-through (a) had sent a commitment to trade promptly following the trade-through that satisfies the bid or offer traded-through and (b) preceded the commitment with an administrative message stating that the commitment was in satisfaction of a third participating market center trade-through, or

(ii) a complaint with respect to the trade-through was not received by the Exchange through the system from the aggrieved party promptly following the trade-through, and, in any event, within ten (10) minutes from the time the aggrieved party sent a complaint through the system to the ITS participating market center that received the commitment to trade that caused the trade-through, which first complaint must have been received within five (5) minutes from the time the report of the transaction that constituted the trade-through was disseminated over the high speed line of the consolidated last sale reporting system.

(c) Responsibilities and Rights following Trade-Through Complaints.

(1) When a trade-through complaint is received by the Exchange, the Participant who initiated the trade-through shall respond as promptly as practicable to the aggrieved party. Such a response shall notify the aggrieved party either

(A) that one of the conditions specified in paragraph (b)(3) of this Rule is applicable (specifying the particular condition), or

(B) that the complaint is valid and appropriate corrective action is being taken pursuant to paragraph (b)(2) of this Rule.

(2) If it is ultimately determined that there was a trade-through, that the corrective action required by either paragraph (b)(2)(A)(i) or (b)(2)(A)(ii) above was not taken, and

that none of the conditions of paragraph (b)(3) above was applicable, the Participant who initiated the trade-through shall be liable to the aggrieved party for the lesser of:

(A) the amount of the actual loss proximately caused by the trade-through and suffered by the aggrieved party, and

(B) the loss proximately caused by the trade-through that would have been suffered by the aggrieved party had he purchased or sold the security subject to the trade-through so as to mitigate his loss and had such purchase or sale been effected at the "loss basis price".

For purposes of this paragraph (c)(2), the "loss basis price" shall be the price of the next transaction, as reported by the high speed line of the consolidated last sale reporting system, in the security in question after one hour has elapsed from the time the complaint is received by the Exchange (or, if the complaint is so received within the last hour of trading on the Exchange on any day, then the price of the opening transaction in that security on the Exchange on the next day on which the Exchange trades that security).

(3) Any Participant who is an aggrieved party under the trade-through rule of another ITS participating market center may at any time at his discretion take steps to establish and mitigate any loss he might incur as a result of the trade-through of his bid or offer. If so, he shall give prompt notice to such other market center of any such action.

(4) If a complaint of a purported trade-through is received by the Exchange and the complained-of transaction resulted from a Participant's execution on the Exchange of a commitment to trade received from another ITS participating market center, the Participant should, if circumstances permit, make reasonable efforts to notify the complaining party, as promptly as practicable following receipt of the complaint, (A) that the transaction was not initiated on the Exchange and (B) of the identity of the ITS participating market center that originated the commitment. Neither compliance nor non-compliance with the preceding sentence shall be the basis for any liability of the Participant for any loss associated with the complained-of transaction.

(5) If a transaction that resulted from a Participant's execution on the Exchange of a commitment to trade constitutes a trade-through under the rules of the originating ITS participating market center, then:

(A) if the broker-dealer on such market center who initiated the transaction requests that the Exchange Participant correct the price of such transaction in accordance with the counterpart in such market center's trade-through rule to paragraph (b)(2)(A)(i)(b) of this Rule, the Exchange Participant may, but need not, acquiesce and so correct the price; and

(B) paragraph (b)(2)(C) of this Rule shall apply as if the Exchange Participant were a contra party within the meaning of that paragraph.



(d) Locked Markets.

(1)

(A) Except as provided in paragraphs (d)(1)(B) and (d)(2) below, if a locked market occurs and the Exchange receives a complaint through the System from the party whose bid (offer) was locked (the "aggrieved party"), the Participant responsible for the locking offer (bid) (the "locking Participant") shall, as specified in the complaint, either promptly "ship" (i.e., satisfy through the System the locked bid (offer) up to the size of his locking offer (bid)) or "unlock" (i.e., adjust his locking offer (bid) so as not to cause a locked market). If the complaint specifies "unlock", he may nevertheless ship instead.

(B) If there is an error in a locking bid or offer that relieves the locking Participant from his obligations under paragraph (c)(2) of Rule 11Ac1-1 and if the Exchange receives a "ship" complaint through the System from the aggrieved party, the locking Participant shall promptly cause the quotation to be corrected and, except as provided in paragraph (d)(2) below, he shall notify the aggrieved party through the System of the error within two minutes of receipt of the complaint on the Floor. If the locking Participant fails to so notify the aggrieved party, he shall promptly ship.

(2) Paragraph (d)(1) above shall not apply under the following conditions:

(A) the locked bid or offer was for 100 shares;

(B) the locking bid or offer no longer prevails on the Floor at the time the complaint is received on the Floor;

(C) the rules of the Exchange would prohibit the issuance of a commitment to trade to satisfy the locked bid or offer;

(D) the locking Participant makes every reasonable effort to comply with paragraph (d)(1) above, but is unable to comply because of a systems/ equipment failure or malfunction;

(E) the locking bid or offer was not for a "regular way" contract; or

(F) the locked market occurred at a time when, with respect to the affected ITS Security, Participants on the Exchange or members in the ITS participating market center in which the aggrieved is located were relieved of their obligations under paragraph (c)(2) of Rule 11Ac1-1 pursuant to the "unusual market" exception of paragraph (b)(3) of Rule 11Ac1-1.

(e) Opening and Block Trades.

This Rule shall not apply to (1) purchases and sales effected by Participants participating in an opening (or reopening) transaction on the Exchange in an ITS Security or (2) any "block trade" as defined in the Exchange's ITS Block Trade Policy.

••• Interpretations and Policies:

.01 Nothing in paragraph (d)(2)(B) above is intended to discourage a locking Participant from electing to ship if the complaint requests him to do so.

.02 The fact that a transaction may be cancelled or the price thereof may be adjusted pursuant to the provisions of paragraph (b)(2) of this Rule shall not have any retroactive effect, under the rules, on other transactions or the execution of orders not involved in the original transaction.

.03 Specialists are prohibited from utilizing the Auto Quote mode in an ITS Security to disseminate a bid and/or offer size which is greater than 100 shares.

.04 The provisions of this Rule shall supersede the provisions of any other rule which might be construed as being inconsistent with such provisions.

.05 (a) Definitions.

(1) A "block trade", as that term is used in this Rule, means a trade on the Exchange that

(A) involves 10,000 or more shares of a common stock traded through ITS (an "ITS Security") or a quantity of any such security having a market value of \$200,000 or more ("block size");

(B) is effected at a price outside the bid or offer displayed from another ITS participating market center; and

(C) involves either

(i) a cross of block size (where the Participant represents all of one side of the transaction and all or a portion of the other side), or

(ii) any other transaction of block size (i.e., in which the Participant represents an order of block size on one side of the transaction only) that is not the result of an execution at the current bid or offer on the Exchange.

Contemporaneous transactions at the same price filling an order or orders then or theretofore represented on the Exchange by a Participant (including transactions resulting from commitments to trade sent by the Participant pursuant to paragraph (b) below) shall be deemed to constitute a single transaction for the purpose of this definition.

(2) A "current bid or offer on the Exchange", as that term is used in paragraph (a)(1)(C)(ii) above, means the price of the current quotation on the floor of the Exchange established independently of the order to buy or sell that is represented by the Participant.

(3) A "bid or offer displayed from another ITS participating market center" (or any derivative phrase), as that term is used in this Rule, means the current quotation from another ITS participating market center displayed on the floor of the Exchange as required by the ITS Plan, and does not include "away-from-the-market" limit orders or other interests that may be represented in such other ITS participating market center.

(b) Obligation to Send Commitments. Unless one or more of the conditions described in paragraph (c) below exist, the Participant representing the block-size order(s) shall at the time of execution of a block trade send, or cause to be sent, through ITS to each other ITS participating market center displaying a bid (offer) superior to the execution price a commitment to trade at the execution price and for the number of shares displayed with that market center's better-priced bid (offer).

(c) Inapplicability. Paragraph (b) above shall not apply under the following conditions:

(1) the size of the better-priced bid or offer displayed by another ITS participating market center was for 100 shares;

(2) the Participant representing the block-size order(s) made every reasonable effort to satisfy through ITS a better-priced bid or offer displayed by another ITS participating market center but was unable to because of a systems/equipment failure or malfunction;

(3) the block trade was not a "regular way" contract;

(4) the block trade was executed during a period when, with respect to the ITS Security that was the subject of the block trade, Participants on the Exchange were relieved of their obligations under paragraph (c)(2) of Rule 11Ac1-1 pursuant to the "unusual market" exception of paragraph (b)(3) of Rule 11Ac1-1; provided however, that, unless one of the conditions of this paragraph (c) (other than that of this subparagraph (4)) applies, Participants shall nevertheless make every reasonable effort during any such period to satisfy through ITS any better-priced bid or offer displayed on the Exchange from another ITS participating market center whose members are not so relieved of their obligations with respect to such bid or offer under paragraph (c)(2) of Rule 11Ac1-1;

(5) the better-priced bid or offer was being displayed from an ITS participating market center whose members were relieved of their obligations with respect to such bid or offer under paragraph (c)(2) of Rule 11Ac1-1 pursuant to the "unusual market" exception of paragraph (b)(3) of Rule 11Ac1-1; or

(6) the better-priced bid or offer had caused a "locked market", as that term is defined in Exchange Article XX, Rule 37, in the ITS Security that was the subject of the block trade.

(7) A transaction not subject to this Policy may be subject to the trade through provision of Exchange Article XX, Rule 37. A Participant who makes a bid or offer on the Exchange otherwise than in connection with a block trade may be subject to the locked markets provisions of Exchange Article XX, Rule 37.

#### .06 Contemporaneous Commitments

The terms "Exchange trade-through" and "third market participating market center trade-through" do not include the situation where a Participant who initiates the purchase (sale) of an ITS security at a price which is higher (lower) than the price at which the security is being offered (bid) is another ITS participating market, sends contemporaneously through ITS to such ITS participating market a commitment to trade at such offer (bid) price or better and for at least the number of shares displayed with that market center's better-priced offer (bid). A trade-through complaint sent in these circumstances is not valid, even if the commitment sent in satisfaction cancels or expires, and even if there is more stock behind the quote in the other market.

### **[Liability of Exchange Relating to Operation of ITS]**

RULE 3. (a) As used in this Rule the term "System Transaction" shall mean any purchase or sale of a security which results from the acceptance of a commitment or obligation to trade received on the Exchange through ITS or the Pre-Opening Application or from the acceptance in another market of a commitment or obligation to trade sent from the Exchange through ITS or the Pre-Opening Application. Each System Transaction shall be reported on the clearing tape generated by the System at the end of each trading day and such tape shall also identify one or more clearing Participants who will clear and settle each System Transaction. A Participant on the Exchange who instructs an Exchange employee (referred to in paragraph (b) hereof) to issue or accept a commitment or obligation to trade which results in a System Transaction reported on the clearing tape (the "instructing Participant") shall also be identified in Exchange records.

(b) Participants and their Participant Firms shall be fully responsible for all System Transmissions sent from equipment assigned to them, or sent by their officers, employees or agents. No Participant shall refuse to treat as a compared trade any trade resulting from such a System Transmission, whether or not the Participant's System Transmission was in error, and any Participant which purports to reject responsibility for such a trade shall reimburse the Exchange for all costs and expenses occasioned by the Exchange being required to accept responsibility for clearance and settlement of any such trades.

(c) Whenever a clearing agency to which a System Transaction has been reported excludes such System Transaction from the clearance procedures conducted by such

agency, either because such agency ceases to act (either with respect to transactions generally or as to a particular transaction) for a Participant, or because of the insolvency of such Participant, the Exchange shall not be obligated to assume and honor any one or more or all of such excluded System Transactions for the account of and on behalf of the Participant for which the clearing agency ceased to act or which is insolvent and such trade shall be returned to such Participant.

## ARTICLE 20

### Operation of the CHX Matching System

#### Trading Sessions

RULE 1. a. *Business days.* Unless otherwise determined by the Board of Directors, the Exchange shall be open for trading daily, except on Saturdays and Sundays. The Board of Directors shall determine the hours during which the Exchange is open for the transaction of business.

b. *Trading sessions.* The Exchange shall have two trading session sessions during each day. The first trading session – the regular trading session – shall begin immediately after the primary market for a security opens its market. This trading session shall end at 3:00 p.m. each day for all securities except specified exchange-traded funds, which shall trade until 3:15 p.m. The second trading session – the late trading session – shall begin immediately after the close of the first session and shall end at 3:30 p.m. Trading during these sessions may be halted or suspended as provided in Rules 1(d) and 2 below.

c. *Limitations on trading.* Trading on the Exchange shall be limited to the days and hours during which the Exchange is open for the transaction of business. No participant shall make any bid, offer or transaction on the Exchange, issue a commitment to trade through ITS or any other linkage plan using the facilities of the Exchange, or send an order in a Nasdaq/NM or Nasdaq/Capital Market security for execution through the telephonic process set out in the OTC/UTP Plan to a Nasdaq system market maker before or after these hours, except that a registered market maker may issue and receive pre-opening notifications and pre-opening responses, pursuant to the provisions of the ITS Plan relating to the Pre-Opening Application of the System or any similar provisions of any other linkage plan, before the official opening of the Exchange and loans of money or securities may be made outside of those hours.

d. *Trading suspensions or halts.* Two senior officers of the Exchange may suspend and restart trading, in one or more securities, at any time during a trading session or may halt trading, in one or more securities, for the remainder of the trading day, whenever they believe it is in the public interest. Trading halts or suspensions for longer periods of time must be approved by the Exchange's Board of Directors.

#### • • • *Interpretations and Policies*

.01 Nothing in this rule shall prevent a participant from posting bids or offers, or trading, through the facilities of other markets before or after the trading hours of the Exchange.

.02 If trading in one or more issues is suspended or halted, all orders in those issues shall remain in the Matching System unless they are cancelled by the participant that

submitted the order. The Matching System shall not accept any orders, or any changes to orders (other than cancellations), in those issues during a trading suspension or halt. Immediately after the trading halt or suspension has ended, the Matching System shall begin accepting orders and shall match them as provided in Rule 8(d), below.

### **Trading Halts Due to Extraordinary Market Volatility**

RULE 2. a. Trading in stocks shall halt on the Exchange and shall not reopen for the time periods described in this paragraph (a) if the Dow Jones Industrial Average<sup>SM</sup> reaches Level 1 below its closing value on the previous trading day:

(1) before 1:00 p.m. Central time, for one hour;

(2) at or after 1:00 p.m., but before 1:30 p.m. Central time, for 30 minutes.

If the Dow Jones Industrial Average reaches Level 1 below its closing value on the previous trading day at or after 1:30 p.m. Central time, trading shall continue on the Exchange until the close, unless the Dow Jones Industrial Average reaches Level 2 below its closing value on the previous trading day, at which time trading shall be halted for the remainder of the day.

(b) Trading in stocks shall halt on the Exchange and shall not reopen for the time periods described in this paragraph (b) if the Dow Jones Industrial Average reaches Level 2 below its closing value on the previous trading day:

(1) before 12:00 p.m. Central time, for two hours;

(2) at or after 12:00 p.m. but before 1:00 p.m. Central time, for one hour;

(3) at or after 1:00 p.m. Central time, for the remainder of the day.

(c) If the Dow Jones Industrial Average reaches Level 3 below its closing value on the previous trading day, trading in stocks shall halt on the Exchange and shall not reopen for the remainder of the day.

### **• • • Interpretations and Policies:**

.01 Levels 1, 2 and 3 shall be calculated at the beginning of each calendar quarter, using the average closing value of the Dow Jones Industrial Average for the month prior to the beginning of the quarter. Level 1 shall be 10% of such average closing value calculation; Level 2 shall be 20% of such average closing value calculation; Level 3 shall be 30% of such average closing value calculation. Each Level shall be rounded to the nearest fifty points. The values of Levels 1, 2 and 3 shall remain in effect until the next calculation.

.02 Price indications will be disseminated during any trading halt pursuant to this Rule 2, for stocks which comprise the Dow Jones Industrial Average, except when trading is halted for the remainder of the day.

.03 The restrictions in this Rule 2 shall apply whenever the Dow Jones Industrial Average reaches the trigger values notwithstanding the fact that at any given time, the calculation of the value of the average may be based on the prices of less than all of the stocks included in the average.

.04 The reopening of trading following a trading halt under this Rule 2 shall be conducted pursuant to procedures adopted by the Exchange and communicated by notice to its Participants.

.05 Nothing in this Rule 2 should be construed to limit the ability of the Exchange to otherwise halt or suspend the trading in any stock or stocks traded on the Exchange pursuant to any other Exchange rule or policy.

### **Firm Orders**

RULE 3. a. Each order submitted by each participant is a firm order and each participant must, upon execution of the order within the Matching System, purchase or sell, as the case may be, at the price, size and conditions identified by the participant at the time it submitted the order. No participant may submit an order marked for display as a “manual” quotation.

b. All bids made and all offers made shall be in accordance with the provisions of Reg NMS Rule 602, governing the dissemination of quotations for reported securities.

c. Bids and offers in other market centers, which may be displayed on Exchange systems, shall have no standing in the Exchange’s Matching System.

### **• • • Interpretations and Policies:**

.01 Nothing in this rule shall prohibit a participant from using the procedures set out in Rules 8 and 9 below to cancel, or seek the cancellation of, a transaction.

### **Eligible Orders**

RULE 4. a. Basic requirements. Except as provided in subparagraph (6), below, all orders sent to the Matching System during the regular trading session must meet the following requirements and shall be automatically rejected if they do not meet these requirements:



- (1) All orders must be limit orders.
- (2) All orders must be day orders.
- (3) All orders must be for regular way settlement.

(4) Unless otherwise permitted pursuant to exemptive relief granted by the Commission, orders priced at or above \$1.00 must not be submitted in increments less than \$0.01. Orders priced less than \$1.00 must not be submitted in increments less than \$0.0001.

(5) All orders must meet any size and/or price limitations imposed by the Exchange from time to time to help eliminate erroneous transactions or orders and transactions that cannot be processed by the Exchange's systems.

(6) Exceptions.

(a) A non-regular way cross order may be submitted for non-regular way settlement.

(b) Cross and cross with size orders in all securities, whether the orders are priced less than or at or above \$1.00, may be submitted in increments as small as \$0.0001.

(c) IOC market orders may be submitted.

b. Order types and indications. The Matching System shall only accept the following order types or orders with the following indications:

(1) "Always display": an order that should be displayed on the Exchange, and should not be routed to another market center or cancelled, even if it would appear to improperly lock or cross the ITS best bid or offer, or , when Reg NMS is implemented for a security, to constitute a locking or crossing quotation. This order indicator is designed to recognize that unintentional locks and crosses may occur, even if a participant uses reasonable efforts to avoid those situations, because of a variety of market conditions, including rapid updating of quotations in active stocks and use of the "ship and post" strategy described in Rule 7(c)(3). (This order type or indication shall become effective with the implementation of Rule 611 of Reg NMS).

(2) "Benchmark": an order, submitted by an institutional broker, to buy and sell the same security at a specific price, which meets the requirements of Reg NMS Rule 611(b)(7). A benchmark order may execute at any price, without regard to the NBBO or any other orders in the Matching System, and may represent interest of one or more participants of the Exchange. (This order type

or indication shall become effective with the implementation of Rule 611 of Reg NMS).

(3) “Cross”: an order to buy and sell the same security at a specific price better than the best bid and offer displayed on the Exchange and, for listed securities (and for Nasdaq/NM securities, when Reg NMS is implemented in those issues), equal to or better than the NBBO. A cross order may represent interest of one or more participants of the Exchange.

(4) “Cross with satisfy”: an order to buy and sell the same security at a specific price that is equal to the best bid and offer displayed on the Exchange and, for listed securities (and for Nasdaq/NM securities, when Reg NMS is implemented in those issues), equal to or better than the NBBO, where one side of the order contains an instruction to execute orders already displayed in the Matching System at that price (up to a specified number of shares) against a specified party and then to execute the remainder of the shares on that side of the order as a cross order with the shares on the other side of the order.

(5) “Cross with size”: an order to buy and sell at least 5,000 shares of the same security (A) at a price equal to or better than the best bid or offer displayed on the Exchange and, for listed securities (and for Nasdaq/NM securities, when Reg NMS is implemented in those issues), the NBBO; (B) where the size of the order is larger than the aggregate size of all interest displayed on the Exchange at that price; and (C) where neither side of the order is for the account of the CHX participant sending the order to the Matching System. An order sent on an agency or riskless principal basis to the Matching System shall not be considered to be for the account of the CHX participant sending the order to the Matching System.

(6) “Cross with yield”: an order to buy and sell the same security (A) at a price equal to or better than the best bid or offer displayed on the Exchange and, for listed securities (and for Nasdaq/NM securities, when Reg NMS is implemented in those issues); (B) that consists of a customer order, on one side of the market, and an instruction from a participant, on the other side of the market, to match the participant as principal against the customer order but to yield the participant's interest, in whole or in part, to any order already displayed in the Matching System at the same or better price.

(7) “Day”: an order that is in effect only for the day on which it is submitted to the Exchange.

(8) “Do not display”: an order, for at least 1,000 shares when entered, that is not to be displayed in whole or in part.

(9) “Do not route”: an order that should only be executed or displayed within the Exchange’s Matching System and should not be routed to another market.

(10) “Fill or kill” or “FOK”: an order that is to be executed in full at or better than its limit price as soon as the order is received by the Matching System, but that should be immediately cancelled if it cannot be executed in full. An FOK order may be executed at one or more different prices.

(11) “Immediate or cancel” or “IOC”: an order that is to be executed, either in whole or in part, at or better than its limit price as soon as the order is received by the Matching System, with any unexecuted balance of the order to be immediately cancelled. IOC orders shall be executed against any orders at the Exchange’s BBO (including any reserve size or other undisplayed orders at that price).

(12) “IOC market”: a market order that is to be executed, either in whole or in part, at the Exchange’s BBO (including any reserve size or other undisplayed orders at that price), with any unexecuted balance of the order to be immediately cancelled.

(13) “Intermarket sweep” or “ISO”: an order marked as required by SEC Rule 600(b)(30) that is to be executed against any orders at the Exchange’s BBO (including any reserve size or other undisplayed orders at that price) as soon as the order is received by the Matching System, with any unexecuted balance of the order to be immediately cancelled. The Matching System, in executing the ISO, shall not take any of the actions described in Rule 5 to prevent an improper trade-through. *(This order type or indication shall become effective with the implementation of Rule 611 of Reg NMS).*

(14) “Midpoint cross”: a cross order with an instruction to execute it at the midpoint between the NBBO.

(15) “Non-regular way cross”: an order to buy and sell the same security that is not for regular way settlement. A non-regular way cross order may execute at any price, without regard to the NBBO or any other orders in the Matching System, and may represent interest of one or more participants of the Exchange.

(16) “Opening cross”: an order to buy and an order to sell the same security at the opening price. For purposes of this definition, the opening price for listed securities shall be the primary market opening price. For Nasdaq/NM securities, the opening price shall be the midpoint of the first unlocked, uncrossed market that occurs on or after 8:30 a.m.

(17) “Outbound ISO”: an order marked as required by SEC Rule 600(b)(30)(i) that is to be executed at or better than its limit price as soon as the order is received by the Matching System, with any unexecuted balance of the order to be immediately cancelled, coupled with one or more ISO orders designed to execute against any protected bids or offers at other market centers as required by Rule 600(b)(30)(ii). Orders marked outbound ISO shall be executed against any eligible orders in the Matching System (including any reserve size or other undisplayed orders). Other than the routing of ISOs to other market centers, no action shall be taken to prevent an improper trade-through. *(This order type or indication shall become effective with the implementation of Rule 611 of Reg NMS).*

(18) “Price-penetrating ISO”: an order marked as required by SEC Rule 600(b)(30) that is to be executed at or better than its limit price as soon as the order is received by the Matching System, with any unexecuted balance of the order to be immediately cancelled. Orders marked as price-penetrating ISO shall be executed against any eligible orders in the Matching System (including any reserve size or other undisplayed orders, through multiple price points). The Matching System, in executing these orders, shall not take any of the actions described in Rule 5 to prevent an improper trade-through. *(This order type or indication shall become effective with the implementation of Rule 611 of Reg NMS)*

(19) “Reserve size”: an order that identifies a portion of the order that should be displayed and a portion of the order that should not be displayed, along with an instruction that the displayed portion should be refreshed with a specific number of shares whenever the displayed share size falls below a specified threshold.

(20) “Sell short”: an order to sell a security that is required to be marked “short” under the provisions of Regulation SHO.

(21) “Time in force”: an order that is to be executed, in whole or in part, within a specified time period, with any unexecuted balance of the order to be immediately cancelled at the end of the specified time period. No time in force order shall be in force longer than the trading day on which it is received.

### **Prevention of Trade-throughs**

RULE 5. An order is not eligible for execution on the Exchange if its execution would cause an improper trade-through of another ITS market or, when Reg NMS is implemented for a security, if its execution would be improper under Rule 611 (but not including the exception set out in Rule 611(b)(8)) (together an “improper trade-through”). If the execution of an order on the Exchange would cause an improper trade-

through, that order shall be routed to another appropriate market or, if designated as “do not route,” automatically cancelled.

**• • • Interpretations and Policies:**

.01 Trade-through policies and procedures. In determining whether a trade on the Exchange would create an improper trade-through, the Exchange will adhere to the terms of the ITS Plan (so long as it is in effect and is applicable to the Exchange) and the applicable provisions of Reg NMS (when it takes effect), as well as to the following policies and procedures:

a. Clock synchronization and timing of the determination of improper trade-throughs. The Exchange’s systems shall routinely, throughout the trading day, use processes that capture the time reflected on the atomic clock operated by the National Institute of Standards and Technology and shall automatically make adjustments to the time recorded in the Exchange’s Matching System to ensure that the period between the two times will not exceed 500 milliseconds. The Exchange shall determine whether a trade would create an improper trade-through based on the most recent NBBO that has been received and processed by the Exchange’s systems.

b. Manual quotations of other markets. The Matching System shall disregard another market’s bid or offer if it is identified by the other market as a manual quotation.

c. Self-help exception. The Exchange will apply the self-help exception to Rule 611, and its Matching System will disregard a market center’s bid and offer, if:

(1) the other market has publicly announced that it is not disseminating automated quotations (whether or not the quotations are identified as manual quotations);

(2) the other market has not acknowledged, within 30 seconds, a specific inquiry from the Exchange seeking information about possible systems problems that would cause the other market not to have automated quotations, as defined in Rule 600(b)(3); or

(3) the other market has not confirmed, within two minutes after receiving a specific inquiry from the Exchange, that it is not having systems problems that would cause the other market not to have automated quotations, as defined in Rule 600(b)(3).

The Exchange will notify the other market center immediately after having made use of the self-help exception by using the “squawk box” or other similar functionality available for communications with other market centers. The Exchange will continue to apply the self-help exception until the other market center has provided reasonable

assurance to the Exchange or, more generally, to the public that the problems have been corrected.

d. *Crossed market exception.* If a trade is executed in the Matching System while the NBBO is crossed, the Matching System will automatically attach an appropriate modifier to the trade before it is publicly reported.

e. *Outbound ISO exception.* If a proprietary market maker or an institutional broker sends an outbound ISO to the Matching System, the Exchange shall execute it as described in Rule 7 below, after using automated systems to confirm that the Exchange participant submitting the order simultaneously routed additional limit orders necessary to execute against the full displayed size of any protected bid or offer, as required by Rule 600(b)(30) and Rule 611(b)(6).

f. *Flickering quote exception.* The Exchange shall not use the flickering quote exception set out in Rule 611(b)(8) to determine whether or not an execution would constitute an improper trade-through.

g. *Other exceptions.* If (1) a non-regular way cross, (2) a single-price opening, reopening or closing trade; (3) an inbound ISO; or (4) a benchmark order is executed in the Matching System, the Matching System will automatically attach an appropriate modifier to the trade before it is publicly reported.

.02 *Confirming that the Exchange's quotes qualify as "automated quotations."* The Exchange's Matching System is designed, under the rules set out in this Article, to display bids and offers that qualify as automated quotations under the definition set out in Rule 600(b)(3). The Exchange shall use the following procedures for determining whether the quotes should be identified as "manual":

a. *Periodic testing.*

(1) The Exchange shall use an automated system to periodically (no less often than once every five seconds and no more often than once every second) send a test IOC order to the Matching System to determine whether the Exchange's Matching System accepts the order; and

(2) The Exchange also shall use automated monitoring systems to review, in real time, the Matching System's handling of test IOC orders to determine whether, and within what time frame, (i) IOC orders are executed against the displayed quote, up to its full size; (ii) any unexecuted portion of the IOC order is cancelled; (iii) a confirmation of the action taken is generated and transmitted from the Matching System to the monitoring system (to serve as a proxy for a transmission to the order-sending firm); and (iv) the Matching System transmits a new bid or offer (as appropriate) to the monitoring system (to serve as a proxy for a transmission to the appropriate securities information processor).

These automated systems shall generate reports that immediately are transmitted to appropriate Exchange systems for further handling.

b. Adding the “manual” identifier. Immediately upon receiving a report from the processes described above in subparagraph (1) that the Exchange’s Matching System has not accepted two or more IOC orders sent as sequential test messages, the Exchange shall automatically append a “manual” identifier to the bids and offers it makes publicly available. In addition, immediately upon receiving a report from the processes described above in subparagraph (1) that the Exchange’s Matching System has taken more than 2 seconds to process any one IOC order as required in paragraph (1)(b) above, the Exchange shall automatically append a “manual” identifier to the bids and offers it makes publicly available. In the event that the Exchange’s systems do not permit the Exchange to disseminate a “manual” identifier, the Exchange shall announce that its quotes are manual over the squawk box or other similar functionality available for communications with other market centers.

c. Returning to automated quotes. Once the Exchange has made any required systems changes, or has otherwise determined that its quotations satisfy the requirements of Rule 600(b)(3), and has conducted the applicable test(s) set out above to confirm that the Exchange’s quotes qualify as “automated quotations,” the Exchange shall remove the “manual” identifier from the bids and offers that are made publicly available. The Exchange also shall notify other market centers that its quotations are automated by announcing that fact over the squawk box or other similar functionality available for communications with other market centers.

### **Locked and Crossed Markets**

#### **RULE 6.**

a. Definitions. For purposes of this Rule, the following definitions shall apply:

(1) The terms automated quotation, effective national market system plan, intermarket sweep order, manual quotation, NMS stock, protected quotation, regular trading hours, and trading center shall have the meanings set forth in Rule 600(b) of Regulation NMS under the Securities Exchange Act of 1934.

(2) The term crossing quotation shall mean the display of a bid for an NMS stock during regular trading hours at a price that is higher than the price of an offer for such NMS stock previously disseminated pursuant to an effective national market system plan, or the display of an offer for an NMS stock during regular trading hours at a price that is lower than the price of a bid for such NMS stock previously disseminated pursuant to an effective national market system plan.

(3) The term locking quotation shall mean the display of a bid for an NMS stock during regular trading hours at a price that equals the price of an offer for such NMS stock previously disseminated pursuant to an effective national market system plan, or the display of an offer for an NMS stock during regular trading hours at a price that equals the price of a bid for such NMS stock previously disseminated pursuant to an effective national market system plan.

(b) Prohibition. Except for quotations that fall within the provisions of paragraph (c) of this Rule, Exchange participants shall reasonably avoid displaying, and shall not engage in a pattern or practice of displaying, any quotations that lock or cross a protected quotation, and any manual quotations that lock or cross a quotation previously disseminated pursuant to an effective national market system plan.

(c) Exceptions.

(1) The locking or crossing quotation was displayed at a time when the Exchange was experiencing a failure, material delay, or malfunction of its systems or equipment.

(2) The locking or crossing quotation was displayed at a time when a protected bid was higher than a protected offer in the NMS stock.

(3) The Exchange participant displaying the locking or crossing quotation simultaneously routed an intermarket sweep order to execute against the full displayed size of any locked or crossed protected quotation.

(d) Matching System operation. Except for orders marked “always display,” an order is not eligible for display on the Exchange if its display would improperly lock or cross the ITS best bid or offer or, when Reg NMS is implemented for a security, if its display would constitute a locking or crossing quotation. These orders shall be routed to another appropriate market or, if designated as “do not route,” automatically cancelled. Orders marked “always display” shall be displayed on the Exchange, even if the orders would appear to improperly lock or cross the ITS best bid or offer, or, when Reg NMS is implemented for a security, to constitute a locking or crossing quotation.

### **Clearing the Matching System**

RULE 7. a. General rule. Unless a customer specifically requests otherwise, each institutional broker must clear the displayed and undisplayed orders in the Exchange’s Matching System before sending a customer order to another market. When an institutional broker is sending an order to clear the Exchange’s Matching System, that order must be marked in the manner designated by the Exchange.

b. Documentation of customer request. Any customer directives for special handling of orders must be documented, at the time the direction is given, and reported to the Exchange.



### Operation of the Matching System

RULE 8. The Exchange's Matching System shall operate in the following manner:

a. *Routing of orders.* Orders shall be routed to the Matching System using one of the following methods:

1. Participants may route orders to the Matching System through any communications line approved by the Exchange.

2. ITS commitments for ITS-eligible securities traded on the Exchange shall be sent to the Matching System through the ITS system. If the Exchange participates in any other linkage plan, orders may be sent to the Matching System through the linkage.

3. To the extent required by the OTC/UTP Plan, NASD market participants shall have direct telephonic access to the supervisory center for the Exchange's Matching System to enter orders into the Matching System for the securities in which those NASD market participants are registered with NASD as market makers or as electronic communications networks/alternative trading systems.

b. *Ranking and display of orders.* All orders sent to the Matching System shall be ranked according to their price and time of receipt, as follows:

1. *Orders that are eligible for display as well as mixed-lot and odd-lot orders.* Limit orders (including the displayed portion of reserve size orders) that are eligible to be displayed, and all odd-lot and mixed-lot orders, shall be ranked based on their limit prices and times of receipt by the Exchange's Matching System. Orders sent to an institutional broker for handling shall not have any priority within the Matching System unless and until they are received by the Matching System.

2. *Orders that are not displayed in part.* The undisplayed portions of reserve size orders shall be ranked based on their limit prices and times of receipt by the Exchange's Matching System, but shall be ranked after any displayed interest and any odd-lot and mixed-lot orders at each price.

3. *Orders that are not displayed at all.* Limit orders that are received with a do not display instruction (whether they are do not display orders or orders that a customer has specifically instructed should not be displayed) shall be ranked based on their limit prices and times of receipt by the Exchange's Matching System, but shall be ranked after any displayed interest and any odd-lot and mixed-lot orders at each price (Rule 8(b)(1)) and after any undisplayed portion of a reserve size order (Rule 8(b)(2)).

4. Refreshed portions of reserve-size orders. When the displayed portion of a reserve size order reaches a threshold set by the participant submitting the order (the “submitting participant”), the displayed portion of the order shall be refreshed with the number of shares identified by the submitting participant and the undisplayed portion of the order shall be decremented by that number of shares. The refreshed displayed portion of the order shall continue to be ranked at the specified limit price, but shall receive a new ranking based on the time at which it was refreshed. Any remaining undisplayed portion of the order shall continue to be ranked at the price and time at which it was originally received.

5. Other changes in order size or price. When a participant reduces the number of shares in an order, the order will continue to be ranked at the price and time at which it was originally received. When a participant increases the number of shares in an order, the order will be ranked at the original limit price, but shall receive a new ranking based on the time at which shares were added to the order. Any change in the price of an order shall result in a new ranking for the order based on the new limit price and the time at which the price change was received. Any change to the display instruction associated with an order (including, but not limited to, a change that identifies an order as a reserve size order or an undisplayed order) shall result in a new ranking for the order based on the time at which the new display instruction was received.

6. Immediate display. Except as provided in Rule 5 above, all orders that are eligible for display shall be immediately and publicly displayed through the processes set out in the appropriate transaction reporting plan for each security when they constitute the best round-lot bid or offer in the Matching System for that security. The undisplayed portion of a reserve size order, odd-lot orders, the odd-lot portion of a mixed-lot order and any other orders received with a do-not-display instruction are not eligible for display in the Matching System, but retain their rankings for execution purposes as described above.

c. The opening of the market.

1. Regular trading session. Immediately after the primary market opens by publicly reporting a trade, the Matching System shall execute all opening cross orders. The Matching System shall then accept all other orders and shall match them as provided in Rule 8(d), below. If the primary market opens with a quote, but has not reported a trade for 30 seconds following the dissemination of the initial quote, the Matching System shall cancel all opening cross orders and shall then accept all other orders and shall match them as provided in Rule 8(d), below.

2. *Late trading session.* The Matching System shall begin accepting orders for the late trading session immediately after the closing of the regular trading session and shall match these orders as provided in Rule 8(d), below.

d. *Automated matching of orders.* Orders shall automatically match against each other, as follows:

1. Except for certain orders which shall be executed as described in Rule 8(e), below, an incoming order shall be matched against one or more orders in the Matching System, in the order of their ranking, at the price of each resting order, for the full amount of shares available at that price, or for the size of the incoming order, if smaller.

2. If an incoming order cannot be matched when it is received and it is not designated as a type that should be immediately cancelled, the order shall be placed in the Matching System and ranked as described in Rule 8(b) above.

e. *Execution of certain orders and order types.* The following orders shall be executed within the Matching System as set out below:

1. *Cross and cross with size orders.* Cross and cross with size orders shall be automatically executed if they meet the requirements set out in Rule 4(b)(3) and 4(b)(5) above. If an order designated as cross or cross with size does not meet the requirements for its designation at the time it is received by the Matching System, it shall be immediately and automatically cancelled.

2. *Cross with yield orders.* When the customer order that is part of a cross with yield order is eligible for an immediate execution because it is at a price better than the currently displayed best bid or offer in the Matching System, the cross with yield order shall be automatically executed by matching the participant as principal against the customer order; provided, however, that if there is any order already displayed in the Matching System at the same price as (or better than) the participant's interest, that order or those orders shall be matched against the customer order in place of the participant's interest as necessary to exhaust the customer order interest. If the customer order that is part of a cross with yield order is not eligible for an immediate execution because it is not better than the currently displayed bid or offer in the Matching System, the cross with yield order shall be immediately and automatically cancelled.

3. *Cross orders for non-regular way settlement:* These orders shall be automatically executed without regard to either the NBBO or any orders for regular way settlement that might be in the Matching System if they meet the requirements set out in Rule 4(b)(1) above. If an order designated as a cross does not meet the requirements for its designation at the time it is received by the Matching System, it shall be immediately and automatically cancelled.

4. Sell short orders. Sell short orders shall be displayed and executed only when permissible under the provisions of Rule 10a-1 and Regulation SHO. When a sell short order cannot be executed or displayed at its limit price under the provisions of the Short Sale Rule and Regulation SHO, the order shall be automatically repriced (without violating its limit price) to the next available price at which it can be executed or displayed.

5. Do not display orders. A do not display order shall be executed as provided in Rule 8(d) above and shall be immediately and automatically cancelled if, at any point, the order prevents the execution of an inbound order because the do not display order has crossed the CHX market.

6. An inbound ITS commitment or linkage plan order, if it is priced at or better than the current Exchange-displayed BBO (or if it is marked "market"), shall be automatically matched, in round-lot increments, against the order(s) at the price reflected in the BBO, for the full amount of round-lot shares available at that price, and any remaining portion of the ITS commitment or linkage plan order shall be automatically cancelled.

f. Cancellation of orders. Orders shall be immediately and automatically cancelled upon receipt of a cancellation instruction.

• • • **Interpretations and Policies**

.01 Orders may be entered by a participant on its own behalf (traditionally, a proprietary or professional order) or for the account of a customer (traditionally, an agency order). In the Exchange's Matching System, agency orders are subject to the same display and execution processes as professional orders and agency orders do not receive any priority in order execution or handling.

**Cancellation of Transactions**

RULE 9. A transaction made in demonstrable error and cancelled by both parties may be unwound, subject to the approval of the Exchange.

**Handling of Clearly Erroneous Transactions**

RULE 10. The Exchange will respond to requests for review of clearly erroneous transactions using the following procedures:

(a) The terms of a transaction are "clearly erroneous" where there is an obvious error in any term, such as price, number of shares or other unit of trading, or identification of the security.

(b) Any participant may request a review of an execution received through the Matching System when the participant believes that the terms of the transaction were clearly erroneous when submitted.

(1) The participant must make a request for review by telephone immediately after the execution and also must provide a written request, by facsimile or by e-mail, within 15 minutes after the execution.

(2) The Exchange shall promptly notify the other party to the transaction of the request for review.

(3) The participant making a request for review shall provide, within 30 minutes after making the written request for review (or within such longer period of time specified by Exchange staff), written documentation relating to the disputed transaction that is reasonably necessary for use by the Exchange in resolving the matter. The other party to the transaction shall provide, within 30 minutes after receiving notice from the Exchange of the request for review (or within such longer period of time specified by Exchange staff), written documentation relating to the disputed transaction that is reasonably necessary for use by the Exchange in resolving the matter. Once a party has submitted its documentation, and the period for providing the documentation has ended (or, if earlier, the party has notified the Exchange that it has no further information), the party may not provide additional information unless requested to do so by Exchange staff. Either party to the transaction may request, and the Exchange shall provide, the written documentation submitted by the other party.

(4) The Exchange, acting through one of its officers designated by the Chief Executive Officer, shall review the transaction and determine whether it is clearly erroneous. In making that determination, the officer shall consider the goals of maintaining a fair and orderly market and the protection of investors and the public interest.

(c) If the Exchange officer determines that a transaction is not clearly erroneous, the officer shall notify both parties, in writing, that no action will be taken with respect to the completed trade. If the Exchange officer determines that a transaction is clearly erroneous, the officer shall declare the transaction null and void or modify one or more of the terms of the transaction with the aim of trying to return the parties to the positions that they would have been in (or to positions reasonably similar to those positions) if the error had not occurred. The officer shall document this decision in writing and provide copies of the decision to all parties.

(d) Either party may appeal this determination to a subcommittee of the Exchange's Committee on Exchange Procedure by submitting an appeal to the Exchange's Secretary, by facsimile or in writing, within 30 minutes after receiving the Exchange's written decision or, if the Exchange notifies parties of its decision after 3:00 p.m., by 8:30 a.m., the next trading day. Once an appeal is received, the Exchange shall

notify the counterparty to the trade and both parties and the Exchange itself will be permitted to submit any additional supporting written materials up to the time that the subcommittee considers the appeal. Either party to a disputed trade may request, and the Exchange shall provide, the written documentation presented to the subcommittee by the other party or by the Exchange. An appeal does not operate as a stay on the decision being appealed. After consideration of any written materials provided by the parties or by the Exchange, and after any hearings that the subcommittee may hold, the subcommittee, using the standards set out in this rule, shall affirm, modify or reverse the original decision. The subcommittee's decision on a matter may be appealed to the full Committee on Exchange Procedure as set out in CHX Article , Rule , except that the appeal does not operate as a stay on the decision of the subcommittee. The decision of the Exchange's Committee on Exchange Procedure shall be the final Exchange action on the matter. Any decision by an Exchange officer under section (c) above or by the Committee on Exchange Procedure or any of its subcommittees under this section (d) shall be rendered without prejudice as to the rights of the parties to the transaction to submit their dispute to arbitration between themselves.

(e) Unresolved controversies relating to transactions that occur in the Matching System, and which are not addressed pursuant to the procedures in this rule shall be subject to the arbitration rules of the Exchange set out in Article 14.

### **System Disruptions and Malfunctions**

RULE 11. If there is any disruption or malfunction in the use or operation of the Exchange's Matching System, or the communications systems associated with the Exchange's Matching System, or when extraordinary market conditions or other circumstances exist in which the nullification or modification of transactions may be necessary for the maintenance of a fair and orderly market or the protection of investors and the public interest, the Chief Executive Officer, or another officer designated by the Chief Executive Officer, may declare any transaction arising out of the use of the Exchange's Matching System during the period of the disruption, malfunction or other conditions null and void or may modify the terms of these transactions. In making this decision, the Chief Executive Officer, or any designee, must find that the transactions were clearly erroneous or that the actions are necessary for the maintenance of a fair and orderly market or the protection of investors and the public interest. Absent extraordinary circumstances, any action by the Chief Executive Officer or other designee shall be taken within 30 minutes of detection of the erroneous transaction, but in no event later than 2:00 p.m. on the trading day following the date of the trade at issue. The Exchange shall notify each participant involved in the transaction as soon as practicable following the decision and any party to the transaction may appeal that decision by following the procedures set out above in Rule 10(d) above.

## ARTICLE 21

### Clearance and Settlement

#### Trade Recording with a Qualified Clearing Agency

RULE 1. (a) Every Participant which executes transactions on the Exchange shall maintain an account with a Qualified Clearing Agency for the recording of such transactions or shall maintain such an account through a Participant which is a participant of a Qualified Clearing Agency (a “clearing firm”), for the recording of such transactions, upon such terms and conditions as the Exchange may prescribe.

(b) Each clearing firm must be a Participant of the Exchange. The clearing firm shall be responsible for the clearance of the transactions effected by each Participant which gives up such clearing firm's name pursuant to a letter of authorization, letter of guarantee or other authorization given by such clearing firm to such Participant.

(c) Each Participant for which the Exchange is the Designated Examining Authority shall submit to the Exchange all clearing agreements between the Participant and any other Participant, or any foreign or domestic non-Participant broker/dealer. These agreements and any substantive changes in any such agreements are subject to Exchange approval.

(d) The Exchange shall submit trade data regarding every transaction that is executed on, and reported to, the Exchange to a Qualified Clearing Agency for recording.

#### ••• Interpretations and Policies:

##### .01 Definition of Registered Clearing Agency

The term “Registered Clearing Agency” shall mean a clearing agency as defined in Section 3(a)(23) of the Exchange Act which is registered with the Commission pursuant to the provisions of the Section 19(a) of the Exchange Act.

##### .02 Definition of Fully-Interfaced Clearing Agency

The term “Fully-Interfaced Clearing Agency” shall mean a Registered Clearing Agency which, in conjunction with the Registered Clearing Agency selected by the contra-party to the contract, has established systems for the clearance and settlement of securities contracts in a manner which does not require each party to a contract to be a participant in the same Registered Clearing Agency.

##### .03 Definition of a Qualified Clearing Agency

For purposes of this Rule, the term “Qualified Clearing Agency” shall mean a Fully Interfaced Clearing Agency which has entered into an agreement with the Exchange pursuant to which it will (i) provide such services to the Exchange and its Participants as the Exchange, and such Qualified Clearing Agency shall from time to time agree, (ii)

maintain facilities through which Exchange Contracts may be recorded, cleared and settled, and (iii) supply the Exchange with data reasonably necessary and requested in order to permit the Exchange to enforce compliance by its Participants with the provisions of the Exchange Act, the rules and regulations thereunder and the Rules of the Exchange.

### **Book-Entry Settlement Requirements**

RULE 2. (a) A Participant shall use the facilities of a securities depository for the book-entry settlement of all transactions in depository eligible securities with another Participant or with a member of a national securities exchange or a registered securities association.

(b) A Participant shall not effect a delivery-versus-payment or receipt-versus-payment transaction in a depository eligible security with a customer unless the transaction is settled by book-entry using the facilities of a securities depository.

(c) For purposes of this rule, the term “securities depository” shall mean a securities depository registered as a clearing agency under Section 17A of the Securities Exchange Act of 1934.

(d) The term “depository eligible securities” shall mean securities that (i) are part of an issue if securities that is eligible for deposit at a securities depository and (ii) with respect to a particular transaction, are eligible for book-entry transfer at the depository at the time of settlement of the transaction.

(e) This rule shall not apply to transactions that are settled outside of the United States.

(f) The requirements of this rule shall supersede any inconsistent requirements under other Exchange rules.

(g) This rule shall not apply to any transaction where the securities to be delivered in settlement of the transaction are not on deposit at a securities depository and:

(i) if the transaction is for same-day settlement, the deliverer cannot by reasonable efforts deposit the securities in a securities depository prior to the cut-off time established by the depository for same-day crediting of deposited securities, or

(ii) the deliverer cannot by reasonable efforts deposit the securities in a depository prior to a cut-off date established by the depository for that issue of securities.



### **Exchange Contracts Extended or Postponed**

RULE 3. Anything contained in the rules to the contrary notwithstanding, (1) the Board of Directors may extend or postpone the time for the performance of Exchange Contracts whenever, in its opinion, such action is called for by the public interest or by just and equitable principles of trade, or to meet unusual conditions; and (2) unless otherwise directed by the Exchange, all contracts which would otherwise be due on any day on which deliveries are suspended under clause (1) shall be due and settled on the next day on which deliveries are resumed and all other contracts due for settlement after any day on which deliveries are so suspended shall be settled on the original due dates of such contracts.

### **Acting as Agent for Participants**

RULE 4. Upon written application and acceptance, the Exchange may enter into an agreement with a Participant. Such Agreement may authorize the Exchange to perform various functions on behalf of and as agent of such Participant, including but not limited to, drawing upon and depositing to such Participant's bank account, borrowing of securities, providing and keeping reports and records, performance of special cashing functions, and performance of such other functions as are deemed appropriate or desirable.

**ARTICLE 22[XXVIII]**

**Listed Securities**

\* \* \*

**Public Disclosure Requirements for Tier I and Tier II Issues**

RULE 23. (a) The Exchange shall require both Tier I and Tier II issues to adhere to public disclosure requirements, which appear as Interpretation and Policy .01 after this Rule 23.

• • • *Interpretations and Policies*

\* \* \*

**Exchange Market Surveillance**

For its part, the Exchange conducts surveillance [maintains a continuous market surveillance program, primarily] on the trading of its exclusively listed issues. Exchange staff[A senior vice president of the Exchange] review[s] the markets in those securities in which unusual price and volume changes occur or where there is a large unexplained influx of buy or sell orders. Under such circumstances, the company may be called to inquire about any company developments which have not been publicly announced but which could be responsible for unusual market activity. Where the market appears to be reflecting undisclosed information, the corporation will normally be requested to make it public immediately.

\* \* \*

**[Relationship Between Company Officials and Exchange Specialists]**

[The Specialist is charged with doing all that is in his power to give the company and its stockholders the fair and orderly market that is expected from a listing on the Exchange. In carrying out this responsibility it would be desirable for the Specialist to have appropriate liaison with one or more corporate officials. Such liaison, properly conducted, provides opportunity for communication in the event of particular questions or problems encountered by either the Specialist or the company. Company officials could be informed of any unusual market problems, if deemed appropriate, and would be free to call the Floor Procedure Department (not the Specialist) for information if a question arises about the market in the stock.]

[There is a point beyond which it is improper for the company to go in giving information to the Specialist. Thus, for the corporation to give advance earnings, dividend, stock split, or merger information to a Specialist or anyone else would be clearly inappropriate. On the other hand, it is entirely appropriate for company officials to discuss such matters as the trend of business with the Specialist, much as they would with bankers, stockholders,

security analysts, or anyone having a legitimate interest in the company. In this way, the Specialist may be better able to maintain a market beneficial to the company and its present and prospective stockholders.]

\* \* \*

### **Telephone Alert to the Listing Department**

\* \* \*

The telephone number of the Listing Department of the Exchange is (312) 663-2777[2603/5]. The telephone advice by the company should be confirmed promptly in writing.

\* \* \*

### **Equity-Linked Debt Securities**

RULE 26. The Exchange will consider for trading, whether by listing or pursuant to unlisted trading privileges, equity-linked debt securities (“ELDS”) that meet the criteria of this rule. ELDS are limited term non-convertible debt obligations of an issuer where the value of the debt is based, at least in part, on the value of another issuer’s common stock or non-convertible preferred stock.

\* \* \*

#### **• • • Interpretations and Policies**

##### **.01 Form of Circular to Participants**

Prior to the commencement of trading of any new ELDS on the Exchange, the Exchange will issue a circular, substantially in the form set forth below:

\* \* \*

4. [ELDS will trade on the Equity Floor. ]ELDS will trade “Flat” (that is, without the payment of accrued interest) and in round lots of 100.

\* \* \*

**SECTION TWO OF THE PROPOSED RULES**

**[ARTICLE VIII ]**  
**[Business Conduct]**

**[Fraudulent Acts]**

[RULE 1. No Participant or partner, officer, director or registered employee of a Participant Firm shall commit any fraud or fraudulent act.]

**[Attempt to Hide Prior Misdealings]**

[RULE 2. No applicant for a Trading Permit or registration as a Participant Firm nor any person about to become a partner, officer, director or registered employee of a Participant Firm shall fail to disclose to the Exchange the facts and circumstances of every fraudulent and dishonest act of which he or it has been guilty prior to such application.]

**[Fictitious Transactions]**

[RULE 3. No Participant or partner, officer, director or registered employee of a Participant Firm shall make a fictitious transaction or give an order for the purchase or sale of securities, the execution of which would involve no change of ownership, or execute such order with knowledge of its character.]

**[Upsetting Market Equilibrium]**

[RULE 4. No Participant or partner, officer, director or registered employee of a Participant Firm shall make any purchases or sales or offers of purchase or sale of securities for the purpose of upsetting the equilibrium of the market and bringing about a condition of demoralization in which prices will not fairly reflect market values, or assist in making any such purchases or sales or offers of purchase or sale with knowledge of such purpose or be with such knowledge a party to or assist in carrying out any plan or scheme for the making of such purchases or sales or offers of purchase or sale.]

**[Prohibition of Misstatements]**

[RULE 5. No Participant, or partner, officer, director, principal shareholder or registered employee of a Participant Firm shall make a misstatement upon a material point to the Board of Directors, or to a committee, officer or employee of the Exchange. This prohibition shall also apply to applications made prior to acquisition of a Trading Permit, registration as a Participant Firm, admission to partnership and election as an officer or director of a Participant Firm.]

**[Adherence to All Rules, By-Laws and the Constitution]**

[RULE 6. No Participant Firm or partner, officer, director, principal shareholder or registered employee of a Participant Firm shall violate any provision of the

Constitution or Rules of the Exchange or a resolution of the Board of Directors or Executive Committee regulating the conduct or business of Participants or partners, officers, directors or principal shareholders of Participant Firms.]

**[Just and Equitable Trade Principles]**

[RULE 7. No Participant Firm or partner, officer, director or registered employee of a Participant Firm shall engage in conduct or proceeding inconsistent with just and equitable principles of trade. The willful violation of any provision of the Exchange Act or any rule or regulation thereunder shall be considered conduct or proceeding inconsistent with just and equitable principles of trade.]

**[Expulsion, Suspension and Discipline]**

[RULE 8. A Participant or partner, officer, director or registered employee of a Participant Firm found guilty of conduct or proceeding inconsistent with just and equitable principles of trade shall be expelled, suspended or disciplined.]

**[Transactions Off the Floor]**

[RULE 9. (a) No rule, stated policy or practice of this exchange shall prohibit or condition, or be construed to prohibit, condition or otherwise limit, directly or indirectly, the ability of any Participant to effect any transaction otherwise than on this exchange in any reported security listed and registered on this exchange or as to which unlisted trading privileges on this exchange have been extended which is not a covered security.

(b) For purposes of this rule,

(1) The term "Act" shall mean the Securities Exchange Act of 1934, as amended.

(2) The term "exchange" shall mean a national securities exchange registered as such with the Securities and Exchange Commission pursuant to Section 6 of the Act.

(3) The term "covered security" shall mean

(i) any equity security or class of equity securities which

(A) was listed and registered on an exchange on April 26, 1979, and

(B) remains listed and registered on at least one exchange continuously thereafter;

(ii) any equity security or class of equity securities which

(A) was traded on one or more exchanges on April 26, 1979, pursuant to unlisted trading privileges permitted by section 12(f)(1)(A) of the Act, and

(B) remains traded on any such exchange pursuant to such unlisted trading privileges continuously thereafter; and

(iii) any equity security or class of equity securities which

(A) is issued in connection with a statutory merger, consolidation or similar plan or reorganization (including a

reincorporation or change of domicile) in exchange for an equity security or class of equity securities described in paragraphs (d)(3)(i) or (d)(3)(ii) of this rule,

(B) is listed and registered on an exchange after April 26, 1979, and

(C) remains listed and registered on at least one exchange continuously thereafter.

(4) The term "reported security" shall mean any security or class of securities for which transaction reports are collected, processed and made available pursuant to an effective transaction reporting plan.

(5) The term "transaction report" shall mean a report containing the price and volume associated with a completed transaction involving the purchase or sale of a security.

(6) The term "effective transaction reporting plan" shall mean any plan approved by the Commission pursuant to Section 240.11Aa3-1 (Rule 11Aa3-1 under the Act) for collecting, processing and making available transaction reports with respect to transactions in an equity security or class of equity securities.]

#### **[Dealings on Market Price Fluctuations]**

[RULE 10. No Participant or partner, officer, director or registered employee of a Participant Firm shall deal in differences or quotations on the fluctuations in the market price of any commodity or security, without a bona fide purchase of such commodity or security in a regular market or on a national securities exchange.]

#### **[Submission of Books to Board]**

[RULE 11. (a) No Participant or partner, officer, director or other person associated with a Participant or other person or entity subject to the jurisdiction of the Exchange shall impede or delay an Exchange examination, inquiry or investigation (whether formal or informal) with respect to possible violations within the disciplinary jurisdiction of the Exchange or with respect to possible limitations on access to Exchange services or otherwise with respect to the discharge of its duties nor refuse to furnish testimony, documentary materials or other information requested by the Board of Directors or by the Exchange (or by any committee, subcommittee, or officer thereof) during the course of such examination, inquiry or investigation or otherwise in furtherance of the discharge of its or his duties. Failure to furnish such testimony, documentary materials or other information requested pursuant to this Rule on the date or within the time period requested shall be considered obstructive of an Exchange inquiry or investigation and shall be subject to formal disciplinary action.

(b) No Participant, or partner, officer, director or other person associated with a Participant or other person or entity subject to the jurisdiction of the Exchange shall refuse to appear and testify before another exchange or self-regulatory organization in connection with a regulatory investigation, examination or disciplinary proceeding or

refuse to furnish documentary materials or other information or otherwise impede or delay such investigation, examination or disciplinary proceeding if the Exchange requests such information or testimony in connection with an inquiry resulting from an agreement entered into by the Exchange pursuant to subsection (c) of this Rule. The requirements of this Rule 11(b) shall apply regardless of whether the Exchange has itself initiated a formal investigation or disciplinary proceeding.

(c) The Exchange may enter into agreements with domestic and foreign self-regulatory organizations providing for the exchange of information and other forms of mutual assistance for market surveillance, investigative, enforcement and regulatory purposes.]

**[••• Interpretations and Policies: ]**

[.01 The terms "exchange" and "self-regulatory organization," as used in Rule 11, shall include, but not be limited to, any member or affiliate member of the Intermarket Surveillance Group.]

[.02 Any person or entity required to furnish information or testimony pursuant to Rule 11 shall be afforded the same rights and procedural protections as that person or entity would have if the Exchange had initiated the request for information or testimony.]

**[Acts Detrimental to Interest or Welfare of Exchange]**

[RULE 12. No Participant or partner, officer, director or registered employee of a Participant Firm shall commit any act detrimental to the interest or welfare of the Exchange or engage in conduct inconsistent with the maintenance of a fair and orderly market or the protection of investors.]

**[Use of Trading Permit]**

[RULE 13. No Participant Firm, for which this Exchange is the Designated Examining Authority, parent firm or other corporate affiliate of such a Participant Firm shall in any way use the fact that it is a Participant Firm or parent firm or corporate affiliate of a Participant Firm of the Exchange, except that the Participant Firm may itself use the fact that it is a Participant Firm of the Exchange in the conduct of its securities business and such other businesses as are authorized by, or have been approved by the Exchange pursuant to, Rule 1(c)(4) of Article I.]



**[Prohibited Accounts]**

[RULE 14.

Employees of the Exchange or of Participants

[(a) No Participant shall take or carry an account in which a registered employee of the Exchange or of a Participant is directly or indirectly interested, unless the written consent of the employer has first been obtained. A registered employee of any corporation, a majority of whose capital stock is owned by the Exchange, shall be deemed a registered employee of the Exchange within the meaning of this rule.

Employee of Bank, Insurance Company or Corporation]

[(b) No Participant shall take or carry a general account in which an employee of a bank, trust company, insurance company or any corporation, firm or individual engaged in the business of dealing, either as a broker or principal in stocks, bonds or other securities, bills of exchange, acceptances or other forms of commercial paper, is directly or indirectly interested, unless the written consent of the employer has first been obtained.]

**[••• Interpretations and Policies: ]**

[.01 Written consent of the Exchange for accounts of registered employees of the Exchange shall be conditioned on the employee giving written instructions to the Participant Firm to send duplicate copies of confirmations to the Legal Department of the Exchange.]

[Order Listed for Non-Participant in Attendance]

[(c) No Participant shall execute an order in a security solely listed on the Exchange for the account of a non-Participant in attendance on the Trading Floor, or an account in which such non-Participant has an interest, unless the transaction is of a stabilizing nature; i.e., purchases shall be at prices lower than the last different-price transaction and sales shall be at prices higher than the last different-price transaction except when a transaction is in liquidation at a loss.]

**[Officers and Employees of Exchange]**

[RULE 15. (a) No Participant shall:

(1) Employ or compensate for services rendered, any officer or employee of the Exchange or of another Participant without the prior written consent of the employer and, in the case of floor employees, the prior written consent of the employer and the Exchange;

(2) Give any gratuity in excess of \$100 per person per year to any officer

or employee of the Exchange, or of another Participant or to any officer or employee of a news or financial information medium, bank, trust company, insurance company, or any corporation, firm or individual engaged in the business of dealing, either as broker or principal in stocks, bonds or other securities, bills of exchange, acceptances or other forms of commercial paper, without the prior written consent of the employer and, in the case of floor employees, the prior written consent of the employer and the Exchange.

(b) For purposes of this Rule, a gift of any kind is considered a gratuity and an officer or employee of a corporation, a majority of whose capital stock is owned by the Exchange is considered an employee of the Exchange.

(c) A record shall be retained and be available for inspection by the Exchange for at least three years of each gratuity given to a person covered by (a)(2) above, including gratuities of \$100 or less per person per year.]

#### **[Disciplinary Actions by Other Organizations]**

[RULE 16. Disciplinary Action. Every Participant 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 Participant or its associated persons, and shall similarly notify the Exchange of any disciplinary action taken by the Participant 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.]

#### **[Transactions for or with Unapproved Customers]**

[RULE 17. No Participant Firm shall make any transaction for the account of or with a customer unless, prior to or promptly after the completion thereof, a general partner or officer of the Participant Firm shall specifically approve the opening of such account, provided, however, that in the case of a branch office the opening of an account for a customer may be approved by the manager of such branch office, but the action of such branch office manager shall within a reasonable time be approved by a general partner or officer of the Participant Firm. The general partner or officer approving the opening of an account shall, prior to giving his approval, be informed as to the essential facts relative to the customer and shall indicate his approval in writing on any document which will become part of the permanent records of the firm or corporation.]

#### **[Pledged Securities]**

[RULE 18. No agreement between a Participant Firm and a customer, authorizing the Participant Firm to pledge securities, either alone or with other securities carried for the account of the customer, either for the amount due thereon or for a greater amount, or to loan such securities, shall justify the Participant Firm in pledging or loaning more of

such securities than is fair and reasonable in view of the indebtedness of such customer to such firm or corporation.]

**[Mailing Communications to Non-Participant Customer]**

[RULE 19. No Participant Firm shall mail confirmations, statements or other communications to a non-Participant customer in care of such Participant Firm or in care of any other Participant or in care of an employee of any Participant unless such Participant shall have been so directed in writing by such customer and unless duplicate copies of such confirmations, statements or other communications are mailed to such customer at his place of business or residence or at some other address designated in writing by such customer; however, the Exchange, may in specific instances, waive the requirement that duplicate copies be sent.]

**[Trading by a Participant Firm in Its Own or Its Parent Firm's Securities]**

[RULE 20. After the completion of a distribution of its securities, no Participant Firm which has any publicly held securities outstanding shall effect any transaction (except on an unsolicited basis) for the account of any customer in, or make any recommendation of any such security issued by any corporation controlling, controlled by or under common control with such corporation.]

**[Customer Account Transfers]**

[RULE 21. (a) When a customer whose securities account is carried by a Participant Firm (the "carrying organization") wants to transfer the entire account to another Participant Firm (the "receiving organization") and gives written notice of that fact to the receiving organization, both Participant Firms must expedite and coordinate activities with respect to the transfer.

(b) (1) Upon receipt from the customer of a signed broker-to-broker transfer instruction to receive such customer's securities account, the receiving organization shall immediately submit such instruction to the carrying organization. The carrying organization must, within five (5) business days following receipt of such instruction, (i) validate and return the transfer instruction (with an attachment reflecting all positions and money balances as shown on its books) to the receiving organization or (ii) take exception to the transfer instruction for reasons other than securities positions or money balance discrepancies and advise the receiving organization of the exception taken.

(2) The carrying organization and the receiving organization must promptly resolve any exceptions taken to the transfer instruction.

(3) Within five (5) business days following the validation of a transfer instruction, the carrying organization must complete the transfer of the customer's securities account to the receiving organization. The carrying organization and the receiving organization must establish fail to receive and fail to deliver contracts at

then current market values upon their respective books of account against the long/short positions (including options) in the customer's securities account that have not been physically delivered/received and the receiving/carrying organization must debit/credit the related money amount. The customer's securities account shall thereupon be deemed transferred.

(c) Any fail contracts resulting from this account transfer procedure must be closed out within ten (10) business days after their establishment.

(d) Any discrepancies relating to positions or money balances that exist or occur after transfer of a customer's securities account must be resolved promptly.

(e) When both the carrying organization and the receiving organization are participants in a registered clearing agency having automated customer securities account transfer capabilities, the account transfer procedure, including the establishing and closing out of fail contracts, must be accomplished in accordance with the provisions of this rule and pursuant to the rules of and through such registered clearing agency.

(f) The Exchange may exempt from the provisions of this rule, either unconditionally or on specified terms and conditions, (i) any Participant Firm or class of Participant Firm or (ii) any type of account, security or financial instrument.

(g) Unless an exemption has been granted pursuant to paragraph (f) of this rule, the Exchange may impose upon a Participant Firm a fee of up to \$100 per securities account for each day such Participant Firm fails to adhere to the time frames or procedures required by this rule and related published interpretations.

(h) For purposes of this rule, the term "securities account" shall be deemed to include any and all of the account's money market fund positions or the redemption value thereof.

(i) For purposes of this rule, the term "registered clearing agency" shall be deemed to be a clearing agency as defined in the Securities Exchange Act of 1934 registered in accordance with that Act.

(j) Transfer instructions and reports required by this rule shall be in such form as may be prescribed by the Exchange.]

[••• *Interpretations and Policies:* ]

[.01 Responsibility to Expedite and Coordinate Transfer of Account Upon Customer's Request

A. Rule Inapplicable to Partial Transfers

Rule 21 is applicable only when a customer intends to transfer his or her entire securities account from one Participant Firm to another. If a customer desires to transfer a portion of his or her account, an authorized letter should be transmitted to the carrying organization indicating such intent and specifying the portion of the account to be transferred. Although such transfers are not subject to Rule 21, Participant Firms are expected to expedite authorized partial transfers of customer securities accounts and coordinate their activities with respect thereto.]

[B. Written Procedures Required

Participant Firms must develop written procedures for customer securities account transfers that ensure implementation of and compliance with the requirements of Rule 21.]

[.02 Transfer Procedures

A. Transfer Instructions

(1) Conditions of Transfer

Account transfers accomplished pursuant to Rule 21 are subject to certain conditions. The customer must be informed of, affirm, or authorize (as the case may be) the following conditions through their inclusion in the transfer instruction form the customer is required to complete and sign to initiate the account transfer:

a. The customer must be informed that to the extent any assets in the account are not readily transferable, with or without penalties, such assets may not be transferred within the time frames required by Rule 21.

b. The customer must be informed that he or she will be notified in writing by the carrying organization to determine what disposition he or she wishes to make with respect to those assets (if any) in the account that are nontransferable.

c. The customer must affirm that he or she has destroyed or returned to the carrying organization any credit/debit cards and/or unused checks issued in connection with an account other than a retirement plan securities account.

d. The customer must authorize the custodian/trustee for a retirement plan securities account.

(i) to deduct any outstanding fees due the custodian/trustee from the credit balance in the account, or

(ii) to liquidate assets in the account to the extent necessary to satisfy any outstanding fees due the custodian/trustee, if the account does not contain a credit balance or if the credit balance in

the account is insufficient to satisfy any outstanding fees due the custodian/trustee.

(2) Receipt of Transfer Instruction (Carrying Organization)

Upon the date of the validation of the transfer instruction, a carrying organization must "freeze" the account to be transferred, i.e., all open orders must be cancelled and no new orders may be taken.

(3) Exceptions to Transfer Instruction (Carrying Organization)

A carrying organization may not take exception to a transfer instruction, and therefore deny validation of the transfer instruction, because of a dispute over securities positions or the money balance in the account to be transferred. Such alleged discrepancies notwithstanding, the carrying organization must transfer the securities positions and/or money balance reflected on its books for the account.

A carrying organization may take exception to a transfer instruction only if:

- a. it has no record of the account on its books;
- b. the transfer instruction is incomplete; or
- c. the transfer instruction contains errors or an improper signature.

(4) Validation of Transfer Instruction—Valuation of Assets (Carrying Organization)

(a) Upon validation of a transfer instruction, the carrying organization must return the transfer instruction to the receiving organization with an attachment indicating all securities positions, any safekeeping positions, and any money balance in the account as shown on the books of the carrying organization. Except as hereinafter provided, the attachment must include a then current market value for all assets in the account. If a then current market value for an asset can not be determined, e.g., a limited partnership interest, the asset must be valued at original cost. However, delayed delivery assets, nontransferable assets, and assets in transfer to the customer, i.e., in possession of the transfer agent at the time of receipt of the transfer instruction by the carrying organization for shipment, physically and directly, to the customer, need not be valued, although the "delayed delivery," "nontransferable," or "in transfer" status, respectively, of such assets must be indicated on the attachment.

(b) For purposes of this rule, a "safekeeping position" shall mean any security held by a carrying organization in the name of the customer, including securities that are unendorsed or have a stock/bond power attached.

(c) For purposes of this rule, a "nontransferable asset" shall mean an asset that is incapable of being transferred from the carrying organization to the receiving organization because it is:

- (i) an asset that is a proprietary product of the carrying

organization (for purposes hereof, any proprietary product of the carrying organization shall be deemed nontransferable unless the receiving organization has agreed to accept transfer of such product), or

(ii) an asset that is a product of a third party (e.g., mutual fund/money market fund) with which the receiving organization does not maintain the relationship or arrangement necessary to receive/carry the asset for the customer's account.

(5) Validation of Transfer Instruction—Regulation T Calls (Carrying Organization)

Upon validation of a transfer instruction, the carrying organization must indicate on the instruction or by attachment any Regulation T calls outstanding as of the date of validation with respect to the account to be transferred.

(6) Validation of Transfer Instruction—Nontransferable Assets (Carrying Organization)

If an account to be transferred includes any nontransferable assets (as defined in 4(c) above), the carrying organization must request, in writing and prior to or at the time of validation of the transfer instruction, further instructions from the customer with respect to the disposition of such assets. In particular, such request must provide the customer with the following alternative methods of disposition for nontransferable assets:

a. Liquidation, with a specific indication of any redemption or other liquidation-related fees that may result from such liquidation and that those fees may be deducted from the money balance due the customer.

b. Retention by the carrying organization for the customer's benefit.

c. Ship, physically and directly, in the customer's name to the customer.

(7) Asset Input—Municipal Securities, Corporate Bonds or U.S. Government-Backed Securities (Carrying Organization)

(a) A carrying organization must provide the following description, at a minimum, as asset data with respect to any municipal securities that have not been assigned a CUSIP number in an account it is to transfer:

(i) name of the issuer;

(ii) interest rate;

(iii) maturity date and if the securities are limited tax, subject to redemption prior to maturity (callable), or revenue bonds, an indication to such effect, including in the case of revenue bonds the type of revenue, if necessary for a materially complete

description of the securities; and

(iv) if necessary for a materially complete description of the securities, the name of any company or other person in addition to the issuer obligated, directly or indirectly, with respect to debt service, or if there is more than one such obligor, the statement "multiple obligors" may be shown.

(b) A carrying organization must provide the following description, at a minimum, as asset data with respect to corporate bonds and U.S. government-backed securities that have not been assigned a CUSIP number in an account it is to transfer:

- (i) name of the issuer;
- (ii) maturity date;
- (iii) interest rate;
- (iv) dated (issue) date;
- (v) form (registered or bearer); and
- (vi) user CUSIP number.

#### (8) Rejection of Account Transfer (Receiving Organization)

After validation of the transfer instruction by the carrying organization, a receiving organization may reject an account transfer only if the account is not in compliance with the receiving organization's credit policies or minimum asset requirements. (A receiving organization may deem an account that is not in compliance with Regulation T requirements as not being in compliance with its credit policies). However, a receiving organization may only reject an entire account for such reasons; it may not reject a portion of the account (e.g., the particular assets not in compliance with the organization's credit policies or minimum asset requirements) while accepting the remainder.]

#### [.03 Completion of Transfer

##### (1) Rejection of Fail Contracts

A carrying organization may not reject ("DK") a fail contract, including receive and deliver instructions generated by an automated customer account transfer system, in connection with assets in an account transferred that have not been delivered to the receiving organization.

##### (2) Fail Contracts—Marked as "21 Fails"

All fail contracts established pursuant to the requirements of Rule 21 should be clearly marked or captioned as such.



## (3) Fail Contracts—Capital Charges

The staff of the Commission's Division of Market Regulation has advised the Exchange that it would not recommend enforcement action if Participant Firms interpret Securities Exchange Act Rule 15c3-1(c)(2)(ix), which requires deductions from net capital for fail to deliver contracts outstanding five or more business days (twenty-one or more business days with respect to municipal securities), as not applying to fail to deliver contracts established pursuant to the requirements of Rule 21, including the interpretations thereunder.

## (4) Fail Contracts—Safekeeping Positions

All fail contracts required to be established on safekeeping positions, as defined in .02(4)(b) above, must indicate that they relate to a safekeeping position. Participant Firms should adopt additional procedures to ensure appropriate record keeping with respect to such safekeeping position related fail contracts and thereby avoid erroneous deliveries and dividend adjustments.

## (5) Fail Contracts—Mark-to-Market

Open fail contracts established pursuant to the requirements of Rule 21 should be marked-to-market regularly.

## (6) Retirement Plan Securities Accounts—Custodian/Trustee Fees

If, with respect to the transfer of a retirement plan securities account, outstanding fees are due the custodian/trustee for the account, such fees must be deducted from the credit balance in the account or, if the account does not contain a credit balance or if the credit balance is insufficient to satisfy such fees, assets in the account must be liquidated to the extent necessary to satisfy such fees. If liquidation of assets in the account is not practicable, such fees must then be transferred to and accepted by the receiving organization as a debit item with the account.]

## [.04 Closing Out Fail Contracts

## (1) Close Out Procedures

All fail contracts required to be established pursuant to Rule 21, except for fail contracts on those assets specified in (e)/.05 below, must be closed out within ten business days of their establishment. If a receiving organization has not received an asset on which a fail contract was established by the seventh business day after the contract was established, the receiving organization must at that time provide the carrying organization with written notice of its intent to buy-in the asset on the tenth business day after the contract was established, in accordance with the standard buy-in procedures of the receiving organization, unless the carrying organization delivers the asset to the receiving organization before 1 PM on such tenth business day, and the receiving

organization must proceed in such manner.

(2) Acceptability of Comparable Securities

Participant Firms may agree to close out fail contracts established pursuant to the requirements of Rule 21 through the delivery of securities that are substantially comparable to those owed.

(3) Safekeeping Positions

A receiving organization should reject a delivery of a security that cannot be deemed a safekeeping position, as defined in .02(4)(b) above, against a fail contract indicated as established on a safekeeping position in accordance with .03(4) above.]

[.05 Automated Customer Securities Account Transfer Systems

(1) "Participant in a Registered Clearing Agency"

For purposes of paragraph (e) of this rule, the term "participant in a registered clearing agency" shall mean a of a registered clearing agency that would be eligible to make use of the agency's automated customer securities account transfer capabilities.]

[.06 Exemptions

(1) Retirement Plan Securities Accounts

A carrying organization must either validate and return or take exception to a transfer instruction requesting the transfer of a customer's entire retirement plan securities account within ten business days, rather than five business days, following receipt of the transfer instruction. Except for this greater time period within which to validate or take exception to the transfer instruction, or as otherwise specifically provided, all time frames and procedures required by Rule 21, and the interpretations thereunder, are equally applicable to retirement plan securities accounts as to other securities accounts.

It is the responsibility of the receiving organization to obtain the approval of its custodian/trustee accepting a customer's retirement plan securities account before submitting a transfer instruction for such an account to the carrying organization or a registered clearing agency. Such approval should be transmitted to the carrying organization or its custodian/trustee to facilitate transfer of the account.

(2) Nontransferable Assets—Disposition

Nontransferable assets (as defined in .02(4)(c) above) must be, pursuant to the customer's instructions, either liquidated, retained by the carrying organization for the customer's benefit, or shipped, physically and directly, in the customer's name to the customer. If the customer has authorized liquidation or shipment of such assets, the carrying organization must distribute the resulting money balance to the customer or

initiate the shipment, respectively, within five business days following receipt of the customer's disposition instructions.

### (3) Nontransferable Assets and In Transfer Assets—Fail Contracts

Nontransferable assets (as defined in .02(4)(c) above) and assets in transfer to the customer, i.e., in possession of the transfer agent at the time of receipt of the transfer instruction by the carrying organization for shipment, physically and directly, to the customer, are exempt from the requirement in sub-paragraph (b)(3) of the rule that fail to receive and fail to deliver contracts must be established for positions in a customer's securities account that have not been physically delivered.

### (4) Delayed Delivery Assets—Fail Contracts

The following assets are deemed subject to delayed delivery for purposes of Rule 21 and are thereby exempt from the requirement in sub-paragraph (b)(3) of the rule that fail to receive and fail to deliver contracts must be established for positions in a customer's securities account that have not been physically delivered:

- (a) bankrupt issues
- (b) insurance policies (annuities)
- (c) stripped coupons
- (d) when-issued or when-distributed securities.

However, zero value fail to receive and fail to deliver instructions must be generated for such assets. Such fail instructions should be reflected on Participants' books and records, although they need not be so reflected by a receiving organization for bankrupt issues that are non-deliverable. A bankrupt issue shall be deemed non-deliverable only if the carrying organization does not possess (which shall be deemed to include possession at a securities depository for the carrying organization's account) the quantity of shares necessary to effect delivery and no transfer agent is available to re-register the shares to be delivered.

### (5) Delayed Close Out Assets—Fail Contracts

Fail contracts established on the following assets pursuant to Rule 21 must be closed out within thirty business days, rather than ten business days, after their establishment.

- (a) bankers' acceptances
- (b) bond anticipation notes
- (c) certificates of deposit
- (d) commercial paper
- (e) FMAC certificates
- (f) FNMA certificates
- (g) foreign securities
- (h) GNMA certificates
- (i) limited partnership interests
- (j) municipal bonds

- (k) mutual fund shares (transferable)
- (l) revenue anticipation notes
- (m) SBA certificates
- (n) tax anticipation notes.

If a receiving organization has not received such an asset by the twenty-fifth business day after the fail contract on the asset was established, the receiving organization must at that time provide the carrying organization with written notice of its intent to buy-in the asset on the thirtieth business day after the contract was established, in accordance with the standard buy-in procedures of the receiving organization, unless the carrying organization delivers the asset to the receiving organization before 1 PM on such thirtieth business day, and the receiving organization must proceed in such manner.

A receiving organization must deem receipt of a duly executed limited partnership change of trustee form with respect to limited partnership interests or a mutual fund re-registration form with respect to mutual fund shares as adequate delivery for purposes of transferring such assets pursuant to the rule.]

[.07 Transfer Instructions and Reports

Prescribed Forms

Participant Firms must use the transfer instructions and provide the reports prescribed by the Exchange when accomplishing account transfers pursuant to Rule 21.]

[.08 Transfer to or from Non-Participant Organization

Transfer of a customer's account to or from a non-Participant organization shall be handled as expeditiously as a transfer with a Participant Firm.]

**[Responsibility for Acts of Others]**

[RULE 22. It is the responsibility of Participants and general partners and officers of Participant Firms to effect consistent compliance by their respective organizations with the Constitution and Rules of the Exchange in areas where they have or should have direct or supervisory responsibility. Participants and general partners and officers of Participant Firms are liable to the same discipline and penalties for acts or omissions of their Participant Firm relating to these areas of responsibility as though such act or omission were their own personal act or omission.]

**[Arbitration of Participant Controversies]**

[RULE 23. (a) Any controversy between parties who are Participants or their nominees or associated persons which arises out of the Exchange business of such parties shall be submitted to arbitration, through the Director of Arbitration, to an Arbitration Panel composed of members of the Committee on Exchange Procedure in accordance with Rule 23(b), unless non-Participants are also parties to the controversy. To the extent that any such claim alleges employment discrimination, including any sexual harassment claim, in violation of a statute, such claim shall be eligible for arbitration only where the

parties have agreed to arbitrate the claim after it has arisen. If such non-Participants are also parties to such controversies, the arbitrators shall be appointed in accordance with Section 8 of Rule 24 under this Article unless such non-Participants consent to arbitration before an Arbitration Panel selected by parties as provided in this Rule 23. However, controversies shall be resolved by the Committee on Exchange Procedure, if the parties to such controversy agree to be bound by the decision of that Committee or if Exchange rules otherwise require resolution by the Committee on Exchange Procedure. The rules and procedures applicable to arbitrations which are set forth in Rule 24 do not apply to controversies which are to be resolved by the Committee on Exchange Procedure.

(b) Unless the parties to the controversy agree to be bound by the Committee's determination, resolution shall be by an Arbitration Panel whose resolution of the dispute shall be binding and final. The Arbitration Panel shall be composed of an odd number of arbitrators who shall be selected as follows:

Each of the parties to the controversy shall select one member of the Committee on Exchange Procedure to serve as an arbitrator on the Arbitration Panel. The arbitrators so selected shall then among them agree on the selection of one or more additional arbitrators, provided that the additional arbitrators so selected are either Participants or representatives of Participant Firms of the Exchange, and provided further that no member of the Arbitration Panel may be a person with a direct or indirect financial interest in the claim. In the event that the initial arbitrators selected by the parties to the controversy cannot agree on the selection of the above-mentioned additional arbitrator or arbitrators, as the case may be, or if any party to a controversy, after due notice, fails to select a member of the Committee on Exchange Procedure to serve as an arbitrator, then in that event such arbitrator or additional arbitrator(s) shall be appointed by the Committee on Exchange Procedure, except that any members of the Committee who either have already been selected to serve on the Arbitration Panel or who have a direct or indirect financial interest in the claim shall not participate in the selection of such additional arbitrator(s). Except as otherwise provided in this Rule, the rules and procedures applicable to arbitrations concerning Participant controversies which are to be resolved by an Arbitration Panel shall be those set forth hereinafter under Rule 24.]

### **[Arbitration Rules]**

#### **[RULE 24. Section 1.—Arbitration.**

(a) Except as provided otherwise in these Rules, any dispute, claim or controversy between a customer or non-Participant and a Participant or associated person arising in connection with the business of such Participant or associated person in connection with his activities as an associated person shall be arbitrated under this Rule of the Exchange as provided by any duly executed and enforceable written agreement or upon the request of the customer or non-Participant.

(b) Under this Rule, the Exchange shall have the right to decline the use of its arbitration facilities in any dispute, claim, or controversy, where having due regard for

the purposes of the Exchange and the intent of this Rule such dispute, claim or controversy is not a proper subject matter for arbitration.

(c) Class Action Claims.

(i) A claim submitted as a class action shall not be eligible for arbitration under this Rule at the Exchange.

(ii) Any claim filed by a member or members of a putative or certified class action is also ineligible for arbitration at the Exchange if the claim is encompassed by a putative or certified class action filed in federal or state court, or is ordered by a court to a non self-regulatory organization arbitration forum for classwide arbitration. However, such claims shall be eligible for arbitration in accordance with Rule 24 of this Article or pursuant to the parties' contractual agreement, if any, if a claimant demonstrates that it has elected not to participate in the putative or certified class action or, if applicable, has complied with any conditions for withdrawing from the class prescribed by the court.

Disputes concerning whether a particular claim is encompassed by a putative or certified class action shall be referred by the Director of Arbitration to a panel of arbitrator(s) in accordance with Section 2(f) or Section 8 of Rule 24 of this Article, as applicable. Either party may elect instead to petition the court with jurisdiction over the putative or certified class action to resolve such disputes. Any such petition to the court must be filed within ten business days of receipt of notice that the Director of Arbitration is referring the dispute to a panel of arbitrator(s).

(iii) No Participant or associated person shall seek to enforce any agreement to arbitrate against a customer that has initiated in court a putative class action or is a member of a putative or certified class with respect to any claims encompassed by the class action unless and until; (a) the class certification is denied; (b) the class is decertified; (c) the customer is excluded from the class by the court; or (d) the customer elects not to participate in the putative or certified class action or, if applicable, has complied with any conditions for withdrawing from the class prescribed by court.

(iv) No Participant or associated person shall be deemed to have waived any of its rights under this Rule or under any agreement to arbitrate to which it is party except to the extent stated in this paragraph.

(d) Any claim alleging employment discrimination, including any sexual harassment claim, in violation of a statute, that is otherwise eligible for arbitration under this Rule, shall be eligible for arbitration only where the parties have agreed to arbitrate the claim after it has arisen.]

**[••• Interpretations and Policies: ]**

[.01 The Exchange will not exercise its right to decline the use of its arbitration facilities as set forth in Rule 24(b) of this Article VIII in the event that the Exchange is the Designated Examining Authority of the Respondent Participant or the enforcement of

the applicable rules has not been ceded to another self-regulatory organization pursuant to its Rule 17d-2 Agreement. In other instances, the Exchange may exercise its right to decline the use of its arbitration facilities set forth in Rule 24 (b) of this Article VIII in the event that the nexus between the dispute and the Exchange is minimal.]

[.02 For purposes of this Rule and Rule 23 under this Article VIII, the terms Participant, Participant Firm, associated person and an employee of a Participant, shall be deemed to encompass those persons and entities who were Exchange Participants or persons associated with a Participant at the time the circumstances occurred which gave rise to the controversy.]

[Section 2.—Simplified Arbitration. ]

(a) Any dispute, claim or controversy, arising between a public customer(s) and an associated person or a Participant subject to arbitration under this Rule involving a dollar amount not exceeding \$10,000 exclusive of attendant costs and interest, shall be arbitrated as hereinafter provided.

(b) The Claimant shall file with the Director of Arbitration an executed Submission Agreement and a copy of the Statement of Claim of the controversy in dispute and the required deposit, together with documents in support of the Claim. Sufficient additional copies of the Submission Agreement and the Statement of Claim and supporting documents shall be provided to the Director of Arbitration for each party and the arbitrator. The Statement of Claim shall specify the relevant facts, the remedies sought, and whether a hearing is demanded.

(c) The Claimant shall pay a filing fee and remit a hearing deposit as specified in Section 30 of this Rule upon filing of the Submission Agreement. The final disposition of the sum shall be determined by the arbitrator.

(d) The Director of Arbitration shall endeavor to serve promptly by mail or other wise on the Respondent(s) one (1) copy of the Submission Agreement and one (1) copy of the Statement of Claim. Within twenty (20) calendar days from receipt of the Statement of Claim, Respondent(s) shall serve each party with an executed Submission Agreement and a copy of Respondent's Answer. Respondent's executed Submission Agreement and Answer shall also be filed with the Director of Arbitration with sufficient additional copies for the arbitrator(s) along with any deposit required under the schedule of fees. The Answer shall designate all available defenses to the Claim and may set forth any related Counterclaim or related Third-Party Claim the Respondent(s) may have against the Claimant or any other person. If the Respondent(s) has interposed a Third-Party Claim, the Respondent(s) shall serve the Third-Party Respondent with an executed Submission Agreement, a copy of Respondent's Answer containing the Third-Party Claim, and a copy of the original Claim filed by the Claimant. The Third-Party Respondent(s) shall respond in the manner herein provided for response to the Claim. If the Respondent(s) files a related Counterclaim exceeding \$10,000, the arbitrator may refer the Claim, Counterclaim, or Third-Party Claim, if any, to a panel of three (3) or

more arbitrators in accordance with Section 8 of this Rule, or he may dismiss the Counterclaim or Third-Party Claim, without prejudice to the Counterclaimant(s) or Third-Party Claimant(s) pursuing the Counterclaim or Third-Party Claim in a separate proceeding. The costs to the Claimant under either proceeding shall in no event exceed the total amount specified in Section 30 of this Rule.

(e) All parties shall serve promptly by mail or otherwise on all other parties and the Director of Arbitration, with sufficient additional copies for the arbitrator(s), a copy of the Answer, Counterclaim, Third-Party Claim, Amended Claim or other responsive pleading, if any. The Claimant, if a Counterclaim is asserted against him, shall within ten (10) calendar days either (i) serve on each party and on the Director of Arbitration with sufficient additional copies for the arbitrator(s) a Reply to any Counterclaim or, (ii) if the amount of the Counterclaim exceeds the Claim, shall have the right to file a statement withdrawing the Claim. If the Claimant withdraws the Claim, the proceedings shall be discontinued without prejudice to the rights of the parties.

(f) The dispute, claim or controversy shall be submitted to a single public arbitrator knowledgeable in the securities industry selected by the Director of Arbitration. Unless the public customer demands or consents to a hearing, or the arbitrator calls a hearing, the arbitrator shall decide the dispute, claim, or controversy solely upon the pleadings and evidence filed by the parties. If a hearing is necessary, such hearing shall be held as soon as practicable at a locale selected by the Director of Arbitration.

(g) The Director of Arbitration may grant extensions of time to file any pleading upon a showing of good cause.

(h) (i) The arbitrator shall be authorized to require the submission of further documentary evidence as he, in his sole discretion, deems advisable.

(ii) If a hearing is demanded or consented to, in accordance with Section 2(f), the general provision governing a pre-hearing proceeding under Section 20 shall apply.

(iii) If no hearing is demanded or consented to, all requests for document production shall be submitted in writing to the Director of Arbitration within ten (10) business days of notification of the identity of the arbitrator selected to decide the case. The requesting party shall serve simultaneously its requests for document production on all parties. Any response or objection to the requested document production shall be served on all parties and filed with the Director of Arbitration within five (5) business days of receipt of the requests for production. The selected arbitrator shall resolve all requests under this section on the papers submitted.

(i) Upon the request of the arbitrator, the Director of Arbitration shall appoint two (2) additional arbitrators to the panel which shall decide the matter in controversy.

(j) In any case where there is more than one (1) arbitrator, the majority will be public arbitrators.



(k) In his discretion, the arbitrator may, at the request of any party, permit such party to submit additional documentation relating to the pleadings.

(l) Except as otherwise provided herein, the general arbitration rules of the Exchange shall be applicable to proceedings instituted under this Rule.]

[Section 3.—Hearing Requirements—Waiver of Hearing. ]

[(a) Any dispute, claim or controversy, except as provided in Section 2 (Simplified Arbitration), shall require a hearing unless all parties waive such hearing in writing and request that the matter be resolved solely upon the pleadings and documentary evidence.

(b) Notwithstanding a written waiver of a hearing by the parties, a majority of the arbitrators may call for and conduct a hearing. In addition, any arbitrator may request the submission of further evidence.]

[Section 4.—Time Limitation upon Submission. ]

[No dispute, claim or controversy shall be eligible for submission to arbitration under this Rule where six (6) years shall have elapsed from the occurrence or event giving rise to the act or the dispute, claim or controversy. This section shall not extend applicable statutes of limitations, nor shall it apply to any case which is directed to arbitration by a court of competent jurisdiction.]

[Section 5.—Dismissal of Proceedings. ]

[At any time during the course of an arbitration, the arbitrators may, either upon their own initiative or at the request of a party, dismiss the proceeding and refer the parties to the remedies provided by law. The arbitrators shall, upon the joint request of the parties, dismiss the proceedings.]

[Section 6.—Settlements. ]

[All settlements upon any matter submitted shall be at the election of the parties.]

[Section 7.—Tolling of Time Limitation(s) for the Institution of Legal Proceedings and Extension of Time Limitation(s) for Submission to Arbitration. ]

[(a) Where permitted by law, the time limitation(s) which would otherwise run or accrue for the institution of legal proceedings shall be tolled when a duly executed Submission Agreement is filed by the claimant(s). The tolling shall continue for such period as the Exchange shall retain jurisdiction upon the matter submitted.

(b) The six (6) year time limitation upon submission to arbitration shall not apply when the parties have submitted the dispute, claim, or controversy to a court of

competent jurisdiction. The six (6) year time limitation shall not run for such period as the court shall retain jurisdiction upon the matter submitted.]

[Section 8.—Designation of the Number of Arbitrators.]

[(a) (1) In all arbitration matters involving public customers and other non-Participants where the matter in controversy exceeds \$10,000, or where the matter in controversy does not involve or disclose a money claim, the Director of Arbitration shall appoint an arbitration panel which shall consist of no less than three (3) arbitrators, at least a majority of whom shall not be from the securities industry, unless the public customer or other non-Participant requests a panel consisting of at least a majority from the securities industry.

(2) An arbitrator will be deemed as being from the securities industry if he or she:

(i) Is a person associated with a Participant, broker-dealer, government securities broker, government securities dealer, municipal securities dealer, or registered investment advisor, or

(ii) Has been associated with any of the above within the past five (5) years, or

(iii) Is retired from, or spent a substantial part of his or her business career in, any of the above, or

(iv) Is an attorney, accountant, or other professional who devoted twenty percent (20%) or more of his or her professional work effort to securities industry clients within the last two (2) years.

(v) Is an individual who is registered under the Commodity Exchange Act or is a member of a registered futures association or any commodities exchange or is associated with any such person(s).

(3) An arbitrator who is not from the securities industry shall be deemed a public arbitrator. A person will not be classified as a public arbitrator if he or she has a spouse or other member of the household who is a person associated with a registered broker- dealer, municipal securities dealer, government securities broker, government securities dealer, or investment advisor.

(b) Composition of Panels. The individuals who shall serve on a particular arbitration panel shall be determined by the Director of Arbitration. The Director of Arbitration may name the chairman of each panel.]

[Section 9.—Notice of Selection of Arbitrators. ]

[The Director of Arbitration shall inform the parties of the arbitrators' names, employment histories for the past ten (10) years, as well as information disclosed pursuant to Section 11, at least eight (8) business days prior to the date fixed for the first hearing session. A party may make further inquiry of the Director of Arbitration concerning an arbitrator's background. In the event that prior to the first hearing session,

any arbitrator should become disqualified, resign, die, refuse, or otherwise be unable to perform as an arbitrator, the Director of Arbitration shall appoint a replacement arbitrator to fill the vacancy on the panel. The Director of Arbitration shall inform the parties as soon as possible of the name and employment history of the replacement arbitrator for the past ten (10) years, as well as information disclosed pursuant to Section 11. A party may make further inquiry of the Director of Arbitration concerning the replacement arbitrator's background and, within the time remaining prior to the first hearing session or the five (5) day period provided under Section 10, whichever is shorter, may exercise its right to challenge the replacement arbitrator as provided in Section 10.]

[Section 10.—Challenges.]

[In any arbitration proceeding, each party shall have the right to one preemptory challenge. In arbitrations where there are multiple Claimants, Respondents, or Third-Party Respondents, the Claimants shall have one preemptory challenge, the Respondents shall have one preemptory challenge, and the Third-Party Respondents shall have one preemptory challenge, unless the Director of Arbitration determines that the interests of justice would be best served by awarding additional preemptory challenges. Unless extended by the Director of Arbitration, a party wishing to exercise a preemptory challenge must do so by notifying the Director of Arbitration in writing within five (5) business days of notification of the identity of the person(s) named under Section 20(d), (e) or Section 9, whichever comes first. There shall be unlimited challenges for cause.]

[Section 11.—Disclosures Required by Arbitrators.]

[(a) Each arbitrator shall be required to disclose to the Director of Arbitration any circumstances that might preclude such arbitrator from rendering an objective and impartial determination. Each arbitrator shall disclose:

(1) All direct or indirect financial or personal interest in the outcome of the arbitration.

(2) Any existing or past financial, business, professional, family or social relationships that are likely to affect impartiality or might reasonably create an appearance of partiality or bias. Persons requested to serve as arbitrators should disclose all such relationships that they personally have with any party or its counsel, or with any individual whom they have been told will be a witness. They should also disclose all such relationships involving members of their families, or their current employers' partners or business associates.

(b) Persons who are requested to accept appointment as arbitrators should make a reasonable effort to inform themselves of any interests or relationships described in paragraph (a) above.

(c) The obligation to disclose interests, relationships, or circumstances that might preclude an arbitrator from rendering an objective and impartial determination described in subsection (a) hereof is a continuing duty that requires a person who accepts appointment as an arbitrator to disclose, at any stage of the arbitration, all such interests,

relationships, or circumstances that arise, or that are recalled or discovered.

(d) Prior to the commencement of the first hearing session, the Director of Arbitration may remove an arbitrator based on information disclosed pursuant to this section. The Director of Arbitration shall also inform the parties of all information disclosed pursuant to this section if the arbitrator who disclosed the information is not removed.]

[Section 12.—Disqualification or Other Disability of Arbitrators. ]

[In the event that any arbitrator, after the commencement of the first hearing session but prior to the rendition of the award, should become disqualified, resign, die, refuse, or otherwise be unable to perform as an arbitrator, the remaining arbitrator(s) may continue with the hearing and determination of the controversy unless such continuation is objected to by any party within five (5) days of notification of the vacancy on the panel. Upon objection, the Director of Arbitration shall appoint a new member to the panel to fill any vacancy. The Director of Arbitration shall inform the parties as soon as possible of the name and employment history for the past ten (10) years of the replacement arbitrator, as well as information disclosed pursuant to Section 11. A party may further ask the Director of Arbitration about the replacement arbitrator's background and, within the time remaining prior to the next scheduled hearing session or the five (5) day period provided under Section 10, whichever is shorter, may exercise its rights to challenge the replacement arbitrator as provided in Section 10.]

[Section 13.—Initiation of Proceedings. ]

[Except as otherwise provided herein, an arbitration proceeding under this Rule shall be instituted as follows:

(a) Statement of Claim.

The Claimant shall file with the Director of Arbitration an executed Submission Agreement, a Statement of Claim together with the documents in support of the Claim and the required deposit. Sufficient additional copies of the Submission Agreement and the Statement of Claim and supporting documents shall be provided to the Director of Arbitration for each party and for each arbitrator. The Statement of Claim shall specify the relevant facts and the remedies sought. The Director of Arbitration shall endeavor to serve promptly by mail or otherwise on the Respondent(s) one (1) copy of the Submission Agreement and one (1) copy of the Statement of Claim.

(b) Service and Filing with the Director of Arbitration.

For purposes of this Rule, service may be effected by mail or other means of delivery. Service and filing are accomplished on the date of mailing either by first-class postage prepaid or by means of overnight mail service or, in the case of other means of service, on the date of delivery. Filing with the Director of Arbitration shall be made on the same date as service.

(c) Answers—Defenses, Counterclaims, and Cross-Claims.

(1) Within twenty (20) business days from receipt of the Statement of Claim, the Respondent(s) shall serve each party with an executed Submission Agreement and a copy of Respondent(s) Answer. An executed Submission Agreement and Answer of the Respondent(s) shall also be filed with the Director of Arbitration with sufficient additional copies for the arbitrator(s), along with any deposit required under the schedule of fees. The Answer shall specify all available defenses and relevant facts that will be relied upon at the hearing. It also may set forth any related Counterclaim the Respondent(s) may have against the Claimant, any Cross-Claim the Respondent(s) may have against any other named Respondent(s), and any Third-Party Claim against any other party or person based upon any existing dispute, claim, or controversy subject to arbitration under this Rule.

(2)

(i) A Respondent, Responding Claimant, Cross-Claimant, Cross-Respondent or Third-Party Respondent who pleads only a general denial as an answer may upon objection by a party, in the discretion of the arbitrators, be barred from presenting such fact or defense at the time of the hearing.

(ii) A Respondent, Responding Claimant, Cross-Claimant, Cross-Respondent or Third-Party Respondent who fails to specify all available defenses and relevant facts in such party's Answer, may, upon objection by a party, in the discretion of the arbitrators, be barred from presenting such facts or defenses not included in such party's Answer at the hearing.

(iii) A Respondent, Responding Claimant, Cross-Claimant, Cross-Respondent or Third-Party Respondent who fails to file an answer within twenty (20) business days from receipt of service of a Claim, unless the time to answer has been extended pursuant to paragraph (c)(5), may, in the discretion of the arbitrators, be barred from presenting any matter, arguments or defenses at the hearing.

(3) Respondent(s) shall serve each party with a copy of all Third-Party Claim. The Third-Party Claim shall also be filed with the Director of Arbitration with sufficient additional copies for the arbitrator(s), along with any deposit required under the schedule of fees. Third-Party Respondent(s) shall answer in the manner provided for response to the Claim, as provided in (1) and (2) above.

(4) The Claimant shall serve each party with a Reply to a Counterclaim within ten (10) business days of receipt of an Answer containing a Counterclaim. The Reply shall also be filed with the Director of Arbitration with sufficient additional copies for the arbitrator(s).

(5) The Director of Arbitration may extend any time period in this section (whether such be denominated as a Claim, Answer, Counterclaim, Cross-Claim, Reply, or Third-Party pleading).

(d) Joining and Consolidation—Multiple Parties.

(1) Permissive Joinder. All persons may join in one action as claimants if they assert any right to relief jointly, severally, or arising out of the same transaction, occurrence, or series of transactions or occurrences and if any question of law or fact common to all these claimants will arise in the action. All persons may be joined in one action as respondents if there is asserted against them jointly or severally any right to relief arising out of the same transaction, occurrence, or series of transactions or occurrences and if any question of law or fact common to all respondents will arise in the action. A claimant or respondent need not assert rights to or defend against all the relief demanded. Judgment may be given for one or more of the claimants according to their respective rights to relief, and against one or more respondents according to their respective liabilities.

(2) In arbitrations where there are multiple Claimants, Respondents or Third Party Respondents, the Director or Arbitration shall be authorized to determine preliminarily whether such parties should proceed in the same or separate arbitrations. Such determinations will be considered subsequent to the filing of all responsive pleadings.

(3) The Director of Arbitration shall be authorized to determine preliminarily whether claims filed separately are related and shall be authorized to consolidate such claims for hearing and award purposes.

(4) Further determinations with respect to joining, consolidation, and multiple parties under this subsection shall be made by the arbitration panel and shall be deemed final.]

[Section 14.—Designation of Time and Place of Hearings. ]

[The time and place for the initial hearing shall be determined by the Director of Arbitration and each hearing thereafter by the arbitrators. Notice of the time and place for the initial hearing shall be given at least eight (8) business days prior to the date fixed for the hearing by personal service, registered, or certified mail to each of the parties unless the parties shall, by their mutual consent, waive the notice provisions under this section. Notice for each hearing, thereafter, shall be given as the arbitrators may determine. Attendance at a hearing waives notice thereof.]

[Section 15.—Representation by Counsel. ]

[All parties shall have the right to representation by counsel at any stage of the proceedings.]

[Section 16.—Attendance at Hearings. ]

[The attendance or presence of all persons at hearings, including witnesses, shall be determined by the arbitrators. However, all parties to the arbitration and their counsel shall be entitled to attend all hearings.]

[Section 17.—Failure to Appear. ]

[If any of the parties, after due notice, fails to appear at a hearing or at any continuation of a hearing session, the arbitrators may, in their discretion, proceed with the arbitration of the controversy. In such cases, all awards shall be rendered as if each party had entered an appearance in the matter submitted.]

[Section 18.—Adjournments. ]

[(a) The arbitrators may, in their discretion, adjourn any hearing(s) either on their own initiative or on the request of any party to the arbitration.

(b) A party requesting an adjournment after arbitrators have been appointed shall, if an adjournment is granted, deposit a fee, equal to the initial deposit of forum fees for the first adjournment and twice the initial deposit of forum fees, not to exceed \$1,000, for a second or subsequent adjournment requested by that party. The arbitrators may waive the deposit of this fee or in their awards may direct the return of the adjournment fee.

(c) Upon receiving a third request consented to by all parties for an adjournment, the arbitrators may dismiss the arbitration without prejudice to the Claimant filing a new arbitration.]

[Section 19.—Acknowledgment of Pleadings.]

[The arbitrators shall acknowledge to all parties present that they have read the pleadings filed by the parties.]

[Section 20. (Redesignated from Section 14)—General Provisions Governing Pre-Hearing Proceeding. ]

[(a) Requests for Documents and Information.

The parties shall cooperate to the fullest extent practicable in the voluntary exchange of documents and information to expedite the arbitration. Any request for documents or other information should be specific, relate to the matter in controversy, and afford the party to whom the request is made a reasonable period of time to respond without interfering with the time set for the hearing.

(b) Document Production and Information Exchange.

(1) Any party may serve a written request for information or documents ("information request") upon another party twenty (20) business days or more

after service of the Statement of Claim by the Director of Arbitration or upon filing of the Answer, whichever is earlier. The requesting party shall serve the information request on all parties and file a copy with the Director of Arbitration. The parties shall endeavor to resolve disputes regarding an information request prior to serving any objection to the request. Such efforts shall be set forth in the objection.

(2) Unless a greater time is allowed by the requesting party, information requests shall be satisfied or objected to within thirty (30) calendar days from the date of service. Any objection to an information request shall be served by the objecting party on all parties and filed with the Director of Arbitration.

(3) Any response to objection to information requests shall be served on all parties and filed with the Director of Arbitration within ten (10) calendar days of receipt of the objection.

(4) Upon the written request of a party whose information request is unsatisfied, the matter will be referred by the Director of Arbitration to either a pre-hearing conference under paragraph (d) of this section or to a selected arbitrator under paragraph (e) of this section.

(c) Pre-Hearing Exchange.

At least ten (10) calendar days prior to the first scheduled hearing date, all parties shall serve on each other copies of documents in their possession and shall identify witnesses they intend to present at the hearing. The arbitrator(s) may exclude from the arbitration any documents not exchanged or witnesses not identified at that time. This paragraph does not require service of copies of documents or identification of witnesses that parties may use for cross-examination or rebuttal.

(d) Pre-Hearing Conference.

(1) Upon the written request of a party, an arbitrator, or at the discretion of the Director of Arbitration, a pre-hearing conference shall be scheduled. The Director of Arbitration shall set the time and place of a pre-hearing conference and appoint a person to preside. The pre-hearing conference may be held by telephone conference call. The presiding person shall seek to achieve agreement among the parties on any issues that relate to the pre-hearing process or to the hearing, including but not limited to, the exchange of information, exchange or production of documents, identification of witnesses, identification and exchange of hearing documents, stipulations of fact, identification and briefing of contested issues, and any other matters that will expedite the arbitration proceedings.

(2) Any issues raised at the pre-hearing conference that are not resolved may be referred by the Director of Arbitration to a single member (a public member in the event of a matter involving a public customer) of the Arbitration Panel for decision.



(e) Decisions by Selected Arbitrator.

The Director of Arbitration may appoint a single member of the Arbitration Panel to decide all unresolved issues referred to under this section. In matters involving public customers, such single arbitrator shall be a public arbitrator except that the arbitrator may be either public or industry if the public customer has requested a panel consisting of a majority of arbitrators from the securities industry. Such arbitrator shall be authorized to act on behalf of the panel to issue subpoenas, direct appearances of witnesses, production of documents, set deadlines and issue any other appropriate ruling which will expedite the arbitration proceedings or is necessary to permit any party to develop fully its case. Decisions under this paragraph shall be based upon the papers submitted by the parties, unless the arbitrator calls a hearing. The arbitrator may elect to refer any issue under this paragraph to the full panel.

(f) Subpoenas.

The arbitrator(s) and any counsel of record to the proceeding shall have the power of the subpoena process as provided by law. All parties shall be given a copy of the subpoena upon its issuance. The parties shall produce witnesses and present proofs to the fullest extent possible without resort to the subpoena process.

(g) Power to Direct Appearances and Production of Documents.

The arbitrator(s) shall be empowered without resort to the subpoena process to direct the appearance of any person employed by or associated with any member or member organization of the Exchange or the production of any records in the possession or control of such persons or members. Unless the arbitrator(s) direct otherwise, the party requesting the appearance of a person or the production of documents under this section shall bear all reasonable costs of such appearance or production.]

[Section 21.—Evidence.]

[The arbitrators shall determine the materiality and relevance of any evidence proffered and shall not be bound by rules governing the admissibility of evidence.]

[Section 22.—Interpretation and Enforcement of Arbitrator Rulings. ]

[The arbitrator(s) shall be empowered to interpret and determine the applicability of all provisions under this Rule and to take appropriate action to obtain compliance with any ruling by the arbitrator(s). Such interpretations and actions to obtain compliance shall be final and binding upon the parties.]

[Section 23.—Determinations of Arbitrators. ]

[All rulings and determinations of the panel shall be by a majority of the arbitrators.]

[Section 24.—Record of Proceedings. ]

[A verbatim record by stenographic reporter or tape recording of all arbitration hearings shall be kept. If a party or parties to a dispute elect to have the record transcribed, the party or parties making the request shall bear the cost of such transcription unless the arbitrators direct otherwise. The arbitrators may also direct that the record be transcribed. If the record is transcribed at the request of any party, a copy shall be provided to the arbitrator.]

[Section 25.—Oaths of the Arbitrators and Witnesses. ]

[Prior to the commencement of the first session, an oath or affirmation shall be administered to the arbitrator(s). All testimony shall be under oath or affirmation.]

[Section 26.—Amendments. ]

[(a) After the filing of any pleadings, if a party desires to file a new or different pleading, such change must be made in writing and filed with the Director of Arbitration with sufficient additional copies for each arbitrator. The party filing a new or different pleading shall serve on all other parties, a copy of the new or different pleading in accordance with the provisions set forth in Section 13(b). The other parties may, within ten (10) business days from the receipt of service, file a response with all other parties and the Director of Arbitration in accordance with Section 13(b).

(b) After a panel has been appointed, no new or different pleading may be filed except for a responsive pleading as provided for in (a) above or with the panel's consent.]

[Section 27.—Reopenings of Hearings. ]

[Where permitted by law, the hearings may be reopened by the arbitrators on their own motion or in the discretion of the arbitrators upon application of a party at any time before the award is rendered.]

[Section 28.—Awards. ]

[(a) All awards shall be in writing and signed by a majority of the arbitrators or in such manner as is required by law. Such awards may be entered as a judgment in any court of competent jurisdiction.

(b) Unless the law directs otherwise, all awards rendered pursuant to this Rule shall be deemed final and not subject to review or appeal.

(c) The Director of Arbitration shall endeavor to serve a copy of the award:

(i) by registered or certified mail upon all parties, or their counsel, at the address of record; or

(ii) by personally serving the award upon the parties; or

(iii) by filing or delivering the award in such manner as may be authorized by law.

(d) The arbitrator(s) shall endeavor to render an award within thirty (30) business days from the date the record is closed.

(e) The Award shall contain the name of the parties, the name(s) of counsel, if any, a summary of the issues, including the type(s) of any security or product, in controversy, the damages or other relief requested, the damages or other relief awarded, a statement of any other issues resolved, the names of the arbitrators, the date the Claim was filed and the Award rendered, the number and dates of hearing sessions, the location of the hearing(s), and the signatures of the arbitrators concurring in the Award.

(f) The Awards shall be made publicly available, provided however, that the name of the customer party to the arbitration will not be publicly available if he or she so requests in writing.

(g) All monetary awards shall be paid within thirty (30) days of receipt unless a motion to vacate has been filed with a court of competent jurisdiction. An award shall bear interest from the date of the award (i) if not paid within thirty (30) days of receipt, (ii) if the award is the subject of a motion to vacate which is denied, or (iii) as specified by the arbitrator(s) in the award. Interest shall be assessed at the legal rate, if any, then prevailing in the state where the award was rendered, or at a rate set by the arbitrator(s).]

[Section 29.—Agreement to Arbitrate. ]

[This Rule shall be deemed a part of and incorporated by reference in every agreement to arbitrate under the Constitution and Rules of the Exchange including a duly-executed Submission Agreement.]

[Section 30.—Schedule of Fees. ]

[(a) At the time of filing a Claim, Counterclaim, a Third-Party Claim, or Cross-Claim, a party shall pay a non-refundable filing fee and shall remit a hearing session deposit with the Exchange in the amounts indicated in the schedules below unless such fee or deposit is specifically waived by the Director of Arbitration.

Where multiple hearing sessions are required, the arbitrator(s) may require any of the parties to make additional hearing deposits for each additional hearing session. In no event shall the amount deposited by all parties per hearing session exceed the amount of the largest initial hearing deposit made by any party under the schedule below.

(b) A hearing session is any meeting between the parties and the arbitrator(s), including a pre-hearing conference with an arbitrator, which lasts four (4) hours or less. The forum fee for a pre-hearing conference with an arbitrator shall be the amount set forth in the schedules below as a hearing session deposit for a hearing with a single arbitrator.

(c) The arbitrators, in their award, shall determine the amount chargeable to the parties as forum fees and shall determine who shall pay such forum fees. Forum fees chargeable to the parties shall be assessed on a per hearing session basis and the aggregate for each hearing session may equal but shall not exceed the amount of the

largest initial hearing deposit deposited by any party, except in a case where claims have been joined subsequent to filing in which cases hearing session fees shall be computed as provided in paragraph (d). The arbitrators may determine in the award that a party shall reimburse to another party any non-refundable filing fee it has paid.

If a customer is assessed forum fees in connection with an industry claim, forum fees assessed against the customer shall be based on the hearing deposit required under the industry claims schedule for the amount awarded to industry parties to be paid by the customer and not based on the size of the industry claim. No fees shall be assessed against a customer in connection with an industry claim that is dismissed. However, in cases where there is also a customer claim, the customer may be assessed forum fees based on the customer claim under the procedures set out above.

Amounts deposited by a party as hearing deposits shall be applied against forum fees, if any. In addition to forum fees, the arbitrator(s) may determine in their award the amount of costs incurred pursuant to Sections 18, 20, and 24 and, unless applicable law directs otherwise, other costs and expenses of the parties and arbitrator(s) which are within the scope of the agreement of the parties. The arbitrator(s) shall determine by whom such costs shall be borne.

If the hearing session fees are not assessed against a party who had made a hearing deposit, the hearing deposit will be refunded unless the arbitrators determine otherwise.

(d) For claims filed separately and subsequently joined or consolidated under Section 13(d) of this Rule, the hearing deposit and forum fees assessable per hearing session after joinder or consolidation shall be based on the cumulative amount in dispute. The arbitrator(s) shall determine by whom such forum fees shall be borne.

(e) If the dispute, claim, or controversy does not involve, disclose or specify a money claim, the non-refundable filing fee shall be \$250 and the hearing session deposit to be remitted by a party shall be \$600 or such greater or lesser amounts as the Director of Arbitration or the panel of arbitrators may require, but shall not exceed \$1,500.

(f) The Exchange shall retain the total initial amount deposited as hearing session deposits by all the parties in any matter submitted and settled or withdrawn within eight business days of the first scheduled hearing session other than a pre-hearing conference.

(g) Any matter submitted and thereafter settled or withdrawn subsequent to the commencement of the first hearing session, including a pre-hearing conference with an arbitrator, shall be subject to an assessment of forum fees and costs incurred pursuant to Sections 18, 20, and 24 based on hearing sessions held and scheduled within eight business days of the Exchange received notice that the matter has been settled or withdrawn. The arbitrator(s) shall determine by whom such forum fees and costs shall be borne.]

**[Schedule of Fees]****[Public Customer Claimant]**

<i>Amount In Dispute</i>	<i>[Filing</i>		<i>Hearing Deposit</i>	
	<i>Fee</i>	<i>Paper</i>	<i>1 Arb. *</i>	<i>3 Arb.</i>
\$1,000 or less	\$15	\$15	\$ 15 *	-
\$1,001—\$2,500	\$25	\$25	\$ 25 *	-
\$2,501—\$5,000	\$50	\$75	\$100 *	-
\$5,001—\$10,000	\$75	\$75	\$200 *	-
\$10,001—\$30,000	\$100	-	\$300	\$400
\$30,001—\$50,000	\$120	-	\$300	\$400
\$50,001—\$100,000	\$150	-	\$300	\$500
\$100,001—\$500,000	\$200	-	\$300	\$750
\$500,001—\$5,000,000	\$250	-	\$300	\$1,000
Over \$5,000,000	\$300	-	\$300	\$1,500

\* The 1 Arbitrator column also sets forth the forum fees for pre-hearing conferences with a single arbitrator.]

**[Industry Claimant \***

<i>Amount In Dispute</i>	<i>Filing</i>		<i>Hearing Deposit</i>	
	<i>Fee</i>	<i>Paper</i>	<i>1 Arb.</i>	<i>3 Arb.</i>
\$1,000 or less	\$500	\$75	\$300 *	-
\$1,001—\$2,500	\$500	\$75	\$300 *	-
\$2,501—\$5,000	\$500	\$75	\$300 *	-
\$5,001—\$10,000	\$500	\$75	\$300 *	-
\$10,001—\$30,000	\$500	-	\$300	\$600
\$30,001—\$50,000	\$500	-	\$300	\$600
\$50,001—\$100,000	\$500	-	\$300	\$600
\$100,001—\$500,000	\$500	-	\$300	\$750
\$500,001—\$5,000,000	\$500	-	\$300	\$1,000
Over \$5,000,000	\$500	-	\$300	\$1,500 ]

<sup>1\*</sup> This is the fee schedule for claims submitted by Participants or Participant Firms, against public customers, registered representatives or non-Participants other than public customers, and for claims submitted by registered representatives or non-Participants other than public customers against Participants or Participant Firms or non-Participants. The one arbitrator column also sets forth the forum fee for pre-hearing conferences with a single arbitrator.]

**[Controversies ]**

<i>[Amount In Dispute</i>	<i>Filing Fee</i>	<i>Pre- Hearing Conference</i>	<i>Hearing Deposit</i>
\$10,000 or less	\$100	\$150	\$200
\$10,001 to \$100,000	\$200	\$300	\$750
\$100,001 or more	\$300	\$500	\$1,000 ]

**[Section 31.—Requirements When Using Pre-Dispute Arbitration Agreements With Customers. ]**

(1) Any pre-dispute arbitration clause shall be highlighted and shall be immediately preceded by the following disclosure language (printed in outline form as set forth herein) which shall also be highlighted:

- (a) Arbitration is final and binding on the parties.
- (b) The parties are waiving their right to seek remedies in court, including the right to jury trial.
- (c) Pre-arbitration discovery is generally more limited than and different from court proceedings.
- (d) The arbitrator's award is not required to include factual findings or legal reasoning and any party's right to appeal or to seek modification of rulings by the arbitrators is strictly limited.
- (e) The panel of arbitrators will typically include a minority of arbitrators who were or are affiliated with the securities industry.

(2) Immediately preceding the signature line, there shall be a statement that shall be highlighted that the agreement contains a pre-dispute arbitration clause. This statement shall also indicate at what page and paragraph the arbitration clause is located.

(3) A copy of the agreement containing any such clause shall be given to the customer who shall acknowledge receipt thereof on the agreement or on a separate document.

(4) No agreement shall include any condition that limits or contradicts the rules of any self-regulatory organization or limits the ability of a party to file any claim in arbitration or limits the ability of the arbitrators to make any award.

(5) All agreements shall include a statement that "No person shall bring a putative or certified class action to arbitration, nor seek to enforce any pre-dispute arbitration agreement against any person who has initiated in court a putative class action; who is a member of a putative class who has not opted out of the class with respect to any claims encompassed by the putative class action until (i) the class certification is denied; or (ii) the class is decertified; or (iii) the customer is excluded from the class by the court. Such forbearance to enforce an agreement to arbitrate shall not constitute a waiver of any rights under this agreement except to the extent stated herein."

(6) The requirements of this section shall apply only to new agreements signed by an existing or new customer of a member or member organization after 120 days have elapsed from the date of Commission approval of this Rule.]

### **[Business Conduct]**

[RULE 25. (a) In recommending to a customer the purchase, sale or exchange of any security, a Participant shall have reasonable grounds for believing that the recommendation is suitable for such customer upon the basis of the facts, if any, disclosed by such customer as to his other security holdings and as to his financial situation and needs.

(b) Prior to the execution of a transaction recommended to a customer, other than transactions with customers where investments are limited to money market mutual funds, a Participant shall make reasonable efforts to obtain information concerning:

- (i) the customer's financial status;
- (ii) the customer's tax status;
- (iii) the customer's investment objectives;

(iv) such other information used or considered to be reasonable by such Participant or registered representative in making recommendations to the customer.]

### **[••• Interpretations and Policies: ]**

[.01 The following is a non-exclusive list of practices that the Exchange deems to violate a Participant's duty to recommend to a customer only securities suitable for that customer.

(a) Recommending speculative low-priced securities to customers without knowledge of or an attempt to obtain information concerning the customers' other securities holdings, their financial situation and other necessary data.

(b) Excessive activity in a customer's account, often referred to as "churning" or "overtrading." There are no specific standards to measure excessiveness of trading in customer accounts, because this must be related to the objectives and financial situation of the customer involved.

(c) Trading in mutual fund shares, particularly on a short-term basis. It is clear that normally these securities are not proper trading vehicles and such activity on its face may raise the question of trade violation.

(d) Fraudulent activity, including: establishing fictitious accounts in order to execute transactions which otherwise would be prohibited; executing transactions in discretionary accounts in excess of or without actual authority from customers; causing the execution of transactions which are unauthorized by customers or the sending of confirmations in order to cause customers to accept transactions not actually agreed upon; and unauthorized use or borrowing of customers' funds and securities.

(e) Recommending the purchase of securities or the continuing purchase of securities in amounts that are inconsistent with the reasonable expectation that the customer has the financial ability to meet such a commitment.]

[.02 Derivatives and Other New Financial Products. As new financial products are introduced into the marketplace, it is important that Participants make every effort to familiarize themselves with each customer's financial situation, trading experience, and ability to meet the risks involved with such products and to make every effort to make customers aware of the pertinent information regarding new financial products. Moreover, Participants should be careful to always comply with all Exchange requirements regarding the trading of such products.]



**[ARTICLE IX ]**  
**[Trading Rules]**

**[Excessive Purchases or Sales—Personal Interest]**

[RULE 1. No Participant or any partner or officer in a Participant firm shall effect on the Exchange purchases or sales for any account in which he or it is directly or indirectly interested, which purchases or sales are excessive in view of his or its financial resources, or in view of the market for such security.]

**[Interest in Joint Account]**

[RULE 2. No Participant or partner, officer or director of a Participant Firm, shall, directly or indirectly, hold any interest or participation in any joint account for buying or selling any security on the Exchange unless such joint account is reported to and not disapproved by the Exchange. Such reports in form prescribed by the Exchange shall be filed with the Exchange before any transaction is completed on the Exchange for such joint account.

The Exchange shall require weekly reports in form prescribed by the Exchange to be filed with it with respect to every substantial joint account for buying or selling any specific security on the Exchange, and with respect to every joint account which actively trades in any security on the Exchange (a) in which any Participant or partner, officer or director of a Participant Firm holds any interest or participation; or (b) of which such Participant or partner, officer or director of a Participant Firm has knowledge by reason of transactions executed by or through such Participant or partner, officer or director of a Participant Firm, provided, however, that this paragraph shall not apply to joint accounts specifically permitted specialists and odd-lot dealers by the Rules.]

**[Discretion of Participants Prohibited]**

[RULE 3. No Participant or partner, officer or director of a Participant Firm, while on the Floor of the Exchange, shall execute or cause to be executed on the Floor of the Exchange, or through ITS or any other Application of the System, any transaction for the purchase or sale of any security with respect to which transaction such Participant, partner, officer or director of a Participant Firm is vested with discretion as to (1) the choice of security to be bought or sold, (2) the total amount of any security to be bought or sold, or (3) whether any such transaction shall be one of purchase or sale.

The provisions of the preceding paragraph of this Rule shall not apply (1) to any discretionary transaction executed by such Participant, partner, officer or director of a Participant Firm for any bona fide cash investment account or for the account of any person, who due to illness, absence or similar circumstance, is actually unable to effect transactions for his own account; provided the person executing or causing to be executed any such transaction shall keep available for inspection a detailed record of any such transaction and the grounds for exercising such discretion and shall file with the

Exchange a quarterly report of all such transactions, each such report shall be filed not more than ten days after the end of the period in which it occurs and shall show the name of each account for which any such transaction was executed, the amount of such discretionary purchases or sales and the grounds for exercising such discretion with respect to each account; or (2) to any transaction permitted under Rule 18 of Article XXI for any account in which the Participant or partner, officer or director of a Participant Firm executing such transaction is directly or indirectly interested.

No Participant or partner, officer or director of a Participant Firm shall execute or cause to be executed on the Exchange purchases or sales of any stock for any account with respect to which such Participant is vested with any discretionary power, which purchases or sales are excessive in size or frequency in view of the financial resources of such account.]

#### **[Discretion of Employees Prohibited]**

[RULE 4. No Participant shall permit any person employed by such Participant or by any other Participant to exercise discretion in the handling of a transaction for a customer of such Participant and no Participant or partner, officer or director of a Participant Firm, shall delegate to any such employee any discretionary power vested by a customer in such Participant, partner, officer or director, unless prior written authorization of the customer has been received and, if such discretionary authority runs, directly or by re-delegation, to any employee of another Participant, the carrying firm or corporation must obtain the prior written consent of the employer of the individual authorized to exercise discretion. A general partner of the carrying firm or an officer of the carrying corporation shall approve and initial each discretionary order entered by an employee of such firm or corporation or of another Participant on the day the order is entered. The provisions of this rule shall not apply to discretion as to the price at which or the time when an order given by a customer for the purchase or sale of a definite amount of a specified security shall be executed. Additionally, if the discretionary power is exercised in relation to trading in options contracts, the provisions of Article XLVIII, Rule 6 must be observed.]

#### **[Personal Selling and Purchasing Prohibited]**

[RULE 5. No Participant or partner, officer or director in a Participant Firm shall (1) personally buy or initiate the purchase of any security on the Exchange for his own account or for any account in which the Participant Firm or any partner, officer or director thereof, is directly or indirectly interested, while he personally holds or has knowledge that the Participant Firm or any partner, officer or director thereof holds an unexecuted market order to buy such security in the unit of trading for a customer; or (2) personally sell or initiate the sale of any security on the Exchange for any such account, while he personally holds or has knowledge that the Participant Firm or any partner, officer or director thereof holds an unexecuted market order to sell such security in the unit of trading for a customer.

No Participant or partner, officer or director thereof shall (1) personally buy or initiate the purchase of any security on the Exchange for any such account at or below the price at which he personally holds or has knowledge that his Participant Firm or any partner, officer or director thereof holds an unexecuted limited price order to buy such security in the unit of trading for a customer or (2) personally sell or initiate the sale of any security on the Exchange for any such account at or above the price at which he personally holds or has knowledge that his Participant Firm or any partner, officer or director thereof holds an unexecuted limited price order to sell such security in the unit of trading for a customer.

The provisions of this Rule shall not apply (1) to any purchase or sale of any security in an amount less than the unit of trading or by an odd-lot dealer to offset odd-lot orders of customers or (2) to any purchase or sale of any security upon terms for delivery other than those specified in such unexecuted market or limited price order.]

**[••• Interpretations and Policies: ]**

[.01 A Participant who issues a commitment or obligation to trade from the Exchange through ITS or any other Application of the System shall, as a consequence thereof, be deemed to be initiating a purchase or a sale of a security on the Exchange as referred to in this Rule.]

**[Price Manipulation—Personal Interest]**

[RULE 6. No Participant or partner, officer or director of a Participant Firm shall execute or cause to be executed on the Exchange the purchase of any security at successively higher prices or the sale of any security at successively lower prices for the purpose of creating or inducing a false, misleading, or artificial appearance of activity in such security, or for the purpose of unduly or improperly influencing the market price of such security, or for the purpose of making a price which does not reflect the true state of the market in such security.]

**[Records of Orders Transmitted]**

[RULE 7. Every Participant or partner, officer or director of a Participant Firm shall preserve, for at least three years, a record of every order transmitted by such Participant or partner, officer or director of a Participant Firm to the floor of the Exchange, which record shall include the name and amount of the security, the terms of the order and the time when such order was so transmitted, and the time at which a report of execution was received. These requirements are also applicable to the cancellation of an order covered by this Rule.

**Exceptions**

Under exceptional circumstances the Exchange may upon written request waive the requirements contained in the above Rule.]

**[••• Interpretations and Policies: ]**

[.01 Every order covered by the above rule to be executed pursuant to Section 11(a)(1)(G) of the Exchange Act and Rule 11a1-1(T) thereunder shall bear an identifying notation that will enable the executing Participant to disclose to other Participants that the order is subject to those provisions.]

**[Securities Dealt In]**

[RULE 8. Only securities admitted to dealings on an "issued," "when issued," "when distributed" or "unlisted trading" basis shall be dealt in upon the Exchange.

**[Party to Joint Account Agreement]**

[RULE 9. No Participant which is a party to a joint account agreement with one or more other Participants under which trading in certain securities is conducted in and for a joint account shall buy or sell any of such securities for his or its own account, or any other account in which he or it has an interest, without the prior knowledge and consent of all other parties to such joint account agreement.

**[Business Days and Hours of Trading]**

[RULE 10. (a) Dealings on the Exchange shall be limited to the days and hours during which the Exchange is open for the transaction of business. The Board of Governors shall determine by resolution the days the Exchange shall be open for business ("business days"). Except as may be otherwise ordered by the Board of Governors, the Exchange shall be open for the transaction of business every business day.

(b) The Exchange will be open for business for two trading sessions during each business day.

The first trading session (the "Primary Trading Session") will be conducted on the floor of the Exchange (i) during the same hours the security is traded on its primary market, if the Exchange is not the primary market for such security, provided, however, if the primary market for such security is the Pacific Stock Exchange, the Primary Trading Session for that security shall end no later than 3:00 P.M. Central time, or (ii) from 8:30 A.M. to 3:00 P.M., Central time, Monday through Friday, if the Exchange is the primary market for such security. Notwithstanding the foregoing, trading in the Chicago Basket shall be conducted on the floor of the Exchange from 8:30 A.M. to 3:15 P.M., Central time, Monday through Friday.

The next trading session (the "Post Primary Trading Session") will be conducted on the floor of the Exchange for orders and securities designated as eligible for the Post Primary Trading Session, pursuant to Article XX, Rule 37. The Post Primary Trading Session shall be one-half hour after the close of regular trading on the primary market. In the event that trading on the Exchange is halted during the Primary Trading Session

pursuant to Article XX, Rule 10A, and such halt is still in effect at the close of a Primary Trading Session, the Exchange will cancel the Post Primary Trading Session scheduled for that day.

The Secondary Trading Session, which was conducted through the Portfolio Trading System, pursuant to the provisions of Article XXXV from 3:30 P.M. to 5:00 P.M., Central time, Monday through Friday, will be discontinued.

In the event of a crisis, the chairman or the vice-chairman of the Board of Directors or the president may, with the prior approval of a Director from a Participant Firm and a Director from the floor, suspend trading at any time during a session.]

**[Trading Halts Due to Extraordinary Market Volatility]**

[RULE 10A. (a) Trading in stocks shall halt on the Exchange and shall not reopen for the time periods described in this paragraph (a) if the Dow Jones Industrial Average SM \* reaches Level 1 below its closing value on the previous trading day:

- (i) before 1:00 p.m. Central time, for one hour;
- (ii) at or after 1:00 p.m. but before 1:30 p.m. Central time, for 30 minutes.

If the Dow Jones Industrial Average reaches Level 1 below its closing value on the previous trading day at or after 1:30 p.m. Central time, trading shall continue on the Exchange until the close, unless the Dow Jones Industrial Average reaches Level 2 below its closing value on the previous trading day, at which time trading shall be halted for the remainder of the day.

(b) Trading in stocks shall halt on the Exchange and shall not reopen for the time periods described in this paragraph (b) if the Dow Jones Industrial Average reaches Level 2 below its closing value on the previous trading day:

- (i) before 12:00 p.m. Central time, for two hours;
- (ii) at or after 12:00 p.m. but before 1:00 p.m. Central time, for one hour;
- (iii) at or after 1:00 p.m. Central time, for the remainder of the day.

(c) If the Dow Jones Industrial Average reaches Level 3 below its closing value on the previous trading day, trading in stocks shall halt on the Exchange and shall not reopen for the remainder of the day.]

**[••• Interpretations and Policies: ]**

[.01 Levels 1, 2 and 3 shall be calculated at the beginning of each calendar quarter, using the average closing value of the Dow Jones Industrial Average for the month prior to the beginning of the quarter. Level 1 shall be 10% of such average closing value calculation; Level 2 shall be 20% of such average closing value calculation; Level 3 shall be 30% of such average closing value calculation. Each Level shall be rounded to the nearest fifty points. The values of Levels 1, 2 and 3 shall remain in effect until the next calculation.]

[.02 Price indications will be disseminated during any trading halt pursuant to this Rule 10A, for stocks which comprise the Dow Jones Industrial Average, except when trading is halted for the remainder of the day.]

[.03 The restrictions in this Rule 10A shall apply whenever the Dow Jones Industrial Average reaches the trigger values notwithstanding the fact that at any given time, the calculation of the value of the average may be based on the prices of less than all of the stocks included in the average.]

[.04 The reopening of trading following a trading halt under this Rule 10A shall be conducted pursuant to procedures adopted by the Exchange and communicated by notice to its Participants.]

[.05 Nothing in this Rule 10A should be construed to limit the ability of the Exchange to otherwise halt or suspend the trading in any stock or stocks traded on the Exchange pursuant to any other Exchange rule or policy.]

### **[Stop Order Ban Due to Extraordinary Market Volatility]**

[RULE 10B. If the New York Stock Exchange ("NYSE") institutes a stop and stop limit order ban pursuant to NYSE Rule 80A, no Participant shall enter any stop order or stop limit order in Dual Trading System issues traded both on the Exchange for the remainder of the trading day, except that a Participant may enter such a stop order or a stop limit order of 2,099 shares or less for the account of an individual investor pursuant to instructions received directly from the individual investor.

#### **[••• Interpretations and Policies: ]**

[.01 Whenever the NYSE implements a stop order ban pursuant to NYSE Rule 80A, the Exchange will also ban such orders as follows:

(i) Upon notice from the NYSE that all new stop and stop limit orders in all stocks are banned for the remainder of the day (except for orders up to 2099 shares for the account of an individual investor), the Exchange will announce to its floor and MAX customers that a stop order ban in all Dual Trading System issues traded both on the NYSE and the Exchange is in effect for the remainder of the day, except for such orders up to 2099 shares for the accounts of individual investors.

(ii) The entry of such stop and stop limit orders (other than orders up to 2099 shares for the accounts of individual investors) will be banned on the Exchange for the remainder of the day. Such a stop or stop limit order received in the MAX system will be rejected and the message "stop not accepted-ban in effect" will be sent back to the entering firm unless the order includes the "I" designator, is for the account of an individual investor and is for 2099 shares or less.

(iii) Such stop and stop limit orders residing on the specialists' books at the time the ban goes into effect will remain eligible for execution.]

### **[Manipulative Operations]**

[RULE 11. No Participant 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, (A) any pool, syndicate or joint account, whether in corporate form or otherwise, organized or used intentionally for the purpose 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; (B) 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 (C) 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.]

### **[Circulation of Rumors]**

[RULE 12. No Participant or any other person or organization subject to the jurisdiction of the Exchange shall circulate in any manner rumors of a sensational character which might reasonably be expected to affect market conditions on the Exchange. Discussion of unsubstantiated information published by a widely circulated public media is not prohibited when its source and unsubstantiated nature are also disclosed. Report shall be promptly made to the Exchange of any circumstance which gives reason to believe that any rumor or unsubstantiated information might have been originated or circulated for the purpose of influencing prices in listed securities.]

### **[Dealings by Participants on the Exchange]**

[RULE 13. (a) No Participant or organization shall effect any transaction in any security on the Exchange for his or its account, the account of an associated person, or an account with respect to which the Participant or an associated person thereof exercises investment discretion.

(b) The provisions of paragraph (a) of this Rule shall not apply to transactions effected pursuant to the exemptions contained in Section 11(a) (1)(A) through (H) of the Act, or a rule adopted thereunder.

(c) No bid or offer made by a Participant on an order for the account of such Participant subject to Section 11(a)(1)(G) of the Exchange Act and Rule 11a1-1(T) thereunder shall be entitled to priority over, parity with or precedence based on size over any order which is for the account of a person who is not a Participant or an associated person thereof.

(d) Immediately before executing an order pursuant to Section 11(a)(1) (G) of the

Exchange Act and Rule 11a1-1(T) thereunder, a Participant (other than the specialist in such security) shall clearly announce or otherwise indicate to the specialist and to other Participants then present in the trading Crowd in such security that he is representing an order to be executed pursuant to Section 11(a)(1)(G) of the Exchange Act and Rule 11a1-1(T) thereunder.]

#### **[Transactions for Personal Interest Accounts]**

[RULE 14. No Participant or partner, officer or director of a Participant Firm, while on the floor, shall, without the prior approval of a member of the Committee on Exchange Procedure, initiate the purchase or sale on the Exchange of any stock for any account in which he or his Participant Firm or any partner, officer or director of such firm, is directly or indirectly interested with any person other than such Participant Firm or a partner, officer or director thereof. This Rule shall not apply to any purchase or sale (1) for any joint account maintained solely for effecting bona fide domestic or foreign arbitrage transactions; or (2) by an odd-lot dealer or a specialist for any joint account in which he is expressly permitted to have an interest or participation by the Rules.]

#### **[••• Interpretations and Policies: ]**

[.01 A Participant who issues a commitment or obligation to trade from the Exchange through ITS or any other Application of the System shall, as a consequence thereof, be deemed to be initiating a purchase or a sale of a security on the Exchange as referred to in this Rule.]

#### **[Dealing in Stocks on Put, Call, Straddle or Option]**

[RULE 15. No Participant or partner, officer or director in a Participant Firm while on the floor, shall initiate the purchase or sale on the Exchange for his own account or for any account in which he, his Participant Firm or any partner, officer or director thereof is, directly or indirectly, interested in any stock in which he holds or has granted any put, call, straddle or option, or in which he has knowledge that his Participant Firm or any partner, officer or director thereof, holds or has granted any put, call, straddle or option; provided, however, that the preceding prohibition shall not be applicable in respect of any option issued by the Options Clearing Corporation that was acquired or granted in a publicly reported transaction. Each person able to initiate the purchase or sale of any stock while on the floor shall report to the Exchange, in such form and at such times as the Exchange requires, all options that he holds or has granted, or that his Participant Firm or any partner, officer or director thereof, holds or has granted.]

#### **[••• Interpretations and Policies: ]**

[.01 A Participant who issues a commitment or obligation to trade from the Exchange through ITS or any other Application of the System shall, as a consequence thereof, be deemed to be initiating a purchase or a sale of a security on the Exchange as referred to in this Rule.]



**[Floor Trading for Own Account]**

[RULE 16. (a) No Participant or partner, officer or director of a Participant Firm, while on the floor, shall effect a transaction for his own account, or an account in which he has an interest, in a security solely listed on the Exchange, unless he acts as the specialist, co-specialist, relief specialist or odd-lot dealer, or he has been duly registered as a "Floor Trader" for the privilege of effecting transactions as principal, and had at the time of application for the privilege a liquid net worth of not less than \$10,000 and is in compliance with Section 11(a)(1)(G) of the Act and Rule 11a1-1(T) thereunder.

Provisions for Floor Trading

(b) All trading by a Floor Trader under this privilege shall conform to the following provisions:

1. bids or offers shall yield priority, parity and precedence to orders originating off the floor other than off floor orders to be executed pursuant to Section 11(a)(1)(G) of the Act and Rule 11a1-1(T) thereunder.
2. bids or offers in the same issue shall not be made subsequent to the execution of an agency order during the remainder of the same trading session.
3. any agency order or orders in the same issue received during a single trading session following a purchase or sale for the Floor Trader's own account shall be relinquished to another floor Participant.
4. 75% of such transactions executed by a Floor Trader in any one month, shall be of a stabilizing nature, i.e., purchases shall be at prices lower than the last different-price transaction on the Exchange and sales shall be at prices higher than the last different-price transaction except where the sale involves a loss.
5. monthly reports shall be filed with the Exchange as to transactions effected under this Rule in such form as the Exchange may prescribe.

(c) Participants, while acting as Registered Floor Traders on the Floor of the Exchange, shall not congregate in a particular stock and dominate the market in that stock; and shall effect purchases and sales in an orderly manner. They shall not be conspicuous in the market. The chairman of the Committee on Exchange Procedure, and in his absence, any committeeman shall approve or disapprove the presence of Registered Floor Traders as to their numbers and trading activities.]

**[Short Sales]**

[RULE 17. (a) No Participant shall effect a sell order or sale of any security unless such sell order or sale is effected in compliance with SEC Rule 10a-1 and Regulation SHO promulgated under the Exchange Act.

(b) In the event that a specialist, market maker or odd-lot dealer has a position (long or short) in a security of a company, and such position is greater than or equal to 5% of the outstanding public float of that security, as determined by the company's most recent report on Form 10-K, then such specialist, market maker or odd-lot dealer shall give the Exchange immediate written notice of such fact.]

**[ARTICLE XIII]**

**[Advertising and Promotion]**

**[False or Misleading Advertisement Prohibited]**

[RULE 1. It shall be considered conduct or proceeding inconsistent with just and equitable principles of trade for a Participant, directly or indirectly, to publish circulate or distribute any advertisement, sales literature or market letter that the Participant knows, or in the exercise of reasonable care could have known, contains any untrue statement of a material fact or is otherwise false or misleading.]

**[Categories and Standards of Advertisement]**

[RULE 2. No Participant for which this Exchange is the designated examining authority shall publish, circulate or distribute any advertisement, sales literature or market letter which fails to meet the standards set forth in this Rule. Advertisements include any material for use in any newspaper or magazine or other public media or by radio, telephone recording, motion picture or television. Sales literature and market letters include any communication for general distribution to customers or the public in which a particular security or insurance policy is featured or recommended, any such communication containing forecasts of business or market trends, and notices, circulars, reports, newsletters, research reports, form letters or reprints of published articles.]

**[Making Recommendations]**

[(a) In making a recommendation, whether or not labeled as such, the Participant must have a reasonable basis for the recommendation; and the following facts should be disclosed: the price at the time the original recommendation is made; that the Participant usually makes a market in the issue if such is the case; and, in addition if applicable, that the Participant intends to buy or sell the securities recommended for his own account, and ownership, if any, of options, rights or warrants to purchase any security of the issuer whose securities are recommended unless the extent of such ownership is merely nominal. The Participant must also provide or offer to furnish upon request appropriate investment or insurance information supporting the recommendations.]

**[Promises and Exaggerated Claims Prohibited]**

[(b) Advertisements, sales literature or market letters must not contain promises of specific results, exaggerated or unwarranted claims or unwarranted superlatives, opinions for which there is no reasonable basis, or forecasts of future events which are unwarranted, or which are not clearly labeled as forecasts. Nor may references to past specific recommendations state or imply that the recommendations were or would

have been profitable to any person and that they are indicative of the general quality of a Participant's recommendations.]

**[Research Reportings in Advertisements]**

[(c) No claim or implication may be made for research or other facilities beyond those which the Participant actually possesses or has reasonable capacity to provide. A market letter or report not prepared by the distributing firm should state that it was prepared by another firm or organization.]

**[Market Letters and Sales Literature]**

[RULE 3. All advertisements, market letters and sales literature prepared and issued by a Participant Firm for which this Exchange is the designated examining authority shall be approved by a partner or officer of the Participant Firm. Market letters and sales literature which refer to the market or to specific companies, insurance policies, or securities, listed or unlisted, shall be retained for at least three years by the Participant Firm organization which prepared the material. The copies retained shall contain the name of the partner or officer approving its issuance and the name or names of the persons who prepared the material, and shall at all times within the three-year period be readily available for examination by the Exchange.]

**[ARTICLE XIV]**

**[Fiscal Policies]**

**[Fixing and Paying Fees and Charges]**

[RULE 1. The Exchange shall fix the Trading Permit fee and other charges payable by a Participant in such amount as the Exchange deems necessary. Fees and charges shall be payable in accordance with the Exchange's schedule of fees and charges.]

**[Transaction Fee]**

[RULE 2. The Exchange may from time to time impose a transaction fee upon Participants, measured by their respective agency transactions effected on the Floor of the Exchange. The rate of such fee shall be fixed by the Exchange from time to time.]

**[Monthly Reports]**

[RULE 3. Each Participant Firm and each Participant who is not a nominee of a Participant Firm shall submit to the Treasurer of the Exchange a monthly report, in such form as the Exchange may prescribe, of brokerage and handling fees earned on the Floor of the Exchange during the preceding month, together with a check covering the net commission charge Payable to the Treasurer. Reports are due and payable on or before the 15th day following the month covered by the report unless such day falls on a Sunday or holiday, in which event the report is to be filed and the fees paid on the next business day. When a Participant or organization has no information to report, a signed report should be submitted with a notation thereon to that effect. The Treasurer of the Exchange, under circumstances deemed by him so to warrant, is authorized to grant an extension of not exceeding five days for filing and payment. The Treasurer shall report each such extension to the Finance Committee at its next meeting thereafter.]

**[Report Upon Termination of Trading Permit or Dissolution of Participant Firm]**

[RULE 4. A Participant who ceases to be a Participant or a Participant Firm which dissolves shall forthwith file a report covering all brokerage and handling fees previously unreported. The transaction fee due thereon shall be payable within 15 days after the date of termination or dissolution.]

**[Report by Person Who Retires as General Partner or Officer]**

[RULE 5. A person who retires as a general partner or officer in a Participant Firm and does not immediately become a general partner or officer in another Participant Firm is required to file a report for the period commencing the next business day following his retirement.]

**[Waiver of Monthly Reports]**

[RULE 6. Upon written request stating the reasons therefor, the Treasurer may excuse a Participant whose transactions are so infrequent as not to warrant monthly reports from reporting more than annually.]

**[Other Charges]**

[RULE 7. (a) In addition to the dues and transaction fee, the Exchange may from time to time fix and impose other charges or fees to be paid to the Exchange by Participants for the use of equipment or facilities or for services or privileges granted.]

[(b) A Participant Firm filing monthly reports pursuant to Rule 3(c) of Article XI or restricted as to its operations, business or expansion pursuant to Rule 3(e) or Rule 10 of Article XI shall pay to the Exchange such charges or fees as the Exchange may from time to time fix and impose to cover the reasonable cost of such extraordinary review and examination of the reports and operations of such Participant Firm as the Exchange determines to be necessary or appropriate for the protection of investors, other Participants and the Exchange.]

**[••• Interpretations and Policies: ]**

[.01 For field examinations during any calendar year in addition to the regular annual examination—]

[\$85 per day for professional fees]

[\$35 per day (maximum) for living expenses]

[Actual cost of travel expenses.]

[For review of reports filed pursuant to Rule 3(c) of Article XI—]

[\$30 per report for professional fees.]

**[Participant Liable for Any Charges of Participant Firm Which He Has Registered]**

[RULE 8. Any individual Participant who has registered a Participant Firm shall be responsible for not only any fines, charges, dues or assessments of his own but also of such registered Participant Firm. If any Participant or Participant Firm organization registered by him shall neglect to pay any sum owing to the Exchange for one month after it becomes payable, he shall, after due notice, be suspended until it is paid. If not paid at the end of one year, his Trading Permit shall be terminated.]

**[Termination of Registration]**

[RULE 9. The suspension of a Participant for non-payment of his debts to the Exchange shall terminate the registration of the Participant Firm registered by him.]

**[Failure to Pay Debts]**

[RULE 10. (a) Any Participant who shall fail to pay any debt for Trading Permit fees, fine, transaction fee, or other sum owing the Exchange or its subsidiaries within 60 days after the same shall become payable shall, after due notice, be suspended

until payment is made. If payment be not made within six months after such suspension, the Trading Permit may be terminated on at least 10 days' written notice mailed to the Participant at the Participant's address last registered with the Exchange.]

[(b) Any Participant who fails to pay Trading Permit fees or other charges in an amount not exceeding the equivalent of Trading Permit fees for two quarters may request in writing to the Executive Committee of the Exchange for permission to surrender the Participant's Trading Permit to the Exchange to discharge such liability. If the Executive Committee, in its sole discretion, approves such request, the liability for the fees or charges not paid, and any future fees or charges, will cease upon notification of such acceptance by the Executive Committee, and the Participant shall be deemed to relinquish all right, title and interest in the Trading Permit.]

#### **[Fees and Charges of Participants in Military Service]**

[RULE 11. The Board of Directors may, upon written request, waive fees and charges for any Participant who is in the active military or naval service of the United States, or who is devoting all his working time to any public service incident to national defense.]

#### **[Expenditure Limits]**

[RULE 12. Any project, non-budgeted operational activity, capital expenditure, or lease commitment in excess of an amount as established by resolution of the Board of Governors, and any new service which is planned or expected to generate gross annual revenue in excess of an amount established by the Board of Governors, shall be approved by the Board prior to implementation.]

**[ARTICLE XV]**

**[Commissions]**

**[General Rule]**

[RULE 1. Nothing contained in the Rules of this Exchange or its practices shall be construed to require or authorize its Participants, or any person associated with its Participants, to agree or arrange directly or indirectly, for the charging of fixed rates of commission for transactions effected on, or effected by the use of, the facilities of this Exchange]

**[Clearing Agreements]**

[RULE 2. All Clearing agreements between a Participant and any other Participant, or any foreign or domestic non-Participant broker/ dealer, or any substantive change in any such agreements is subject to Exchange approval. Each such arrangement and any change or termination thereof must be reported to the Exchange in writing promptly.]

**[Interest in Customer Accounts]**

[RULE 3. No Participant or person associated therewith shall guarantee any customer against loss in his account or take or receive directly or indirectly a share in the profits of any customer's account or share in any loss sustained in any such account. For the purposes of this Rule the term customer shall not be deemed to include the Participant or any joint, group, or syndicate account with such Participant.]

**[Transaction Fee Charged to Customer]**

[RULE 4. The transaction fee under the Exchange Act shall be the responsibility of the Participant.]

**[Depository Settlement Requirements]**

[RULE 5. No Participant shall accept an order from a customer pursuant to an arrangement whereby payment for securities purchased or delivery of securities sold is to be made to or by an agent of the customer unless the following procedure is followed:]

[The facilities of a Clearing Agency shall be utilized for the book-entry settlement of all depository eligible transactions. The facilities of either a Clearing Agency or a Qualified Vendor shall be utilized for the electronic confirmation and affirmation of all depository eligible transactions.]

***[••• Interpretations and Policies: ]***

[.01 The following transactions shall be exempt from the provisions of this Rule :]

[(1) Transactions that are to be settled outside the United States.]

[(2) Transactions wherein both a organization and its agent are not participants in a securities depository.]

[(3) Transactions wherein both a customer and its agent are not participants in a securities depository.]

[.02 The exemptions contained in .01(2) and (3) of these Interpretations and Policies shall be periodically reviewed by the Exchange in order to determine their continued necessity.]

[.03 For the purposes of this rule, a "securities depository" shall mean a clearing agency as defined in Section 3(a)(23) of the Exchange Act, that is registered with the Commission pursuant to Section 17A(b)(2) of the Exchange Act.]

[.04 For the purposes of this rule, "depository eligible transactions" shall mean transactions in those securities for which confirmation, affirmation, and book entry settlement can be performed through the facilities of a Clearing Agency as defined in Rule 5.06.]

[.05 Rule 5 and Interpretations and Policies .01, .02, .03, and .04 become effective January 1, 1983.]

[.06 For the purposes of this rule, a "Clearing Agency" shall mean a Clearing Agency as defined in Section 3(a)(23) of the Exchange Act, that is registered with the Commission pursuant to Section 17(A)(b)(2) of the Exchange Act or has obtained from the Commission an exemption from registration granted specifically to allow the clearing agency to provide confirmation and affirmation services.]

[.07 For purposes of this rule, "qualified vendor" shall mean a vendor of electronic confirmation and affirmation services that:]

[(A) shall, for each transaction subject to this rule: (i) deliver a trade record to a Clearing Agency in the Clearing Agency's format; (ii) obtain a control number for the trade record from the Clearing Agency; (iii) cross-reference the control number to the confirmation and subsequent affirmation of the trade; and (iv) include the control number when delivering the affirmation of the trade to the Clearing Agency;]

[(B) certifies to its customers that: (i) with respect to its electronic trade confirmation/affirmation system, that it has a capacity requirements, evaluation, and monitoring process that allows the vendor to formulate current and anticipated estimated capacity requirements; (ii) that its electronic trade confirmation/affirmation system has sufficient capacity to process the specified volume of data that it reasonably anticipates to be entered into its electronic trade confirmation/affirmation service during the upcoming year; (iii) that its electronic trade confirmation/affirmation system has formal contingency



procedures, that the entity has followed a formal process of reviewing the likelihood of contingency occurrences, and that the contingency protocols are reviewed and updated on a regular basis; (iv) that its electronic trade confirmation/affirmation system has a process for preventing, detecting, and controlling any potential or actual systems integrity failures, and its procedures designed to protect against security breaches are followed; and (v) that its current assets exceed its current liabilities by at least five hundred thousand dollars;]

[(C) has submitted and shall continue to submit on an annual basis, an Auditor's Report to the Commission staff which is not deemed unacceptable by the Commission. An Auditor's Report will be deemed unacceptable if it contains any findings of material weakness;]

[(D) notifies the Commission staff immediately in writing of any changes to its systems that significantly affect or have the potential to significantly affect its electronic trade confirmation/affirmation systems including, without limitation, changes that: (i) affect or potentially affect the capacity or security of its electronic trade confirmation/affirmation system; (ii) rely on new or substantially different technology; or (iii) provide a new service to the Qualified Vendor's electronic trade confirmation/affirmation system.]

[(E) immediately notifies the Commission staff in writing if it intends to cease providing services;]

[(F) provides the Exchange with copies of any submissions to the Commission staff made pursuant to .50(B), (C), (D) and (E) of this rule within ten business days; and

(G) supplies supplemental information regarding their electronic trade confirmation/affirmation services as requested by the Exchange or the Commission staff.]

[.08 "Auditor's Report" shall mean a written report which is prepared by competent, independent, external audit personnel in accordance with the standards of the American Institute of Certified Public Accountants and the Information Systems Audit and Control Association and which (i) verifies the certifications contained in .50(B) above; (ii) contains a risk analysis of all aspects of the entity's information technology systems including, without limitation, computer operations, telecommunications, data security, systems development, capacity planning and testing, and contingency planning and testing; and (iii) contains the written response of the entity's management to the information provided pursuant to (i) and (ii) above.]

**[ARTICLE XVI ]**  
**[Insurance as an Ancillary Activity]**

**[Participant Firms May Sell Insurance]**

[RULE 1. A Participant Firm may also engage in the sale of insurance (directly, or through its corporate affiliate or subsidiary) only through employees of such Participant Firm each of whom is then in compliance with the licensing and any other requirements of applicable insurance laws and regulations.]

**[Reports to Exchange Required]**

[RULE 2. Each Participant Firm which engages in the sale of insurance shall promptly report to the Exchange the name of each person through whom such Participant Firm sells insurance, the training in the sale of insurance received by each such person, the state or states in which each such person is licensed to sell insurance, the names of the insurance companies for which each such person is licensed in each such state, and the type of license obtained by each such person in each such state.]

**[Maintenance of Adequate Financial Records]**

[RULE 3. Each Participant Firm which engages in the sale of insurance shall also keep current in a separate file within the Participant Firm the following information:

(1) a description of the Participant Firm's supervisory program as related to the sale of insurance, the name of each person within the Participant Firm who has been given the responsibility of exercising supervisory control over the persons engaged in the sale of insurance and the specific responsibilities of each such person.

(2) a description of the Participant Firm's surveillance program as related to the sale of insurance, the name of each person within the Participant Firm who has been given the responsibility of exercising surveillance responsibilities and the specific responsibilities of each such person.

(3) sales and other records relating to the Participant Firm's sale of insurance as deemed appropriate by the Participant Firm including, without limitation, records disclosing the types and amounts of insurance sold, the commissions earned and the commissions paid to individuals engaged in the sale of such insurance. Such records shall be maintained in a reasonably accessible location for inspection by the Exchange for not less than three years.]

**[ARTICLE XVII]**  
**[Suspension and Termination of Special Floor Registration for Unsatisfactory Performance]**

**[Special Floor Registration]**

[RULE 1. A Participant with a special floor registration, i.e., a Participant registered as a specialist, co-specialist, relief specialist, odd-lot dealer or market-maker holds that registration subject to (a) his compliance with the Federal securities laws and the rules of the Exchange and (b) his satisfactory performance of the responsibilities attendant to that registration as defined in the Federal securities laws and the rules and policies of the Exchange. A Participant has no right to continue to hold a special floor registration after the Exchange has determined, on the basis of such information as it deems sufficient, that he has not satisfactorily performed his responsibilities.]

**[Initial Meeting in Cases of Unsatisfactory Performance]**

[RULE 2. (a) Notification. Any Participant whose performance of the responsibilities attendant to his special floor registration appears to the committee of the Exchange charged with oversight of such performance (the "Committee") to be unsatisfactory shall be notified in writing of the Committee's evaluation and requested to meet informally with one or more members of the Committee at a mutually convenient time. The purpose of the meeting shall be to provide encouragement and assistance to a Participant who, for one or more reasons, may not be performing satisfactorily.

(b) Conduct of Meeting. During the meeting, the member(s) of the Committee shall present the Committee's evaluation of the Participant's performance and the basis for that evaluation. The Participant shall be given an opportunity to comment on the evaluation, his view of his performance, and any mitigating circumstances. Formal rules of evidence shall not apply. Prior to the close of the meeting, the Participant shall be informed of the possible consequences of his continued unsatisfactory performance, including the termination of his special floor registration.

(c) Participation of Technical Consultants. One or more technical consultants (appointed by the Committee from among persons not active on the Floor of the Exchange) may be present at the meeting for the purpose of answering questions from the Committee about trading techniques and procedures and the proper performance of the various responsibilities attendant to the special floor registration of the Participant. The technical consultants shall not otherwise participate in the Committee's evaluation of the Participant's performance.

(d) Counsel. Because of the informal and hortatory nature of the meeting, counsel for the Committee and the Participant will ordinarily be excluded.

(e) Transcripts. No transcript shall be kept of the meeting.

(f) Failure to Attend Meeting. If, after receiving notice in accordance with paragraph (a) of this rule, a Participant refuses or otherwise fails without reasonable justification or excuse to meet with members of the Committee, the Committee may take such remedial action as it believes appropriate, including filing a complaint with the Chief Executive Officer and requesting the commencement of disciplinary proceedings.]

**[Continued Unsatisfactory Performance]**

[RULE 3. (a) Notification. If, after a reasonable period of time following the initial meeting with a Participant, it appears to the Committee that the Participant's performance of the responsibilities attendant to his special floor registration is still unsatisfactory, the Participant shall be notified in writing of the Committee's evaluation and its basis. The notice shall inform the Participant of his right to a hearing on the evaluation of his performance and his right to obtain review of any Committee decision with respect to the limitation, suspension or termination of his special floor registration.

(b) Time of Hearing. Promptly after the Participant has received notice in accordance with paragraph (a) of this rule, a hearing on a Participant's performance of the responsibilities attendant to his special floor registration shall be scheduled at a mutually convenient time. If the Participant refuses to appear at a hearing or otherwise fails without reasonable justification or excuse to attend a scheduled hearing, he shall have waived his rights to such hearing.

(c) Conduct of Hearing. During the hearing, the information supporting the Committee's evaluation of the Participant's performance shall be presented. The Participant shall have the opportunity to comment on the Committee's evaluation and present any information that he believes is relevant. The Participant may question members of the Committee and Exchange staff with respect to the evaluation of his performance. Formal rules of evidence shall not apply.

(d) Participation of Technical Consultants. One or more technical consultants may be present at the hearing for the purpose of answering questions from the Committee about trading techniques and procedures and the proper performance of the various responsibilities attendant to the special floor registration of the Participant. The technical consultants shall not otherwise participate in the Committee's evaluation of the Participant's performance.

(e) Right to Counsel. The Participant may be represented by legal or other counsel. Counsel for the Exchange should be present.

(f) Transcript. A transcript shall be kept of the hearing and copies will be provided to the Participant upon request and payment of the costs of reproduction.

(g) Decision. After considering the entire record of the hearing, the Committee shall prepare and deliver to the Participant a written decision setting forth its conclusions regarding the Participant's performance and the action, if any, to be taken

with respect to the Participant's special floor registration and the basis therefor. This statement shall describe the Participant's right to appeal the Committee's decision to the Executive Committee.

(h) Effective Date. The Committee's decision shall become effective 10 days after the Participant receives it unless within that period he files a written request with the Secretary of the Exchange for Executive Committee review of the Committee's decision. In the event of such a request, the Committee's action shall be stayed pending the conclusion of the Participant's appeal to the Executive Committee.]

**[Review]**

[RULE 4. (a) Conduct of Review. The Executive Committee shall consider a Participant's appeal within a reasonable period after a request for review of the Committee's decision has been filed. The Participant requesting review shall be permitted to submit a written statement to the Executive Committee. The Secretary of the Exchange shall certify the record of the Committee's hearing and its written decision and shall submit these documents to the Executive Committee. The Executive Committee's review of the Committee's action shall be based solely on the record, the written decision and any written statement submitted by the Participant.

(b) Decision. After considering the materials before it, the Executive Committee shall prepare and deliver to the Participant a written statement setting forth its decision and reasons therefor. If the Executive Committee affirms the Committee's action, the action shall become effective 10 days from the date of the Executive Committee's decision.

(c) The Executive Committee or Board of Governors, in hearing an appeal pursuant to this Article, shall not overturn the decision of the finder of law and fact if the factual conclusions in such decision are supported by substantial evidence and such decision is not arbitrary, capricious or an abuse of discretion.]

**[ARTICLES XVIII—XIX]**

[Reserved for future use.]

**[ARTICLE XX]**  
**[Regular Trading Sessions]**

**[Application]**

[RULE 1. These Rules shall apply to all Exchange Contracts made on the Exchange during the Primary Trading Session and Post Primary Trading Session, and to the extent determined by the Exchange to be applicable, to Exchange Contracts not made on the Exchange.]

[••• Interpretations and Policies: ]

[.01 Notwithstanding the above, transactions effected pursuant to ITS or any other Application of the System (as that term is defined in Rule 39 of Article XX) shall be subject only to those rules specified in Rule 39 of Article XX.]

**[Hours of Floor Dealings]**

[RULE 2. Except as provided in Article XX, no Participant shall make any bid, offer or transaction upon the Floor of the Exchange, issue a commitment to trade through ITS from the Floor, or send an order in a Nasdaq/NM Security for execution via telephone to a NASDAQ System market maker other than during the Primary Trading Session or Post Primary Trading Session except that a specialist may issue and receive preopening notifications and pre-opening responses, pursuant to the provisions of the Plan relating to the Pre-Opening Application of the System, before the official opening of business of the Exchange and loans of money or securities may be made after those hours.]

**[Contracts Due on Certain Business Days]**

[RULE 3. On any business day that the banks, transfer agencies and depositories for securities in the State of Illinois are closed:]

[Deliveries or Payments]

[(a) Deliveries or payments ordinarily due on such a day (exclusive of cash contracts made on such a day) shall be due on the following business day. This does not, however apply to payment from customers under Regulation T or delivery of securities sold by customers under SEC Rule 15c-3;]

[Day for Settlement]

[(b) Such a day shall not be considered as a business day in determining the day for settlement of a contract, the day on which stock shall be quoted ex-dividend or ex-rights, or in computing interest on contracts and bonds or premiums on loans of securities; and]

[Right to Market, Reclamation or Close]

[(c) The right to mark to market, to make reclamation or to close contracts under Article IX of the Rules (other than "cash" contracts made on such a day) shall not be exercised on such a day.]

**[Permitted Contra Parties]**

[RULE 4. No transaction in any security admitted to dealings on the Exchange shall be made on the Floor of the Exchange except with a Participant with an officer or employee of the Exchange authorized to close contracts "under the rule."]

[••• Interpretations and Policies: ]

[.01 Nothing in this rule to the contrary shall be construed to prohibit a commitment or obligation to trade received on the Floor through ITS, or any other application of the System, from being accepted or rejected on the Floor, or to prohibit transactions permitted by Rule 39 or Rule 40 of this Article.]

**[Units of Trading]**

[RULE 5. The unit of trading in stocks shall be 100 shares, except that in the case of certain stocks designated by the Committee on Floor Procedure, the unit of trading shall be determined by said Committee, with respect to each stock so designated.]

[The unit of trading in bonds shall be \$1,000 original principal amount thereof.]

**[Transactions in Rights to Subscribe]**

[RULE 6. Except as otherwise designated by the Committee on Floor Procedure, transactions in rights to subscribe shall be on the basis of one right accruing on each share of issued stock and the unit of trading in rights shall be 100 rights.]

**[Recognized Quotations]**

[RULE 7. Recognized quotations shall be public bids and offers in lots of one or more trading units or multiples thereof. Bids and offers in other market centers which may be displayed on the Floor for the purpose of ITS, or in accordance with Rule 39 or Rule 40 of this Article or other purposes shall have no standing in the trading crowds on the Floor. Bids or offers for less than one unit of trading shall specify the number of shares of stock or the principal amount of the bonds covered by the bid or offer. All bids made and all offers made shall be in accordance with the provisions of Rule 11Ac1-1 under the Exchange Act, governing the dissemination of quotations for reported securities. The following interpretations and policies pertain to all specialist system issues for which last sale information is reported pursuant to SEC Rule 11Aa3-1.]

[The following interpretations and policies pertain to all specialist system issues for which last sale information is reported pursuant to SEC Rule 11Aa3-1.]

[••• Interpretations and Policies:]

[.01 Quotations shall be firm as to both price and size unless exempted under one of the conditions specified in paragraphs .06-.09 of this Rule.]

[.03 Market Makers, while at the post, shall input to the quotation system their bids and/or offers which better the current Exchange market. Such quotations shall remain in force until the market maker leaves the post. Market maker quotations and accompanying sizes shall be firm unless exempted under one of the conditions specified in paragraphs .06-.09 of this Rule.]

[.04 Floor Brokers, while at the post, shall input to the quotation system those bids or offers which better the current Exchange market unless the bid or offer is cancelled or withdrawn if not executed immediately. If a floor broker transfers possession of an order to a specialist, the requirement for input to the quotation system becomes the obligation of the specialist. When a floor broker who retains possession of an order leaves the post he must withdraw his bid or offer from the quotation system. Quotations and accompanying sizes shall be firm until withdrawn unless exempted under one of the conditions specified in paragraphs .06-.09 of this Rule.]

[.05 (a) Quotation sizes, unless otherwise specified, shall be assumed to be for 100 shares. With respect to agency limit orders received by specialists, each specialist shall publish immediately (i.e., as soon as practicable, which under normal market conditions means no later than 30 seconds from time of receipt) a bid or offer that reflects:]

[(i) the price and full size of each agency limit order that is at a price that would improve the specialist's bid or offer in such security; and]

[(ii) the full size of each agency limit order that is priced equal to the specialist's bid or offer and the national best bid or offer for such security and represents more than a de minimis change in relation to the size associated with the specialist's bid or offer;]

[(b) The requirements with respect to specialists' display of limit orders shall not apply to any limit order that is:]

[(i) executed upon receipt of the order;]

[(ii) placed by a person or entity who expressly requests, either at the time the order is placed or prior thereto pursuant to an individually negotiated agreement with respect to such person's orders, that the order not be displayed;]

[(iii) an odd-lot order;]

[(iv) delivered immediately upon receipt to an exchange or association-sponsored system or an electronic communications network that complies with the requirements of Securities and Exchange Commission Rule 11Ac1-1(c)(5) under the Securities Exchange Act with respect to that order;]

[(v) delivered immediately upon receipt to another exchange member or over-the-counter market maker that complies with the requirements of Securities and Exchange Commission Rule 11Ac1-4 under the Securities Exchange Act with respect to that order;]

[(vi) an "all or none" order; or]

[(vii) a block size order, unless the customer order is received with a request that the order be displayed.]



[.06 All offerings shall be executed in accordance with applicable short sale rules:]

[EXAMPLE:]

[CHX market in XYZ is \$43.25—\$43.50 (short)]

[NYSE market in XYZ is \$43.30—\$43.60]

[Consolidated Tape last sale = \$43.30]

[The CHX offering at \$43.50 may be filled at its limit price immediately and may also be filled subsequent to a Consolidated Tape sale at \$43.60 provided that the offering was equal to (in the event such sale was higher than the last different sale price) or above the last sale on the Consolidated Tape at the time it was first communicated.]

[.07 No specialist, market maker or floor broker shall be obligated to execute a transaction for any security as provided for in paragraphs .01., .03 and .04 of this Rule if;]  
[(A) before an order sought to be executed is presented, such specialist, market maker or floor broker has inputted a revised bid, offer or quotation size into the quotation system or]

[(B) at the time an order sought to be executed is presented, such specialist, market maker or floor broker is in the process of effecting a transaction in such security and, immediately after completion of such transaction, such specialist, market maker or floor broker inputs a revised bid, offer or quotation size into the quotation system.]

[.08 In the event of unusual market conditions as determined by two Committee on Floor Procedure members, quotations in a given issue will not be subject to firmness provided that the Exchange has notified the following specified persons:]

[1. Each quotation vendor]

[2. The processor for the consolidated system or NASDAQ]

[3. The processor for the Options Price Reporting Authority (in the case of a notification with respect to a reported security which is a class of securities underlying options admitted to trading on any exchange).]

[.09 Prior to making a determination that a particular security or securities be exempted from the firmness requirement, the Committee on Floor Procedure members shall consider:]

[1. The level of trading activity in existence at the time on the Exchange.]

[2. The level of trading activity in existence at the time in other markets on which the particular security is traded.]

[3. The condition of the Exchange's quotation dissemination system.]

[The Committee Members who grant a request for exemption from the firmness requirement are required to monitor the activity or conditions which formed the basis for such exemption and shall immediately notify the Exchange when such conditions no longer exist.]

### **[Bids and Offers, "When Issued," "When Distributed"]**

[RULE 8. Bids and offers in securities admitted to dealings on a "when issued" basis shall be made only "when issued," i.e., for delivery when issued as determined by the Exchange.]

[Bids and offers in securities admitted to dealings on a "when distributed" basis shall be made only "when distributed," i.e., for delivery when distributed as determined by the Exchange.]

**[Procedure for Bids and Offers on "Issued" Basis]**

[RULE 9. Bids and offers in stocks admitted to dealings on an "issued" basis shall be made only as follows, and may be made simultaneously as essentially different propositions, but when made without stated conditions shall be considered to be "regular way":]

["Cash"]

[(a) "Cash," i.e., for delivery on the day of the contract;]

["Regular Way"]

[(b) "Regular way," i.e., for delivery on the third full business day following the day of the contract;]

["Seller's Option"]

[(c) "Seller's option," i.e., for delivery within the time specified in the option, which time shall not be less than four (4) full business days nor more than 60 days following the day of the contract; except that the Exchange may provide otherwise in specific issues of stocks or classes of stocks;]

["Next Day"]

[(d) "Next day," i.e., for delivery on the next business day following the day of the contract. For purposes hereof, "next day" may also include deliveries within the time specified in the contract which time may include the second full business day following the day of the contract.]

[On the second and third full business days preceding the final day for subscription, bids and offers in rights to subscribe shall be made only "next day," i.e., for delivery on the next business day following the day of the contract and shall be made only for "cash" on the day preceding the final day for subscription, except as otherwise designated by the Committee on Floor Procedure.]

**[Manner of Bidding and Offering]**

[RULE 10. Bids and offers to be effective must be audibly made at the post and shall remain in full force until the person making the bid or offer shall audibly announce that he is out of the market or until he leaves the post.]

[••• Interpretations and Policies: ]

[.01 Although there may be a certain amount of negotiation by voice away from the post, every trade must be consummated at the post.]

[.02 Clearing the Post.]

[Policy. All orders received by floor brokers or originated by market makers on the floor of the Exchange must effectively clear the post before the orders may be routed to another market via the ITS or through the use of alternative means.]

[Floor brokers who receive an order on the floor have a fiduciary responsibility to seek a best price execution for such order. This responsibility includes clearing of the Exchange's post prior to routing an order to another market so that other buying and selling interest at the post can be checked for a potential execution equal to or better than the execution available in another market. It is not inconsistent with a floor broker's fiduciary responsibility to effectively clear the post telephonically, provided that (i) through the specialist, the floor broker probes the market for other buying and selling interest at the post, and (ii) after probing the market, if equal or better buying or selling interest is available at the post, the floor broker, while physically present at the post, consummates the trade at the post.]

[Market makers are required to provide depth and liquidity to the Exchange market, among other things. Exchange Rules require that all market maker transactions constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market. In so doing, market makers must adhere to traditional agency/auction market principles on the floor. Transactions by Exchange market makers on other exchanges which fail to clear the Exchange post do not constitute such a course of dealings.]

[Notwithstanding the above, it is understood that on occasion a customer will insist on special handling for a particular order that would preclude it from clearing the post on the Exchange floor. For example, a customer might request that a specific order be given a primary market execution. These situations must be documented and reported to the Exchange. Customer directives for special handling of all orders in a particular stock or all stocks, however, will not be considered as exceptions to the clearing the post policy.]

[All executions resulting from bids and offers reflected on Instinet terminals resident on the Exchange floor constitute "orders" which are "communicated" to the Exchange floor. Therefore, all orders resulting from interest reflected on Instinet terminals on the Exchange floor must be handled as any other order communicated to the floor. All such orders must be presented to the post during normal trading hours. All trades between Instinet and Exchange floor Participants are Exchange trades and must be executed on the Exchange.]

[Method of Clearing the Post. The Exchange's general clearing the post policy requires floor brokers and market makers to be physically present on the Exchange floor and to be present at the post, but permits floor brokers, as a means of clearing the post, to telephonically probe a market through the specialist in order to more efficiently fulfill their fiduciary responsibility to seek a best price execution for their customer orders. A market maker, after requesting the specialist's market quote, must bid or offer the price and size of his intended interest at the post. A floor broker must clear the post by requesting a market quote from the specialist. If the specialist or any other Participant

who has the post indicates an interest to trade at the price that was bid or offered by the market maker or the price of the floor broker's order (even though that order has not yet been bid or offered), then the trade may be consummated with the specialist (or whomever has the post) in accordance with existing Exchange priority, parity and precedence rules. If the specialist (or any other Participant who has the post) indicates interest to trade at that price but the Participant communicating the intended interest, including Instinet interest, determines not to consummate the trade with the specialist or such Participant, then, to preserve the Exchange's existing priority, parity and precedence rules, the trade may not be done with any other Exchange floor Participant. (See Article XXX, Rule 2). If the trade is consummated with the specialist or other Participant who has the post, the specialist (or any customer represented by the specialist) is not required to pay any fees to the broker or market maker in connection with the execution of the order, unless such fee is expressly authorized by an Exchange Rule. If the specialist does not indicate an interest to trade, then the trade may be consummated with another Exchange floor Participant on the Exchange floor with a resultant Exchange print.]

[Failure to clear the post may result in a "trade-through" or "trading ahead" of other floor interest. In addition, failure to properly clear the post may result in a violation of the Exchange's Just and Equitable Trade Principles Rule (Article VIII, Rule 7) and a market maker rule that requires all market maker transactions to constitute a course of dealing reasonably calculated to contribute to the maintenance of a fair and orderly market (Article XXXIV, Rule 1). Failure to properly clear the post may also subject Participants to a fine under the Exchange's Minor Rule Violation Plan.]

#### **[Binding of Bid or Offer]**

[RULE 12. All bids made and accepted, and all offers made and accepted in accordance with the Rules contained in this Article shall be binding.]

#### **[Over One Trading Unit]**

[RULE 13. All bids and offers for more than one trading unit shall be considered to be for the amount thereof or any lesser number of units.]

#### **[Bids or Offers Below Bid]**

[RULE 14. When a bid is clearly established, no bid or offer at a lower price shall be made.

When an offer is clearly established, no offer or bid at a higher price shall be made.]

#### **[Precedence of Bids]**

[RULE 15. The highest bid shall have precedence in all cases.]

**[Precedence of Bids at Same Price]**

[RULE 16. Subject to Article XX, Rule 37(b), where bids are made at the same price, the priority and precedence shall be determined as follows:]

[Bids Clearly Established]

[(a) When a bid is clearly established as the first made at a particular price, the maker shall be entitled to priority and shall have precedence over the next sale at that price, up to the number of shares of stock specified in the bid, irrespective of the number of shares of stock specified in such bid.]

[Simultaneous Bids]

[(b) When bids are made simultaneously, or when it is impossible to determine clearly the order of time in which they were made, all such bids shall be on a parity.]

[Sale Removes All Bids]

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

[Subsequent Bids]

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

[Priority of Bid or Offer]

[(e) Priority of a bid may be transferred from one Participant to another provided that the bid is continued for the same amount for which it was originally made.]

[Transfer]

[(f) Priority or precedence established by a Participant acting as a specialist may be transferred to another Participant taking over the "book".]

**[Precedence of Offers]**

[RULE 17. [The lowest offer shall have precedence in all cases.]

**[Precedence of Offers at Same Price]**

[RULE 18. Where offers are at the same price the priority and precedence shall be determined in the same manner as specified in the case of bids under Rule 16.]

**[Precedence of Offers to Buy "Seller's Option"]**

[RULE 19. On offers to buy "seller's option" at the same price, the longest option shall have precedence. On offers to sell "seller's option" at the same price, the shortest option shall have precedence.]

**[Claim of Prior or Better Bid]**

[RULE 20. A claim by a Participant who states that he or it had on the Floor a prior or better bid or offer shall not be sustained if the bid or offer was not made with the publicity and frequency necessary to make the existence of such bid or offer generally known at the time of the transaction.]

**[Disputes]**

[RULE 21. Disputes arising on bids or offers, if not settled between the parties interested, shall be settled, if practicable, by a vote of the Participants knowing of the transaction in question; if not so settled, they shall be settled by the Committee on Exchange Procedure.]

**[Minimum Variations]**

[RULE 22. Bids and offers in specific securities or classes of securities traded on the Exchange shall not be made in variations less than the minimum variation of \$.01, or such other minimum variation as may be established for a security or class of security by the Board of Governors from time to time.]

[••• Interpretations and Policies: ]

[.01 Notwithstanding the foregoing and any other rule regarding adherence to the minimum variation, a Participant may execute orders on the Floor in increments smaller than the minimum variation in order to match bids and offers displayed by other markets for the purpose of preventing Intermarket Trading System trade-throughs, provided, however, a limit order executed on the Exchange must continue to be priced at an increment no less than the current minimum variation for such security, and specialists must continue to reflect their principal bids and offers in such increments.]

[.02 With respect to bids and offers for any issue that customarily trades at a per share price of \$100,000 or greater, the minimum variation shall be \$.10.]

**[Order to Buy and Sell Same Security]**

[RULE 23. When a Participant has an order to buy and an order to sell the same security, he or it shall, except as provided in Rule 12 of this Article, publicly offer such security at a price which is higher than his or its bid by the minimum variation permitted in such security before making a transaction with himself or itself.]

[••• Interpretations and Policies: ]

[.01 If prior to presenting a cross transaction involving 5,000 shares or more, a broker requests that the specialist and market makers at the post quote their current market for the subject security, the broker may execute a cross transaction at a price between the quoted market without interference by a specialist or market maker.]

[In no event shall an agency order in the book, having time priority, remain unexecuted after any other order at its price has been effected pursuant to this rule or otherwise.]

[.02 When a Participant has an order to buy and an order to sell an equivalent amount of the same security, and (a) both orders are for 25,000 shares or more; (b) both orders are for accounts other than the account(s) of the executing Participant; and (c) prior to presenting the cross transaction, the Participant requests that the specialist and market makers at the post quote their current market for the subject security, the Participant may "cross" such orders at a price which is at or within the quoted bid or offer if the proposed cross transaction is of a size greater than the aggregate size of all interest communicated on the Exchange floor at that price. A floor broker, or a specialist or market maker who communicated a bid or offer at a price better than the cross price upon the Participant's request prior to presentation of the proposed crossing transaction, may trade with either the bid or offer side of the presented cross transaction only to provide a price which is better than the cross price as to all or part of such bid or offer. A Participant who is providing a better price to one side of the cross transaction must trade with all other market interest having priority at that price before trading with any part of the cross transaction.]

**[Record of Orders]**

[ RULE 24. (a) Every Participant shall preserve for at least three years a record of every order originated by him or it on the Floor and given to another Participant for execution, and of every commitment or obligation to trade issued from the Floor through ITS or any other application of the System or pursuant to Rule 39 or Rule 40, and of every order originating off the Floor, transmitted by any person other than a Participant to such Participant on the Floor, which record shall include the name and the amount of the security, the terms of the order and the time when such order was so given or transmitted; provided, however, that the Exchange may, upon application, grant exemption from the provisions of this Rule.]

[(b) Whenever a cancellation is entered with respect to such an order or commitment or obligation to trade, or a report of the execution of such an order or commitment or obligation to trade is received, there shall be preserved for at least three years, in addition to the record required by the foregoing paragraph, a record of the cancellation of the order or commitment or obligation to trade or of the receipt of such report, which shall include the time of entry of such cancellation or of the receipt of such report.]

[(c) Before any such order is executed, including the case where an order is to be executed by the issuance from the Floor of a commitment or obligation to trade through ITS or any other application of the System or pursuant to Rule 39 or Rule 40, there shall be placed upon the order slip or other record the name or designation of the account for which such order is to be executed. No change in such account name or designation shall be made unless the change has been authorized by the Participant or by a partner or officer of the Participant Firm, who shall, prior to giving his approval of such change, be personally informed of the essential facts relative thereto and shall indicate his approval of such change in writing on the order. ]

[Exceptions]

[Under exceptional circumstances the Exchange may upon written request waive the requirements contained in (1)(a) above.]

[••• Interpretations and Policies: ]

[.01 Every order covered by (1)(a) above to be executed pursuant to Section 11(a)(1)(G) of the Act and Rule 11a1-1(T) thereunder shall bear an identifying notation that will enable the executing Participant to disclose to other Participants that the order is subject to those provisions.]

### **[Prohibitions to Offer Publicly on Floor]**

[RULE 25. No Participant shall offer publicly on the Floor:]

["At the Close"]

[(a) to buy or sell securities "at the close";]

[Buying and Selling]

[(b) to buy or sell dividends;]

[Betting]

[(c) to bet upon the course of the market; or]

[Privileges and Securities]

[(d) to buy or sell privileges to receive or deliver securities.]

### **[Limitation to One Broker]**

[RULE 26. No Participant shall maintain with more than one broker, for execution on the Exchange, market orders or orders at the same price, for the purchase or sale of the same security with knowledge that such orders are for the account of the same principal, unless specific permission has been obtained from the Committee on Exchange Procedure.]



**[Transmitting Names from Floor Prohibited]**

[RULE 27. The name of a bidder, offeror, buyer or seller on the Floor of the Exchange shall not be transmitted from the Floor except pursuant to Rule 39 or Rule 40 and except that:]

[Direct or Indirect Interest]

[(a) the name of a specialist bidding or offering for an account in which he has a direct or indirect interest may be transmitted from the Floor, provided it is made clear that the specialist is acting for his own account and not for the "book"; and]

[Purpose and Process]

[(b) a Participant may send to his or its office a written report containing the name of the opposite party to the transaction, solely for the purpose of processing the transaction; and]

[Disclosure During Market Hours and After Closing]

[(c) subject to consent of the participants, an officer of the Exchange may disclose, during the market session and after the closing, the names of buyers and sellers in a transaction;]

[(d) subject to his consent, a Floor Broker's name may be disclosed during market hours.]

**[Liability for "Stopped" Orders]**

[RULE 28. An agreement by a Participant to have an order "stopped" at a specified price shall constitute a guarantee of the purchase or sale by him or it of the security at the stopped price or its equivalent in the amount specified; but in no event shall the guarantee be greater than the greater of (i) the size disseminated in the primary market at the time the order was stopped, or (ii) the size disseminated by the Exchange at the time the order was stopped. If an order is executed at a price less favorable than the stopped price, the Participant which agreed to stop the securities shall be liable for an adjustment of the difference between the two prices.]

**[Prearranged Trades]**

[RULE 29. An offer to sell coupled with an offer to buy back at the same or an advanced price, or the reverse, is a prearranged trade and is prohibited. This Rule applies both to transactions in the unit of trading and in lesser and greater amounts.]

**[Acting for or on Behalf of Another]**

[RULE 30. No Participant on the Floor shall make any bid, offer or transaction for, or on behalf of, another Participant except pursuant to a written order. If a Participant to whom an order has been entrusted leaves the post without actually transferring the

order to another Participant, the order shall not be represented in the market during his absence.]

[••• Interpretations and Policies: ]

[.01 Notwithstanding the foregoing, this rule shall not be applicable to orders received pursuant to Rule 40(b)(i).]

**[Filling Orders]**

[RULE 31. No Participant, whether acting as a specialist or otherwise, who has accepted an order for the purchase of securities shall fill such order by selling such securities for any account in which he or it or a partner or officer or director thereof has a direct or indirect interest, or having so accepted an order for the sale of securities shall fill such order by buying such securities for such an account, except as follows:]

[Failure to Execute Order]

[(a) A Participant who neglects to execute an order may be compelled to take or supply for his or its own account the securities named in the order;]

[Taking of Securities]

[(b) A Participant who may take the securities named in the order provided: (1) he or it shall have offered the same in the open market at a price which is higher than his or its bid by the minimum variation permitted in such securities, and (2) the price is justified by the condition of the market, and (3) the Participant who gave the order shall, directly or through a broker authorized to act for him or it, after prompt notification, accept the trade;]

[Supplying of Securities]

[(c) A Participant may supply the securities named in the order provided: (1) he or it shall have bid for the same in the open market at a price which is lower than his or its offer by the minimum variation permitted in such securities, and (2) the price is justified by the condition of the market, and (3) the Participant who has the order shall directly or through a broker authorized to act for him or it, after prompt notification, accept the trade;]

[Reporting "On Order"]

[(d) A Participant acting as a broker is permitted to report to his or its principal a transaction made with himself or itself when he or it has orders from two principals to buy and to sell the same security. He or it shall in such instance publicly offer such security at a price which is higher than his or its bid by the minimum variation permitted in such security before making a transaction with himself or itself and must add to his or its name on the report the words "on order".]

**[Transactions for Personal Interest Accounts]**

[RULE 32. [No Participant or partner, officer or director of a Participant Firm, while on the Floor, shall, without the prior approval of a of the Committee on Exchange Procedure, initiate the purchase or sale on the Exchange of any stock for any account in which he or his Participant Firm, or any partner, officer or director thereof is directly or indirectly interested with any person other than such firm or a partner thereof or such corporation or an officer or director thereof. This Rule shall not apply to any purchase or sale (1) for any joint account maintained solely for effecting bona fide domestic or foreign arbitrage transactions; or (2) by an odd-lot dealer or a specialist for any joint account in which he is expressly permitted to have an interest or participation by the Rules. ]

**[Dealing in Stocks on Put, Call, Straddle or Option]**

[RULE 33. No Participant or partner, officer or director of a Participant Firm, while on the Floor, shall initiate the purchase or sale on the Exchange for his own account, or for any account in which he, his Participant Firm or any partner, officer or director thereof is directly or indirectly interested, of any stock in which he holds or has granted any put, call, straddle or option, or in which he has knowledge that his Participant Firm or any partner, officer or director thereof, holds or has granted any put, call, straddle or option; provided, however, that the preceding prohibition shall not be applicable in respect of any option issued by the Options Clearing Corporation that was acquired or granted in a publicly reported transaction. Each person able to initiate the purchase or sale of any stock while on the Floor shall report to the Exchange, in such form and at such times as the Exchange requires, all options that he holds or has granted, or that his Participant Firm or any partner, officer or director thereof, holds or has granted.]

**[Floor Trading for Own Account]**

[RULE 34. (a) No Participant or partner, officer or director of a Participant Firm, while on the Floor, shall effect a transaction for his own account, or an account in which he has an interest, in a security solely listed on the Exchange, unless he acts as the specialist, co-specialist, relief specialist or odd-lot dealer, or he has been duly registered as a "Floor Trader," for the privilege of effecting transactions as principal, and had at the time of application for the privilege a liquid net worth of not less than \$10,000 and is in compliance with Section 11(a)(1)(G) of the Act and Rule 11a1-1(T) thereunder.]

[Provisions for Floor Trading]

[(b) All trading by a Floor Trader under this privilege shall conform to the following provisions:]

[(1) bids or offers shall yield priority, parity and precedence to orders originating off the Floor other than off Floor orders to be executed pursuant to Section 11(a)(1)(G) of the Act and Rule 11a1-1(T) thereunder.]

[(2) bids or offers in the same issue shall not be made subsequent to his execution of an agency order during the remainder of the same trading session.]

[(3) any agency order or orders in the same issue received during a single trading session following a purchase or sale for the Floor Trader's own account shall be relinquished to another Floor Participant.]

[(4) 75% of such transactions executed by a Floor Trader in any one month, shall be of a stabilizing nature, i.e., purchases shall be at prices lower than the last different-price transaction on the Exchange and sales shall be at prices higher than the last different-price transaction except where the sale involves a loss.]

[(5) monthly reports shall be filed with the Exchange as to transactions effected under this Rule in such form as the Exchange may prescribe.]

[(c) Participants, while acting as Registered Floor Traders on the Floor of the Exchange, shall not congregate in a particular stock and dominate the market in that stock; and shall effect purchases and sales in an orderly manner. They shall not be conspicuous in the market. The Chairman of the Committee on Exchange Procedure, and in his absence, any Committeeman shall approve or disapprove the presence of registered Floor Traders as to their numbers and trading activities.]

**[Security Quoted "Ex-dividend," "Ex-distribution," "Ex-rights" or "Ex-interest"]**

[RULE 35. When a security is quoted "ex-dividend," "ex-distribution," "ex-rights" or "ex-interest" the following kinds of orders shall be reduced by the value of the payment or rights, and increased in shares in the case of stock dividends and stock distributions which result in round lots, on the day the security sells. Should the disbursement be in an amount other than the minimum variation in which bids and offers are made, or a multiple thereof, orders shall be reduced by the next higher minimum variation:]

[Order to Buy]

[(a) Open buying orders;]

[Order to Sell]

[(b) Open stop orders to sell. (With open stop limit orders to sell, the limit, as well as the stop price shall be reduced.)]

[Not Reduce Order to Buy]

[(a) Open stop orders to buy;]

[Not Reduce Order to Sell]

[(b) Open selling orders.]

[••• Interpretations and Policies: ]

[.01 Reduction of orders—Proportional procedure.—Open buy orders and open stop orders to sell shall be reduced by the proportional value of a stock dividend or stock

distribution on the day a security sells ex-dividend or ex-distribution. The new price of the order is determined by dividing the price of the original order by 100% plus the percentage value of the stock dividend or stock distribution. For example, in a stock dividend of 3%, the price of an order would be divided by 103%.]

[The chart at the end of .03 below lists, for the more frequent stock distributions, the percentages by which the prices of open buy orders and open stop orders to sell shall be divided to determine the new order prices.]

[If, as a result of this calculation, the price is not equivalent to or is not a multiple of the minimum variation in which bids and offers are made in the particular security, the price should be rounded to the next lower variation.]

[In reverse splits, all orders (including open sell orders and open stop orders to buy) should be cancelled.]

[.02 Procedure for increase in number of shares.—When there is a stock dividend or stock distribution, open buy orders and open stop orders to sell shall be increased in shares as follows:]

[(a) When there is a stock dividend or stock distribution which results in one or more full shares for each share held, the number of shares in open buy orders and open stop orders to sell shall be increased accordingly.]

[EXAMPLES:]

[A 3-for-1 stock distribution.]

[An order for 100 shares is increased to 300 shares.]

[An order for 200 shares is increased to 600 shares.]

[An order for 500 shares is increased to 1,500 shares.]

[(b) When there is a stock dividend or stock distribution of less than a one-for-one basis and thus results in fractional shares, open buy orders and open stop orders to sell shall be increased to the lowest full round-lot.]

[EXAMPLES:]

[A 25% stock dividend or a 5-for-4 stock distribution.]

[An order for 100 shares remains at 100 shares.]

[An order for 300 shares remains at 300 shares.]

[An order for 900 shares is increased to 1,100 shares.]

[An order for 2,000 shares is increased to 2,500 shares.]

[(c) When there is a stock dividend or stock distribution which results in fractional shares combined with full shares, the number of shares, in open buy orders and open stop orders to sell shall be increased to the lowest full round-lot.]

[EXAMPLE:]

[A 5-for-2 stock distribution.]

[An order for 100 shares is increased to 200 shares.]

[An order for 200 shares is increased to 500 shares.]

[An order for 700 shares is increased to 1,700 shares.]

[An order for 1,200 shares is increased to 3,000 shares.]

[.03 Responsibility for reducing price and increasing shares in orders.—Open orders held by a specialist prior to the day a stock sells ex-dividend, ex-distribution or ex-rights shall be reduced in price and, if .02 above is applicable, increased in shares by the specialist by the value of the dividend, distribution or rights, unless he is otherwise instructed by the Participant from whom the orders were received. In this regard, a may enter a Do Not Reduce or "DNR" order if he or it does not want the price of an order reduced for cash dividends, or a Do Not Increase or "DNI" order if he or it does not want an order increased in shares for stock dividends or stock distributions.

Price of Order		Price of Order	
Distribution	Divided By	Distribution	Divided By
5-for-4	125%	2-for-1	200%
4-for-3	1331/3%	5-for-2	250%
3-for-2	150%	3-for-1	300%
5-for-3	1662/3%	4-for-1	400%]

#### [Authority of Committee on Exchange Procedure]

[RULE 36. The Committee on Exchange Procedure shall have power to supervise and regulate active openings and unusual business situations that may arise in connection with the making of bids, offers or transactions on the Floor. The Committee on Exchange Procedure shall have power also to supervise and regulate the operation of (1) ITS or any application of the System during active openings and unusual situations, (2) any linkage described in Rule 39 of this Article ("Linkage Rule"), and (3) trading as described in Rule 40 of this Article, including the authority to resolve market disputes involving the Rules of the Exchange arising between Exchange Participants and (1) members of another national securities exchange or securities association concerning ITS commitments received on the Exchange Floor, (2) members of a participating exchange (as defined in the Linkage Rules) concerning orders sent to the Floor through a linkage from such participating exchange, and (3) NASDAQ System market makers concerning orders sent to the Floor pursuant to Rule 40 of this Article.]

**[Guaranteed Execution System and Midwest Automated Execution System.]**

[RULE 37. (a) Guaranteed Executions. The Exchange's Guaranteed Execution System (the BEST System) shall be available, during the Primary Trading Session and the Post Primary Trading Session, to Exchange Participants and, where applicable, to members of a participating exchange who send orders to the Floor through a linkage pursuant to Rule 39 of this Article, in all issues in the specialist system which are traded in the Dual Trading System and Nasdaq/NM Securities. System orders shall be executed pursuant to the following requirements:]

[1. Eligible Orders. Specialists must accept and guarantee execution of all agency market and marketable limit orders from 100 through 5099 shares in accordance with this rule.]

[2. Market and Marketable Limit Orders. With respect to any market or marketable limit order not executed automatically, a specialist must use the care of a reasonably prudent person in light of all circumstances deemed relevant by the member and having regard for the member's judgment and experience.

[3. Execution of Agency Limit Orders. A CHX specialist may guarantee execution, solely on an issue-by-issue basis, of agency limit orders in Dual Trading System issues or Nasdaq/NM securities, based on non-discriminatory criteria approved by the Exchange, including activity in another market.

[4. Preopenings. Preopening orders in Dual Trading System issues must be accepted and filled at the primary market opening trading price. In trading halt situations occurring in the primary market, orders will be executed based upon the reopening price. Preopening orders in Nasdaq/NM securities must be accepted and filled on a single price opening at or better than the NBBO at the first unlocked, uncrossed market that occurs on or after 8:30 a.m., to the extent that those orders can be matched at a single price. The specialist will be responsible for executing any imbalance of shares in Nasdaq/NM securities left after the offset process, in accordance with Exchange rules that govern the handling of orders during the Primary Trading Session. In trading halt situations, orders will be executed based on the Exchange reopening price. For purposes of this rule, (a) preopening orders in Dual Trading System Issues are orders that are received before a primary market opens a subject security based on a print or based on a quote and (b) preopening orders in Nasdaq/NM securities are orders received prior to the opening of the Exchange market on the date of the opening.]

[5. Simultaneous Orders. Simultaneous orders must be executed pursuant to the guidelines set out in 1 and 2 above.]

[6. Unusual Trading Situations. In unusual trading situations, a Specialist or Floor Broker may seek relief from the requirements of 1 through 6 above from two (2) Committee on Exchange Procedure Members or a designated member of the Exchange staff who would have authority to set execution prices.]

[(b) Automated Executions. The Exchange's Midwest Automated Execution System (the MAX System) may be used to provide an automated delivery and execution facility for orders that are eligible for execution under the Exchange's BEST Rule (Article XX, Rule 37(a)) and certain other orders. In the event that an order that is subject to the BEST Rule is sent through MAX, it shall be executed in accordance with the parameters of the BEST Rule and the following. In the event that an order that is not subject to the BEST Rule is sent through MAX, it shall be executed in accordance with the parameters of the following:]

[(1) Size. The MAX System has two size parameters which must be designated by the specialist on a stock-by-stock basis. These parameters are the auto-execution threshold and the auto-acceptance threshold. For both Dual Trading System issues and NASDAQ/NM Securities, the auto-acceptance threshold must be set at 5099 shares or greater. In no event may the auto-acceptance threshold be less than the auto-execution threshold. If the order sending firm sends an agency market order in a Dual Trading System issue through MAX, such order will be executed in accordance with paragraph (b)(6) of this Rule. If the order sending firm sends an agency market order for a Nasdaq/NM Security through MAX, such order shall be executed in accordance with paragraph (b)(7) of this Rule.]

[(2) Stopped Orders. A stopped order will not be automatically executed pursuant to subsection (6) hereof. Instead, it will be placed in the open order file and will be automatically executed when it is otherwise due a fill under Exchange rules relating to stopped orders. The order sending firm will receive a report when the stopped order is filled.]

[(3) Changes. In the event that an order is sent through MAX and an error is discovered before execution, the order sending firm must cancel and re-enter the order. The re-entered order will then be positioned in the limit order book or open order book, as the case may be.]

[(4) Cancels. MAX will automatically cancel an unexecuted order in the file in the event an order sending firm inputs the proper cancellation instruction, except for an order on hold, a professional order or an oversized order. These orders must be canceled manually. For purposes of this subsection (4), oversized order means an order greater than the auto-execution threshold.]

[(5) Pre-opening Orders. Preopening orders will automatically be offset by the MAX System at a single price at or better than the NBBO at the first unlocked, uncrossed market that occurs on or after 8:30 a.m., to the full extent that those orders can be matched at a single price. The specialist will be responsible for executing any



imbalance of shares left after the offset process, in accordance with Exchange rules that govern the handling of orders during the Primary Trading Session.]

[(6) Execution of Dual Trading System Issues.]

[(A) A MAX market or marketable limit agency order that is of a size less than or equal to the auto-execution threshold shall be automatically filled at the ITS BBO price up to the size of the auto-execution threshold. If the size of the incoming order is greater than the auto-execution threshold, the order shall be designated as an open order; provided, however, that if an order sending firm has notified the specialist, in a manner approved by the Exchange, that the order sending firm elects to have such orders filled up to the size of the auto-execution threshold and if the specialist has engaged the auto-partial functionality as described in Interpretation and Policy .11, the order shall automatically be filled up to the size of the auto-execution threshold and the portion of the order that exceeds the auto-execution threshold shall be designated as an open order. If the size of the order is greater than the auto-acceptance threshold, the order shall be designated as an open order; provided, however, that the specialist may cancel the order within one minute of its being entered into MAX.]

[(B) For purposes of automatic execution under this section (b)(6), there shall be a delay of fifteen (15) seconds (or such lesser time increment as is designated by the specialist on an issue-by-issue basis) between the time a market order is entered into MAX and the time it is automatically executed; provided, however, that a specialist may not reduce this period below 15 seconds while there is an expression of market interest by person(s) physically present at the specialist's post. If the specialist has not executed the order manually within the 15 second period (or cancelled the order in the case of orders exceeding the auto acceptance threshold), the order shall be executed automatically at the ITS BBO price. In the event that the spread between the ITS Best Bid and ITS Best Offer, in a stock eligible for automatic execution in MAX, is equal to the minimum variation at the time an order is entered into MAX, that order shall be executed immediately, (i.e., in 0 seconds) without the 15 second delay. All agency limit orders that are not marketable when entered into the MAX system will automatically be filled at the limit price when there is a price penetration of the limit price in the primary market; provided, however, that such orders must have resided in the specialist's book for a time period of 0-15 seconds (as designated by the specialist) prior to the primary market print. A specialist may elect automatic execution of such agency limit orders on an issue-by-issue basis. For purposes of this Rule, "agency order" shall mean an order for the account of a customer but shall not include professional orders as defined in Article XXX, Rule 2, Interpretation and Policy .04.]

[(7) Execution of NASDAQ/NM Securities.]

[(A) In NASDAQ/NM Securities, if the specialist is quoting at the NBBO price at the time a MAX market or marketable limit order is received, an order that is less than or equal to the auto-execution threshold shall automatically be filled at such

NBBO price up to the size of the auto execution threshold (or the specialist's bid or offer if greater than the auto execution threshold). If the order is of a size greater than the auto-execution threshold, the order shall automatically be filled up to the size of the specialist's bid or offer (as the case may be) and the portion of the order that exceeds the specialist's bid or offer shall be designated as an open order. With respect to an order that is greater than the auto-acceptance threshold, the order may be designated as an open order; provided, however, that the specialist may cancel the order within one minute of its being entered into MAX. Following execution of an order in accordance with this paragraph (i), the specialist's bid or offer will be decremented by the size of the execution. In the event the specialist's bid or offer is exhausted, the system will generate a quote an increment away from the NBBO, as determined by the Specialist from time to time, for 100 shares.]

[(B) If the specialist is not quoting at the NBBO at the time a MAX market or marketable limit agency order is received, an order that is less than or equal to the auto-execution threshold shall be automatically filled at the NBBO up to the size of the auto-execution threshold if the specialist has not, within 20 seconds (or a lesser time increment designated by the specialist) after receipt of the order, complied with the manual execution requirement of Rule 37(a) of this Article. If the size of the incoming order is greater than the auto-execution threshold, the order shall be designated as an open order; provided, however, that if an order sending firm has notified the specialist, in a manner approved by the Exchange, that the order sending firm elects to have such orders filled up to the size of the auto-execution threshold and if the specialist has engaged the auto-partial functionality as described in Interpretation and Policy .11, the order shall automatically be filled up to the size of the auto-execution threshold and the portion of the order that exceeds the auto-execution threshold shall be designated as an open order. If the size of the incoming order is greater than the auto-acceptance threshold, the order shall be designated as an open order; provided, however, that the specialist may cancel the order within one minute of its being entered into MAX.]

*Continued on next page*

[(8) All orders sent through MAX shall include the appropriate account type designator. The following are acceptable account types:

- "P" - Principal/Professional Order
- "A" - Agency
- "I" - Individual Investor
- "D" - Program Trade, index arbitrage for Participant
- "C" - Program Trade, non-index arbitrage for Participant
- "J" - Program Trade, index arbitrage for Individual Customer
- "U" - Program Trade, non-index arbitrage for Individual Customer
- "K" - Program Trade, index arbitrage for other agency
- "Y" - Program Trade, non-index arbitrage for other agency
- "Z" - Professional Order—Automatic Execution]

(10) Automatic Execution of Limit Orders.]

[A Specialist may voluntarily choose to activate a feature of MAX that automatically executes limit orders on a specialist's book at the limit price after both of the following conditions are met: (1) the issue is trading at the limit price in the primary market, and (2) enough transactions in the issue are executed in the primary market at prices which are equal to the limit price of the order such that the size associated with such transactions are, in aggregate, equal to or greater than the sum of (a) the size displayed at the limit price in the primary market when the limit order was entered on the specialist's book, plus (b) the size of the limit order. This feature can be activated on a stock-by-stock basis only. Once activated, it must remain activated for a minimum of five trading days and can only be deactivated on a certain day (to be determined by the Exchange from time to time) each month.]

[(11) CHXpress Orders. This section applies to the execution and display of orders through CHXpress, an automated functionality offered by the Exchange. All other rules of the Exchange are applicable, unless expressly superseded by this section.]

[(A) Only an unconditional round lot limit order, or a round lot limit order with an "immediate or cancel" condition, is eligible for entry as a CHXpress order. A CHXpress order may not be entered until an order has been executed on the primary market in the subject issue. A CHXpress order is good only for the day on which it is submitted and will be automatically cancelled at the end of each day's trading session. CHXpress orders shall be identified with the designator "XPR."]

[(B) A CHX specialist may not place a CHXpress order on hold or otherwise prevent an order-sending firm from cancelling the order. A CHX specialist may not cancel a CHXpress order.]

[(C) A CHXpress order to buy will be executed immediately against same or better-priced sell order(s) represented in the CHX specialist's book (or against the specialist), and a CHXpress order to sell will be executed immediately against same or better-priced buy order(s) represented in the CHX specialist's book (or

against the specialist), unless:]

[(i) the execution would trade through another ITS market; or]

[(ii) trading in the subject issue has been halted.]

[If the execution of a CHXpress order would cause an improper trade-through of another ITS market, the CHXpress order will be automatically cancelled. If trading in an issue has been halted, all CHXpress orders in that issue will be automatically cancelled; the Exchange will not accept any CHXpress orders in an issue during a trading halt and until an execution has occurred in the primary market.]

[(D) If a CHXpress order cannot be immediately executed, it will be placed in the specialist's book for display or later execution, in accordance with CHX rules, unless the CHXpress order is an "immediate or cancel" order, in which case it will be automatically cancelled. A CHXpress order will be instantaneously displayed, when it constitutes the best bid or offer in the CHX book. A CHXpress order, however, will not be displayed, if its display would improperly lock or cross another ITS market. If the display of a CHXpress order would improperly lock or cross another ITS market, the CHXpress order will be automatically cancelled.]

[(E) CHXpress orders will not be eligible for SuperMAX automated price improvement, which is governed by Article XX, Rule 37(d).]

[(F) CHXpress orders will not be eligible for execution based on quotes in the national market system or activity in the primary market, as otherwise provided in Article XX, Rule 37(a)(2) and (3). As a result, an order eligible for execution based on quotes or trading activity in other markets may be filled even though a CHXpress order having a higher priority in the book is not filled.]

[(G) CHX specialists must integrate their handling of CHXpress orders with any manual executions that occur at the post by honoring manual trades that have been agreed upon, but not have yet been entered into the Exchange's systems. ]

[(H) A CHX specialist may not charge a commission for execution of a CHXpress order.]

[(c) Notwithstanding anything herein to the contrary, a specialist may voluntarily provide order execution guarantees more favorable than those required pursuant to this Rule 37. At the request of a specialist, the Exchange may provide for automatic execution of orders in accordance with such guarantees upon such terms and conditions as the Exchange shall determine. Failure of a specialist to honor such guarantee shall be deemed a violation of Exchange rules.]

[(d) SuperMAX 2000]

[SuperMAX 2000 shall be a voluntary automatic execution program within the MAX System. Subject to section (b)(11) of this Rule 37, SuperMAX 2000 shall be available for any security trading on the Exchange in decimal price increments. A specialist may choose to enable this voluntary program within the MAX System on an issue-by-issue basis.]

## [(1) Pricing]

[(a) In the event that an order to buy or sell at least 100 shares is received in a security in which SuperMAX 2000 has been enabled, such order shall be executed at the ITS Best Offer or NBO (for a buy order) or the ITS Best Bid or NBB (for a sell order) if the spread between the ITS Best Bid and the ITS Best Offer (or NBB and NBO, for Nasdaq/NM issues) in such security at the time the order is received is less than \$.02.]

[(b) In the event that an order to buy or sell 100 shares is received in a security in which SuperMAX 2000 has been enabled, and the spread between the ITS Best Bid and the ITS Best Offer (or NBB and NBO, for Nasdaq/NM issues) in such security at the time the order is received is \$.02 or greater, such order shall be executed (subject to the short sale rule) at a price at least \$.01 lower than the ITS Best Offer or NBO (for a buy order) or at least \$.01 higher than the ITS Best Bid or NBB (for a sell order).]

[(c) In the event that an order to buy or sell more than 100 shares is received in a security in which SuperMAX 2000 has been enabled, such order shall be executed at the ITS Best Offer or NBO, or better (for a buy order) or the ITS Best Bid or NBB, or better (for a sell order) as the specialist may designate and as is approved by the Exchange.]

[(d) Odd Lot Market Orders. In the event that a market order to buy or sell less than 100 shares (or a market order otherwise deemed an odd lot by the Exchange) is received in a security in which SuperMAX 2000 has been enabled, and the spread between the ITS Best Bid and the ITS Best Offer (or NBB and NBO, for Nasdaq/NM issues) in such security at the time the order is received is (A) less than \$.05, such order shall be executed at the ITS Best Offer or NBO (for a buy order) or the ITS Best Bid or NBB (for a sell order); or (B) \$.05 or greater, such order shall be executed at a price at least \$.01 lower than the ITS Best Offer or NBO (for a buy order) or at least \$.01 higher than the ITS Best Bid or NBB (for a sell order).]

[(2) Operating Time. SuperMAX 2000 will operate each day that the Exchange is open for trading from the commencement of the Primary Trading Session until the close of the Primary Trading Session; provided, however, that preopening orders shall not be eligible for SuperMAX 2000 price improvement. A specialist may enable or remove SuperMAX 2000 for a particular security only on one given day each month, as determined by the Exchange from time to time. Notwithstanding the previous sentence, during unusual market conditions, individual securities or all securities may be removed from SuperMAX 2000 with approval of two members of the Committee on Floor Procedure.]

[(3) Timing. Orders entered into SuperMAX 2000 shall be immediately executed upon completion of the foregoing price improvement algorithm without any delay (i.e., in 0 seconds).]

[(4) Applicability to Odd Lots Generated by OLES. Although an order generated by the Odd-Lot Execution Service ("OLES") is a professional order (because it is

deemed to be for the account of a broker-dealer), it is nonetheless eligible for SuperMAX 2000 execution if (i) the order is for 100 to 199 shares and (ii) the order is an OLES passively-driven system-generated market order (and not an actively managed order).]

[(5) Other. Any eligible order in a security for which SuperMAX 2000 has been enabled which is manually presented at the post by a floor broker must also be guaranteed an execution by the specialist pursuant to the pricing criteria set forth in paragraph (1) above. If the contra side order which would better a SuperMAX 2000 execution is presented at the post, the incoming order which is executed pursuant to the SuperMAX 2000 criteria must be adjusted to the better price.]

[••• Interpretations and Policies: ]

[.01 Notwithstanding the foregoing, the Exchange specialist in a Nasdaq/NM Security shall only be obligated to guarantee execution on the first agency market order manually placed with him by a Floor broker or other Floor Participant, at any given best bid or offer. Subsequent to any such execution, the specialist may, but shall not be obligated to, guarantee the execution at such price of other manual orders placed with him.]

[.02 With respect to paragraph (a)(3)(c) above, if the issue has traded in a primary market's after-hours closing-price trading session, the Exchange specialist shall fill limit orders, designated as executable after the close of the Exchange's Post Primary Trading Session (a "GTX" order), at such limit price, based on volume that prints in a primary market's after-hours session.]

[.03 Reserved for future use.]

[.05 Post Primary Trading Session.]

[The Exchange's MAX System will not be available for automated delivery or for automated execution during the Post Primary Trading Session. Only orders that are appropriately designated as being eligible for execution during the Post Primary Trading Session will be eligible for execution during the Post Primary Trading Session.]

[.06 Oversized MAX Orders.]

[As stated in paragraph (b)(1) of this Rule, if an agency order is sent through MAX that is greater than the specialist's auto-acceptance threshold, the specialist shall follow the procedures set out below in a timely manner, but in no event greater than one minute, until the order has either been definitively accepted or canceled:]

[1. If the oversized order is a limit order and the limit price is equal to or better than the specialist's quote, the order must be immediately reflected in the specialist's quote in accordance with Rule 7 of this Article XX.]

[2. The oversized order must receive post protection until its final status is determined.]

[3. A specialist must notify the order sending firm's MAX floor broker representative if the specialist determines to cancel the order.]

[.07 [Reserved for future use]]

[.08 For purposes of paragraph (h)(iii) of this Rule 37, if an order sending firm has indicated its election, in accordance with paragraph (b)(6)(A) or (B)(7)(B) of this Rule 37, to have portions of orders executed automatically, the term "order" shall include any or all round lot or mixed lot portion(s) of an order for more than 100 shares. A specialist may designate, on an issue-by-issue basis, different levels of price improvement for each round lot or mixed lot portion; provided, however, that the execution price for each portion must be equal to or greater than the ITS BBO in the case of Dual Trading System issues or the NBBO in the case of Nasdaq/NM securities. If an order sending firm has not indicated an election to have portions of orders executed automatically, the term "order" shall mean the entire order and a specialist may not designate different levels of price improvement for portions of such order.]

[.09 [Reserved for future use]]

[.10 Exempted Trade-Throughs. The provisions of this Rule 37 shall not apply to require execution of a limit order by a CHX specialist in the event of a price penetration (i.e., trade-through) in the primary market, if pursuant to an order or other directive of the SEC, the primary market trade-through has been deemed exempt from the trade-through restrictions of the Intermarket Trading System Plan and Article XX, Rule 40 of these rules.]

[.11The partial automatic execution algorithms referenced in Rule 37(b) constitute voluntary MAX enhancements that may be enabled by a CHX specialist on an issue-by-issue basis. The CHX specialist may elect to enable or disable these enhancements during any portion of the Primary Trading Session.]

### **Semi-Annual Confirmation of Open Orders]**

[RULE 38. All open orders resting in the specialists' books will expire at the end of the semi-annual confirmation period unless reentered with the specialists after the close of business on the last business day of such period. Open orders shall be confirmed semi-annually and the dates on which the confirmation periods end shall be prescribed by the Exchange.]

[Specialists must remain on the Floor or have a representative thereon as long as necessary after the close of the last business day of each semi-annual confirmation period for the purpose of receiving renewals of open orders.]

[Open orders properly confirmed in the manner of their original entry, except as to partial execution or reduction in shares, are entitled to retain the same order of precedence on the specialists' books; and the specialists will be responsible for their proper entry. Open orders not so confirmed are automatically canceled. Specialists must inform the originating broker of an order's cancellation prior to the opening of business on the first business day of the new semi-annual confirmation period.]

[Open orders which have been canceled due to the absence of a proper reentry will be accepted as new orders with priority based on new time of receipt provided they are received no later than one hour after the opening of business on the first business day of the new semi-annual confirmation period.]

**[Intermarket Trading System]**

[RULE 39.

[ (a) Definitions. ]

- [(1) "CTA Plan" means the plan filed with the Securities and Exchange Commission ("SEC") pursuant to SEC Rule 17a-15 (subsequently amended and redesignated as Rule 11Aa3-1), approved by the SEC and declared effective as of May 17, 1974, as from time to time amended.]
- [(2) "Eligible Listed Security" means any security listed on the Exchange that can be traded through the System.]
- [(3) "Intermarket Trading System" ("ITS") means the application of the System that permits intra-day trading in Eligible Listed Securities between Participant markets as set forth in the ITS Plan.]
- [(4) "ITS Plan" means the plan pursuant to which the Exchange, other national securities exchanges and the National Association of Securities Dealers, Inc. ("NASD") (collectively, the "Participants") act jointly in planning, developing and operating the System and its applications, as from time to time amended in accordance with its provisions, and that has been approved by the SEC pursuant to section 11A(a)(3)(B) of the Securities Exchange Act of 1934, as amended, and SEC Rule 11Aa3-2.]
- [(5) "Participant('s) Market" means each Exchange Market and the ITS/ CAES Third Market.]
- [(6) "Network A Eligible Security" has the meaning assigned to that term in the CTA Plan.]
- [(7) "Network B Eligible Security" has the meaning assigned to that term in the CTA Plan.]
- [(8) "Pre-Opening Application" means the application of the System that permits a market maker in one Participant market who wishes to open his market in an Eligible Listed Security to obtain from other market makers registered in that security in other Participant markets any pre-opening interests such other market makers might decide to disclose as set forth in the ITS Plan.]
- [(9) "Previous day's consolidated closing price" means the last price at which a transaction in a security was reported by the consolidated last sale reporting system on the last previous day on which transactions in the security were reported by such system; Provided, however, that the Exchange may specify that the "previous day's consolidated closing price" for all Network A or Network B Eligible Securities shall be the last price at which a transaction in the stock was reported by the New York Stock Exchange, Inc. ("NYSE") or the American Stock Exchange, Inc. ("AMEX"), if, because of unusual market conditions, the NYSE or AMEX price is designated as such pursuant to the ITS Plan.]
- [(10) "System" means the communications network and related equipment that links electronically the Participant markets as described in the ITS Plan.]



[(b) Provisions of the Plan. By subscribing to and submitting the ITS Plan for filing with the SEC, the Exchange has agreed to comply to the best of its ability, and, absent reasonable justification or excuse, to enforce compliance by its Participants, with the provisions of the ITS Plan. For purposes of the ITS Plan, a Participant (as referenced in Rules 39-42 of this Article XX) shall be deemed to be a "member" of the Exchange. In this connection, the following shall apply:]

[Intermarket Trading System (ITS) ]

- [(1) All transactions effected through ITS shall be on a "regular way" basis. Each transaction effected through ITS shall be cleared and settled through a clearing agency registered with the Commission which maintains facilities through which ITS transactions may be compared and settled and which agrees to supply each participating market center with data reasonably requested in order to permit such market center to enforce compliance by its Participants with the provisions of the Act, the rules and regulations thereunder, and the rules of such market center.]
- [(2) Any "commitment to trade", which is transmitted by a Participant to another participating market center through ITS, shall be firm and irrevocable for the period of time following transmission as is chosen by the sender of the commitment. All commitments to trade shall, at a minimum:
  - [(A) identify one or more clearing Participants,]
  - [(B) direct the commitment to a particular participating market center,]
  - [(C) specify the security which is the subject of the commitment,]
  - [(D) designate the commitment as either a commitment to buy or a commitment to sell,]
  - [(E) specify the amount of the security to be bought or sold, which amount shall be for one unit of trading or any multiple thereof,]
  - [(F) specify the price at or below which the security is to be bought or the price at or above which the security is to be sold, or specify that the commitment is a commitment to trade "at the market",]
  - [(G) designate the commitment "short" or "short exempt" whenever it is a commitment to sell which, if it should result in an execution in the market of the receiving market center, would result in a short sale to which the provisions of Rule 10a-1 under the Act would apply.]
  - [(H) specify the time period during which the commitment shall be irrevocable, but if the time period is not specified in the commitment, the longer of the two options available under the Plan shall be assumed by ITS.]
- [(3) Each commitment to trade sent through ITS (other than a commitment to trade "at the market"), if a commitment to buy, shall be priced at the offer price then being displayed from the market center to which the commitment is sent and, if a commitment to sell, shall be priced at the bid price then being displayed from such market center.]
  - [(A) A "commitment to trade" received on the Floor through ITS shall be treated in the same manner, and entitled to the same privileges, as would an immediate or cancel order that reached the Floor at the same time except as otherwise provided in the Plan and except further that such a commitment may not be "stopped" and

the commitment shall remain irrevocable for the time period chosen by the sender of the commitment.]

- [(4) The Participant or Participants on the Floor who made the bid or offer which is sought by a commitment to trade received on the Floor through ITS shall accept such commitment to trade up to the amount of the bid or offer if the bid or offer is still available on the Floor when the commitment to trade is received by such Participant or Participants, unless acceptance is precluded by the rules of the Exchange. In the event that the bid or offer which is sought by a commitment to trade is no longer available on the Floor when the commitment is received, but a new bid or offer is available on the Floor which would enable the commitment to trade to be executed at a price which is as or more favorable than the price specified in such commitment, then the Participant or Participants who has made such new bid or offer shall accept such commitment at the price, and up to the amount of, his bid or offer, unless acceptance is precluded by the rules of the Exchange.]
- [(5) Any Participant to whom a commitment to trade received through ITS is communicated and who intends to reject that commitment shall notify the market center from which the commitment was sent of such rejection as promptly as possible.]
- [(6) Any commitment to trade received on the Floor through ITS and any execution thereof and any commitment to trade issued by a Participant through ITS shall be subject to rules as the Exchange may from time to time determine.]

[Pre-Opening Application]

- [(7) The provisions of subparagraph (1) above shall also be applicable to any transaction effected through the Pre-Opening Application. The Pre-Opening Application applies in two instances. First, it applies whenever a market maker in any Participant Market, in arranging an opening transaction in his market in a System Security, anticipates that the opening transaction will be at a price that represents a change from the security's "previous day's consolidated closing price" at more than the "applicable price change." Second, it applies whenever an "indication of interest" (i.e., an anticipated opening price range) is sent to the CTA Plan Processor as required or permitted by the CTA Plan or a Participant market's rules.]

[(c) Openings on the Exchange. ]

[(1) Notification Requirements ]

[(A) Applicable Price Change ]

- [(1) Initial Notification—Whenever an Exchange specialist, in arranging an opening transaction on the Exchange in any Eligible Listed Security, anticipates that the opening transaction on the Exchange will be at a price that represents a change from the security's previous day's consolidated closing price of more than the "applicable price change" (as defined below), he shall notify the other Participant markets of the situation by sending a "pre-opening notification" through the System. Thereafter, the specialist shall not open the security in his market until not less than three minutes (four minutes prior to

May 1, 1984) after his transmission of the pre-opening notification. The "applicable price changes" are:

Security	Consolidated Closing Price	Applicable Price Change (\$ (More Than)
Network A	Under \$15	1/8 point or, for stocks trading in decimals, 0.10
	\$15 or over <sup>1</sup>	1/4 point or, for stocks trading in decimals, 0.25
Network B	Under \$5	1/8 point or, for stocks trading in decimals, 0.10
	\$5 or over	1/4 point, or for stocks trading in decimals, 0.25 <sup>2</sup>

<sup>1</sup> If the previous day's consolidated closing price of a Network A Eligible Security exceeded \$100 and the security does not underlie an individual stock option contract listed and currently trading on a national securities exchange, the "applicable price change" is one dollar.]

<sup>2</sup> If the previous day's consolidated closing price of a Network B Eligible Security exceeded \$75 and the security is not a Portfolio Depositary Receipt, Index Fund Share or Trust Issued Receipt, or does not underlie an individual stock option contract listed and currently trading on a national securities exchange, the "applicable price change" is one dollar.]

[A pre-opening notification shall:]

[(A) be designated as a pre-opening notification ("IND"),]

[(B) identify the Exchange ("X"), the Exchange specialist and the security ("XYZ"), and]

[(C) indicate the "applicable price range" by being formatted as a standardized pre-opening administrative message as follows:]

[IND X/XYZ [RANGE]]

[The price range shall not exceed the "applicable price range" shown below:

Security	Consolidated Closing Price	Applicable Price Range (\$)
Network A	Under \$50	1/2 point or, for stocks trading in decimals, 0.50
	\$50 or over	1 point or, for stocks trading in decimals, 1.00 <sup>3</sup>
Network B	Under \$10	1/2 point or, for stocks trading in decimals, 0.50
	\$10 or over	1 point or, for stocks trading in decimals, 1.00 <sup>4</sup> ]

<sup>13</sup> If the previous day's consolidated closing price of a Network A Eligible Security exceeded \$100 and the security does not underlie an individual stock option contract listed and currently trading on a national securities exchange, the "applicable price range" is two dollars.]

[<sup>4</sup> 4 If the previous day's consolidated closing price of a Network B Eligible Security exceeded \$75 and the security is not a Portfolio Depositary Receipt, Index Fund Share or Trust Issued Receipt, or does not underlie an individual stock option contract listed and currently trading on a national securities exchange, the "applicable price range" is two dollars.]

[The price range also shall not straddle the previous day's consolidated closing price, although it may include it as an endpoint (e.g., a 1/8-5/8 or, for stocks trading in decimals, a 40.15-40.65 price range would be permissible if the previous day's consolidated closing price were 1/8 or 5/8 or, for stocks trading in decimals, \$40.15 or 40.65, but not if the closing price were 1/4, 3/8 or 1/2 or, for stocks trading in decimals, within the price range of 40.16— 40.64).]

[(2) Subsequent Notifications—If, after sending a pre-opening notification, the situation in an Exchange specialist's market changes, he may have to issue a subsequent pre-opening notification. The three situations requiring subsequent notifications are described below. Subsequent pre-opening notifications shall be standardized pre-opening administrative messages. After sending a subsequent notification, the specialist shall wait either (A) one minute or (B) until the balance of the original three-minute waiting period expires (four-minute period prior to May 1, 1984), whichever is longer, before opening his market (i.e., if more than one minute of the initial waiting period has not yet expired at the time the subsequent notification is sent, the specialist must wait for the rest of the period to pass before opening his market).]

[(i) Increase or Decrease in Applicable Price Range—Where, prior to the specialist's opening of his market in the security, his anticipated opening price shifts so that it (1) is outside of the price range specified in his pre-opening notification but (2) still represents a change from the previous day's consolidated closing price of more than the applicable price change, he shall issue a replacement pre-opening notification (an "additional" notification) through the System before opening his market in the security. An additional notification contains the same kind of information as is required in an original pre-opening notification.]

[(ii) Shift to Within Applicable Price Change Parameter—(1) The specialist shall, by issuing a "cancellation" notification, notify the Participant market(s) of the receiving market maker(s) prior to opening the security if the price at which he anticipates opening his market shifts so that it (a) is outside of the price range specified in his pre-opening notification but (b) does not represent a change from the previous day's consolidated closing price of more than the applicable price change.]

[(2) Notwithstanding the preceding sentence, in situations where the price range in an initial or additional notification includes price variations equal to or less than the applicable price change parameters, the "cancellation" notification signifies that the anticipated opening price: (1) may or may

not be outside of the price range specified in the pre-opening notification and (2) does not represent a change from the previous day's consolidated closing price of more than the applicable price change.<sup>1</sup> ]

[(iii) Participation as Principal Precluded ("Second Look")—If a responding market maker who has shown in his pre-opening response interest as principal at a price better than the anticipated opening price would be precluded from participation as principal in the opening transaction (e.g., his responding principal interest is to sell at a price 1/8 or more or for stocks trading in decimals, 0.01 or more below the opening price established by paired agency orders), the specialist shall send a "second look" notification through the System notifying such responding market maker of the price and size at which he could participate as principal (i.e., in the parenthetical example above, the total amount of the security that he would have to sell at the better price to permit the opening transaction to occur at that price).]

[(B) Tape Indications—If the CTA Plan or the Exchange's rules require or permit that an "indication of interest" (i.e., an anticipated opening price range) in a security be furnished to the consolidated last sale reporting system prior to the opening of trading, or the reopening of trading following a halt or suspension in trading in one or more Eligible Listed Securities, then the furnishing of an indication of interest, in such situations shall, without any other additional action required of the specialist, (1) initiate the Pre-Opening process, and, (2) if applicable, substitute for and satisfy the requirements of paragraphs (c)(1)(A)(1), (c)(1)(A)(2)(i) and (c)(1)(A)(2)(ii). (While the furnishing of an indication of interest to the consolidated last sale reporting system satisfies the notification requirements of this rule, a specialist should also transmit the indication through the System in the format of a standardized pre-opening administrative message.) In any such situation the specialist shall not open or reopen the security until not less than three minutes after his transmission of the opening or reopening indication of interest. For the purpose of paragraphs (c)(2)(A-E) and (c)(3), "pre-opening notification" includes an indication of interest furnished to the consolidated last sale reporting service.]

[(2) Pre-Opening Responses ]

[(A) Decision on Opening Transaction—Subject to paragraph (c)(2)(B), if an Exchange specialist who has issued a pre-opening notification receives "pre-opening responses" through the System containing "obligations to trade" from market makers in other Participant markets ("responding market makers"), he shall combine those obligations with orders he already holds in the security and, on the basis of this aggregated information, decide upon the opening transaction in the security. If the specialist has received more than one pre-opening response from a Participant market, he shall include in such combination only those obligations to trade from such Participant Market as are specified in the most recent response, whether or not the most recent response expressly cancels the preceding response(s). An original or revised response received after the specialist has effected his opening transaction shall be to no effect.]

[(B) Pre-Opening Responses from Open Markets—An Exchange specialist must accept only those pre-opening responses sent to the Exchange by market makers

- in other Participant Markets prior to the opening of their markets for trading in the security. \* Following a halt or suspension in trading on the Exchange, a specialist must accept only those pre-opening responses sent by market makers to the Exchange from other Participant Markets that halted trading in the security contemporaneously with the Exchange and that had not resumed trading in the security at the time the pre-opening response is sent.]
- [In the event that one or more market makers from Participant Markets that have already opened trading in a security or, with respect to a halt or suspension in trading, either did not halt trading in a security contemporaneously with the Exchange, or has already resumed trading in a security, respond to a pre-opening notification in that security, the specialist need not, but may in his discretion, accept such responses for the purpose of inclusion in the opening or reopening transaction. In the event that a Participant Market opens or, with respect to a halt or suspension in trading, resumes trading in a security subsequent to a market maker in that Participant Market sending a pre-opening response but prior to the opening or reopening transaction on the Exchange, the market maker who sent the pre-opening response to the Exchange must confirm the pre-opening response by sending an administrative message through the System stating that the response remains valid: if the market maker fails to so confirm the pre-opening response, the specialist need not, but may in his discretion, accept the original response for the purpose of inclusion in the opening or reopening transaction.]
- [(C) Allocation of Imbalances—Whenever pre-opening responses from one or more responding market makers include obligations to take or supply as principal more than 50 percent of the opening imbalance, the Exchange specialist may take or supply as principal 50 percent of the imbalance at the opening price, rounded up or down as may be necessary to avoid the allocation of odd lots. In any such case, where the pre-opening response is from more than one responding market maker, the specialist shall allocate the remaining imbalance (which may be greater than 50 percent if the specialist elects to take or supply less than 50 percent of the imbalance) among them in proportion to the amount each obligated himself to take or supply as principal at the opening price in his pre-opening response, rounded up or down as may be necessary to avoid the allocation of odd lots. For the purpose of this paragraph (c)(2)(C), multiple responding market makers in the same Eligible Listed Security in the same Participant market shall be deemed to be a single responding market maker.]
- [(D) Treatment of Obligations to Trade—In receiving a pre-opening response, an Exchange specialist shall accord to any obligation to trade as agent included in the response the same treatment as he would to an order entrusted to him as agent on the Exchange at the same time such obligation was received.]
- [(E) Responses Increasing the Imbalance—An Exchange specialist shall not reject a pre-opening response that has the effect of further increasing the existing imbalance for that reason alone.]
- [(3) Reports of Participation—Promptly following the opening in any security as to which an Exchange specialist issued a pre-opening notification, the specialist shall report to each Participant responsible for a market in which one or more responding market makers are located (A) the amount of the security purchased and/or sold, if

any, by the responding market maker(s) in the opening transaction and the price thereof or (B) if the responding market maker(s)'s response included agency or principal interest at the opening price that did not participate in the opening transaction, the fact that such interest did not so participate.]

[(d) Openings in Other Participating Markets ]

[(1) Pre-Opening Responses—Subject to paragraph (d)(2), whenever an Exchange specialist who has received a pre-opening notification as provided in the ITS Plan in any Eligible Listed Security as to which he is registered as a specialist wishes to participate in the opening of that security in the Participant market from which the pre-opening notification was issued, he may do so by sending obligations to trade through the System to such Participant market in a pre-opening response. A pre-opening response shall:]

[(A) be designated as a pre-opening response ("RES"),]

[(B) identify the Exchange ("X"), the specialist and the security ("XYZ"), and]

[(C) show the specialist's interest (if any), both as principal for his own account ("P") and as agent for orders left with him ("A"), at each price level within the price-range indicated in the pre-opening notification (e.g., 403/8 or, for stocks trading in decimals, 40.40), reflected on a netted share basis by being formatted as a standardized pre-opening administrative message as follows:]

[RE X/XYZ BUY [SELL] A-P 403/8, or for stocks trading in decimals, 40.40]

[The response may also show market orders separately.]

[(2) Responses When the Exchange is Open—Notwithstanding paragraph (d)(1), an Exchange specialist who has received a pre-opening notification in any Eligible Listed Security in which he is registered as a specialist should not send a pre-opening response to the originator of such notification if (A) the market for trading in the security is open on the Exchange or (B) the Participant market from which the notification emanated had declared a halt or suspension in trading in such security, and the Exchange either had not halted trading in the security reasonably contemporaneously with the Participant market or had resumed trading during the halt or suspension in trading.]

[(3) Revised Responses—An Exchange specialist may cancel or modify his pre-opening response by sending through the System a revised response that cancels the obligations to trade contained in his original response and, if a modification is desired, that substitutes new obligations to trade stating the specialist's aggregate interest (i.e., his interest reflected in the original response plus any additional interest and/or minus any withdrawn interest) at each price level. Each succeeding response, even if it fails to expressly cancel its predecessor response, shall supersede the predecessor response in its entirety. Any revised response shall be to no effect if received in the Participant market from which the pre-opening notification was issued after the security has opened in such Participant market.]

[(4) Sole Means of Pre-Opening Routing—Once a pre-opening notification as to any security is received on the Exchange, the one or more Exchange specialists in such security shall submit any obligations to trade that security as principal for his or their own accounts to the Participant market from which the pre-opening notification was issued only through the Pre-Opening Application and shall not send orders to trade that security for his or their own accounts to such Participant market for

participation at the opening in that market by any other means. The foregoing sentence shall have no application to orders sent to that market by the specialist(s) prior to the issuance of a pre-opening notification.]

- [(5) Use of System Before Opening or Reopening—No Exchange Participant, whether acting as principal or agent, shall send an obligation to trade, commitment to trade or order in any security from the Exchange through the System to any other Participant market prior to the opening of trading in the security in the Participant market (or prior to the resumption of trading in the security in the Participant market following the initiation of a halt or suspension in trading in the security) until a pre-opening notification in the security has been issued from the other Participant market or, if no pre-opening notification is required, until the market in the security has opened in such other Participant market.]
- [(6) Duration of Obligations to Trade—Responses to pre-opening notifications shall be voluntary, but each obligation to trade that an Exchange specialist includes in any pre-opening response, or in any modification of a pre-opening response, shall remain binding on him, and on any person for whom he is acting, until the security has opened in the Participant market from which the pre-opening notification was issued or until a cancellation or modification of such obligation has been received in such Participant market, and any such modification shall itself be binding on the Exchange specialist or such person until a subsequent cancellation or modification thereof has been received in such Participant market. The preceding sentence applies to obligations to trade even if included in pre-opening responses contravening paragraph (c)(2).]
- [(7) Request for Participation Reports—The ITS Plan anticipates that an Exchange Participant who has sent one or more obligations to trade in response to a pre-opening notification will request a report through the System as to his participation if he does not receive a report as required promptly following the opening. If, on or following trade date, he does request a report through the System as to his participation before 3:00 p.m. central time, and he does not receive a response by 8:30 a.m. central time on the next trading day, he need not accept a later report. If he fails to so request a report, he must accept a report until 3:00 p.m. central time on the third trading day following the trade date (e.g., on T+3). The Exchange does not intend this paragraph (d)(7) to relieve him of the obligation, when he does not receive a report to request a report as soon as he reasonably should expect to have received it.]

[••• Interpretations and Policies: ]

[.01 No Participant shall buy against a commitment or obligation to sell designated as "short" which is received on the Floor through ITS or any other Application of the System if the resulting transaction would violate the short selling rules as in effect on the Exchange.]

[.02 Any purchase or sale against a commitment to trade received on the Floor through ITS shall be effected in accordance with the rules applicable to the making of bids, offers and transactions on the Floor. In addition, the following rules shall be applicable in the



case where commitments or obligations to trade are issued (transmitted) from the Floor of the Exchange through ITS or any other Application of the System: Article IX, Rules 3 and 5; Article XX, Rules 3, 25 and 33; Article XXI, Rules 17 and 18; Article XXX, Rules 2 and 10; Article XXXI, Rule 13.]

[.03 For the purposes of this rule, the market in a security is opened (or reopened) with either a trade or quotation, if trades are being reported to the Consolidated Tape and quotes are being disseminated to the Consolidated Quotation System.]

### **[ITS "Trade-Throughs" and "Locked Markets"]**

[RULE 40.

[(a) Definitions.]

- [(1) An "Exchange trade-through", as that term is used in this Rule, occurs whenever a Participant on the Exchange initiates the purchase on the Exchange of a security traded through ITS (an "ITS Security") at a price which is higher than the price at which the security is being offered (or initiates the sale on the Exchange of such a security at a price which is lower than the price at which the security is being bid for) at the time of the purchase (or sale) in another ITS participating market center as reflected by the offer (bid) then being displayed on the Exchange from such other market center. The Participant described in the foregoing sentence is referred to in this Rule as the "Participant who initiated an Exchange trade-through."]
- [(2) A "third participating market center trade-through", as that term is used in this Rule, occurs whenever a Participant on the Exchange initiates the purchase of an ITS Security by sending a commitment to trade through the System and such commitment results in an execution at a price which is higher than the price at which the security is being offered (or initiates the sale of such a security by sending a commitment to trade through the System and such commitment results in an execution at a price which is lower than the price at which the security is being bid for) at the time of the purchase (or sale) in another ITS participating market center as reflected by the offer (bid) then being displayed on the Exchange from such other market center. The Participant described in the foregoing sentence is referred to in this Rule as the "Participant who initiated a third participating market center trade-through".]
- [(3) A "trade-through", as that term is used in this Rule, means either an Exchange trade-through or a third participating market center trade-through.]
- [(4) A "locked market", as that term is used in this Rule, occurs whenever the Exchange disseminates a bid (offer) for an ITS Security at a price that equals or exceeds (is less than) the price of the offer (bid) for the security then being displayed from another ITS participating market center (the "locked offer (bid)"). This Rule refers to the bid (offer) that causes the locked market as the "locking bid (offer)".]
- [(5) As used in this Rule in reference to the Cincinnati Stock Exchange, Inc. ("CSE"), a contra party shall be "within another ITS participating market center" if he is a "User" (which has the meaning assigned to it in CSE Rule 11.9 as in effect on January 26, 1981) participating in the transaction through the CSE's "National Securities Trading System"]

[(6) "ITS/CAES Market Maker", as that term is used in this Rule, means a NASD member that is registered as a market maker with the NASD for the purposes of the Applications with respect to one or more specified "ITS/ CAES securities" as more fully described in the ITS Plan.]

[(b) Trade-Throughs.]

[(1) When purchasing or selling, either as principal or agent, any ITS Security on the Exchange or by issuing a commitment to trade through the System, Participants on the Exchange should avoid initiating a trade-through unless one or more of the provisions of paragraph (b)(3) below are applicable.]

[(2) ]

[(A) Except as provided in paragraph (b)(3) below, if a trade through occurs and a complaint thereof is received by the Exchange through the System from the party whose bid or offer was traded-through (the "aggrieved party"), then:]

[(i) except as provided in paragraph (b)(2)(A)(ii) below, (a) the Participant who initiated the trade-through shall satisfy, or cause to be satisfied, through the System the bid or offer traded-through in its entirety either at the price of such bid or offer or at the price that caused the trade-through (as determined in accordance with paragraph (b)(2)(B) below) or (b) if he elects not to do so (and, in the case of a third participating market center trade-through, he obtains the agreement of the contra party within the ITS participating market center that received the commitment that caused the trade-through), then the price of the transaction that constituted the trade-through shall be corrected to a price at which a trade-through would not have occurred and the price correction shall be reported through the consolidated last sale reporting system; or]

[(ii) in the case of an Exchange trade-through only, if the Participant who initiated the trade-through and the Participant on the contra side of the transaction had each originated his side of the transaction while on the Exchange for his own account or for any account in which he has an interest, the transaction shall be deemed void and a cancellation thereof shall be reported through the consolidated last sale reporting system.]

[(B) The Price at which the bid or offer traded-through shall be satisfied pursuant to clause (a) of paragraph (b)(2)(A)(i) shall be the price of such bid or offer except if (i) the transaction that constituted the trade-through was of "block size" but did not constitute a "block trade" (as those terms are defined in the Exchange's ITS Block Trade Policy) and (ii) the Participant who initiated the trade-through did not make every reasonable effort to satisfy, or cause to be satisfied, through the System the bid or offer traded through at its price and in its entirety within two (2) minutes from the time the report of the transaction that constituted the trade-through was disseminated over the high speed line of the consolidated last sale reporting system. In the case of such exception, the price at which the bid or offer traded-through shall be satisfied shall be the price that caused the trade-through.]

[(C) Whenever paragraph (b)(2)(A)(i) applies, if the Participant who initiated the trade-through, or the Participant (or the broker-dealer within another ITS participating market center) on the contra side of the transaction, was, or if both such parties were, executing (in whole or in part) orders that originated from off their respective floors (or, in the case of a contra party who is a User or an

- ITS/CAES Market Maker, as to which he acts as agent for another person), each such order or portion thereof that was executed in the transaction that constituted the trade-through (whether such order or portion thereof was executed by the Participant who initiated the trade-through or by the Participant (or the broker-dealer within another ITS participating market center) on the contra side of the transaction) shall receive the price that caused the trade-through, or the price at which the bid or offer traded-through was satisfied, if it was satisfied, pursuant to clause (a) of paragraph (b)(2)(A)(i), or the adjusted price, if there was an adjustment, pursuant to clause (b) of paragraph (b)(2)(A)(i), whichever price is most beneficial to the order or portion. Resulting money differences shall be the liability of the Participant who initiated the trade-through.]
- [(3) Paragraph (b)(2) above shall not apply under the following conditions:]
- [(A) the size of the bid or offer traded-through was for 100 shares;]
  - [(B) the Participant who initiated the trade-through made every reasonable effort to avoid the trade-through, but was unable to because of a systems/ equipment failure or malfunction;]
  - [(C) the transaction which constituted the trade-through was not a "regular way" contract;]
  - [(D) the trade-through was an Exchange trade-through and occurred during a period when, with respect to the ITS Security which was the subject of the trade-through, on the Exchange were relieved of their obligations under paragraph (c)(2) of Rule 11Acl-1 pursuant to the "unusual market" exception of paragraph (b)(3) of Rule 11Acl-1; provided, however, that, unless one of the conditions of paragraph (b)(3) of this Rule (other than that of this subparagraph (D)) applies, during any such period Participants shall make every reasonable effort to avoid trading-through any bid or offer displayed on the Exchange from another ITS participating market center whose members are not so relieved of their obligations with respect to such bid or offer under paragraph (c)(2) of Rule 11Acl-1;]
  - [(E) the bid or offer traded-through was being displayed from another ITS participating market center whose members were relieved of their obligations with respect to such bid or offer under paragraph (c)(2) of Rule 11Acl-1 pursuant to the "unusual market" exception of paragraph (b)(3) of Rule 11Acl-1;]
  - [(F) the bid or offer traded-through had caused a locked market in the ITS Security which was the subject of such bid or offer;]
  - [(G) in the case of an Exchange trade-through, a complaint with respect to the trade-through was not received by the Exchange through the system from the aggrieved party promptly following the trade-through and, in any event, within five (5) minutes from the time the report of the transaction that constituted the trade-through was disseminated over the high speed line of the consolidated last sale reporting system; or]
  - [(H) in the case of a third participating market-center trade-through, either:]
    - [(i) the Participant who initiated the trade-through (a) had sent a commitment to trade promptly following the trade-through that satisfies the bid or offer traded-through and (b) preceded the commitment with an administrative message stating that the commitment was in satisfaction of a third participating market center trade-through, or]

[(ii) a complaint with respect to the trade-through was not received by the Exchange through the system from the aggrieved party promptly following the trade-through, and, in any event, within ten (10) minutes from the time the aggrieved party sent a complaint through the system to the ITS participating market center that received the commitment to trade that caused the trade-through, which first complaint must have been received within five (5) minutes from the time the report of the transaction that constituted the trade-through was disseminated over the high speed line of the consolidated last sale reporting system.]

[(c) Responsibilities and Rights following Trade-Through Complaints.]

[(1) When a trade-through complaint is received by the Exchange, the Participant who initiated the trade-through shall respond as promptly as practicable to the aggrieved party. Such a response shall notify the aggrieved party either]

[(A) that one of the conditions specified in paragraph (b)(3) of this Rule is applicable (specifying the particular condition), or]

[(B) that the complaint is valid and appropriate corrective action is being taken pursuant to paragraph (b)(2) of this Rule.]

[(2) If it is ultimately determined that there was a trade-through, that the corrective action required by either paragraph (b)(2)(A)(i) or (b)(2)(A)(ii) above was not taken, and that none of the conditions of paragraph (b)(3) above was applicable, the Participant who initiated the trade-through shall be liable to the aggrieved party for the lesser of:]

[(A) the amount of the actual loss proximately caused by the trade-through and suffered by the aggrieved party, and]

[(B) the loss proximately caused by the trade-through that would have been suffered by the aggrieved party had he purchased or sold the security subject to the trade-through so as to mitigate his loss and had such purchase or sale been effected at the "loss basis price".]

[For purposes of this paragraph (c)(2), the "loss basis price" shall be the price of the next transaction, as reported by the high speed line of the consolidated last sale reporting system, in the security in question after one hour has elapsed from the time the complaint is received by the Exchange (or, if the complaint is so received within the last hour of trading on the Exchange on any day, then the price of the opening transaction in that security on the Exchange on the next day on which the Exchange trades that security).]

[(3) Any Participant who is an aggrieved party under the trade-through rule of another ITS participating market center may at any time at his discretion take steps to establish and mitigate any loss he might incur as a result of the trade-through of his bid or offer. If so, he shall give prompt notice to such other market center of any such action.]

[(4) If a complaint of a purported trade-through is received by the Exchange and the complained-of transaction resulted from a Participant's execution on the Exchange of a commitment to trade received from another ITS participating market center, the Participant should, if circumstances permit, make reasonable efforts to notify the complaining party, as promptly as practicable following receipt of the complaint,

(A) that the transaction was not initiated on the Exchange and (B) of the identity of the ITS participating market center that originated the commitment. Neither compliance nor non-compliance with the preceding sentence shall be the basis for any liability of the Participant for any loss associated with the complained-of transaction.]

[(5) If a transaction that resulted from a Participant's execution on the Exchange of a commitment to trade constitutes a trade-through under the rules of the originating ITS participating market center, then:]

[(A) if the broker-dealer on such market center who initiated the transaction requests that the Exchange Participant correct the price of such transaction in accordance with the counterpart in such market center's trade-through rule to paragraph (b)(2)(A)(i)(b) of this Rule, the Exchange Participant may, but need not, acquiesce and so correct the price; and]

[(B) paragraph (b)(2)(C) of this Rule shall apply as if the Exchange Participant were a contra party within the meaning of that paragraph.]

[(d) Locked Markets.]

[(1) ]

[(A) Except as provided in paragraphs (d)(1)(B) and (d)(2) below, if a locked market occurs and the Exchange receives a complaint through the System from the party whose bid (offer) was locked (the "aggrieved party"), the Participant responsible for the locking offer (bid) (the "locking Participant") shall, as specified in the complaint, either promptly "ship" (i.e., satisfy through the System the locked bid (offer) up to the size of his locking offer (bid)) or "unlock" (i.e., adjust his locking offer (bid) so as not to cause a locked market). If the complaint specifies "unlock", he may nevertheless ship instead.]

[(B) If there is an error in a locking bid or offer that relieves the locking Participant from his obligations under paragraph (c)(2) of Rule 11Acl-1 and if the Exchange receives a "ship" complaint through the System from the aggrieved party, the locking Participant shall promptly cause the quotation to be corrected and, except as provided in paragraph (d)(2) below, he shall notify the aggrieved party through the System of the error within two minutes of receipt of the complaint on the Floor. If the locking Participant fails to so notify the aggrieved party, he shall promptly ship.]

[(2) Paragraph (d)(1) above shall not apply under the following conditions:]

[(A) the locked bid or offer was for 100 shares;]

[(B) the locking bid or offer no longer prevails on the Floor at the time the complaint is received on the Floor;]

[(C) the rules of the Exchange would prohibit the issuance of a commitment to trade to satisfy the locked bid or offer;]

[(D) the locking Participant makes every reasonable effort to comply with paragraph (d)(1) above, but is unable to comply because of a systems/ equipment failure or malfunction;]

[(E) the locking bid or offer was not for a "regular way" contract; or]

[(F) the locked market occurred at a time when, with respect to the affected ITS Security, Participants on the Exchange or members in the ITS participating

market center in which the aggrieved is located were relieved of their obligations under paragraph (c)(2) of Rule 11Acl-1 pursuant to the "unusual market" exception of paragraph (b)(3) of Rule 11Acl-1.]

[(e) Opening and Block Trades.]

[This Rule shall not apply to (1) purchases and sales effected by Participants participating in an opening (or reopening) transaction on the Exchange in an ITS Security or (2) any "block trade" as defined in the Exchange's ITS Block Trade Policy.]

[••• Interpretations and Policies: ]

[.01 Nothing in paragraph (d)(2)(B) above is intended to discourage a locking Participant from electing to ship if the complaint requests him to do so.]

[.02 The fact that a transaction may be cancelled or the price thereof may be adjusted pursuant to the provisions of paragraph (b)(2) of this Rule shall not have any retroactive effect, under the rules, on other transactions or the execution of orders not involved in the original transaction.]

[.03 Specialists are prohibited from utilizing the Auto Quote mode in an ITS Security to disseminate a bid and/or offer size which is greater than 100 shares.]

[.04 The provisions of this Rule shall supersede the provisions of any other rule which might be construed as being inconsistent with such provisions.]

[.05 (a) Definitions.]

[(1) A "block trade", as that term is used in this Rule, means a trade on the Exchange that]

[(A) involves 10,000 or more shares of a common stock traded through ITS (an "ITS Security") or a quantity of any such security having a market value of \$200,000 or more ("block size");]

[(B) is effected at a price outside the bid or offer displayed from another ITS participating market center; and]

[(C) involves either]

[(i) a cross of block size (where the Participant represents all of one side of the transaction and all or a portion of the other side), or]

[(ii) any other transaction of block size (i.e., in which the Participant represents an order of block size on one side of the transaction only) that is not the result of an execution at the current bid or offer on the Exchange.]

[Contemporaneous transactions at the same price filling an order or orders then or theretofore represented on the Exchange by a Participant (including transactions resulting from commitments to trade sent by the Participant pursuant to paragraph (b) below) shall be deemed to constitute a single transaction for the purpose of this definition.]

[(2) A "current bid or offer on the Exchange", as that term is used in paragraph (a)(1)(C)(ii) above, means the price of the current quotation on the floor of the Exchange

established independently of the order to buy or sell that is represented by the Participant.]

[(3) A "bid or offer displayed from another ITS participating market center" (or any derivative phrase), as that term is used in this Rule, means the current quotation from another ITS participating market center displayed on the floor of the Exchange as required by the ITS Plan, and does not include "away-from-the-market" limit orders or other interests that may be represented in such other ITS participating market center.]

[(b) Obligation to Send Commitments. Unless one or more of the conditions described in paragraph (c) below exist, the Participant representing the block-size order(s) shall at the time of execution of a block trade send, or cause to be sent, through ITS to each other ITS participating market center displaying a bid (offer) superior to the execution price a commitment to trade at the execution price and for the number of shares displayed with that market center's better-priced bid (offer).]

[(c) Inapplicability. Paragraph (b) above shall not apply under the following conditions:]

[(1) the size of the better-priced bid or offer displayed by another ITS participating market center was for 100 shares;]

[(2) the Participant representing the block-size order(s) made every reasonable effort to satisfy through ITS a better-priced bid or offer displayed by another ITS participating market center but was unable to because of a systems/equipment failure or malfunction;]

[(3) the block trade was not a "regular way" contract;]

[(4) the block trade was executed during a period when, with respect to the ITS Security that was the subject of the block trade, Participants on the Exchange were relieved of their obligations under paragraph (c)(2) of Rule 11Ac1-1 pursuant to the "unusual market" exception of paragraph (b)(3) of Rule 11Ac1-1; provided however, that, unless one of the conditions of this paragraph (c) (other than that of this subparagraph (4)) applies, Participants shall nevertheless make every reasonable effort during any such period to satisfy through ITS any better-priced bid or offer displayed on the Exchange from another ITS participating market center whose members are not so relieved of their obligations with respect to such bid or offer under paragraph (c)(2) of Rule 11Ac1-1;]

[(5) the better-priced bid or offer was being displayed from an ITS participating market center whose members were relieved of their obligations with respect to such bid or offer under paragraph (c)(2) of Rule 11Ac1-1 pursuant to the "unusual market" exception of paragraph (b)(3) of Rule 11Ac1-1; or]

[(6) the better-priced bid or offer had caused a "locked market", as that term is defined in Exchange Article XX, Rule 37, in the ITS Security that was the subject of the block trade.]

[(7) A transaction not subject to this Policy may be subject to the trade through provision of Exchange Article XX, Rule 37. A Participant who makes a bid or offer on the Exchange otherwise than in connection with a block trade may be subject to the locked markets provisions of Exchange Article XX, Rule 37.]

[.06 Contemporaneous Commitments ]

[The terms "Exchange trade-through" and "third market participating market center trade-through" do not include the situation where a Participant who initiates the purchase (sale)

of an ITS security at a price which is higher (lower) than the price at which the security is being offered (bid) is another ITS participating market, sends contemporaneously through ITS to such ITS participating market a commitment to trade at such offer (bid) price or better and for at least the number of shares displayed with that market center's better-priced offer (bid). A trade-through complaint sent in these circumstances is not valid, even if the commitment sent in satisfaction cancels or expires, and even if there is more stock behind the quote in the other market.]

### **[Liability of Exchange Relating to Operation of ITS]**

[RULE 41. (a) As used in this Rule the term "System Transaction" shall mean any purchase or sale of a security which results from the acceptance of a commitment or obligation to trade received on the Floor through ITS or the Pre-Opening Application or from the acceptance in another market of a commitment or obligation to trade sent from the Floor through ITS or the Pre-Opening Application. Each System Transaction shall be reported on the clearing tape generated by the System at the end of each trading day and such tape shall also identify one or more clearing Participants who will clear and settle each System Transaction. A Participant on the Floor who instructs an Exchange employee (referred to in paragraph (b) hereof) to issue or accept a commitment or obligation to trade which results in a System Transaction reported on the clearing tape (the "instructing Participant") shall also be identified in Exchange records.]

[(b) For the convenience of Participants on the Floor, Exchange employees at the ITS Service Center operated by the Exchange will, when requested by such Participants, if the Participant's equipment is not operational or other good reason exists, (in the event the requesting Participant is the specialist in such security) send and receive through the System commitments to trade, preopening notifications and responses thereto (hereinafter referred to in this Rule 37 as a "System Transmission"). Requests for transmissions of preopening notifications and responses thereto will only be accepted from the specialist or specialist unit in such security. It shall be the responsibility of each Participant who instructs an Exchange employee regarding a System Transmission or proposed System Transmission to verify the accuracy of such transmissions sent and received and responses thereto, and to keep abreast of the status of such instructions.]

[(c) The Exchange shall not be liable for any loss resulting from or claimed to have resulted from any System Transmission or purported System Transmission, failure to compare a trade resulting therefrom or other act, error or omission of an Exchange employee sending or receiving a System Transmission for a pursuant to paragraph (b) of this Rule 37.]

[(d) Participants and their Participant Firms shall be fully responsible for all System Transmissions sent from equipment assigned to them, or sent by their officers, employees or agents, or sent by MSE employees on their behalf and pursuant to their request in accordance with paragraph (b) of this Rule. No Participant shall refuse to treat as a compared trade any trade resulting from such a System Transmission, whether or not the Participant's System Transmission was in error, and any Participant which purports to



reject responsibility for such a trade shall reimburse the Exchange for all costs and expenses occasioned by the Exchange being required to accept responsibility for clearance and settlement of any such trades.]

[(e) Whenever a clearing agency to which a System Transaction has been reported excludes such System Transaction from the clearance procedures conducted by such agency, either because such agency ceases to act (either with respect to transactions generally or as to a particular transaction) for a Participant, or because of the insolvency of such Participant, the Exchange shall not be obligated to assume and honor any one or more or all of such excluded System Transactions for the account of and on behalf of the Participant for which the clearing agency ceased to act or which is insolvent and such trade shall be returned to such Participant.]

### **[Foreign Exchange Linkage Plan]**

[RULE 42.]

[ (a) Definitions.]

[(i) A "Linkage Plan" is any plan or agreement, including any amendments thereto, between the Exchange and a foreign securities exchange implementing an electronic link intended to allow a direct flow of orders between the Participants of the Exchange and the members of such foreign securities exchange; provided, however, that the Intermarket Trading System Plan shall not be included within the term Linkage Plan.]

[(ii) The term "participating exchange" means a foreign securities exchange with which the Exchange is linked pursuant to a Linkage Plan.]

[(b) Quotations and Trading.]

[(i) In accordance with the provisions of each Linkage Plan, the Exchange will display on its trading floor the quotes distributed by the participating exchange with respect to the securities eligible for trading through such linkage. Such securities shall be the securities specified in, or determined pursuant to, the applicable Linkage Plan.]

[(ii) In accordance with the provisions of each Linkage Plan, the members of the participating exchange may transmit orders through such linkage for execution on the Exchange. The type or types of orders which may be transmitted through each linkage, as well as any limitations thereon or requirements with respect thereto, shall be as specified in the applicable Linkage Plan. A Linkage Plan may, although it need not, specify that some or all of the orders received by the Exchange through the linkage shall be guaranteed execution up to a minimum amount.]

[(c) Comparison and Settlement.]

[Transactions effected through a linkage will be compared, cleared and settled as provided in the relevant Linkage Plan. With respect to transactions effected on the Exchange through a linkage, clearing names acceptable to the Exchange must be given up on each trade.]

[(d) Compliance with Linkage Plans.]

[With respect to each transaction effected through a linkage, each Participant of the Exchange shall be subject to and bound by the provisions of the relevant Linkage Plan as if the same were set forth in these rules.]

[(e) Other Rules.]

[Each transaction effected through a linkage shall be subject to (1) the rules of the Exchange applicable to trading on the Exchange, except to the extent such rules are inconsistent with the provisions of this Rule 39 or the relevant Linkage Plan and (2) all applicable federal securities laws.]

[••• Interpretations and Policies: ]

[.01 An order designated as "short", which is received on the Floor through a linkage from a participating exchange shall not be executed if the resulting transaction would violate the short selling rules applicable on the Exchange.]

[.02 Any order received on the Floor through a linkage from a participating exchange shall be effected in accordance with the rules applicable to the making of bids and offers and transactions on the Floor, except where this Rule 39 or the provisions of the applicable Linkage Plan otherwise require. In addition the following rules shall be applicable in the case where orders are sent from the Floor of the Exchange through a linkage to a participating exchange: Article IX, Rules 3, 5 and 6; Article XX, Rules 3 and 25; Article XXI, Rules 17 and 18; Article XXX, Rules 2, 9 and 10; Article XXXI, Rule 13.]

[.03 Exchange rules concerning Participants' responsibility in the execution of orders require that where an order is to be executed on the Floor, it must be represented in the Trading Crowd and executed at the post at which the security is traded. These rules apply to Participants seeking to send orders from the floor of the Exchange through a linkage to a participating exchange, and Participants are thereby required to make the existence of a bid or offer generally known and represent an order in the Trading Crowd, prior to directing that such order be sent to a participating exchange through a linkage.]

### **[Trading in Nasdaq/NM Securities]**

[RULE 43.]

[(a) Definitions.]

[(i) The term "Nasdaq/NM Security" shall mean any security (1) designated as a national market system security pursuant to the NASD's "National Market System Securities Designation Plan with respect to NASDAQ Securities", filed with and approved by the Securities and Exchange Commission pursuant to SEC Rule 11Aa2-1 under the Exchange Act and (2) which is either listed on the Exchange pursuant to Article XXVII of these Rules or as to which unlisted trading privileges have been granted pursuant to Section 12(f) of the Exchange Act.]

[(ii) The term "NASDAQ System" shall mean the NASD's Automated Quotation System.]

[(b) Quotations and Trading.]

[(i) Each Exchange specialist shall permit each NASDAQ System market maker, acting in its capacity as market maker, direct telephone access to the specialist post in each Nasdaq/NM Security in which such market maker is registered as a market maker. Such access shall include appropriate procedures to assure the timely response to communications received through telephone access. NASDAQ System market makers may use such telephone access to transmit orders for execution on the Exchange.]

[Any order received on the Floor via telephone from a NASDAQ System market maker shall be effected in accordance with the rules applicable to the making of bids and offers and transactions on the Floor.]

[(ii) The Exchange will display on its trading floor the quotes distributed by any NASDAQ System market maker in Nasdaq/NM Securities. Exchange specialists may send orders from the Floor of the Exchange for execution via telephone to any NASDAQ System market maker in each Nasdaq/NM Security in which it displays quotations. The following rules shall be applicable to orders sent from the Floor in Nasdaq/NM Securities to a NASDAQ System market maker: Article IX, Rules 1, 2, 3, 4, 5, 6, 7, and 9; Article XX, Rules 3 and 25; Article XXI, Rules 17 and 18; Article XXX, Rules 2, 5, 9, and 10; and Article XXXI, Rule 13.]

[(c) Comparison.]

[Comparison of transactions effected with a NASDAQ System market maker via telephone access will be made pursuant to procedures to be established between the NASD and the Exchange.]

### **[Market-at-the-Close Orders in Dual Trading System Issues]**

[RULE 44]

[(a) Definitions.]

[(1) "Market-at-the-Close Order" or "MOC order" means a market order which is to be executed in its entirety at the closing price on the primary market of the stock named in the order, and if not so executed, is to be treated as cancelled.]

[(b) MOC Order Limitations on All Trading Days. The following limitations shall apply to MOC orders:]

[(1) Subject to subsection (b)(1)(i), no MOC order may be entered after 2:40 p.m., Central Time, in any stock. Floor brokers representing such orders must indicate their irrevocable MOC interest to the specialist by 2:40 p.m.]

[(i) After 2:40 p.m., MOC orders may generally be entered only if the specialist determines that such MOC order could have been entered on the primary market. Notwithstanding the foregoing, the liquidation of positions relating to a strategy involving any stock index options, using MOC orders entered after 2:40 p.m., is not permitted.]

[(2) No MOC order in any stock may be cancelled or reduced in size after 2:40 p.m. unless the specialist determines that a MOC order could be properly cancelled on the primary market. Cancellation or reduction in size of MOC orders to correct a legitimate error, however, will continue to be permitted until 2:50 p.m.]

[(c) Acceptance of MOC Orders. Notwithstanding any other provisions of this Rule, a specialist shall only be obligated to accept and guarantee execution of those MOC orders that are of a size and type that a specialist would otherwise be required to accept and guarantee execution of, if the orders did not have a market-at-the-close designation.]

[(d) Execution of MOC Orders. Notwithstanding any other provisions of the Exchange's Rules, a specialist shall execute MOC orders in a stock as provided below:]

[(1) Where there is an imbalance between the buy and sell MOC orders on the Exchange, the specialist shall, at the close of the Primary Trading Session on that day, execute the imbalance for its own account at the closing price on the primary market of the stock. The specialist shall then stop the remaining buy and sell orders against each other and pair them off at the closing price on the primary market of the stock. The "pair off" transaction shall be reported to the consolidated last sale reporting system as "stopped stock."]

[(2) Where the aggregate size of the buy MOC orders equals the aggregate size of the sell MOC orders, the buy orders and sell orders shall be stopped against each other and paired off at the closing price on the primary market of the stock. The transaction shall be reported to the consolidated last sale reporting system as "stopped stock."]

[••• Interpretation and Policy ]

[.01 "G" Orders. Proprietary orders represented pursuant to Section 11(a)(1)(G) of the Exchange Act (i.e., "G" orders) must be announced as such and yield priority, parity and precedence to any order which is for the account of a person who is not a Participant. Market orders to sell short at-the-close represented as "G" orders must yield priority, parity and precedence to limit orders not represented pursuant to Section 11(a)(1)(G) of the Securities Exchange Act of 1934. For example, in executing paired-off MOC orders, a "G" order to sell short at-the-market would yield to sell orders limited at the closing price that are not represented as "G" orders. This will be the policy even if the "G" order to sell short at-the-market theoretically could have been executed at a better price (and still satisfy the "short sale" rule in terms of a "plus" or "zero plus" tick) had there not been a pair-off on the transaction. This would not be applicable if the order was a market order to sell "long" or a market order to buy.]

[.02 Specialists' Monitoring of Published MOC Order Imbalances and Regulatory Trading Halts. In order for specialists to determine if MOC orders could have been entered or cancelled on the primary market, specialists must monitor the publication of

MOC order imbalances and regulatory trading halts on the primary market through third-party vendors. In the event that a specialist accepts or cancels a MOC order after 2:40 p.m. based on the primary market, the specialist shall document evidence that such MOC order could have been entered or cancelled on the primary market.]

**[ARTICLE XXA]**  
**[Operation of Electronic Book]**

[The electronic book is a fully-automated system operated by the Exchange, which allows eligible orders in eligible securities to match against one another.]

**[Eligible Securities]**

[RULE 1. All securities eligible for trading on the Exchange that are not assigned to a specialist shall be eligible for trading through the electronic book. Any specialist request to remove a security from the electronic book shall be considered by the Committee on Specialist Assignment and Evaluation.]

**[Eligible Orders]**

[RULE 2. (a) Except for cross and cross with size orders, which may be sent to the electronic book in mixed lot increments, all orders sent to the electronic book must be round-lot limit orders, specifically designated in the manner specified by the Exchange to confirm that they are eligible for trading in the electronic book.

(b) Except for non-regular way cross and cross with size orders, all orders sent to the electronic book must be for regular way settlement.

(c) Eligible orders additionally may be designated as one of the following order types:

- (1) "Immediate or cancel": an order that is to be executed, either in whole or in part, as soon as the order is received by the electronic book, with any unexecuted balance of the order to be immediately cancelled.
- (2) "Fill or kill": an order that is to be executed in full as soon as the order is received by the electronic book, but that should be immediately cancelled if it is not executed.
- (3) "Cross": an order to buy and sell the same security at a specific price better than the best bid and offer displayed in the electronic book and, for listed securities, equal to or better than the NBBO. A cross order may represent interest of one or more Participants of the Exchange.
- (4) "Cross with size": an order to buy and sell at least 25,000 shares of the same security (A) at a price equal to or better than the best bid or offer displayed in the electronic book and, for listed securities, equal to or better than the NBBO; (B) where the size of the order is larger than the aggregate size of all interest displayed in the electronic book at that price; and (C) where neither side of the order is for the account of the CHX Participant sending the order to the electronic book.
- (5) "Non-regular way cross" and "Non-regular way cross with size": Cross and cross with size orders that are for non-regular way settlement. These orders may be

executed without regard to either the NBBO or orders for regular way settlement that might be in the electronic book.

(d) Orders may be entered by a Participant on its own behalf (a proprietary or professional order) or for the account of a customer (an agency order). In the electronic book, however, agency orders are subject to the same display and execution processes as professional orders and agency orders do not receive any priority in order execution or handling.

(e) In listed securities, an order is not eligible for execution in the electronic book if its execution would cause an improper trade-through of another ITS market. If the execution of an order in the electronic book would cause an improper trade-through of another ITS market, that order will be automatically cancelled. Additionally, in listed securities, an order is not eligible for display in the electronic book if its display would improperly lock or cross another ITS market. An order in a listed security that improperly locks or crosses another ITS market shall be automatically cancelled.

(f) In Nasdaq/NM securities, an inbound order in a Nasdaq/NM security that locks or crosses the NBBO at the time it is received shall be automatically cancelled.

(g) All orders submitted to the electronic book are good for the day on which they are submitted only and shall be automatically cancelled at the end of each day's trading session.]

[••• Interpretations and Policies: ]

[.01 The term "NBBO" shall have the meaning set out in Article XX, Rule 37(a)(2).]

### **[Operating Hours]**

**[RULE 3. (a)** The electronic book will operate during the Exchange's Primary and Post-Primary Trading Sessions, as further described below.

(b) The electronic book will accept orders each day once the primary market for a security opens its market. For purposes of this rule, the primary market for a security is, unless otherwise designated by the Committee on Exchange Procedure, the listing market for a security; provided, however, that if a security is traded by the NYSE, then the primary market for such security is the NYSE and if a security is traded by the Amex, then the primary market for such security is the Amex. If a security is traded on both the NYSE and the Amex, whichever of the two is the listing market is the primary market. If a security is listed on both the NYSE and Nasdaq, the NYSE will be considered the primary market.

(c) The electronic book will close at 3:30 p.m. (Central Time).

(d) The electronic book will not operate during regulatory halts called by the primary or listing market in a security, in accordance with rules set out in the appropriate transaction reporting plans. Additionally, the electronic book will halt its operation during periods of market volatility following the rules in Article IX, Rule 10A. If trading in an issue has been halted, all orders in that issue will be automatically cancelled; the Exchange will not accept any orders for the electronic book in an issue during a trading halt and until the primary market for the security has re-opened.]

### **[Operation of the Electronic Book]**

**[RULE 4. (a) Routing of orders. Orders shall be routed to the electronic book using one of the following methods:**

- (1) Except for the orders described in paragraph (2) below, all orders must be sent to the electronic book through the Exchange's MAX system or through other communications lines approved by the Exchange for the delivery of orders by its Participants.
- (2) ITS commitments for ITS-eligible securities traded in the electronic book shall be sent through the ITS system. NASD market participants shall have direct telephonic access to the supervisory center for the Exchange's electronic book to enter orders in the electronic book, for the Nasdaq/NM securities in which those participants are registered with NASD as market makers or as electronic communications networks/alternative trading systems.

(b) Ranking and display of orders. Except for "cross" and "cross with size" orders, which shall be executed as described in paragraph 4(d) below, all orders sent to the electronic book shall be ranked according to their price and time of receipt, as follows:

- (1) Limit orders shall be ranked based on their limit prices and times of receipt by the electronic book.
- (2) All orders shall be immediately and publicly displayed through the processes set out in the appropriate transaction reporting plan for each security when they constitute the best bid or offer in the electronic book for that security.

(c) Automated matching of orders. Orders shall automatically match against each other, as follows:

- (1) Except for "cross" and "cross with size" orders, which shall be executed as described in Rule 4(d), below, an incoming order shall be matched against one or more orders in the electronic book, in the order of their ranking, at the price of each order, for the full amount of shares available at that price, or for the size of the incoming order, if smaller.



- (2) If an incoming order cannot be matched when it is received and it is not designated as a type that should be immediately cancelled, the order shall be placed in the electronic book and ranked as described in Rule 4(b) above.
- (3) An inbound ITS commitment, if it is priced at or better than the current BBO in the electronic book, shall be automatically matched against the order(s) reflected in the BBO, for the full amount of shares available at that price, and any remaining portion of the ITS commitment shall be automatically cancelled.
- (4) In listed securities, orders shall only be matched at prices that are equal to, or better than, the NBBO.

(d) Submission of cross or cross with size orders. Cross or cross with size orders shall be automatically executed if they meet the requirements set out in Rule 2(c)(3), 2(c)(4) and 2(c)(5) above. If an order designated as cross or cross with size does not meet the requirements for its designation at the time it is received by the electronic book, it shall be immediately cancelled.]

#### **[Cancellation of Transactions]**

[RULE 5. A transaction made in demonstrable error and cancelled by both parties may be unwound, subject to the approval of the Exchange. Unresolved controversies relating to transactions that occur in the electronic book, and which are not addressed pursuant to the procedures in Rule 7, below, shall be subject to the arbitration rules of the Exchange set out in Article VIII, Rules 23 and 24.]

#### **[Registration of Market Makers]**

[RULE 6. Upon application and approval by the Exchange, any Exchange floor Participant may register as a market maker in one or more of the securities traded in the electronic book. A market maker shall meet the following requirements and shall have the following obligations:

(a) Registration. Applicants seeking to register as electronic book market makers must submit an application on the form(s) required by the Exchange. The Committee on Exchange Procedure shall consider each application, considering factors including, but not limited to, an applicant's financial and technical resources, trading experience, personnel and disciplinary history. The Committee shall approve or disapprove each application, providing written reasons for any disapproval. If an application is not approved, the applicant may obtain review of the decision by the Exchange's Executive Committee by filing a written request for review with the Secretary of the Exchange within five business days after being notified of the disapproval.

(b) Obligations of a market maker. Each market maker must maintain a continuous, two-sided market in each of the securities in which he or she is registered. Each market maker also must engage to a reasonable degree under existing circumstances

in a course of dealing in the securities in which he or she is registered that is reasonably calculated to contribute to the maintenance of a fair and orderly market.

(c) Utilization of exempt credit. Exchange Participants registered as electronic book market makers are registered as dealers on the Exchange for purposes of the Securities Exchange Act of 1934 and the rules and regulations under that Act.

(d) Suspension or termination of registration. The registration of a market maker may be suspended or terminated by the Committee on Exchange Procedure based upon a finding that the market maker has not satisfactorily performed his or her responsibilities as defined in the federal securities laws and the rules of the Exchange. Proceedings to suspend or terminate the registration of a market maker shall be conducted in accordance with the procedures set out in Article XVII of the Exchange's Rules.]

### **[Handling of Clearly Erroneous Transactions]**

**[RULE 7.** The Exchange will respond to requests for review of clearly erroneous transactions using the following procedures:

(a) The terms of a transaction are "clearly erroneous" where there is an obvious error in any term, such as price, number of shares or other unit of trading, or identification of the security.

(b) Any Participant may request a review of an execution received through the electronic book when the Participant believes that the terms of the transaction were clearly erroneous when submitted.

- (1) The Participant must make a request for review by telephone immediately after the execution and also must provide a written request, by facsimile or by e-mail, within 15 minutes after the execution.
- (2) The Exchange shall promptly notify the other party to the transaction of the request for review.
- (3) The Participant making a request for review shall provide, within 30 minutes after making the written request for review (or within such longer period of time specified by Exchange staff), written documentation relating to the disputed transaction that is reasonably necessary for use by the Exchange in resolving the matter. The other party to the transaction shall provide, within 30 minutes after receiving notice from the Exchange of the request for review (or within such longer period of time specified by Exchange staff), written documentation relating to the disputed transaction that is reasonably necessary for use by the Exchange in resolving the matter. Once a party has submitted its documentation, and the period for providing the documentation has ended (or, if earlier, the party has notified the Exchange that it has no further information), the party may not provide additional

information unless requested to do so by Exchange staff. Either party to the transaction may request, and the Exchange shall provide, the written documentation submitted by the other party.

- (4) The Exchange, acting through one of its officers designated by the Chief Executive Officer, shall review the transaction and determine whether it is clearly erroneous. In making that determination, the officer shall consider the goals of maintaining a fair and orderly market and the protection of investors and the public interest.

(c) If the Exchange officer determines that a transaction is not clearly erroneous, the officer shall notify both parties, in writing, that no action will be taken with respect to the completed trade. If the Exchange officer determines that a transaction is clearly erroneous, the officer shall declare the transaction null and void or modify one or more of the terms of the transaction with the aim of trying to return the parties to the positions that they would have been in (or to positions reasonably similar to those positions) if the error had not occurred. The officer shall document this decision in writing and provide copies of the decision to all parties.

(d) Either party may appeal this determination to a subcommittee of the Exchange's Committee on Exchange Procedure by submitting an appeal to the Exchange's Secretary, by facsimile or in writing, within 30 minutes after receiving the Exchange's written decision or, if the Exchange notifies parties of its decision after 3:00 p.m. (Central Time), by 8:30 a.m. (Central Time), the next trading day. Once an appeal is received, the Exchange shall notify the counterparty to the trade and both parties and the Exchange itself will be permitted to submit any additional supporting written materials up to the time that the subcommittee considers the appeal. Either party to a disputed trade may request, and the Exchange shall provide, the written documentation presented to the subcommittee by the other party or by the Exchange. An appeal does not operate as a stay on the decision being appealed. After consideration of any written materials provided by the parties or by the Exchange, and after any hearings that the subcommittee may hold, the subcommittee, using the standards set out in this rule, shall affirm, modify or reverse the original decision. The subcommittee's decision on a matter may be appealed to the full Committee on Exchange Procedure as set out in CHX Article IV, Rule 3, except that the appeal does not operate as a stay on the decision of the subcommittee. The decision of the Exchange's Committee on Exchange Procedure shall be the final Exchange action on the matter. Any decision by an Exchange officer under section (c) above or by the Committee on Exchange Procedure or any of its subcommittees under this section (d) shall be rendered without prejudice as to the rights of the parties to the transaction to submit their dispute to arbitration.

(e) If there is any disruption or malfunction in the use or operation of the electronic book, or the communications systems associated with the electronic book, the Chief Executive Officer, or another officer designated by the Chief Executive Officer may declare any transaction arising out of the use of the electronic book during the period of the disruption or malfunction null and void or may modify the terms of these

transactions. In making this decision, the Chief Executive Officer, or any designee, must find that the transactions were clearly erroneous or that the actions are necessary for the maintenance of a fair and orderly market or the protection of investors and the public interest. Absent extraordinary circumstances, any action by the Chief Executive Officer or other designee shall be taken within 30 minutes of detection of the erroneous transaction, but in no event later than 2:00 p.m., Central Time, on the trading day following the date of the trade at issue. The Exchange shall notify each Participant involved in the transaction as soon as practicable following the decision and any party to the transaction may appeal that decision by following the procedures set out above in section (d) of this rule.]

#### **[Clearing the Electronic Book]**

[RULE 8. Unless a customer specifically requests otherwise, all orders in securities traded in the electronic book that are received on the floor of the Exchange must clear the electronic book before the orders may be routed to another market. Any customer directives for special handling of orders must be documented and reported to the Exchange. Customer directives for special handling of all orders in a particular stock or all stocks will not be considered exceptions to this rule.]

#### **[Application of CHX Rules]**

[RULE 9. The rules and procedures in this Article shall apply to trading conducted in the electronic book. Unless otherwise defined in this Article, terms used in this Article shall have the same meanings given them elsewhere in the Rules. Except where the context requires otherwise, the provisions of the bylaws and all other Rules and policies of the Board of Directors shall continue to be applicable to trading that occurs in the electronic book. If any rule in this Article is inconsistent with any other provision of the Rules, the provisions of this Article shall control and shall be deemed to supplement or amend the inconsistent provision.]

**[ARTICLE XXI]**

**[Exchange of Contracts, Tickets and Comparisons]**

**[Reporting of Transactions]**

[RULE 1. The Exchange shall report all transactions executed on the Floor during the Primary Trading Session, Post Primary Trading Session, or, when it is in operation, through the Portfolio Trading System. It shall be the duty of every Participant to advise the Exchange of each of his transactions as promptly as possible.]

**[Comparison of Transactions]**

[RULE 2. Every Participant shall keep his or its office open to a sufficiently late hour to enable other Participants reasonably to complete comparisons each day. Participants who make transactions on the Floor but clear through other Participants shall be responsible for the maintenance of adequate facilities for the comparison of their transactions.]

**[Delivery of Tickets to Be Compared]**

[RULE 3. As soon as possible after the execution of a transaction on the Floor of the Exchange, the executing Participant shall either (a) submit the trade ticket to the assigned Exchange employee or (b) input the transaction information using an automated functionality approved by the Exchange, to report such transaction to the Exchange for dissemination. Transactions initiated via the Midwest Automatic Execution System (MAX) automatically report trades for dissemination. When the report of such transactions, including transactions through MAX, is reported back to the Floor, it shall be the obligation of the parties to review promptly such report and to report any exceptions and make such corrections as shall be necessary in accordance with these Rules.]

[Responsibility for any loss incurred through failure to comply with this rule shall rest solely on the parties failing to conform.]

***[••• Interpretations and Policies: ]***

[.01 Participants shall only submit to the Exchange trade data for transactions executed on the Floor of the Exchange pursuant to this Rule for dissemination or for forwarding to a Qualified Clearing Agency.]

**[Procedure for Trade Recording with a Qualified Clearing Agency]**

[RULE 4. (a) Every Participant which clears transactions executed on the Floor of the Exchange shall maintain an account, upon such terms and conditions as the Exchange may prescribe, with a Qualified Clearing Agency for the recording of such transactions.]

[(b) Every Participant registered as a specialist or market maker shall maintain a special, designated account at a Qualified Clearing Agency or shall maintain such an account through a Participant Firm or other entity approved by the Exchange which is a participant of a Qualified Clearing Agency, upon such terms and conditions as the Exchange may prescribe, in which all transactions in securities relating to such Participant's activities as a specialist or market maker are recorded.]

[(c) The Exchange, either directly or through an affiliate, shall submit trade data reported to it regarding every transaction executed on the Floor of the Exchange to a Qualified Clearing Agency for recording, but each party to a transaction shall be free to select a Fully-Interfaced Clearing Agency of its choice for purposes of clearance and settlement of such transaction; provided, however, that this paragraph shall not apply if it is otherwise mutually agreed upon by both parties to the contract.]

[(d) Transactions which are not submitted to a Fully-Interfaced Clearing Agency for clearance and settlement pursuant to the rules of such Clearing Agency shall be settled in accordance with the Rules of the Exchange.]

**[••• Interpretations and Policies: ]**

[.01 Definition of Registered Clearing Agency ]

[The term "Registered Clearing Agency" shall mean a clearing agency as defined in Section 3(a)(23) of the Exchange Act which is registered with the Commission pursuant to the provisions of the Section 19(a) of the Exchange Act.]

[.02 Definition of Fully-Interfaced Clearing Agency ]

[The term "Fully-Interfaced Clearing Agency" shall mean a Registered Clearing Agency which, in conjunction with the Registered Clearing Agency selected by the contra-party to the contract, has established systems for the clearance and settlement of securities contracts in a manner which does not require each party to a contract to be a participant in the same Registered Clearing Agency.]

[.03 Definition of a Qualified Clearing Agency ]

[For purposes of this Rule, the term "Qualified Clearing Agency" shall mean a Fully Interfaced Clearing Agency which has entered into an agreement with the Exchange pursuant to which it will (i) provide such services to the Exchange and its Participants as the Exchange, and such Qualified Clearing Agency shall from time to time agree, (ii) maintain facilities through which Exchange Contracts may be recorded, cleared and

settled, and (iii) supply the Exchange with data reasonably necessary and requested in order to permit the Exchange to enforce compliance by its Participants with the provisions of the Exchange Act, the rules and regulations thereunder and the Rules of the Exchange.]

**[Unidentified Comparison Ticket]**

[RULE 5. When a report of transactions is received by a Participant which contains a transaction of which the recipient has no knowledge, it shall be the obligation of the parties affected to reconcile the transaction on the floor of the Exchange.]

**[Duty of Buyer of Bonds]**

[RULE 6. It shall be the duty of the buyer of bonds to investigate before 10:00 A.M. of the business day following the purchase, each transaction which has not been compared by the seller.]

**[Give Up by Specialists and Floor Brokers]**

[RULE 7. When specialists and other Floor brokers give up other names, Participants receiving such give-ups shall immediately record such names on their records.]

**[Failure to Effect Comparison]**

[RULE 8. The neglect or failure of a Participant to effect comparison shall constitute a default and such defaulted contract may be closed "under the rule."]

**["Fail to Deliver" Ticket]**

[RULE 9. If a delivery on a contract has not been made on the due date, either the buyer or the seller may, while such contract remains open, send to the other party, in duplicate, a "fail to deliver" confirmation.]

[When a "fail to deliver" confirmation is sent to a Participant, the party to whom the confirmation is presented shall retain the original, if it be correct, and promptly return the duplicate stamped and initialed. If such party has no knowledge thereof, the confirmation shall be stamped "don't know."]

**[Comparison Does Not Create Contract]**

[RULE 10. No comparison or failure to compare, and no notification or acceptance of notification, such as notification of failure to receive or failure to deliver, shall have the effect of creating or of cancelling a contract, or of changing the terms thereof, or of releasing the original parties from liability.]

[RULE 11. Reserved for future use.]

[RULE 12. Reserved for future use.]

**[Acting as Agent for Participants]**

[RULE 13. Upon written application and acceptance, the Exchange may enter into an agreement with a Participant. Such Agreement may authorize the Exchange to perform various functions on behalf of and as agent of such Participant, including but not limited to, drawing upon and depositing to such Participant's bank account, borrowing of securities, providing and keeping reports and records, performance of special cashiering functions, and performance of such other functions as are deemed appropriate or desirable.]

**[Guaranty]**

[RULE 14. The Exchange may, from time to time, provide a guaranty to a Qualified Clearing Agency and the Depository Trust Company ("DTC"), as the case may be, to guarantee the obligations of the Midwest Clearing Corporation and Midwest Securities Trust Company, if applicable, to such Qualified Clearing Agency and DTC, respectively. In the event that the Exchange incurs any loss, liability, cost, damage or expense (including attorneys' fees) arising out of or in any manner related to such guaranty, all Participants that maintain a Sponsored Account or Temporary Sponsored Account (as those terms are defined in MCC's and MSTC's Rules) with MCC or MSTC, as the case may be, shall jointly and severally indemnify and hold the Exchange harmless against such loss, liability, cost, damage or expense (including attorneys' fees); provided, however, Participants shall not be liable for any loss, liability, cost, damage or expense that may have arisen solely by reason of the grossly negligent, fraudulent or criminal acts of MCC, MSTC or the Exchange.]



**[ARTICLE XXII]**  
**[Settlement of Exchange Contracts]**

**[Exchange Contracts Extended or Postponed]**

[RULE 1. Anything contained in the Rules to the contrary notwithstanding, (1) the Board of Governors may extend or postpone the time for the performance of Exchange Contracts whenever, in its opinion, such action is called for by the public interest or by just and equitable principles of trade, or to meet unusual conditions; and (2) unless otherwise directed by the Exchange, all contracts which would otherwise be due on any day on which deliveries are suspended under clause (1) shall be due and settled on the next day on which deliveries are resumed and all other contracts due for settlement after any day on which deliveries are so suspended shall be settled on the original due dates of such contracts.]

**[Delivery Time of Securities]**

[RULE 2. Deliveries of securities on a full business day, except as provided in Rule 3 of this Article and except for securities to be delivered pursuant to the rules of a registered clearing agency, shall be due before 12:00 Noon unless the Exchange shall advance or extend the time within which securities deliverable through it may be delivered, in which event the time within which other securities may be delivered shall thereby be similarly advanced or extended.]

**[Delivery on Cash Contracts]**

[RULE 3. Deliveries against transactions made for "cash" at or before 12:00 Noon on a full business day shall be due before 12:15 P.M. Deliveries against transactions made for "cash" after 12:00 Noon on a full business day shall be due within 30 minutes after the time of the transaction.]

**[Contracts Due on Saturday or Holiday]**

[RULE 4. All contracts which otherwise fall due on a Saturday or a holiday, shall mature on the succeeding full business day, unless otherwise agreed. The Exchange may, however, in any specific case direct otherwise.]

**[Deliveries on "Seller's Option"]**

[RULE 5. When securities have been sold "seller's option" deliveries shall be due on the day of the expiration of the option (unless such day is a holiday or Saturday, when the preceding Rule shall apply) but may be made at the option of the seller on any full business day prior thereto upon one day's written notice. Such notice shall be given by the seller before 4:00 P.M. on a full business day and may not be given until the day when delivery would have been due if the contract had been made "regular way".]

[When securities have been sold "regular way delayed delivery", delivery may be made at the option of the seller on any full business day prior to the day the contract is due, without advance notice, except that such delivery shall not be made before the fourth full business day following the day of the contract. A notice given pursuant to the provisions of this Rule shall be considered as in full force until delivery is made.]

### **[Failure to Deliver]**

[RULE 6. If securities due on any particular day are not delivered within the time hereinabove specified, the contract may be closed "under the rule". If not so closed, and in the absence of any notice or agreement, the contract shall continue without interest until the following business day; but in every case of non-delivery of securities, the party in default shall be liable for any damages which may accrue thereby. All claims for such damages shall be made promptly.]

[••• Interpretations and Policies: ]

[.01 With respect to the above Rule, the Executive Committee has established the following interpretation and policy in connection with claims for damages resulting from the inability of a member to make a tender offer or subscription date because of a failure to receive:

Any firm with an open contract, where the intention is to tender the purchased stock, should maintain close supervision of its open item; and, where it becomes probable that delivery may not be made in time to meet the tender date, action should be taken by the buying firm.

A recommended procedure is the use of a "Letter of Protection." Under this procedure, the buyer would contact the selling firm and request delivery sufficiently in advance of the tender date to be in a position to tender stock or to effect a buy-in. The buying firm may be satisfied by receiving the certificate numbers, in advance of delivery, for protection in transmitting these certificate numbers to the tender agent, assuming that the tender agent will permit this practice. Firms must be careful that the certificates actually delivered correspond to the numbers given earlier; otherwise the tender agent may reject the delivery. The buying firm may be willing to accept a commitment from the failing firm rather than take any other action; if so, the buyer would request at this point a "Letter of Protection" from the seller which would state, in effect, that it would deliver the equivalent of the tendered stock in the future. This requires the buying firm to state, in advance of the tender cut-off date, his intention regarding the tender.

If the seller neglects to afford protection to the buyer's satisfaction, the buyer should utilize the provisions of Rule 4, Article IX for closing the contract. If the stock cannot be bought in, or if the "Letter of Protection" procedure is followed but no ultimate settlement is made, claims under the rule should be made within several business days of the exchange date, or the date that promised settlement was not effected.

In reviewing claims under the rule, the Exchange will depend to a great extent on the documentation of the effort made by the buying firm to obtain delivery. It also should be understood that, in order to be valid, a claim should be made promptly relative to the circumstances involved.]

**[Option of Receiver]**

[RULE 7. The receiver of shares of stock other than shares deliverable pursuant to the rules of a registered clearing agency shall have the option of requiring the delivery to be made either in securities therefor or by transfer thereof; except that in cases where personal liability attaches to ownership, the seller shall have the right to make delivery by transfer.

The right to require receipt or delivery by transfer shall not obtain while the transfer books are closed.]

**[Transfer Expense]**

[RULE 8. If the transfer of securities entails any expense (such as transfer fees, additional taxes, etc.) which is not ordinarily payable on a sale of such securities, the expense shall be borne by the party at whose instance the transfer is made.

If delivery is made during the closing of the transfer books with an assignment executed as hereinafter provided, the expense of making transfer shall be borne by the party who first delivered the security during the closing of the transfer books.

The Exchange may in any particular case direct otherwise.]

**[Payment on Delivery]**

[RULE 9. In all deliveries of securities other than securities deliverable pursuant to the rules of a registered clearing agency, the party delivering shall have the right to require the purchase money to be paid upon delivery. If delivery is made by transfer, payment may be required at the time and place of transfer.]

**[Deduction of Damages for Non-delivery Prohibited]**

[RULE 10. Parties receiving securities shall not deduct from the purchase price any damages claimed for non-delivery, except with the consent of the party delivering the same.]

**[Stock Certificates]**

[RULE 11. Unless otherwise agreed, stock certificates delivered in settlement of contracts in stock in which the unit of trading is 100 shares shall be for the exact amount of the trading unit, for smaller amounts aggregating the trading unit, or for any multiple of the trading unit.

Unless otherwise agreed, stock certificates delivered in settlement of contracts in stocks in which the unit of trading is less than 100 shares shall be for the exact amount of stock sold or for smaller amounts aggregating the amount sold.

Unless otherwise agreed, stock certificates delivered in settlement of contracts in stocks for less than the unit of trading shall be for the exact amount of stock sold or for smaller amounts aggregating the amount sold.]

**[Delivery of Coupon Bonds]**

[RULE 12. Unless otherwise agreed, coupon bonds shall be delivered in denominations of \$1,000 or \$500 each.]

**[Delivery of Registered Bonds]**

[RULE 13. Unless otherwise agreed, registered bonds shall be delivered in denominations of not less than \$500 and not more than \$10,000.]

**[Buyer's Option to Accept]**

[RULE 14. The buyer shall accept any portion of a lot of securities contracted for or due on a security balance if tendered in lots of one trading unit or multiples thereof, and may buy in the undelivered portion; but on sales made "seller's option" or "regular way delayed delivery", the buyer shall not be required to accept, before the date of the expiration of the option, a portion of a lot of securities contracted for.]

**["Part-Paid" Securities]**

[RULE 15. Securities which have been partly paid for on subscription shall be described as "part-paid" securities.]

[The settlement price of contracts in part-paid securities shall be determined by deducting from the contract price the unpaid portion of the subscription price.]

**[Delivery of Securities Subject to Tax on Transfer or Sale]**

[RULE 16. Each delivery of securities subject to tax on transfer or sale must be accompanied by a sales ticket stamped in accordance with the laws of the United States or the securities themselves must be so stamped, except that in the case of securities cleared by or delivered by any registered clearing agency, sales tickets or securities so stamped shall be delivered in accordance with such agency's Rules.]

**[Accompaniment of Proper Assignment]**

[RULE 17. A certificate of stock, a registered bond, or other registered security shall be accompanied by a proper assignment, executed either on the certificate itself or on a separate paper, in which latter case there shall be a separate assignment for each certificate or bond. There may be more than one certificate accompanying each assignment if all certificates as of the same issue have the identical registration and prior notice of delivery has been received in accordance with the policies of the Exchange.]

**[Provision for Appointment of Attorney]**

[RULE 18. A separate assignment shall contain provision for the irrevocable appointment of an attorney, with power of substitution and a full description of the security, and shall be in the form approved by the Exchange. The number of shares of stock or the principal amount of the bond shall be expressed in both words and numerals.]

**[Power of Substitution by Individual, Firm or Corporation Participant]**

[RULE 19. The following procedure must be followed in the delivery of securities, except for securities to be delivered pursuant to the rules of a registered clearing agency:

When the name of an individual, firm or corporation has been inserted in an assignment, as attorney, a power of substitution shall be executed in blank by such individual, firm or corporation.

When the name of an individual, firm or corporation has been inserted in a power of substitution, as substitute attorney, a new power of substitution shall be executed in blank by such substitute attorney.]

**[Explanation of Alteration or Correction in Assignment]**

[RULE 20. Any alteration or correction in an assignment, power of substitution, or other instrument shall be accompanied by an explanation on the original instrument signed by the person, firm or corporation executing the same.]

**[Signature to Assignment or Power of Substitution]**

[RULE 21. The signature to an assignment or power of substitution shall be technically correct; i.e., it shall correspond with the name as written upon the certificate in every particular without alteration or enlargement, or any change whatever, except that "and" or "&", "Company" or "Co." may be written either way. Machine imprinted facsimile signatures may be used as provided in the Rules.]

**[Participant Shall Be Able to Mechanically Reproduce Facsimile Signature to Assign Securities and Execute Powers of Substitution]**

[RULE 22. A Participant may assign securities registered in the name of such Participant, and may execute powers of substitution, by means of a mechanically reproduced facsimile signature, provided the Participant shall have executed and filed with the Exchange, in the form prescribed by it, an agreement with respect to the use of such facsimile signature and shall have complied with such other requirements as may be prescribed by the Exchange in connection with the use of facsimile signatures.]

**[When Participant Corporation May Assign Securities and Execute Substitution by Facsimile Signature]**

[RULE 23. A Participant corporation may assign securities registered in the name of such Participant corporation and may execute powers of substitution, by means of a mechanically reproduced facsimile signature of an officer of such corporation, provided the Participant corporation shall have (1) executed and filed with the Exchange, in the form prescribed by it, an agreement with respect to the use of such facsimile signature, (2) filed with the Exchange, in the form prescribed by it, a certified copy of resolutions of the Board of Directors of such corporation authorizing the execution and filing with the Exchange of such agreement, and (3) complied with such other requirements as may be prescribed by the Exchange in connection with the use of facsimile signatures.]

**[Facsimile Signature of Registered Clearing Agency and Nominee]**

[RULE 24. A registered clearing agency and any nominee of a registered clearing agency may each assign and execute powers of substitution for any security registered in their respective names or with respect to which they have, respectively, been appointed attorney, by means of a mechanically reproduced facsimile signature, provided such registered clearing agency shall have (1) executed and filed with the Exchange, in the form prescribed by it, an agreement with respect to the use of each such facsimile signature, (2) filed with the Exchange, in the form prescribed by it, a certified copy of resolutions of the Board of Directors of such registered clearing agency authorizing the execution and filing with the Exchange of such agreement, and (3) complied with such other requirements as may be prescribed by the Exchange in connection with the use of facsimile signatures.]

**["Proper Papers for Transfer Filed by Assignor"]**

[RULE 25. A certificate in the name of a corporation or institution or in a name with official designation shall be a delivery only if the statement "proper papers for transfer filed by assignor" is placed on the assignment and signed by the transfer agent. A separate assignment or a power of substitution in the name of a corporation or an institution, or in a name with official designation, in order to effect a delivery of the certificate accompanying such separate assignment or power of substitution, must likewise be so endorsed in order to be a delivery.]

**[Legal Assignments]**

[RULE 26. A certificate shall not be a delivery except as noted under (a), (b) or (c) below with an assignment or power of substitution executed by a: (1) person since deceased; (2) trustee or trustees, except trustees acting in the capacity of a board of directors of a corporation or association in which case the applicable delivery rule shall apply; (3) guardian; (4) infant; (5) executor; (6) administrator; (7) receiver in bankruptcy; (8) agent; or (9) attorney, except as provided in Rule 26 of Article VI.

Exceptions:

- (a) Domestic individual executor/s or administrator/s.
- (b) Domestic individual trustee/s under inter vivos or testamentary trusts.
- (c) Domestic guardian/s, including committees, conservators and curators.

••• Interpretations and Policies:

.10 "Exception—Domestic"—the above exceptions to the Rule are to cover transfers that will be effected by transfer agents without additional documentation. Such exceptions apply only to securities of a domestic issuer (one organized under the laws of any state of the United States and the District of Columbia), which bear the above domestic registrations set forth in (a), (b) and (c). Certificates bearing such registrations must be properly assigned and the signature(s) to the assignment must be guaranteed, pursuant to Rule 33 of Article VI.]

**[Assigning of Registered Securities in Name of Participant]**

[RULE 27. A Participant may authorize one or more persons who are either his or its employees or who are officers or employees of a registered clearing agency, to assign registered securities in the name of such Participant and to guarantee assignments with the same effect as if the name of such Participant had been signed under like circumstances by such Participant or by one of the partners or officers of the Participant Firm by executing and filing with the Exchange, in a form prescribed by it, a separate Power of Attorney for each person so authorized.]

**[Certificate Executed by Insolvent]**

[RULE 28. A certificate with an assignment or power of substitution executed by an insolvent shall be a delivery only during the closing of the transfer books, during which time such a certificate shall be a delivery only if held by others than the insolvent and if it is accompanied by an affidavit that the said certificate was so held on a date prior to the insolvency and the signature to the assignment or power of substitution is guaranteed as hereinabove provided.]

**[Certificate Executed by Partnership or Corporation]**

[RULE 29. A certificate with an assignment or power of substitution executed by a partnership or corporation that has ceased to exist shall be a delivery only during the closing of the transfer books, provided the execution of the assignment or power of substitution is properly acknowledged and the signature thereto is guaranteed as hereinabove provided.]

**[Certificate Dissolved and Succeeded by Partnership or Corporation]**

[RULE 30. A certificate with an assignment or a power of substitution executed by a partnership or a corporation that has since dissolved and is succeeded by a partnership or corporation having, as the case may be, as general partners, one or more of the general partners of the dissolved firm, or as officers one or more of the officers of the dissolved corporation, shall be a delivery only if the new firm or corporation shall have signed the statement "execution guaranteed" as of the date of or a date subsequent to the formation of the new firm or the incorporation of a new corporation so signing.]

**[Certificate Executed by Firm or Corporation Which Changed Name]**

[RULE 31. A certificate with an assignment or power of substitution executed by a firm or corporation the name of which has since been changed, shall be a delivery only if the firm or corporation shall have signed the statement "execution guaranteed" as of the date of or a date subsequent to the change in name.]

**[Certificate with Qualification]**

[RULE 32. A certificate with an inscription to indicate a qualification, restriction or special designation, shall not be a delivery.

A certificate with an inscription to indicate tenancy in common shall be a delivery only if signed by all co-tenants.]

**[Certificate Executed in Names of Two or More]**

[RULE 33. A certificate executed in the names of two or more individuals or firms shall be a delivery only if signed by all of the registered owners.]



**[Signature Not in Name of Participant]**

[RULE 34. Except with respect to securities to be delivered pursuant to the rules of a registered clearing agency the signature to an assignment of a certificate not in the name of a Participant or a nominee of a registered clearing agency whose signatures are on file with and acceptable to the transfer agent shall be guaranteed by a Participant of the Exchange, or a member of the New York Stock Exchange or by a commercial bank or trust company in the locality of the Exchange or a correspondent thereof. Each signature to a power of substitution executed by other than a Participant or nominee of a registered clearing agency whose signatures are on file with and acceptable to the transfer agent shall be guaranteed in like manner.]

**[Endorsement or Guarantee of Assignment or Power of Substitution]**

[RULE 35. An endorsement or guarantee of an assignment or power of substitution shall be a guarantee of the signature to such assignment or power of substitution and shall also be a guarantee of the legal capacity and authority of the signer.]

**[Transfer Books Which Are Closed Indefinitely]**

[RULE 36. The Exchange may, in particular cases, direct that assignments and powers of substitution on certificates of a company whose transfer books are closed indefinitely be properly acknowledged.

Acknowledgments, affidavits or depositions shall be executed before an officer having authority to take acknowledgments under the laws of the State in which such instruments are executed and shall bear the signature and seal of the officer before whom the acknowledgment is taken.]

**[Book-Entry Settlement Requirements]**

[RULE 37. (a) A Participant shall use the facilities of a securities depository for the book-entry settlement of all transactions in depository eligible securities with another Participant or a member of a national securities exchange or a registered securities association.

(b) A Participant shall not effect a delivery-versus-payment or receipt-versus-payment transaction in a depository eligible security with a customer unless the transaction is settled by book-entry using the facilities of a securities depository.

(c) For purposes of this rule, the term "securities depository" shall mean a securities depository registered as a clearing agency under Section 17A of the Securities Exchange Act of 1934.

(d) The term "depository eligible securities" shall mean securities that (i) are part of an issue if securities that is eligible for deposit at a securities depository and (ii) with respect to a particular transaction, are eligible for book-entry transfer at the depository at the time of settlement of the transaction.

(e) This rule shall not apply to transactions that are settled outside of the United States.

(f) The requirements of this rule shall supersede any inconsistent requirements under other Exchange rules.

(g) This rule shall not apply to any transaction where the securities to be delivered in settlement of the transaction are not on deposit at a securities depository and:

- (i) if the transaction is for same-day settlement, the deliverer cannot by reasonable efforts deposit the securities in a securities depository prior to the cut-off time established by the depository for same-day crediting of deposited securities, or
- (ii) the deliverer cannot by reasonable efforts deposit the securities in a depository prior to a cut-off date established by the depository for that issue of securities.]

**[ARTICLE XXIII  
Reclamations]**

**[Definition]**

[RULE 1. The term "reclamation" as used in this Article means a claim for the right to return, or to demand the return of, securities previously delivered and accepted.]

**[Reclamation of Delivered Security with Irregularity]**

[RULE 2. A security with an irregularity which has been delivered may be returned or reclaimed on the day of delivery up to 2:00 P.M. On a subsequent full business day, delivery on reclamations shall be made before delivery time on such day.]

**[Exchange of Originally Delivered Security]**

[RULE 3. When a security is returned or reclaimed, the party who delivered it shall immediately either give the party presenting it the security in proper form for delivery in exchange for the security originally delivered or pay the current market value therefor. In the latter case, unless otherwise agreed, the party to whom the security is returned shall be deemed to be failing to deliver the security.]

**[Reclamation Time for Irregularity Affecting Only Currency]**

[RULE 4. Reclamation for an irregularity which affects only the currency of the security in the market shall be made within 10 days from the date of original delivery.]

**[Reclamation Time for Certificate Not a Proper Delivery]**

[RULE 5. Reclamation, by reason of the fact that a form of certificate was delivered which was not a proper delivery, but which is exchangeable without charge for a certificate which is a delivery, shall be made within 10 days from the day of original delivery.]

**[Reclamation by Wrong Security Delivered]**

[RULE 6. Reclamation by reason of the fact that the wrong security was delivered may be made without limit of time.]

**[Other Reclamations]**

[RULE 7. Reclamation by reason of the fact that title to a security is called in question or that a security is reported to have been lost or stolen may be made without limit of time and such security must be returned to the party who introduced it into the market.]

Reclamation by reason of the fact that the transfer or payment of the security is prohibited or restricted by law or Governmental authority may be made without limit of time and such security may be returned to the party who introduced it into the market.]

**[Power of Exchange to Direct Otherwise]**

[RULE 8. Notwithstanding the foregoing provisions of this Article, where there are equitable considerations, the Exchange may, in particular cases, direct otherwise, and may also issue special directions in circumstances not specifically covered by these Rules.]

**[ARTICLE XXIV ]**

**[Lending Securities]**

**[Return of Securities Loaned]**

[RULE 1. Unless otherwise agreed, securities loaned may be returned on the next full business day following the day on which notice of intention to return the loan is made.]

**[Notice of Intention to Demand Return]**

[RULE 2. The lender may require the return of a loan of securities on the next full business day following the day on which notice of intention to demand return of the loan is made.]

**[Payment of Interest and Premium]**

[RULE 3. When securities are loaned, any premium payable by the borrower or the interest payable by the lender, shall be at such rates as are agreed upon.]

**[Contract Not Affected]**

[RULE 4. An agreement to pay a premium because of a failure to deliver securities shall not change the nature of the contract and premiums on each subsequent day shall be payable only by mutual agreement. When any such agreement has been made, the party failing to receive shall be regarded as having waived his right to close out the contract "under the rule" on that day.

By mutual agreement a failure to deliver may be changed to a loan of securities in which event the contract shall be subject to all the rules applying to such loans.]

**[Floor Employees Prohibited from Borrowing or Lending]**

[RULE 5. No Floor employee of the Exchange shall take any part in the borrowing or lending of securities.]

**[ARTICLE XXV]**

**[Closing of Contracts]**

**[Disagreement]**

[RULE 1. When a disagreement between Participants arising from a transaction in securities is discovered, the money difference shall forthwith be established by purchase or sale or by mutual agreement.]

**[Insolvency]**

[RULE 2. When an announcement is made of the suspension or expulsion of a Participant, other Participants having Exchange contracts with the suspended or expelled Participant for the purchase, sale or loan of securities, shall without unnecessary delay proceed to close such contracts on the Exchange or in the best available market, unless such contract has been accepted for clearance and settlement by a registered clearing agency in which case such close out should be made in accordance with the rules of such agency. If such a contract be not closed as above provided, the price of settlement shall be fixed by the fair market value at the time when such contract should have been closed under this Rule.]

**[Closing of Contract by Original Party]**

[RULE 3. When a contract in securities has not been compared, or tickets or written contracts have not been exchanged, as required by these Rules, an original party to such contract may close the same at or after 10:00 A.M. of the business day following the day of such default provided that notice, either written or oral, shall have been given to the other original party at least 30 minutes before such closing. If a Participant given up by an original party shall, after he or it has complied with these Rules, be unsuccessful in effecting the comparison required thereby, he or it shall promptly notify the original party who acted for him or it, who may then close the contract as herein provided for original parties.]

**[Default]**

[RULE 4. A contract in securities admitted to dealings on the Exchange other than a contract the close-out of which is governed by the rules of a registered clearing agency, which has not been fulfilled according to the terms thereof may be officially closed by any officer of the Exchange. The order to close such contract shall be delivered to the Exchange and the Participant giving such order shall deliver at the office of the Participant in default notice of intention to make such closing. Every such order and every such notice shall be in writing, and shall state the name of the Participant giving the order, the date of the original contract to be closed, the maturity date of such contract, and the name of the other party thereto. On full business days such notice shall be delivered before 11:45 A.M. and such orders shall be delivered before 1:30 P.M., but

such contracts shall not be closed before 1:35 P.M.; and if the time within which securities may be delivered shall have been extended, the time limits herein referred to shall thereby be similarly extended, and if the time within which securities may be delivered shall have been advanced, the time limit for delivery of such notice of intention to make such closing shall be similarly advanced. When a contract made for "cash" after 1:00 P.M. on a full business day, is to be closed on the same day, the time of the transaction shall be stated on the order and notice, which shall be delivered within 30 minutes after the transaction, and the contract shall not be closed until 35 minutes after the time of the transaction. The closing of a contract may be deferred by order of a member of the Committee on Exchange Procedure whenever, in his opinion, a fair market in which to close the contract is not available, and the Committee on Exchange Procedure may defer the closing of a contract if it determines that the default is due to the existence of a general emergency situation, but no such deferment shall relieve the party in default of any resulting damages. ]

#### **[Retransmission of Notice]**

[RULE 5. Every Participant receiving notice that a contract is to be closed for his or its account because of non-delivery including a notice pursuant to the rules of a registered clearing agency that any obligation of the Participant to deliver securities to the clearing agency or under its rules is to be closed out for his or its own account shall immediately retransmit notice thereof to any other Participant from whom the securities in question are due. Every such retransmitted notice shall be in writing, and shall be delivered at the office of the Participant to whom it is addressed. It shall state the date of the contract upon which the securities are due from such Participant, and the name of the Participant who has given the original order to close.]

#### **[Notice on Less than Full Amount]**

[RULE 6. When notice of intention to close the contract, or retransmitted notice thereof, is given for less than the full amount due, it shall be for not less than one trading unit.]

#### **[Liability Where Contract Closed]**

[RULE 7. The closing of a contract pursuant to these Rules or pursuant to the rules of a registered clearing agency shall be for the account and liability of each succeeding party in interest in such contract and, in case notice that such contract will be closed has been retransmitted as hereinabove provided, such closing shall also automatically close all contracts with respect to which retransmitted notice shall have been delivered prior to the closing. If such retransmitted notice is sent by a Participant before the contract has been closed, but is not received until after such closing, the Participant who sent the same may, unless otherwise agreed, promptly reestablish, by a new sale, the contract with respect to which such notice has been sent. Any money difference resulting from the closing of a contract, or from the reestablishment of a contract as hereinabove provided, shall be paid not later than 2:00 P.M. on the following full business day to the Participant entitled to receive the same.]

**[Immediate Notification Where Contract Closed]**

[RULE 8. When a contract other than a contract the closeout of which is governed by the rules of a registered clearing agency has been closed the Participant who closed the same, or who gave the order to close the same, shall immediately notify the Participant for whose account the contract was closed. Immediate notification shall be given to succeeding parties in interest and to other Participants to whom retransmitted notice as hereinabove provided has been sent. Statements of resulting money differences, if any, shall be rendered immediately.]

**[Duty of Participant Giving Notice to Close]**

[RULE 9. When a Participant has given notice of intention to close a contract for non-delivery, or has retransmitted notice thereof as hereinabove provided, he or it must receive and pay for securities due upon such contract if tendered at his or its office prior to the closing of such contract.

If the person who has in hand the order to close is notified prior to the closing by a Participant that some or all of the securities (but not less than one trading unit) are in his or its physical possession and will be promptly delivered, then the order to close shall not be executed with respect to such securities, and the Participant who has given the original order to close shall accept and pay for such securities, if tendered promptly.

If such securities be not promptly tendered, the Participant who has stated that they would be promptly delivered shall be liable for any resulting damages.]

**[Delivery of Securities]**

[RULE 10. A Participant who has received notice of intention to close a contract, or retransmitted notice thereof, may deliver the securities at the office of the Participant issuing such notice up to 1:30 P.M. He or it may deliver such securities after 1:30 P.M. if notice is given to the Exchange before the execution of the order that he or it has physical possession of the securities.]

**[Liability Where Bid Accepted and Failure to Comply]**

[RULE 11. When a contract is closed, any Participant accepting the bid or offer, and not complying promptly therewith, shall be liable for any damages resulting therefrom.]

**[Method of Closing]**

[RULE 12. No Participant who for his or its own account has given the order to close a contract because of nondelivery, shall fill the order by selling for his or its own account, either directly or through a broker, the securities named therein; and no Participant shall knowingly enable or permit any other person on whose behalf the order to close because of non-delivery has been issued to fill such order by selling for his or its



own account the securities named therein. If a Participant has issued an order to close because of non-delivery and, acting for another principal, supplies the securities named therein, he or it must make delivery in accordance with the terms of the contract thus created, and may not by consent or otherwise fail to make such delivery. The Participant for whose account a contract is being closed, or any succeeding Participant in interest, or any Participant to whom retransmitted notice has been sent, shall not accept the bid or offer, unless such Participant is acting for a principal other than the one for whose account the contract is being closed.]

**[Over-the-Counter Securities]**

[RULE 13. A contract other than a contract governed by the rules of a registered clearing agency in securities not dealt in on the Exchange or in securities which have been suspended from dealings on the Exchange, which has not been fulfilled according to the terms thereof may be closed in the best available market by the party thereto who is not in default and the provisions of the Rules contained in this Article shall be followed as nearly as possible.]

**[ARTICLE XXVI]**

**[Marking to the Market]**

**[Deposits on Contracts]**

[RULE 1. The party who is partially unsecured by reason of a change in the market value of the subject of an Exchange contract, other than a contract as to which marks to the market are governed by the rules of a registered clearing agency, may demand from the other party the difference between the contract price and the market price. The party from whom such difference is demanded shall immediately either (a) pay the same directly or through the facilities of a registered clearing agency if permitted by the rules of such clearing agency to the party who is partially unsecured, in which case the money so paid shall bear interest at the current renewal rate for call loans, except in the case of a loan of securities when the money so paid shall be considered part of such loan, or (b) deposit the same with a registered clearing agency if permitted by its rules.]

**[Procedure and Hours of Call]**

[RULE 2. All demands for the difference between the contract price and the market price shall be made during the hours when the Exchange is open for business, shall be in writing and shall be delivered at the office of the party upon whom the demand is made and shall be complied with immediately.]

[[Reserved.]]

**[Default]**

[RULE 4. If a party to a contract shall fail to comply with the provisions of Rule 1 of this Article, the other party to such contract may cause the same to be closed "under the rule".]

**[ARTICLE XXVII]**

**[Dividends, Interest, Rights and Due-Bills]**

**["Ex-dividend"]**

[RULE 1. Transactions in stocks, except as hereinafter provided, shall be ex-dividend or ex-rights two full business days immediately preceding the date of record fixed by the corporation for the determination of stockholders entitled to receive such dividends or rights, except:

- (a) When such record date occurs upon a holiday or half-holiday, transactions in the stock shall be ex-dividend or ex-rights three full business days immediately preceding the record date;
- (b) "Cash" transactions shall be ex-dividend or ex-rights on the day following the record date;

Notwithstanding the foregoing provisions, the Committee on Floor Procedure may direct that transactions shall be ex-dividend or ex-rights on a day other than that fixed by this Rule.]

**["Ex-warrants"]**

[RULE 2. Transactions in securities which have subscription warrants attached (except those made for "cash") shall be ex-warrants on the second full business day preceding the date of expiration of the warrants, except that when the day of expiration occurs on a holiday or Sunday, said transactions shall be ex-warrants on the third full business day preceding said day of expiration.

Transactions for securities made for "cash" shall be ex-warrants on the business day following the date of expiration of the warrants.

The Exchange may, however, in any specific case, direct otherwise.]

**[Buyer Entitled to Dividend]**

[RULE 3. Unless otherwise agreed, the buyer shall be entitled to receive all dividends, rights and privileges, except voting power, accruing upon securities purchased which are ex-dividend or ex-rights during the pendency of the contract.]

**[Delivery Charge]**

[RULE 4. For the delivery of stock dividends or rights or for the payment of cash dividends pertaining to securities which the holder has failed to transfer, a charge of 1% of such payment or of the value of such stock dividends or rights delivered may be made by the party making such delivery or payment. For stock or scrip dividends or rights the charge shall be computed on the fair market value thereof on the record date or date of closing of books.

No charge shall be made for collecting dividends or rights accruing on securities deliverable on a contract.]

**[Claims for Dividends, Etc.]**

[RULE 5. When the owner of a registered security claims dividends, interest rights, etc. from the party in whose name the security is registered, the registered holder thereof may require the claimant to present the security and also a written statement that he was the holder of the security at the time of the closing of the books and a guarantee from the claimant against future demand for the same as well as the privilege of recording on the security, evidence of making the payment by cash or due-bill.]

**[Excess Amount of Rights]**

[RULE 6. In cases where Participants on the last day for subscription have more rights to subscribe than they or their customers appear to be entitled to by the records of the Participants, the excess amount of rights shall be sold in the best available market and the proceeds of such sales shall be held subject to the claims of the persons entitled to such rights to subscribe.]

**["Due-Bill"]**

[RULE 7. The term "due-bill" as used in these Rules means an assignment, agreement to pay or other instrument employed for the purpose of evidencing the transfer of title to any dividend, interest or rights pertaining to securities contracted for or evidencing the obligation of a seller to deliver such dividend, interest or rights to a subsequent owner.]

**["Due-Bill Check"]**

[RULE 7A. The term "due-bill check" as used in these Rules means a due-bill in the form of a check payable on the date of payment of a cash dividend, which prior to such date shall be considered as a due-bill, as defined in the preceding paragraph, for the amount of such dividend.]

**[Form]**

[RULE 8. Due-bills shall be rendered on a form approved by the Exchange and shall be signed by or in behalf of a Participant by an authorized agent.]

**[Securities Sold Before Ex-dividend or Ex-rights]**

[RULE 9. Unless otherwise directed by the Exchange, or unless the rules of a registered clearing agency apply, when a security is sold before it is ex-dividend or ex-rights and delivery is made after a date fixed by the Exchange, the seller's delivery to the buyer shall be made as follows:

(a) In the case of stock dividends or rights to subscribe, either the dividend or rights, or a due-bill for such dividends or rights, shall accompany the security delivered;

(b) In the case of cash dividends, due-bills or due-bill checks will not be used. Such dividends accruing on a security deliverable on a contract will be computed, reported, collected and/or paid by a registered clearing agency to the Participant.

(c) In the case of cash dividends, where delivery of the security is not made through a registered clearing agency, the security delivered shall be accompanied by a due-bill or a due-bill check for the amount of the dividend.]

#### **[Redemption of Due-Bills—Exceptional Cases]**

[RULE 10. When by direction of the Exchange, a security is not ex-dividend or ex-rights on the date such event would ordinarily take place, and due-bills are required to accompany deliveries, due-bills shall be redeemable on the date fixed by the Exchange. When due-bills are used without specific direction of the Exchange, by reason of deliveries made too late to allow purchasers who are entitled to dividends or rights to effect a transfer of securities, or otherwise, the due-bills shall be redeemable on the date of payment of the dividend or the distribution of rights, except that in the case of rights to subscribe which are entitled to dealings on the Exchange on a "when issued" basis, such due-bills shall be redeemable on the date fixed by the Exchange for settlement of "when issued" contracts on the rights.]

#### **[Redemption of Due-Bills—Normal]**

[RULE 11. A due-bill for stock, rights and warrants shall be redeemable upon presentation to the issuer. If the issuer fails to settle a due-bill for stock, rights or warrants, the Participant presenting such due-bill shall have all the rights and privileges for the closing of contracts provided by Article XXV of the Rules.]

**[ARTICLE XXIX ]**  
**[Special Offerings]**

**[Criteria for Determination of "Special Offering"]**

[RULE 1. Notwithstanding the provisions of any other Rules of the Exchange which might apply, the Exchange may, subject to the provisions of this Article, permit a "Special Offering" to be made through the facilities of the Exchange, provided that the Exchange (after consulting and with the concurrence of a member of the Committee on Floor Procedure) shall have determined that the regular market on the Floor of the Exchange cannot, within a reasonable time and at a reasonable price or prices, absorb the particular block of securities which is to be the subject of such Special Offering. In making such determination, the following factors may be taken into consideration, viz.,

Price Range and Volume

(a) Price range and the volume of transactions in such security on the Floor of the Exchange during the preceding month;

Attempts to Dispose of Security

(b) attempts which have been made to dispose of the security in the regular market on the Floor of the Exchange;

Existing Condition of Specialist's Book

(c) the existing condition of the specialist's book and Floor quotations with respect to such security;

Past and Current Interest

(d) the apparent past and current interest in such security in such regular market on the Floor, and

Number of Shares and Market Value

(e) the number of shares or bonds and the current market value of the block of such security proposed to be covered by such Special Offering.

Except in special circumstances a Special Offering will not be permitted unless the offering involves, in the case of a stock, at least 1,000 shares and an aggregate market value of \$10,000; and in the case of a bond, at least \$15,000 principal amount and an aggregate market value of \$10,000; provided, however, that in the case of a stock that is listed or has its primary market on a national securities exchange in the City of New York a Special Offering will not be permitted except in special circumstances, unless the offering involves at least 1,000 shares of stock and an aggregate market value of \$25,000.]

**["Special Offering" Defined]**

[RULE 2. A Special Offering is defined as an offering (designated as a fixed-price offering) by one or more Participants acting for his or their own account or for the account of one or more other persons, for the sale of a block of a listed security through the facilities of the Exchange at a price not in excess of the last sale of such security or the current offer of such security in the regular market on the Floor of the Exchange, whichever is the lower, but not lower than the current bid for such security in such market, whereby the offeror agrees to pay a commission to such Participants as may accept all or any part of such offering for the account of his or their customers.]

**[Conditions for Special Offering]**

[RULE 3. No Special Offering, as provided in Rule 1 and 2 of this Article, shall be made unless each of the following conditions is complied with, viz.,

**Owner of Entire Block of Security**

(a) The person for whose account such Special Offering is to be made shall at the time of such Offering be the owner of the entire block of the security so to be offered, except that, for the purpose of stabilizing, there also may be sold for such person's account, or for the account of any Participant offering the block of securities on his behalf, as part of the Special Offering, an amount not to exceed 10% of the shares or bonds owned and originally offered in the Special Offering by such person.

**Written Statement**

(b) The person for whose account such Special Offering is to be made shall include within the Offering all of the security which he then intends to offer within a reasonable time, and there shall be furnished to the Exchange before the Offering is made a written statement by the offeror to that effect or a written statement by his broker stating that the broker has been so advised by the offeror.

**Automatic Suspension of Special Offering**

(c) A Special Offering shall be automatically suspended as long as an offering exists "regular way" at a price which would permit a purchase at a lower net cost than in the Special Offering. Unless otherwise specifically exempted by the Exchange, every Special Offering shall remain open for a minimum period of 15 minutes, inclusive of any period during which it is suspended by operation of the above provision. A Special Offering which has not been completed in the 15-minute minimum period shall not be withdrawn before completion without the approval of the Exchange.

**Permission to Offer in Regular Market**

(d) The person for whose account such Special Offering is made shall agree that, during the period such Offering is open, he will not offer in the regular market on the Floor of the Exchange any of the security which is the subject of such Special Offering, unless the prior permission of the Exchange is first obtained.

**Participant Prohibited from Receiving Any Part of Commission**

(e) No Participant shall, directly or indirectly, receive any part of the commission referred to in Rule 2 above in connection with any purchase for his or its own account or the account of a partner, officer or director of a Participant Firm or for the account of any other Participant or partner, officer or director thereof, made pursuant to a Special Offering, except that a Participant Firm may accept and retain such commission for its own account in respect of securities purchased as principal for the bona fide purpose of distribution, even though such Participant Firm has been unable to distribute the securities.

**Acceptance Only in Lesser Amount**

(f) A Special Offering shall not be made unless it can be accepted in a lesser amount or amounts than the total of the securities offered.

**Odd Lots and Round Lots**

(g) A Special Offering shall be made for acceptance in round lots or in odd lots, without preference, and in the case of an odd-lot purchase no differential shall be added to the gross purchase price of the Special Offering.

**Firm Basis Allotment**

(h) The offeror may, at the time of the announcement of a Special Offering, allot on a firm basis, to Participant Firms engaged in the distributing business, not more than 50% of the securities involved in the offering. When buying orders in a Special Offering exceed the amount of the Offering, the remainder of the offered securities will be allocated in reasonably proportionate amounts.]

**[Effective Date]**

[RULE 4. A Special Offering, when approved, shall become effective upon announcement by the Exchange on the tape of the terms and conditions of such Offering.]

**[Announcement on Tape]**

[RULE 5. The terms of a Special Offering shall be printed on the tape before it is effective, with a statement, if such be the fact, that stabilizing transactions have been effected or are contemplated and that it is intended to overallot as permitted by Rule 3(a). Transactions effected pursuant to a Special Offering shall, when feasible, be printed currently on the tape, and the tape shall show the gross price and the commission referred in Rule 2 above in a legend such as: "SP OFF 100 XYZ 25 COM \$.50," as well as the number of orders involved in such transaction where more than one order is involved; and after the close of the market, any unprinted remainder of such transactions executed during the day shall be so printed. When the Offering is terminated, an announcement to that effect shall be printed on the tape; and when the intention to stabilize is terminated, such fact shall be announced on the tape, together with a statement that stabilizing transactions have been effected, if such be the fact.]



**[Special Offering Transactions]**

[RULE 6. Transactions effected pursuant to a Special Offering shall not elect the execution of any outstanding "regular way" odd-lot orders.]

**[Approval Conditions]**

[RULE 7. Authorization

(a) A Special Offering may be approved and made only if the person or persons for whose account it is proposed to be made shall have specifically authorized such Offering and its terms.

Confirmation

(b) A Participant effecting for the account of a customer a purchase pursuant to a Special Offering shall confirm such transaction to such customer at the offering price and shall not charge to or collect from such customer any commission on account of such transaction.

The confirmation by a Participant to a buyer or seller in a Special Offering shall state in full the terms and conditions of the Special Offering. The confirmation to a buyer shall state at least:

- (1) That the purchase was part of a Special Offering;
- (2) That no commission is to be charged to the customer;
- (3) That the seller is to pay a commission to the Participant, if such be the fact;
- (4) The amount of such commission;
- (5) The information printed on the tape regarding stabilizing transactions or the intention to stabilize; and
- (6) The nature of the Participant's interest in the Special Offering, if any, other than its interest as a recipient of the commission.

Solicitation of Purchase Orders

(c) A Participant soliciting purchase orders for execution pursuant to a Special Offering shall advise the person so solicited of the terms and conditions of such Offering before effecting any transaction for such person pursuant thereto. Such disclosure shall include at least the items described in sub-paragraphs (1) to (6) of the preceding paragraph.

"Regular Way"

(d) A Participant with an order for the purchase of a security which is the subject of a Special Offering shall effect such purchase in the regular market whenever a "regular way" offering is available which would permit such purchase at a lower net cost than in the Special Offering. Every order for purchase in a Special Offering shall be accepted pursuant to the above condition.]

**[ARTICLE XXX  
Specialists]**

**[Registration and Appointment]**

[RULE 1. [No Participant shall act as a specialist or co-specialist on the Exchange in any security unless registered as such in the particular security. Registration shall be subject to the approval of the Exchange.]

[Upon receipt of an application by a Participant to act as a specialist, co-specialist or relief specialist in a particular security, the Chairman of the Committee on Specialist Assignment and Evaluation shall make such examination of the applicant's qualifications as he shall deem necessary and shall confer with the Committee to determine the merit of the application. The Chairman and the Committee on Specialist Assignment and Evaluation shall consider the applicant's financial responsibility, experience and demonstrated ability. The Board of Governors may, in its discretion, prescribe minimum capital requirements for specialists. The specialist in a particular security shall be responsible for the book and for the acts of the co-specialist and relief specialist and for their errors and omissions in that particular activity. No appointment of a co-specialist or relief specialist shall be made without the specialist's consent to such appointment.]

[After consideration of the application on the basis of the foregoing standards, the Committee on Specialist Assignment and Evaluation shall either approve or disapprove such application.]

[An applicant for initial registration as a co-specialist shall, or as otherwise may be determined by the Committee on Specialist Assignment and Evaluation be required to serve for a period of six months in the capacity of relief specialist under continuous supervision of a registered co-specialist. No application for co-specialist in a particular issue will be considered by the Committee on Specialist Assignment and Evaluation prior to the time that the individual has satisfied these training requirements.]

[The Committee on Specialist Assignment and Evaluation may make temporary appointments as specialists, co-specialists and relief specialists without formal application for such appointment.]

[Subject to the provisions of Article XXX, Rule 8, a specialist, co-specialist or relief specialist shall not relinquish their positions until permission to do so is received from the Committee on Specialist Assignment and Evaluation.]

[••• Interpretations and Policies: ]

[.01 COMMITTEE ON SPECIALIST ASSIGNMENT AND EVALUATION ]  
[ASSIGNMENT FUNCTION]

[I. EVENTS LEADING TO ASSIGNMENT PROCEEDINGS]

[Pursuant to Article XXX, Rules 1 and 8, the Committee may, when circumstances require, assign or reassign a security. Eight circumstances may lead to the need for assignment or reassignment of a security. They are:]

- [1. New listing or obtaining unlisted trading privilege;]
- [2. Specialist request;]
- [3. Corporation request;]
- [4. Split-up and/or merger of specialist units;]
- [5. Fundamental change of specialist unit;]
- [6. Consolidations;]
- [7. Unsatisfactory performance action; or]
- [8. Disciplinary action.]

[The following guidelines have been adopted by the Exchange for use in the assignment or reassignment of stocks among specialists and co-specialists. These guidelines set forth the general policy concerning the posting and allocation of stocks. They are not, however, rigid rules to be strictly followed regardless of unique circumstances. These guidelines form only the starting point of deliberations; they will be applied in light of the facts in each individual case. An assignment may be made subject to such conditions as are appropriate. If any such condition is not met, the stock shall be immediately posted for reassignment.]

[1. New Listing—Unlisted Trading Privilege.]

[(a) Initial listing of a security or the extension of unlisted trading privileges to a security will lead automatically to an assignment proceeding.]

[(b) NASDAQ/NM Securities—Subsequent Exchange Listing.]

[(i) Initial 100 stocks in NASDAQ/NM Pilot. In the event that one of the initial 100 Nasdaq/NM Securities currently assigned to a specialist unit under the Exchange's Nasdaq/NM Pilot Program becomes a Dual Trading System issue, the Committee will utilize the following guidelines in determining whether the security should be posted and re-assignment proceedings should be initiated or whether the specialist unit should be allowed to continue as the specialist unit for the security:]

[(A) If the specialist unit has designated the security as a security that the specialist unit desires to continue to trade as a Dual Trading System issue ("Non-Reassignment Issue"), the Committee, under normal circumstances, will not post the security or initiate re-assignment proceedings. Each specialist unit may designate five (5) issues as Non-Reassignment Issues under this paragraph (A), which designation may be changed no more than once a year. In the event that a Non-Reassignment Issue becomes a Dual Trading System issue, the total number of stocks that the specialist unit can designate as a Non-Reassignment Issue will be decremented. For example, if 2 Non-Reassignment Issues become Dual

Trading System Issues, the specialist will only be able to designate a total of three (3) issues as Non-Reassignment Issues going forward.]

[(B) If the specialist unit has not designated the issue as a Non-Reassignment Issue, the specialist unit can nonetheless designate its interest to continue to trade the issue as a Dual Trading System issue. Such designation can only be made for one out of every three Nasdaq/NM issues that the specialist unit trades that becomes a Dual Trading System issue. If such designation is made by the specialist, the Committee, under normal circumstances, will not post the issue or initiate re-assignment proceedings. If no such designation is made by the specialist, the Committee will post the issue and initiate re-assignment proceedings. In such event, the specialist unit trading the issue will not be eligible to apply for the security in such proceedings. The specialist unit can not accumulate the number of stocks for designation. If the specialist unit does not make such designation for any of three consecutive issues that become Dual Trading System issues, he or she can not carry forward the unused designation.]

[(ii) All other Nasdaq/NM stocks. In the event that a Nasdaq/NM Security (other than a security described in (i) above) currently assigned to a specialist unit becomes a Dual Trading System issue within one year of the date that the specialist unit began trading the security, the security will be posted and the Committee will initiate a re-assignment proceeding for such security. In the event that such security becomes a Dual Trading System issue more than one year after the date the specialist unit began trading the security, the Committee will utilize the following guidelines in determining whether the security should be posted and re-assignment proceedings commenced or whether the specialist unit should be allowed to continue as the specialist without posting the security:]

[(A) If the specialist unit has designated the security as a Non-Reassignment Issue, the Committee, under normal circumstances, will not post the security or initiate re-assignment proceedings. Each specialist unit may designate 20% of the Nasdaq/NM securities (not including the securities described in (i) above) assigned to such specialist unit as Non-Reassignment Issues under this paragraph (A), which designations may be changed no more than once a year.]

[(B) If the specialist has not designated the issue as a Non-Reassignment Issue, the specialist may nonetheless designate its interest to continue to trade the issue as a Dual Trading System issue, and the procedures set forth in (i)(B) above shall apply to such issue.]

[(iii) Nothing contained in this paragraph 1(b) shall be construed to limit or modify the authority of the Committee pursuant to the other provisions of this Rule.]

[2. Specialist Request. Any specialist unit and co-specialist may ask to be deregistered in one or more of its assigned securities, and the Committee on Specialist Assignment and Evaluation (the Committee) will hear all such requests. The Committee will initiate a reassignment proceeding if it believes that such action is called for. The Committee may

initiate a reassignment proceeding on the basis that if the merits of the request are not established the security must be retained by the registered specialist if no other unit appears to be able to make a better market or if no other unit applies.]

[Without limiting the foregoing, the Committee will generally approve a co-specialist's request for deregistration in any security for which no other specialist will be assigned after posting only under the following conditions:]

[(a) For any security awarded to such co-specialist in competition, a period of at least one year must have elapsed from the time of the original assignment.]

[(b) For any security awarded to such co-specialist without competition, a period of at least three months must have elapsed from the time of the original assignment.]

[(c) Notwithstanding that the time periods specified in (a) and (b) above have elapsed, the effective date of a specialist's deregistration in an issue for which no other specialist will be assigned will not be until the first business day of the next calendar quarter.]

[If the Committee approves a co-specialist's request under (a)-(c) above the Committee will generally require the effective date of the deregistration in the security to be no earlier than 15 days after notice is provided to order sending firms that the co-specialist is deregistering in such security.]

[Without limiting the foregoing, the Committee will generally approve a co-specialist's request for deregistration in any security for the purpose of having the security assigned to another co-specialist in the same specialist unit only under the following conditions:]

[(a) For any security awarded to such co-specialist in competition, a period of at least two years must have elapsed from the date of the original assignment. Alternatively, if the specialist unit agrees to have the security posted, a period of at least one year (but less than two years) must have elapsed from the date of the original assignment]

[(b) For any security awarded to such co-specialist without competition, no minimum time period is required.]

[3. Corporation Request. In the event that a corporation requests the Exchange to reassign its security to a different specialist unit, the request will be heard by the Committee. The Committee will review the circumstances in each case and if it finds a serious performance problem, it will initiate appropriate action. If the Committee does not find a performance problem, it will deny the request and communicate its reasons to the listed corporation.]

[4. Split-Up and/or Merger of Specialist Units.]

[(a) A specialist is a "unit" or organization which has registered as such with the Exchange under Article XXX, Rule 1. A co-specialist is an individual who has registered as such under Article XXX, Rule 1.]

[(b) When a security is to be assigned or reassigned, specialists, not co-specialists, apply for registration. Article XXX, Rule 1.01.II. In applying for registration in a particular stock, however, a specialist must indicate the individual co-specialist who will trade the stock. Article XXX, Rule 1.01.III. Therefore, although the Committee assigns a stock to a specialist unit, not to the co-specialist, and the specialist is responsible both financially and as a regulatory matter for the activities of its co-specialists, it is the trading activities of the co-specialist that are the basis for the Committee's evaluations. Thus, a specialist and co-specialist are jointly responsible for each assignment and a withdrawal of either party may require a new posting if circumstances warrant.]

[(c) Because the specialist is financially responsible for the activities of its co-specialists, a co-specialist may act as such only with the concurrence of the specialist. If, at any time, a specialist no longer wants a co-specialist to trade for it, the specialist—subject to the Committee's approval—may terminate the relationship. Similarly, a co-specialist—again subject to the Committee's approval—may terminate his relationship with a specialist.]

[Among the factors the Committee may consider are:]

- [1. co-specialist performance.]
- [2. specialist capital generally.]
- [3. specialist capital made available to the particular co-specialist.]
- [4. length of association between specialist and co-specialist.]
- [5. whether the co-specialist has a proprietary interest in the trading profits or losses derived from the stock.]
- [6. whether the specialist or co-specialist wishes to continue trading the security.]
- [7. performance of the proposed new co-specialist.]
- [8. financial capacity of the co-specialist's new specialist unit.]

[Based on its consideration of these and any other relevant factors, the Committee will decide whether to (i) leave a security with the specialist, (ii) permit the co-specialist to take the security with him, or (iii) require a new posting. In the event of a posting, the existing specialist or co-specialist will be permitted to reapply for the stock. A decision to permit the specialist or co-specialist to retain the security may be made conditionally based on the performance of the new co-specialist or specialist.]

[5. Fundamental Change of Specialist Unit.]

[(a) The Committee has the right to review and approve any "significant change in the organization of a specialist unit." Article XXX, Rule 1. Under normal circumstances, several types of changes may be permitted without subjecting the books to a posting:]

- [(i) Changes in percentage interests or stock ownership of existing partners or stockholders of the unit, provided there is no change in control of the unit.]
- [(ii) Changes in the financial arrangements between the unit and one or more of its co-specialists.]
- [(iii) The admission of a new minority partner or shareholder.]

[(b) In the event of the admission of a new majority or controlling partner or shareholder or a change in ownership resulting in a new majority or controlling owner, without a change in co-specialist assignments, the Committee will determine whether to post the specialist's stocks or permit them to be retained by the specialist unit. Other changes, such as a change in the control of a specialist unit coupled with a resignation or dismissal of a co-specialist or a change in co-specialist assignment, will normally result in posting.]

[6. Consolidations]

[(a) Whenever a specialist unit acquires, merges, creates a joint trading account or other profit-sharing arrangement with one or more other specialist units or otherwise comes under common control with one or more other specialist units (a "Consolidation") the assignments of the affected stocks shall be subject to Committee review and approval.]

[(b) When a Consolidation creates or increases a specialist unit's financial interest in trades constituting 10% or more of the total Exchange trade volume in the three preceding calendar months ("Concentration"), the Committee will consider:]

[(i) the effect of the consolidation on the specialist units']

- [A. Capital supporting specialist activities;]
- [B. Experience and quality of management;]
- [C. Experience and performance of co-specialists;]
- [D. Risk controls and procedures;]
- [E. Operational efficiencies; and]

[(ii) the effect of the consolidation on the Exchange's ability to:]

- [A. Enhance its position as a market center by promoting competition among Participants;]
- [B. Minimize risk to the financial integrity of the marketplace; and]
- [C. Continue operating in the public interest by, among other things, enhancing market quality and public awareness of the products and services offered through the Exchange.]

[7. Unsatisfactory Performance Action.]

[(a) The Committee shall periodically evaluate the performance of co-specialists as described in Interpretation and Policy .04. As part of that process, the Committee may, from time to time, take steps to encourage a unit to reallocate books in the case of unsatisfactory performance by a co-specialist.]

[For example, based on the informal hearing with a co-specialist described in Article XVII, Rule 2, the Committee may believe that the co-specialist cannot bring his performance up to the required level within a reasonable period of time. The Committee may then encourage the specialist to reassign the issues to a stronger co-specialist. Because the Committee does not want any disincentive for the specialist unit to assign issues to the strongest possible co-specialist, it will permit reallocation without posting in such circumstances prior to a final determination by the Committee to reassign an issue. Any such intrafirm transfer should be to an obviously stronger co-specialist.]

[(b) When a co-specialist or specialist has unsatisfactory performance, the Committee may also proceed according to Article XVII of the Rules of the Exchange to re-assign one or more issues traded by that co-specialist by suspending his registration in the securities or by terminating his registration in the securities. The Committee may also require a specialist to reassign the issue to a satisfactory performer.]

[A co-specialist's or specialist's registration, in one or more of the securities in which he or it is registered, may be suspended or terminated by the Committee on Specialist Assignment and Evaluation upon a determination that the co-specialist has not satisfactorily performed his responsibilities as co-specialist. A determination by the Committee on Specialist Assignment and Evaluation to suspend or terminate a co-specialist's or specialist's registration may be based on (a) any statistical data on the co-specialist's activities or performance as co-specialist, including data identifying a co-specialist's violations of Federal law and/or Exchange rules and policies and data that reveals the quality of the co-specialist's order executions; and (b) any action previously taken against the co-specialist for unsatisfactory performance and shall be made in accordance with rules of the Exchange establishing fair procedures, such as those set out in Article XVII of the Exchange's Rules. Once the Committee has made a formal determination that the performance of a co-specialist is unsatisfactory and that the books should be reassigned, the books will be posted without an opportunity for an intra-unit transfer.]

[8. Disciplinary Action. One possible sanction in the Exchange's disciplinary system is the cancellation of a specialist unit's registration in one or more securities. Should this occur, the Floor Procedure Committee will temporarily assign the securities affected to another specialist unit, and the Committee will promptly initiate reassignment proceedings. The party subject to the disciplinary proceedings will not have the opportunity to apply for the stock.]

## [II. ASSIGNMENT PROCEDURES]

[When a security is to be assigned or reassigned, the Committee will notify all specialist units and invite applications. This notice will include all relevant facts about the security. If the Committee believes that special qualifications should be sought in the successful applicant, the Committee after satisfying itself that these are reasonable and not exclusionary, should direct that they be included in the notice.]

[It should be noted that assignments are made to specialist units but that, except as provided below in paragraph 6, the specialist unit must indicate the individual co-specialist who will be registered in that stock. The registration of a co-specialist, however, does not diminish the responsibility of the specialist unit for the stock assigned to it.]

[In assigning specialists, co-specialists, relief specialists and odd-lot dealers, the Committee may act through a Subcommittee of not less than three of its members, at least one of whom shall not be affiliated with a broker/dealer. Where emergency



circumstances require the expedited assignments of one or more specialists, co-specialists, relief specialists or odd-lot dealers, and a Subcommittee is unable to be convened, the chairman, or a member of the Committee designated by the chairman, may make such temporary assignment as he deems necessary, pending a final determination by a Subcommittee or the full Committee. Any proposal or agreement between or among specialists, co-specialists, relief specialists or odd-lot dealers, to exchange existing assignments, shall be submitted in writing to the Subcommittee for its consideration and, if not disapproved by the Subcommittee within 30 days of the date of submission, shall become effective as written.]

[1. Applications. In applying, a specialist unit should state the reasons why it believes the stock should be assigned to it. A standard application form is available from the Exchange and should be used for this purpose. Except as otherwise provided in paragraph 6, below, the application must, at a minimum, include the name and background of the co-specialist who will normally be trading the security and his ability and experience relative to the issue being applied for. Also, if any special or unique characteristics of the security have been identified by the Committee, such as unusually high capital requirements or institutional participation making trading difficult, the applicant should specifically note and comment on its ability to deal with the special characteristics.]

[2. Decision Making. The Committee will hold assignment meetings as appropriate, consistent with the schedules of the Committee members. In advance of each meeting, members of the Committee will be provided by the Exchange with data on the securities to be assigned, copies of the applications, and the most recent performance evaluation ratings and other data on the applicants and the relevant co-specialist. Applicants will receive, a reasonable time prior to the meeting, copies of the data relating to their own performance that is shared with the Committee and may make personal appearances at the assignment meetings in support of their applications. These appearances will begin at 3:30, if the applicants request this meeting time to accommodate floor Participants' schedules. Before all personal appearances, a closed meeting of the Committee will be held to review all data provided to the Committee by the Exchange.]

[In the absence of applications which the Committee considers acceptable, the Committee may assign a new security to any unit which it believes to be qualified. If there are no acceptable applications for a security that is up for reassignment, the Committee may leave the stock with the incumbent specialist unit or reassign it to a new unit which it believes to be qualified.]

[3. Announcement. The Committee will announce the name and post location of any successful applicant and a digest of its reasons for making the assignment.]

[4. Board Review. The full Board of Governors, excluding those Governors that are co-specialists or affiliates of specialists or co-specialists (a "Board Panel"), may on its own initiative review any decision of the Committee involving a change in control or consolidation of a specialist unit. The Board Panel shall give any interested member an opportunity to present its views on the matter. A Committee decision will be final if any

member of a Board Panel, within ten days of a Committee decision, does not request that the Board Panel initiate a review. Notwithstanding the foregoing, a Board Panel will review all decisions made with respect to Consolidations creating Concentration. The decision of the Board Panel is final.]

[5. Other. The Exchange's Committee on Specialist Assignment and Evaluation (the "CSAE") has recently been requested to approve the "sale" of several specialists' books from one specialist unit to another. Although the CSAE may approve one or more of these transactions, it is important to recognize that specialists do not own their books and have no right to sell them. The books are an Exchange franchise and, consequently, the assignment of a book to a specialist by the Exchange is a privilege which the Exchange grants based upon a variety of factors, including the capital commitment of the specialist unit and the trading performance of the co-specialist. Transfers of books from one specialist unit to another will only be approved by the CSAE if, among other factors, it finds that the new specialist and co-specialist would meet the requirements of an initial assignment in competition for those books, and is in the overall best interests of the Exchange. Even if the transfer is approved, it is the transfer of the franchise which has been approved, and the continued trading of such books is subject to the continuing authority of the CSAE.]

[6. Assignment process when posting of large groups of stocks. If circumstances require the Exchange to allocate more than 100 stocks at any specific time, the Exchange recognizes that it may be difficult for a specialist firm to identify the specific co-specialist who would be assigned to trade each of the issues for which that firm seeks an assignment. In those circumstances, the CSAE may make a temporary 30-day assignment to a specialist firm (based on the firm's overall demonstrated ability, experience and financial responsibility, as well as the overall best interests of the Exchange). The CSAE may make that temporary assignment final if: (1) the specialist firm, within 15 days of the temporary assignment, provides the CSAE with the identification of the individual co-specialist who will be trading the stock(s); and (2) the CSAE, after evaluating that co-specialist's demonstrated ability and experience, finds that the co-specialist is qualified to trade the stock(s). If the CSAE determines that the co-specialist is not qualified to trade the stock(s), the stock(s) shall be immediately posted for assignment.]

### **[III. GUIDELINES FOR ASSIGNMENT OF ISSUES TO CO-SPECIALISTS]**

[1. Basic Standard. In reviewing an application to act as the specialist in a security, the Committee will, in addition to evaluating the qualifications of the specialist unit, consider the designated co-specialist's demonstrated ability, experience and financial responsibility in accordance with Article XXX, Rule 1 of the Rules.]

[The Committee will determine the respective weights to be given to each of these three factors in arriving at a decision as to whether to approve or disapprove any particular application. In deciding among applicants who have designated co-specialists with approximately comparable demonstrated ability and experience, the Committee may

consider additional factors, including the number and type of stocks in which each designated co-specialist is already registered as co-specialist, recent registration decisions, and the overall best interest of the Exchange.]

[(a) Demonstrated ability. In evaluating demonstrated ability, the Committee will rely primarily on:]

- [1. the results of the co-specialist evaluation questionnaire, including individual comments from responding floor brokers;]
- [2. other statistical data on the designated individual's activities or performance as a co-specialist, including data identifying a co-specialist's violations of Federal law and/or Exchange rules and policies and data that reveal the quality of the co-specialist's order executions;]
- [3. any action previously taken against the designated individual for unsatisfactory performance of his obligations as a co-specialist; and]
- [4. any other information submitted to the Committee by the applicant or by any other person or entity, which bears on the designated individual's ability to carry out the responsibilities of a co-specialist.]

[Of these sources of information, the Committee will give substantial weight to the data that reveals the quality of the co-specialist's order executions. All information will be evaluated in terms of the standards in the co-specialist job description and the Code of Acceptable Business Practices for co-specialists, with particular emphasis on (i) the co-specialist's demonstrated ability to make continuous two-sided markets in depth, and (ii) the co-specialist's demonstrated ability to trade in such a manner as to increase the order flow to the Exchange and, hence, the competitiveness of its market with markets elsewhere.]

[(b) Experience. In evaluating the designated co-specialist's experience, the Committee will rely primarily on information available to it concerning:]

- [1. length of time in the securities business and in the business of being a co-specialist;]
- [2. any disciplinary or cautionary actions taken against the individual in the past; and]
- [3. any justifiable complaints made against the individual during the preceding year.]

[(c) Financial Responsibility. In evaluating financial responsibility, the Committee will generally expect a specialist unit to be financially capable of carrying and to have committed to make available to the designated co-specialist funds sufficient for a minimum position of 1000 shares of the stock for which the application is being made. See generally, Article XI, Rule 3(b)(1).]

[2. Initial Applications. When an applicant has designated an individual as co-specialist who has not previously been registered as a co-specialist, the Committee will consider his background and training, as well as information he may submit relating to his ability to act as a co-specialist. The Committee may give substantial weight in considering such applications to the desirability of encouraging the entry of new co-specialists into the Exchange's market.]

## [.02 CO-SPECIALIST JOB DESCRIPTION.]

## [I. GENERAL ]

[A Participant who is registered as a co-specialist is accountable to the Exchange and the investing public for the quality of the Exchange markets in the securities in which he is registered and is responsible for fostering and acting to maintain liquid and continuous two-sided auction markets on the Exchange Floor in those securities. This is accomplished by his acting as agent and principal in such securities, in accordance with the provisions of Federal law and Exchange rules and policies, to help insure that such markets are fair, orderly and operationally efficient in the public interest, and competitive with non-Exchange markets in those securities. A "fair" market is one which is free from manipulative and deceptive practices and which affords no undue advantage to any of the participants therein. An "orderly" market is one with regularity and reliability of operation manifested by the presence of price continuity and depth exhibited by the avoidance of large and unreasonable price variations between consecutive sales on the consolidated tape for Dual Trading System issues, on the Exchange tape for exchange issues, and on the NASDAQ System for Nasdaq/NM Securities and the avoidance of overall price movements, without appropriate accompanying volume.]

## [II. PRINCIPAL DUTIES ]

## [A. As Agent ]

- [1. To act as agent on behalf of orders entrusted to him, to hold the interests of such orders above his own interest and to fulfill in a professional manner all other duties of an agent to include, but not be limited to, insuring that each such order, regardless of its size or source, receives proper representation and timely, best possible execution in accordance with the terms of the order and the rules and policies of the Exchange.]
- [2. To act as a catalyst in the markets for the securities in which he is registered by professionally and impartially servicing the interests of other members, to be helpful, communicative, cooperative and professional, to make reasonable efforts to bring together buyers and sellers without interfering as principal unless reasonably necessary to the performance of his duties, and to act together with all members involved to insure that the equitable needs of all parties are considered.]
- [3. To perform effectively the administrative duties with respect to orders entrusted to him as agent to include, but not be limited to, cooperating with other Participants in the confirmation of open orders and issuing timely and accurate status reports and execution reports.]
- [4. To insure that his acceptance and execution of orders as agent are in compliance with applicable Federal and Exchange rules and policies; to accept as agent only those types of orders he is permitted to accept pursuant to those rules and policies, and not to accept any order for the purchase or sale of a stock in which he is registered directly from the company issuing such stock or any officer, director or controlling stockholder.]

## [B. As Principal ]

- [1. To buy and sell securities as principal when such transactions are necessary in the public interest to minimize an actual or reasonably anticipated imbalance between

supply (offers at or near the last sale price) and demand (bids at or near the last sale price) in the exchange market, and the absence of his transactions could otherwise result in an unreasonable lack of continuity and/or depth.]

- [2. To make continuous two-sided quotations in the securities in which he is registered and buy and sell those securities in a manner that enhances the depth and liquidity of the Exchange's market in those securities and the competitiveness of the Exchange's market with markets on other Exchanges and elsewhere.]
- [3. To make continuous two-sided quotations and effect transactions when necessary to fulfill his duties as principal, and to insure that such quotations, if acted upon, and transactions are in the public interest by being reasonably calculated to contribute to the maintenance of price continuity with reasonable depth in view of the general market, the market in the particular security and the adequacy of his total position in such security with respect to the actual or reasonably anticipated needs of the market.]
- [4. To make such quotations and effect such transactions in accordance at all times with applicable Federal or Exchange rules and policies, to act as principal in a manner which does not upset the natural longer term forces of supply and demand, and to insure that each opening and reopening price (when the Exchange is either operating as the primary market or in respect to NASDAQ/NMS Securities) reflects a professional assessment of market conditions at the time with due consideration given to the balance of supply and demand as reflected by public orders.]
- [5. To avoid transactions in a security as principal which are excessive in view of the market for such security. To trade as principal in a manner which reflects an awareness of his financial resources and to report to the Exchange any actual or imminent financial problems.]

[C. Other Duties ]

- [1. To insure the orderly functioning of the trading Crowd by exercising leadership and objectively observing trading Crowd activity and order-flow, to seek the advice and assistance of a member of the Committee on Floor Procedure when required, and to request delays in openings or trading halts when called for by unusual market conditions.]
- [2. In order to foster a positive professional relationship between the Exchange and listed companies and to educate company representatives regarding the workings of the Exchange's market system, the co-specialist is permitted to have periodic contact with representatives of the companies whose securities he is registered as specialist provided he abides by applicable Federal or Exchange rules or guidelines with regard to such contacts.]
- [3. To foster the efficient operation of the Exchange's market process by insuring the presence of adequate manpower (professional and clerical, full-time or relief) on the Floor at all times, by efficiently processing necessary trade documents and by cooperating in the resolution of questioned trades and errors.]
- [4. To keep records required by Federal and Exchange rules, to report required information to the Exchange on a timely and accurate basis and to comply with all Exchange rules which govern the financing of co-specialist operations.]
- [5. To be aware of and abide by all Federal and Exchange rules and policies governing his activities to include, but not be limited to, rules governing activities in non-

speciality securities and trading activities off the Exchange Floor, and to be aware of and abide by any Exchange-developed Code of acceptable business practices for co-specialists.]

- [6. In addition to the above, to take any other action not prohibited by Federal or Exchange rule or policy or precluded by professional judgment to foster and maintain liquid continuous two-sided markets on the Exchange floor and to insure that such markets are fair, orderly and efficient in the public interest and competitive with non-Exchange markets in action which would hinder the achievement of these objectives.]

### [III. ELIGIBILITY REQUIREMENTS]

[A Participant who desires to be registered to act as an Exchange co-specialist must:]

- [1. Be associated with an existing or newly created specialist unit approved by the Exchange.]
- [2. Complete an adequate training period.]
- [3. Pass the Exchange-administered floor Participant examination.]
- [4. Insure that the specialist unit with which he is to be associated meets the Exchange's specialist capital requirements.]

### [.03 CODE OF ACCEPTABLE BUSINESS PRACTICES FOR CO-SPECIALISTS.]

[The co-specialist occupies the central position in the Exchange's continuous trading process. Consequently, the manner in which he performs significantly affects the efficiency, competitiveness and overall quality of the Exchange's markets, and largely determines the Exchange's success as a national securities market. In addition, the co-specialist occupies a position of public trust and should act at all times in a manner which does not violate that trust. Therefore, it is essential that the co-specialist adhere to the highest standards of business and ethical conduct in the performance of all aspects of his job. Failure to do so can be detrimental to the Exchange and constitutes a breach of public trust.]

[While the co-specialist is required to act in accordance with the specific rules and policies which govern his activities, he should definitely avoid actions which are not in keeping with the spirit and intent of those rules and policies or not in accordance with high standards of business and ethical conduct. This duty is formalized by the Exchange's Rule 7 of Article VIII which states that "No Participant or partner, officer, director or registered employee of a Participant Firm shall engage in conduct or proceeding inconsistent with just and equitable principles of trade."]

[This Code, of which the specific items set forth below are a part, has been adopted to minimize possible misconceptions as to what constitute good business practices for co-specialists and to guide the co-specialist in the performance of his duties. Certain specific areas of concern are enumerated below. This list may be modified from time to time as circumstances require. This is not to be construed as a complete list of acceptable business practices, and in circumstances not specifically addressed below, the co-specialist should be guided by the spirit and intent of the Code as described below.]

[Any violation of this Code will be subject to investigation and may lead to disciplinary or remedial action.]

[1. Trading Practices.]

[While a co-specialist is required to act in accordance with specific trading rules and policies, he should avoid practices and patterns of trading activity which are not in keeping with the spirit and intent of those rules and policies or which might interfere with the fair and orderly functioning of the Exchange's markets in the public interest. In this regard, a co-specialist should conduct his trading activities at all times in a manner which is consistent with this Code and with the duties of a specialist which are explained in the Exchange's co-specialist job description. When in doubt about the suitability of any action related to his co-specialist function, he should immediately consult with a member of the Committee on Floor Procedure.]

[2. Openings.]

[Due to the importance of the opening trade in a stock, a co-specialist should:]

- [a. Provide accurate and complete current opening price indications and pre-opening information, such as the amount of stock paired off and the excess to buy or sell, to inquiring Participants.]
- [b. For issues that the Exchange acts as the primary market, or in respect to Nasdaq/NM Securities, insure that the opening is not unduly hasty, particularly when at a price disparity from the previous close, and that the price reflects a thorough and professional assessment of market conditions at the time.]

[These practices should also be followed in the case of re-openings.]

[3. Cooperation and Communication.]

[In view of his central position in the Exchange's continuous trading process, a co-specialist should:]

- [a. Reflect the depth of the current market, to the extent his agency responsibility allows, to any reasonable Participant inquiry.]
- [b. Provide market information to Participants in a professional and courteous manner without discrimination.]
- [c. Make every reasonable attempt to bring together known buyers and sellers.]
- [d. Given a reasonable time frame and lack of substantive change in market conditions, refrain from interfering with a cross when he has previously indicated "no interest."]
- [e. Refrain from interfering with a "clean" agency cross unless his bid or offer has been previously solicited; or unless the reasonably anticipated needs of the market require him to do so in order to be able to fulfill his market maintenance responsibilities, and a Floor Procedure Committee member has been consulted in the event of any disagreement.]
- [f. Insure that in his absence, his post is properly staffed by his registered relief co-specialist.]

[4. Stop Orders.]

[When co-specialist has been entrusted as broker with a stop order, he should insure, consistent with current market conditions, that its election results from the fair and

orderly price movement of the stock and does not result from poor performance or inadequate depth.]

[5. Operating Practices.]

[In view of his central position in the Exchange's marketplace, a co-specialist's operating practices can have a significant impact on the competitiveness of the market. Therefore, a co-specialist should:]

- [a. Report executions of orders entrusted to him in a timely and adequate manner.]
- [b. Maintain necessary manpower and supervision of staff to insure the efficiency of his co-specialist operations.]
- [c. Readily provide records when necessary to research the status of an order or a questioned trade.]
- [d. Cooperate with other Participants in the resolution and adjustment of errors.]
- [e. Cooperate in the implementation and operation of new Exchange procedures and systems.]
- [f. Cooperate in the resolution of inquiries and complaints which relate to the stocks in which he is registered.]

[.04 CO-SPECIALIST PERFORMANCE EVALUATION]

[A co-specialist's continuing registration in the securities in which he is registered is dependent upon his satisfactory performance of his responsibilities as a co-specialist as defined in Federal and Exchange rules, interpretations, releases and notices, the Co-Specialist Job Description, the Code of Acceptable Business Practices for co-specialists and the rules and practices for trading on the Exchange.]

[The Committee on Specialist Assignment and Evaluation shall periodically evaluate the performance of co-specialists. The Committee may choose, in its discretion, to evaluate the performance of relief or temporary specialists.]

[I. PERFORMANCE LEADING TO AUTOMATIC MEETING WITH COMMITTEE]

[The Committee shall review data, compiled on an issue-by-issue basis, which identifies the co-specialists who have had low order execution quality scores in two consecutive evaluation periods when compared to other co-specialists. For purposes of this provision, an "evaluation period" is a period of three months. The term "order execution quality score" means the cumulative score, in a particular issue, of two equally-weighted factors derived from data compiled pursuant to SEC Rule 11Ac1-5: (a) effective spread index, and (b) speed of execution. The term "bottom tier" shall mean the bottom 5% of all stocks traded by co-specialists, when ranked using the order execution quality score.]

[If a co-specialist's order execution quality score for any security is in the bottom tier, for two consecutive periods, of the ranking reviewed by the Committee, the co-specialist shall be notified of that fact and shall be required to have an initial meeting with one or more members of the Committee, as described in Article XVII, Rule 2. These meetings shall take place as soon as reasonably possible after the end of each applicable evaluation period. Based on the results of that meeting, the Committee may take a variety of informal actions designed to provide encouragement and assistance to the co-specialist, including, but not limited to, encouraging the specialist firm to reallocate part of the co-



specialist's book. Nothing in this rule would permit the Committee, however, to suspend the co-specialist's registration or reallocate a security in which the co-specialist is registered without the use of the procedures described in Article XVII.]

## [II. OTHER PERFORMANCE MEASURES LEADING TO POSSIBLE MEETING WITH COMMITTEE]

[The Committee shall have the ability to review any other data relevant to a co-specialist's performance such as (a) any statistical data on the co-specialist's activities or performance as co-specialist (including data identifying a co-specialist's violations of Federal law and/or Exchange rules and policies and other data that reveals the quality of the co-specialist's order executions); and (b) any action previously taken against the co-specialist for unsatisfactory performance. The Committee may determine, based on any or all of these performance measures, that a co-specialist's performance warrants the initial meeting described in Article XVII, Rule 2 and may take, as a result of that meeting, any of the actions described above.]

### [Precedence to Orders in Book]

[RULE 2.][The specialist, co-specialist and relief specialist shall at all times give precedence to orders in the book for purchase or sale of securities over the orders which originate with him or it as a dealer, provided, his or its orders and those of his or its customer are market orders, or limited orders at the same price. Notwithstanding the foregoing, whenever a specialist, co-specialist or relief specialist elects to accept a professional order for the book which is not required to be accepted by such specialist, co-specialist or relief specialist pursuant to the rules and policies of the Exchange, such specialist, co-specialist or relief specialist is not required to relinquish precedence to such order over the orders which originate with him or it as a dealer, provided (a) his or its orders and those of his or its customer are limited orders at the same price, and (b) the specialist, co-specialist or relief specialist is displaying his or its order, including its size, through the quotation system.]

[••• Interpretations and Policies: ]

[.005 No specialist, co-specialist or relief specialist may charge a Participant a commission in any transaction in which he or it is a principal, or for execution of any CHXpress order.]

[.01 Whenever a specialist effects a principal purchase of a specialty stock, in another participating market center through ITS, at or above the price at which he holds orders to sell that stock, such orders which remain unexecuted on the floor must be filled by the specialist buying the stock for his own account, at the same price at which he effected his principal transaction through ITS unless, effecting such a principal transaction on the floor, at that price, would (a) be inconsistent with the maintenance of fair and orderly markets, or (b) result in the election of stop orders.]

[.02 Whenever a specialist effects a principal sale of a specialty stock, in another participating market center through ITS, at or below the price at which he holds orders to buy that stock, such orders which remain unexecuted on the floor must be filled by the specialist by selling the stock for his own account, at the same price at which he effected his principal transaction through ITS subject to the same conditions as set forth in .01(a) and (b) above and provided further that effecting such a principal transaction on the Floor, at that price, would not be precluded by the short selling rules; or would not result in a sale to a stabilizing bid.]

[.03 When a specialist receives a pre-opening response from another specialist in another market center (the other specialist) pursuant to the pre-opening Application (as that term is defined in Article XX, Rule 34) and that response indicates that the other specialist has an interest in participating in the opening transaction as principal, such interest of the other specialist shall not have preference over public orders. The manner and extent to which the other-specialist may participate as principal in the opening transaction shall be as set forth in the provisions of the plan covering the pre-opening application.]

[.04 A professional order is any order for the account of a broker-dealer, the account of an associated person of a broker-dealer, or any account in which a broker-dealer or an associated person of a broker-dealer has any direct or indirect interest.]

[.05 Interaction between professional limit orders and agency limit orders that are not professional orders ("Agency Orders"). ]

[In the event that a professional order "has the post," i.e., is the highest priority order in the specialist's book at a given price, the professional order is not required to yield precedence to an Agency Order at the same price that has not established time priority over the professional order. Notwithstanding anything in the previous sentence to the contrary, in the event that such Agency Order is due a fill under the Exchange's Best Rule, that Agency Order shall be filled even though the professional order which had a higher priority on the book is not filled.]

[In the event that a specialist's own order "has the post," i.e., an order which originates with the specialist as dealer is the highest priority order in the specialist's book at a given price, and a professional order and an Agency Order are subsequently entered in the book at the same price, the professional order must yield precedence to the Agency Order if the specialist's own order yields precedence to the Agency Order.]

[Example 1: ]

[CHX Specialist's Book in XYZ stock

Entry Time	Order Entered
9:00	Buy 1000 shares XYZ @\$20.25 (Professional Order)
9:05	Buy 1000 shares XYZ @\$20.25 (Agency Order)
Primary Market Quote in XYZ: \$20.25-\$20.50; 50 × 50]	

- [1. If the primary market prints 6,000 shares of XYZ at \$20.25, the entire CHX Agency Order will be filled at \$20.25 with the professional order remaining unfilled.]
- [2. If a 1,000 share sell order at \$20.25 (or market order to sell) is offered at the specialist's post, it will be matched with the professional order at \$20.25 with the agency order remaining unfilled.]

[Example 2: ]

[CHX Specialist's Book in XYZ stock

Entry Time	Order/Quote Entered
9:00	Buy 1000 shares XYZ @20.25 (specialist bid)
9:05	Buy 1000 shares XYZ @20.25 (Professional Order)
9:10	Buy 1000 shares XYZ @20.25 (Agency Order)

Primary Market Quote in XYZ stock: \$20.25-\$20.50; 50 × 50]

[The book is effectively realigned to show the Agency Order first, the specialist bid second, and the professional order third.]

- [1. If the primary market prints 6,000 shares of XYZ at \$20.25, the entire Agency Order will be filled at 20 1/4 with the specialist bid and Professional Order remaining unfilled.]
- [2. If a 1,000 share sell order at \$20.25 (or market order to sell) is offered at the specialist's post, it will be matched against the Agency Order with the specialist bid and professional order remaining unfilled.]
- [3. If a 2,000 share sell order at \$20.25 (or market order to sell) is offered at the specialist's post, it will be matched against both the Agency Order (1000 shares) and the specialist bid (1000 shares) with the professional order remaining unfilled.]

[.06 Trading in Nasdaq/NM Securities in Subpenny Increments ]

[A specialist (including a market maker who holds customer limit orders) shall be deemed to have violated Article XXX, Rule 2 if, while holding a customer limit order (as rounded to a penny increment) representing the NBBO, the specialist, for his own account, trades with an incoming market or marketable limit order at a price which is less than one penny better than such customer limit order in his book.]

**[Preference Solely on Competitive Basis]**

[RULE 3. A specialist, co-specialist or relief specialist shall not have any preference at the post because of that fact; preference shall be on a strictly competitive basis.]

[A specialist, co-specialist or relief specialist shall not "stop" himself with orders in the specialist's book.]

### **[The Specialist's Book]**

[RULE 4. The specialist's book is the book, file or record in which all orders entrusted to the specialist, co-specialist or relief specialist in a particular stock must be kept. It shall be closed at all times and the information therein contained shall not be divulged or suffered to come to the knowledge of anyone except the specialist, co-specialist or relief specialist for that book, or to the Board of Governors, a committee of the Exchange, or the Chief Executive Officer or any other officer designated by him, except that a specialist may disclose information contained in his book:]

[(i) for the purpose of demonstrating the methods of trading to visitors to the floor; or]  
[(ii) to other market centers in order to facilitate the operation of ITS or any other Application of the System provided, in either case, that at the same time he makes the information so disclosed available to all Participants.]

[••• Interpretations and Policies: ]

[.01 A Participant acting as a specialist shall supply information relating to limit orders held by such Participant as provided for in the plan for ITS. The plan, as currently in effect, provides as follows:]

[With respect to limit orders held by any specialist on any participant in any stock traded through ITS, the rules of each participant shall provide that, so long as the off-board trading rules of such participant as in effect on the date the Plan is filed with the SEC remain in effect, such specialist will on request and to the extent practicable supply the specialist(s) registered in such stock on any other Participant with information relating to such limit orders. The sharing of such information following any removal of the current off-board trading rules will be dependent upon implementation of necessary equal regulation of all market makers in all markets coupled with adequate surveillance procedures.]

### **[Written Report of Transactions]**

[RULE 5. The specialist, co-specialist or relief specialist must render a written report on every transaction made.]

### **[Opening the Market Where Unusual Conditions Exist]**

[RULE 6. Before opening the market in a stock where any unusual condition exists, the specialist, co-specialist or relief specialist shall confer with two members of the Committee on Floor Procedure and receive permission to open the market. If the two members of the Committee cannot come to an agreement on a ruling, a third member of the Committee shall be called to break the impasse.]

**[Supervision and Inspection of All Transactions]**

[RULE 7. All business and transactions of specialists, co-specialists and relief specialists including the book and the financial condition of the specialist, co-specialist or relief specialist shall at all times be subject to the scrutiny, inspection and supervision of the Board of Governors, the Committee on Floor Procedure, the Chief Executive Officer or any officer designated by it or him.]

**[Termination of Registration]**

[RULE 8. Whenever it shall appear or be called to the attention of the Chief Executive Officer that a specialist, co-specialist or relief specialist is violating any of the Rules of the Exchange or the Federal Securities Laws or is conducting business as a specialist, co-specialist or relief specialist in an unethical manner, the Chief Executive Officer shall, without the necessity of previous notice, suspend the registration of such specialist, co-specialist or relief specialist pending an opportunity for a prompt hearing on the apparent violation in accordance with Article XII of the Rules of the Exchange. Notwithstanding the opportunity for hearing, upon imposition of the summary suspension of registration, the Exchange shall provide notification thereof to the Securities and Exchange Commission (the "Commission"). At the same time, the affected specialist, co-specialist or relief specialist may immediately file a request with the Commission for a stay of imposition of the suspension of registration in accordance with such procedures as the Commission may provide.]

[In connection with its responsibilities to monitor and evaluate the performance of registered specialists, co-specialists, and relief specialists, the committee on Specialist Assignment and Evaluation may suspend or terminate any such registration based upon a finding, after an opportunity for a hearing in accordance with Article XVII that the particular specialist, co-specialist or relief specialist has not satisfactorily performed his responsibilities as defined in the Federal Securities Laws and the rules and policies of the Exchange.]

**[Dealings in Self-Interest Securities]**

[RULE 9. No specialist, co-specialist or relief specialist shall effect upon the Exchange, or through ITS or any other Application of the System, purchases or sales of any security in which he or it is registered for any account in which he or the Participant Firm of which he is a partner, officer or director or any partner, officer or director of such Participant Firm is, directly or indirectly, interested, unless such dealings are reasonably necessary to permit such specialist or co-specialist to maintain a fair and orderly market or to act as an odd-lot dealer in such security.]

**[Participation in Joint Account]**

[RULE 10. No specialist, co-specialist or relief specialist and no Participant Firm of which he is a partner, and no partner of such Participant Firm, and no Participant

corporation of which he is an officer or director and no officer or director of such corporation, shall, directly or indirectly, acquire or hold any interest or participation in any joint account for buying or selling on the Exchange, or through ITS or any other Application of the System, any stock in which such specialist, co-specialist or relief specialist is registered, except a joint account with a partner of such specialist, co-specialist or relief specialist, a Participant of the Exchange, or a firm of which such Participant is a partner or a corporation of which such Participant is an officer or director.]

#### **[Record of Orders]**

[RULE 11. Every specialist and co-specialist shall keep a legible record of all orders placed with him or it in the securities in which he or it is registered as a specialist or co-specialist and of all executions, modifications and cancellations of such order, and shall preserve such record and all memoranda relating thereto for a period of at least 12 months. He or it shall be responsible for the proper entry and time-stamping of all orders entrusted to him or it or to his or its co-specialist or relief specialist.]

#### **[Membership in Pools Prohibited]**

[RULE 12. No Participant acting as a specialist, co-specialist or relief specialist, and no partner, officer or director of such Participant Firm shall be, directly or indirectly, interested in a pool dealing or trading in the stock in which he or it is a specialist, co-specialist or relief specialist, nor shall he or it, directly or indirectly, acquire or grant any option to buy or sell or receive or deliver shares of stock in which such Participant is a specialist, co-specialist or relief specialist, unless such option is issued by the Options Clearing Corporation and the transaction in which the option is acquired or granted is publicly reported. All option transactions effected pursuant to the preceding sentence must be reported to the Exchange in such form and at such times as the Exchange requires.]

#### **[Registration Fee]**

[RULE 13. The Board of Governors may prescribe registration fees for specialists, co-specialists and relief specialists.]

#### **[Attending of Specialist's Book]**

[RULE 14. The specialist's book shall be attended by either the specialist, co-specialist or relief specialist from before the opening to the close of the Exchange.]

#### **[Claims for Reports]**

[RULE 15. All claims for reports must be made timely as follows:]

- [a. All claims which involve erroneous comparisons must be made within two business days of the original trade date.]
- [b. All claims relative to the omission of a report which was properly due must be made within two business days of the date the order should have been executed.]

[c. All claims relative to lack of comparison of a reported transaction must be made within two business days of the original trade.]

[d. In the event unusual circumstances exist, the Committee on Floor Procedure will rule as to the disposition of liability notwithstanding the lapsing of any of the above stated time periods.]

[••• Interpretations and Policies: ]

[.01 Notwithstanding Rule 15(a) above and subject to any applicable ITS rules, a specialist shall assume full responsibility from trade date (T) up to the opening of business on the next business day (T + 1), for erroneous comparisons reflected on ITS reports provided to a floor broker. Commencing with the opening of business on T + 1 and continuing through settlement date, responsibility for erroneous comparisons will be shared between the floor broker and the specialist, with the floor broker assuming 2/3 and the specialist assuming 1/3 respectively. The foregoing allocation of responsibility shall exist only where the specialist has attached a copy of the ITS confirmation to the order when reported on trade date. Where the ITS confirmation is not attached to the order, the specialist shall remain fully responsible for the erroneous comparison. The specialist shall, however, continue to have no responsibility for erroneous comparisons presented after settlement date. Notwithstanding the foregoing, where the Exchange determines unusual circumstances exist in respect to an erroneous comparison, Subsection (d) of Rule 15 of this Article shall govern.]

#### **[Surprise Audit on Any Issue]**

[RULE 16. The Exchange may conduct a surprise audit of a specialist's position in any issue.]

#### **[Surprise Audits on Listed Issues]**

[RULE 17(a). The Exchange four times annually shall conduct a surprise audit of specialists' positions in issues listed solely on the Exchange.]

#### **[Unusual Activity]**

[RULE 17(b). The Exchange, at any time it regards the activity in any issue that is listed solely on the Exchange to be unusual, may require Participants to answer a questionnaire regarding such activity.]

#### **[Survey of Executions in Dual System Issues]**

[RULE 18. Four times annually the Exchange shall conduct a surprise survey of round-lot and odd-lot executions in dual system issues.]

**[Bidding on Issues for Self-Interest Accounts]**

[RULE 19. Without the prior approval of at least two members of the Committee on Floor Procedure, no specialist shall make a bid in any issue that is listed solely on the Exchange for any account in which he has an interest at a price higher than the last price at which such issue sold.]

**[Specialist May Not Be Officer of Issuing Corporation]**

[RULE 20. No Participant on the Floor of the Exchange, who acts as a Specialist or Co-Specialist shall (a) be an officer or director of a corporation in whose issue he is so registered; or (b) accept any orders in an issue in which he is so registered directly from an officer, director or controlling stockholder of such corporation.]

**[Specialist May Not Pay Listing Fees]**

[RULE 20(a). No Participant acting as a Specialist, Co-Specialist or Relief Specialist and no person associated with such Participant Firm shall be permitted, directly or indirectly, to pay any listing fee, including, but not limited to, the initial listing fee and annual maintenance fees, for or on behalf of any issuing corporation for which it acts as a Specialist, Co-Specialist or Relief Specialist.]

**[Reports on Business with the Public]**

[RULE 21. Participant which are registered as Specialists and do business with the public shall file such reports of transactions with customers in issues in which they are so registered as the Exchange shall require.]

**[Stop Orders]**

[RULE 22. A stop order to buy becomes a market order when a transaction in the security occurs on the Exchange or another national securities exchange or association at or above the stop price. A stop order to sell becomes a market order when a transaction in the security occurs on the Exchange or another national securities exchange at or below the stop price. A specialist must not initiate a transaction for his own account in a stock in which he is registered that would result in putting into effect any stop order he may have on his book. However, a specialist may be party to the election of a stop order only when his bid or offer made with the approval of a Floor Official has the effect of bettering the market and when he guarantees that the stop order will be executed at the same price as the electing sale.]

**[Exclusive Issues]**

[RULE 23. (a) Business Transactions ]  
[No Participant registered as a specialist, any co-specialist or other associated person, officer, director, partner or employee of a specialist unit registered in an exclusive issue



shall, directly or indirectly, engage in any business transactions with the issuer of such issue, provided, however, that a specialist registered in a security issued by an investment company may purchase and redeem the listed security, or securities that can be subdivided or converted into the listed security, from the issuer as appropriate to facilitate the maintenance of a fair and orderly market in the subject security.]

[(b) Dealings By Specialists ]

[(1) A specialist's quotation in an exclusive issue, made for his or its own account, should be such that a transaction effected thereon, whether having the effect of reducing or increasing the specialist's position, will bear a proper relation to preceding transactions and anticipated succeeding transactions.]

[(2) The following types of transactions in exclusive issues are not to be effected except as set forth in paragraph 3 below:]

[i) a purchase at a price above the last sale in the same session;]

[ii) the purchase of all or substantially all the stock offered on the book at a price equal to the last sale, when the stock so offered represents all or substantially all the stock offered in the market; and, when a substantial amount of a stock is offered at a price equal to the last sale price, the purchase of more than 50% of all the stock offered;]

[iii) the supplying of all or substantially all the stock bid for on the book at a price equal to the last sale, when the stock so bid for represents all or substantially all the stock bid for in the market; and, when a substantial amount of a stock is bid for at a price equal to the last sale price, the supplying of more than 50% of all the stock bid for; or]

[iv) a proposed transaction involving a price movement of 1/2 point or more.]

[(3) Types of transactions as set forth in subparagraph (b)(2) above may, nevertheless, be effected in exclusive issues with the prior approval of two (2) floor officials. In determining whether to permit a transaction of the types set forth above, Floor Officials shall consider, among other things: whether such transaction is an essential part of a proper course of dealings; the amount of stock involved; the specialist's position in the security; and whether the price change, if any, is normal in relation to the market.]

[••• Interpretations and Policies: ]

[.01 For purposes of this rule, "exclusive issue" shall mean the stock of any company traded on the Exchange not otherwise traded on the New York or American Stock Exchanges or Nasdaq/NM, and, where there exists another market for such issue, the Exchange has executed 15% or more of the volume in the issue during the three previous months.]

[.02 For purposes of this rule "business transaction" shall be interpreted broadly and shall at a minimum include, but not be limited to: loans; the providing of any services to the issuer or any controlling shareholder, officer, director or employee of the issuer, with or without compensation; the purchase of, or agreement to purchase, any asset of the issuer or controlling shareholder thereof; or, the acquisition of any beneficial ownership

of shares of such issuer, other than shares acquired by the specialist, through trading, in furtherance of the requirement to maintain a fair and orderly market in such security as set out in this rule, and consistent with Rule 9 of this Article XXX. Any direct or indirect dealings contemplated by a specialist unit with an issuer which the specialist believes may constitute a business transaction, shall be reported to the Market Regulation Department for its determination.]

[.03 Short Sales]

[In the event that the exemption as set forth in paragraph (e)(5) ("equalizing exemption") of SEC Rule 10a-1 ("Short Sale Rule") would otherwise apply to short sales in exclusive issues by specialists and market makers, the Exchange has determined to foreclose the use of such exemption. As such, no specialist or market maker shall effect on the Exchange for his or its own account, or for the account of any other person a short sale of any executive issue in reliance upon the equalizing exemption of the Short Sale Rule, if otherwise applicable.]

**[ARTICLE XXXI]**  
**[Odd Lots and Odd-Lot Dealers, Dual System]**

**[Floor Procedure Committee Determines Lots]**

[RULE 1. The Committee on Floor Procedure may designate any number of shares as a full lot in any issue of stock admitted to trading on the Exchange. The Committee on Floor Procedure may also designate which dually traded issues shall be subject to optional trading. The full lot in an issue subject to optional trading shall conform to the full lot designated in the primary market, unless otherwise determined by the Committee on Floor Procedure.]

**[Definition of Odd Lot]**

[RULE 2. An odd lot in any particular issue of stock is any number of shares less than a full lot.]

**[Odd-Lot Dealer]**

[RULE 3. An odd-lot dealer is a Participant who has been appointed by the Exchange to deal in less than full lots. An odd-lot dealer may, subject to the approval of the Exchange, select his or its odd-lot agents. The odd-lot dealer shall be responsible for the acts, errors or omissions of his or its odd-lot agents.]

**[Odd-Lot Agent or Broker]**

[RULE 4. An odd-lot agent is a Participant representing an odd-lot dealer on the Floor of the Exchange. He may be also sometimes called an odd-lot broker.]

**[Odd-Lot Dealer Registration]**

[RULE 5. No Participant shall act as an odd-lot dealer in any security unless such Participant is registered as an odd-lot dealer in such security. Before a Participant registered thereon shall be registered as an odd-lot dealer, application shall be made in writing to the Exchange, naming the stock or stocks in which it is proposed to act as such odd-lot dealer and containing an agreement to be bound by all the Rules now or hereafter adopted with respect to odd-lot dealers and odd-lot trading. Upon receipt of such application, the Chief Executive Officer shall make such examination of the applicant's qualifications as he shall deem necessary and shall render a report to the Committee on Specialist Assignment and Evaluation. The Committee on Specialist Assignment and Evaluation shall consider the applicant's financial responsibility, experience and demonstrated ability. The Board of Directors may, in its discretion, prescribe minimum capital requirements for odd-lot dealers. After consideration of the application on the basis of the foregoing standards, the Committee on Specialist Assignment and Evaluation shall either approve or disapprove the application.]

[••• Interpretations and Policies: ]

[.01 Notwithstanding the foregoing, any Participant registered as a specialist in any Nasdaq/NM Security shall automatically be registered as the Odd-Lot Dealer in such security.]

**[Dealer Required to Purchase All Odd Lots Offered]**

[RULE 6. In any security in which he or it is registered as such, an odd-lot dealer shall be required, during the Primary Trading Session and the Post Primary Trading Session, to purchase all odd lots offered to him or it by any Participant of the Exchange and he or it shall be required to sell to any Participant of the Exchange any odd lots bid for by such Participant.]

[[Reserved.]]

**[Short Sale of Stock on Odd-Lot Basis]**

[RULE 7. No Participant or partner, officer or director of a Participant Firm shall effect on the Exchange any short sale of a stock on an odd-lot basis unless such sale is based upon a sale of a full lot, the price of which (1) is higher than the price of the last "regular way" sale of a full-lot on the Exchange of such stock, or (2) is the same as the price of such last sale and such price was higher than the last different price of a "regular way" sale of a full lot on the Exchange of such stock. The provisions of this Rule shall not apply to any sale by an odd-lot dealer in a stock in which he is registered as such.]

[••• Interpretations and Policies: ]

[.01 This rule shall not apply to the extent that the Securities and Exchange Commission has suspended the application of the rule as permitted by Regulation SHO.]

**[Combining of Orders to Buy or Sell Lots of Same Stock]**

[RULE 8. No Participant or partner, officer or director of a Participant Firm shall combine the orders given by several different customers to buy or sell odd lots of the same stock, into an order for one or more full-lot units without the prior approval of the customers interested.]

[When a person gives, either for his own account or for various accounts in which he has an actual monetary interest, buy or sell odd-lot orders which aggregate 100 shares or more, such orders shall, as far as possible, be consolidated into full-lot units, except that selling orders marked "long" need not be so consolidated with selling orders marked "short."]

**[Execution of Odd-Lot Orders During the Primary Trading]**

[RULE 9. (a) Exclusive Issues. Odd-lot market orders in exclusive issues will be executed at the best bid or ask price of a full lot in effect at the time the order is presented.]

[(b) Nasdaq/NM Securities and Dually Traded Issues. As to Nasdaq/NM Securities, market orders will be accepted for execution as an odd lot based on the best bid disseminated pursuant to SEC Rule 11 Ac1-1 on a sell order or the best offer disseminated pursuant to SEC Rule 11 Ac 1-1 on a buy order in effect at the time the order is presented at the specialist post, provided the order is for a number of shares less than the full lot in said stock. Any market order to purchase or sell a Dual Trading System issue in an odd-lot amount, which is transmitted for execution to an odd-lot dealer or its agent shall be executed, unless otherwise provided herein, at the price of the adjusted ITS bid (in the case of an order to sell) or adjusted ITS offer (in the case of an order to purchase) in the security at the time the order is received by the Exchange system designated to process odd-lot orders (the "odd lot system").]

[(i) An odd lot as part of an order involving a full lot, shall be filled on the basis of the full lot price whether such full lot is executed on the Exchange or on another exchange; in such case the order shall be marked "on sale".]

[(ii) Odd-lot market orders which are entered during trading halt situations will be executed based on the reopening price in the primary exchange market.]

[(c) General.]

[(i) Stop orders to buy shall become market orders when a full-lot transaction takes place at or above the stop price. The order shall be filled at the price of the next transaction.]

[(ii) Stop orders to sell shall become market orders when a full-lot transaction takes place at or below the stop price. The order shall be filled at the price of the next transaction.]

[(iii) Odd-lot transactions shall not be made on "seller" or "cash" trades.]

[(iv) Buy Limit Orders. Buy limit orders shall be executed at the limit price only after there has been a full lot transaction in the primary market at a price at or below the limit price.]

[(v) Sell Limit Orders, Marked "Long". Sell limit orders marked "long" shall be executed at the limit price, only after there has been a full lot transaction in the primary market at a price at or above the limit price.]

[(vi) In instances in which quotation information is not available, e.g., the quotation collection or dissemination facilities are inoperable, or the primary market in the security has been determined to be in non-firm mode (as referenced in Interpretation and Policy .01), standard, regular way odd-lot market orders shall be executed based on the next primary market round lot sale or shall be executed by the member organization designated by the Exchange as the odd-lot dealer for the issue, at a price deemed appropriate under prevailing market conditions.]

[(d) Notwithstanding anything in this Rule to the contrary, if so determined by the Committee on Floor Procedure, a differential may be charged for (i) an odd-lot "seller's option" trade (as that term is defined in Article XX, Rule 9(c)), (ii) an odd-lot order for cash or "next day" delivery, (iii) an odd-lot order for additional settlement periods, and (iv) an odd-lot order in an issue in which a differential is charged in the primary market.]

[••• Interpretations and Policies:]

[.01 Adjusted Best Bid or Offer. For purposes of paragraph (b) of this Rule, the terms "adjusted ITS best bid" and "adjusted ITS best offer" for a security shall mean the highest bid and lowest offer, respectively, disseminated by (i) the Exchange or (ii) a market center participating in the Intermarket Trading System; provided, however, that the bid and offer in another ITS market center will be considered in determining the adjusted ITS best bid or adjusted ITS best offer in a security only if (a) the security is included in ITS in that market center; (b) the size of the quotation is greater than 100 shares; provided, however, that 100-share quotations by the primary market may be considered; (c) the bid or offer is no more than \$.25 away from the bid or offer disseminated by the primary market; (d) the quotation conforms to Exchange requirements regarding minimum trading variations; (e) the quotation does not result in a locked market; (f) the market center is not experiencing operational or system problems with respect to the dissemination of quotation information; and (g) the bid or offer is "firm," that is, members of the market center disseminating the bid or offer are not relieved of their obligations with respect to such bid or offer under paragraph (c)(2) of Rule 11Ac1-1 pursuant to the "unusual market" exception of paragraph (b)(3) of Rule 11Ac1-1.]

**[Orders to Odd-Lot Dealers]**

[RULE 10. All orders given to odd-lot dealers must be in writing and time stamped when received on the Floor.]

**[Supervision of All Transactions of Odd-Lot Dealers]**

[RULE 11. All business and transactions of odd-lot dealers shall be subject to the scrutiny and supervision of the Board of Governors, or any committee designated by it, or of the Chief Executive Officer or any officer designated by him. The records of odd-lot dealers will be examined not less than four times annually to determine compliance with the Rules governing the execution of odd-lot orders.]

**[Odd-Lot Dealer Joint Accounts]**

[RULE 12. No odd-lot dealer shall, directly or indirectly, acquire or hold any interest or participation in any joint account for buying or selling on the Exchange, or through ITS or any other Application of the System, any security in which such odd-lot dealer is registered, except a joint account with a Participant or partner, officer or director of a Participant Firm, or with a Participant Firm.]

**[Odd-Lot Dealer Put, Call, Straddle or Option]**

[RULE 13. No odd-lot dealer, and no firm or corporation of which such odd-lot dealer is a partner, officer or director of such corporation shall acquire, hold, or grant, directly or indirectly, any interest in any option in any stock in which such odd-lot dealer is registered; provided, however, that the preceding prohibition shall not be applicable in respect of any option issued by the Options Clearing Corporation that was acquired or granted in a publicly reported transaction. Each odd-lot dealer able to initiate the purchase or sale of any stock while on the Floor shall report to the Exchange, in such form and at such times as the Exchange requires, all options that he holds or has granted, or that his Participant Firm or any partner, officer or director of his Participant Firm, holds or has granted.]

**[Termination of Registration]**

[RULE 14. Whenever it shall appear or be called to the attention of the Chief Executive Officer that an odd-lot dealer is violating any of the Rules of the Exchange or the federal securities laws or is conducting business as an odd-lot dealer in an unethical manner, the Chief Executive Officer shall, without the necessity of previous notice, suspend the registration of such odd-lot dealer pending an opportunity for a prompt hearing on the apparent violation in accordance with Article XII of the Rules of the Exchange. Notwithstanding the opportunity for hearing, upon imposition of the summary suspension of registration, the Exchange shall provide notification thereof to the Securities and Exchange Commission (the "Commission"). At the same time, the affected odd-lot dealer may immediately file a request with the Commission for a stay of imposition of the suspension of registration in accordance with such procedures as the Commission may provide.]

[In connection with its responsibilities to monitor and evaluate the performance of registered odd-lot dealers, the Committee on Specialist Assignment and Evaluation may suspend or terminate any such registration based upon a finding after an opportunity for a hearing in accordance with Article XVII that the particular odd-lot dealer has not satisfactorily performed his responsibilities as defined in the federal securities laws and the rules and policies of the Exchange.]

**[Execution Time]**

[RULE 15. Odd-lot orders in the dual trading system received before 9:00 A.M. shall be executed on the opening sale in the New York market.]

**[ARTICLE XXXII ]**  
**[Exchange Distribution Plan]**

**[Procedure to Effect Exchange Distribution]**

[RULE 1. To effect an Exchange distribution of a block of a listed security, or security admitted to unlisted trading, a Participant, for his or its own account or the account of a customer, may

Making an Arrangement

(A) make an arrangement with one or more other Participants under which

(1) the Participants, with whom the arrangement is made, solicit others to purchase such security; and

(2) the selling Participant pays to the Participants, with whom the arrangement is made, a commission which is mutually agreeable; and

(3) the Participants, with whom the arrangement is made, may pay a special commission to their registered representatives; and/or

Paying Commissions

(B) pay a commission to his or its registered representatives for soliciting others to purchase such security.]

**[Approval of Exchange]**

[RULE 2. An Exchange Distribution may be made only with the prior approval of the Exchange (given after consulting and with the concurrence of a Governor who is active on the Floor of the Exchange). Such a Distribution shall not be approved unless the Exchange shall have determined that the regular market on the Floor of the Exchange cannot, within a reasonable time and at a reasonable price or prices, otherwise absorb the block of securities which is to be the subject of the Exchange Distribution. In making such determination, the following factors may be taken into consideration, viz:

Price Range and Volume

(1) price range and the volume of transactions in such security on the Floor of the Exchange during the preceding month;

Attempts at Disposition

(2) attempts which have been made to dispose of the security on the Floor of the Exchange;

Condition of Specialist's Book and Floor Quotations

(3) the existing condition of the specialist's book and Floor quotations with respect to such security;

Past and Current Interest

(4) the apparent past and current interest in such security on the Floor; and



Number and Current Market Value

(5) the number of shares or bonds and the current market value of the block of such security proposed to be covered by such Exchange Distribution.]

**[Conditions for Exchange Distributions]**

[RULE 3. No Exchange Distribution shall be made unless each of the following conditions is complied with:

Owner of Entire Block

(1) The person for whose account the Distribution is to be made shall, at the time of the Distribution, be the owner of the entire block of the security to be so distributed;

Written Statement of Broker

(2) The person for whose account the Distribution is to be made shall include within the Distribution all of the security which he then intends to offer within a reasonable time, and there shall be furnished to the Exchange, before the Distribution is made, a written statement by his broker stating that the broker has been so advised by the offeror;

No Bid or Purchase During Distribution by Person for Whose Account Distribution Is Made

(3) The person for whose account the Distribution is made shall agree that, during the period the Distribution is being made, he will not bid for or purchase any of the security for any account in which he has a direct or indirect interest;

No Bid or Purchase by Participants

(4) The Participants who are parties to the arrangement for the Distribution shall not, during the period the Distribution is being made, bid for or purchase any of the security for an account in which they have a direct or indirect interest;

Granting of Approval to Effect an "Exchange Distribution"

(5) No Participant shall be granted approval to effect an "Exchange Distribution" of a block of a security for an account in which he has a direct or indirect interest, if he is registered as a Specialist in such security, unless the Exchange has determined that such Participant has been unable, within a reasonable period of time, to dispose of the block of security in the ordinary course of his dealings as a Specialist. Such approval shall stipulate that the Specialist may not deal directly with the public but must make an arrangement with one or more other Participants to solicit others to purchase the security, and may pay a commission to such other Participants as provided for in this Article.

Soliciting Purchase Orders

(6) Each Participant soliciting purchase orders for execution in the Distribution shall advise the person so solicited before effecting any transaction for such person pursuant thereto, that the securities being offered are part of a specified number of shares

or bonds being offered in an Exchange Distribution, and that he or it

(a) is acting for the seller, and will receive a special commission from the seller or his broker, or is acting as a principal; and

(b) is charging a commission, or is making the sale at a net amount, whichever the case may be;

**"Short" Sales**

(7) No "short" sale may be made in connection with the Distribution, except that securities may be borrowed to make delivery where the person owns the securities sold and intends to deliver such securities as soon as is possible without undue inconvenience or expense.

**Exceptions or Qualifications of (2), (3), and (4)**

(8) The conditions set forth in (2), (3) and (4) above shall not apply to transactions effected on the Exchange, for the Purpose of maintaining a fair and orderly market, by a Participant in a security in which he is registered as a specialist and which is the subject of an "Exchange Distribution" for an account in which he has an interest, except that, while such Distribution is in effect, he shall not bid for or purchase such stock on the Exchange for an account in which he has an interest:

(a) at a price above the preceding sale price (i.e., a "plus" tick) or

(b) at a price above the next preceding different sale price (i.e., a "zero plus" tick).

The conditions set forth in (3) and (4) above shall not apply to purchases necessitated solely in connection with "crossing" orders pursuant to the Distribution.]

**[Crossing of Orders]**

[RULE 4. In effecting an Exchange Distribution, the orders for the purchase of the securities being distributed must be sent to the Floor together with an order to sell an equal amount to be "crossed" in accordance with the Rules applicable to the crossing of orders on the Floor, and such transactions shall be printed on the ticker tape.]

**[Report of Distribution]**

[RULE 5. The Participant selling securities in an Exchange Distribution shall report to the Exchange all transactions in such securities effected by him or it for any account in which the seller had a direct or indirect interest, commencing with the time arrangements for the Distribution were made and ending with the time the Distribution was completed.]

**[ARTICLE XXXIII  
Proxies]**

**[Giving of Proxies Restricted]**

[RULE 1. No Participant shall give a proxy to vote stock registered in its name, except as required or permitted under the provisions of Rule 3 of this Article, unless the organization is the beneficial owner of such stock.]

**[Transmission of Proxy Material to Customers]**

[RULE 2.

- (a) Whenever a person soliciting proxies shall furnish a Participant Firm:
- (1) copies of all soliciting material which such person is sending to registered holders, and
  - (2) satisfactory assurance that he will reimburse such Participant Firm for all out-of-pocket expenses, including reasonable clerical expenses, if any, incurred by such firm or corporation, in obtaining instructions from the beneficial owners of stock.
- such organization shall transmit to each beneficial owner of stock which is in its possession or control, the material furnished; and
- (b) Such organization shall transmit with such material either:
- (1) a request for voting instructions and also a statement to the effect that, if such instructions are not received by the tenth day before the meeting, the proxy may be given at discretion by the owner of record of the stock. (However, when the proxy soliciting material is transmitted to the beneficial owner of the stock twenty-five days or more before the meeting, the statement accompanying such material shall be to the effect that the proxy may be given fifteen days before the meeting at the discretion of the owner of record of the stock.) or
  - (2) a signed proxy indicating the number of shares held for such beneficial owner and bearing a symbol identifying the proxy with proxy records of such firm or corporation, and also a letter informing the beneficial owner of the necessity for completing the proxy form and forwarding it to the person soliciting proxies in order that the shares may be represented at the meeting.

This rule shall not apply to beneficial owners outside the United States.]

**[Instructions of Beneficial Owner]**

[RULE 3. A Participant Firm shall give a proxy for stock registered in its name, at the direction of the beneficial owner. If the stock is not in the control or possession of the Participant Firm, satisfactory proof of the beneficial ownership as of the record date may be required.

A Participant Firm may give a proxy to vote any stock registered in its name if such organization holds such stock as executor, administrator, guardian, trustee, or in a similar representative or fiduciary capacity with authority to vote.

A Participant Firm which was transmitted proxy soliciting material to the beneficial owner of stock and solicited voting instructions in accordance with the provisions of Rule 2, and which has not received instructions from the beneficial owner by the date specified in the statement accompanying such material may give a proxy to vote such stock, except for voting on equity compensation plans as set forth below, provided the person signing the proxy has no knowledge of any contest as to the action to be taken at the meeting and provided such action does not include authorization for a merger, consolidation or any other matter which may affect substantially the legal rights or privileges of such stock.

A Participant Firm may not give a proxy to vote without instructions from beneficial owners when the matter to be voted upon authorizes the implementation of any equity compensation plan, or any material revision to the terms of any existing equity compensation plan (whether or not shareholder approval of such plan is required by Article XXVIII, Rules 19 or 21). The provision will become effective for any meeting of shareholders that occurs on or after the 90th day following Commission approval of the change.

A Participant Firm which has in its possession or control stock registered in the name of another Participant Firm, and which has solicited voting instructions in accordance with the provisions of Rule 2(b)(1), shall

- (1) forward to the second Participant Firm any voting instructions received from the beneficial owner, or
- (2) if the proxy-soliciting material has been transmitted to the beneficial owner of the stock in accordance with Rule 2 and no instructions have been received by the date specified in the statement accompanying such material, notify the second Participant Firm of such fact in order that such organization may give the proxy as provided in the third paragraph of this rule.

A Participant Firm which has in its possession or control stock registered in the name of another Participant Firm, and which desires to transmit signed proxies pursuant to the provisions of Rule 2(b)(2), shall obtain the requisite number of signed proxies from such holder of record.]

**[Statement of Number of Shares]**

[RULE 4. In all cases in which a proxy is given by a Participant Firm the proxy shall state the actual number of shares for which the proxy is given.]

**[Committee Instructions to Transfer Securities]**

[RULE 5. A Participant Firm when so requested by the Exchange, shall transfer certificates of stock held either for its own account or for the account of others, if registered in the name of a previous holder of record, into its own name, prior to the taking of the record of stockholders, to facilitate the convenient solicitation of proxies.

The Exchange shall make such request at the insistence of the issuer or of persons owning in the aggregate at least ten percent of such stock, provided, if the Exchange so requires, the issuer or persons making such request agree to indemnify Participant Firms against transfer taxes. The Exchange may make such a request whenever it deems it advisable.]

**[Persons Subject to Proxy Rules]**

[RULE 6. Rules 1 through 7 of this Article apply to Participant Firms and the nominees or employees of any of them.]

**[Transmission of Interim Reports and Other Material]**

[RULE 7. A Participant Firm, when so requested by a company, and upon being furnished with:

- (1) copies of interim reports of earnings or other material being sent to stockholders, and
- (2) satisfactory assurance that it will be reimbursed by such company for all out-of-pocket expenses, including reasonable clerical expenses, shall transmit such reports or material to each beneficial owner of stock of such company held by such organization and registered in a name other than the name of the beneficial owner.

This rule shall not apply to beneficial owners outside the United States.]

**[Term "Stock" as Used in this Article]**

[RULE 8. As used in this Article XXXIII, the term "stock" means securities listed exclusively on this Exchange.]

**[ARTICLE XXXIV  
Registered Market Makers—Equity Floor]**

**[General Responsibilities]**

**[RULE 1.** A registered market maker shall only participate in transactions, while on the trading floor, during the Primary Trading Session and Post Primary Trading Session. A registered market maker shall effect all of his transactions in securities traded on the Exchange so that they constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market. No registered market maker shall enter into transactions or make bids or offers that are inconsistent with such a course of dealings.]

**[Obligation to Bid and Offer]**

**[RULE 2.** A registered market maker shall, at the request of a floor broker, make a bid or offer in any security to which he is assigned or in which he is then trading such that a transaction effected thereon will contribute to the maintenance of a fair and orderly market.]

**[Assigned Securities]**

**[RULE 3.** A registered market maker shall engage to a reasonable degree under existing circumstances in a course of dealing in the securities to which he is assigned that is reasonably calculated to contribute to the maintenance of a fair and orderly market. The Committee on Exchange Procedure (or other committee appointed for the purpose by the Board) shall specify the percentage of the shares purchased and sold by a registered market maker that must be of securities to which he is assigned.]

[••• Interpretations and Policies: ]

[.01 Fifty percent (50%) of a Market Maker's quarterly share volume must be in issues to which he is assigned. In situations where a Floor Official requests a Market Maker to participate in trading an issue in which he is not assigned, the share volume so accumulated will be included as part of the volume required to satisfy the 50% requirement.]

**[Trading From Off the Floor]**

**[RULE 4.** Except in unusual circumstances, no registered market maker shall initiate a transaction on the Exchange in his market maker account from off the floor. Such transactions must be approved by two members of the Exchange Procedures Committee and a written report thereof must be submitted to the Department of Participant Firms stating the nature of the unusual circumstances and containing the signatures of the approving members of the Exchange Procedure Committee.]

**[Relief From Responsibilities]**

[RULE 5. A registered market maker may be relieved from his responsibilities under Rules 1 through 4 of Article XXXIV only in unusual conditions as determined by two members of the Exchange Procedures Committee. A written report thereof shall be submitted to the Department of Participant Firms describing the nature of the unusual circumstances and containing the signatures of the approving members of the Floor Procedure Committee. ]

**[Relation to Specialists]**

[RULE 6. Registered market makers and specialists shall coordinate their activities in furtherance of the maintenance of fair and orderly markets.]

**[Order Acceptance]**

[RULE 7. A registered market maker may accept limit orders in any security to which he has been assigned that have been presented to the specialists and not accepted by him. Limit orders and market orders accepted by a registered market maker shall be handled by him in accordance with Exchange rules governing the handling of such orders by specialists.]

**[Joint Participation]**

[RULE 8. When the bids or offers of one or more registered market makers are equal in price to those of the specialist, the registered market maker or market makers as a group are entitled to participate in the transactions effected thereon to the extent of one-third of the total shares involved (excluding those needed to satisfy public orders).]

[••• Interpretations and Policies: ]

[.01 When the Designated Primary Market Maker and a Registered Market Maker, as those terms are used in Article XXXVI, are both displaying, through the quotation system, the same bid or offer price for a basket, the Designated Primary Market Maker and the Registered Market Maker will be entitled to participate in transactions on a 2/3 to 1/3 parity, respectively, up to the size of their displayed quotations, (i.e., the Designated Primary Market Maker is entitled to twice the size of a Registered Market Maker's order up to the size of the Designated Primary Market Maker's quotation. Conversely, a Registered Market Maker is entitled to participate at 1/2 the size of the Designated Primary Market Maker's order up to the size of the Registered Market Maker's order up to the size of the Registered Market Maker's displayed quotation). In the event that the Designated Market Maker or a Registered Market Maker has not displayed a size greater than or equal to the size he or she would be entitled to based on the 2/3 to 1/3 parity, the Designated Market Maker or a Registered Market Maker, as the case may be, shall only participate up to their displayed size. In the event that more than one Registered Market

Maker is entitled to participate pursuant to this paragraph, the Registered Market Makers as a group are entitled to one-third of the total shares involved.]

**[Openings]**

[RULE 9. Registered market makers as a group are entitled to participate in opening a security on the Exchange to the extent of one-third of the net imbalance (excluding specialist participation) of purchase and sale orders on the Exchange.]

**[Public Outcry]**

[RULE 10. No specialist or market maker shall effect a transaction for his own account unless the presence of the other side of that transaction had been audibly announced at the post.]

**[Limit Orders]**

[RULE 11. A limit order held by a specialist or registered market maker shall be executed taking into account transactions on the Exchange.]

**[Unusual Circumstances]**

[RULE 12. Questions as to the respective responsibilities and rights of specialists and registered market makers shall be promptly brought to the attention of a member of the Floor Procedure Committee who shall resolve such questions subject to review by the full committee.]

**[Registration and Application]**

[RULE 13. A Participant may be registered, upon application and subject to such requirements of training, experience, and competence as the Exchange may impose, as a registered market maker.]

[••• Interpretations and Policies: ]

[.01 Approval or Disapproval of Registration.

Pursuant to Rule 13 of Article XXXIV, applications on such form or forms as the Exchange shall prescribe shall be reviewed by the Floor Procedure Committee which shall consider an applicant's ability as demonstrated by his passing an examination prescribed by the Exchange, and such other factors as the Committee deems appropriate. After reviewing the application, the Committee shall approve or disapprove the registration stating the reasons for disapproval. Upon approval the name of the applicant shall be posted on the bulletin board of the floor of the Exchange for a period of at least three business days.



In the event the application is not approved, the applicant may obtain review of such decision by filing a written request therefor with the Secretary of the Exchange within five business days.]

**[Assignment]**

[RULE 14. Each registered market maker shall be assigned one or more securities by the Floor Procedure Committee (or other committee appointed for the purpose by the Board) for which he shall have responsibility under Rule 3 of this Article.]

**[Suspension and Termination]**

[RULE 15. Whenever it shall appear or be called to the attention of the Chief Executive Officer that a registered market maker is violating any of the Rules of the Exchange or the federal securities laws or is conducting business as a market maker in an unethical manner, the Chief Executive Officer shall, without the necessity of previous notice, suspend the registration of such market maker pending an opportunity for a prompt hearing on the apparent violation in accordance with Article XII of the Rules of the Exchange. Notwithstanding the opportunity for hearing, upon imposition of the summary suspension of registration, the Exchange shall provide notification thereof to the Securities and Exchange Commission (the "Commission"). At the same time, the affected market maker may immediately file a request with the Commission for a stay of imposition of the suspension of registration in accordance with such procedures as the Commission may provide.

In connection with its responsibilities to monitor and evaluate the performance of registered market makers, the Floor Procedure Committee may suspend or terminate any such registration based upon a finding after an opportunity for a hearing in accordance with Article XVII that the particular market maker has not satisfactorily performed his responsibilities as defined in the federal securities laws and the rules and policies of the Exchange.]

**[Regulatory Status]**

[RULE 16. Registered market makers are members registered as specialists for purposes of the Exchange Act and as such may not effect on the Exchange as broker any transactions except upon a market or limited price order.]

[••• Interpretations and Policies: ]

[.01 Utilization of Exempt Credit. Exchange Participants registered as equity market makers are members registered as specialists for purposes of the Exchange Act and as such are entitled to obtain exempt credit for financing their market maker transactions. Participants and/or prospective Participants who are anticipating becoming registered as equity market makers as well as those clearing firms who are or will be carrying the

accounts of market makers should be aware of the following interpretation relative to the use of such credit:

1. Only those transactions initiated on the Exchange Floor qualify as market maker transactions. This restriction prohibits the use of exempt credit where market maker orders are routed to the Floor from locations off the Floor.
2. Fifty per cent (50%) of the quarterly share volume in each issue in a market maker account must result from transactions which are either consummated on the Exchange or sent from the Exchange Floor for execution in another market via ITS in order for the market maker to be entitled to exempt credit for such issue. Participants who do not meet this 50% volume threshold for a particular issue in a calendar quarter will not be entitled to exempt credit for such issue for the following calendar quarter.
3. Only those positions which have been established as a direct result of bonafide equity market maker activity qualify for exempt credit treatment. This restriction precludes exempt credit financing based on an equity market maker registration for positions resulting from options exercises and assignments. Participants who are notified by the Exchange that they are not entitled to exempt credit for a particular issue (because they failed to meet the 50% threshold for that issue in the previous calendar quarter as outlined in paragraph 2 above) must notify their lender in writing, within three trading days of receiving such notification, that they are not entitled to market maker exempt credit for those specific issues ("non-qualifying issues") both on existing positions and new transactions, for the remainder of the current calendar quarter. A copy of the notification letter sent to the lender must also be sent concurrently to the Exchange. If the lender is unable to distinguish between issues or verify that market maker exempt credit is not being granted in non-qualifying issues, then, within three trading days of the date the lender receives notification, such Participants must transfer, to a non-market maker account, all non-qualifying issues in their V-account and confirm with the Exchange that such action has been taken. If such Participants are not utilizing exempt credit, they must send the Exchange a letter to that effect, within three trading days of receiving notification that they are not entitled to market maker exempt credit for a particular issue, and request their lender to verify the same with the Exchange.]

.02 When requested by a Floor broker, a market maker must accept and guarantee execution on all 100 share agency orders in accordance with the procedures set forth in Article XX, Rule 37 (the Best System).]

**[ARTICLE XXXV]**  
**[Secondary Trading Session]**

**[Applicability of Other Rules]**

[RULE 1. The Rules in this Article XXXV shall apply to the Exchange Contracts made on the Exchange during the Secondary Trading Session. Except to the extent that specific Rules in this Article XXXV govern, or unless the context otherwise requires, the provisions of the Constitution and all other Rules and policies of the Board of Governors shall be applicable to the execution of Portfolio transactions.]

**[Definitions]**

[RULE 2. (a) "Standardized Portfolio" shall mean any group of Eligible Securities that are the subject of an option contract traded on a national securities exchange or a futures contract traded on a contract market designated by the Commodity Futures Trading Commission.]

[(b) The term "Non-Standardized Portfolio" shall mean any group of Eligible Securities consisting of at least 20 securities, where the value of any one security, as determined by the Participant in accordance with Rule 9, does not exceed 20 percent of the contract price of the shares in the Portfolio as executed.]

[(c) The term "Portfolio" shall include Standardized and Non-Standardized Portfolios.]

[(d) The term "Eligible Securities" shall mean all securities that are listed for trading on the Exchange or to which unlisted trading privileges have been granted pursuant to Section 12(f) of the Exchange Act.]

[(e) The terms "Portfolio Trading System" and "System" shall mean the electronic communications system provided by or specified by the Exchange for the execution of Portfolio transactions pursuant to this Article XXXV. Transactions executed through the Portfolio Trading System shall be deemed to be executed on the Exchange.]

**[Unit of Trading]**

[RULE 3. (a) All Portfolios shall consist of a single unit of trading, consisting of the number of shares of each security in the Portfolio as specified in the bid and offer made in accordance with the provisions of Rule 6. There shall be no specified unit of trading for Eligible Securities traded during the Secondary Trading Session.]

**[Acceptable Orders and Participants]**

[RULE 4. (a) Only bids and offers to purchase or sell Portfolios shall be accepted for execution or executed in the Portfolio Trading System. No other orders for the purchase or sale of securities shall be accepted for execution or executed during this

session. Any bids and offers for the purchase or sale of securities that are entered in the Primary Trading Session and that remain open after the close thereof shall, unless cancelled, be held open for execution during the next Primary Trading Session and such orders shall not be executed during the Secondary Trading Session.]

[(b) Specialists, odd-lot dealers and registered market makers may not participate as such during the Secondary Trading Session, and the Rules relating thereto, set forth in Articles XXX, XXXI and XXXIV, shall not be applicable.]

#### **[Minimum Price Changes]**

[RULE 5. Bids or offers in Portfolios shall be made in minimum increments of \$.01. Bids or offers in Eligible Securities comprising a Portfolio shall be made in increments of 1/10,000 of a dollar per share.]

#### **[Bids and Offers]**

[RULE 6. (a) A Participant may make a bid or offer to purchase or sell a Portfolio by entering into the System the total value of the Portfolio, the symbol and quantity of all Eligible Securities comprising a Non-Standardized Portfolio and the settlement terms of other than "regular way" transactions. Such bids and offers shall be deemed to be firm quotations to buy or sell the Portfolio at the stated price as if made available for an individual security in accordance with SEC Rule 11Ac1-1.]

[(b) Any Participant that wishes to sell the Portfolio and each of its constituent securities at a price equal to or lower than a published bid or to buy the Portfolio and each of its constituent securities at a price equal to or higher than a published offer shall satisfy such pre-existing quotation prior to executing any order at that price.]

[(c) When a bid or offer is accepted by another Participant, the Portfolio transaction shall be executed in accordance with Rule 7 of this Article.]

#### **[Execution of Portfolio Transactions]**

[RULE 7. (a) At any time during the Secondary Trading Session, a Participant may execute a transaction in a Portfolio on the Exchange in the manner specified by this Rule. To execute an order, a Participant shall enter a matched bid and offer for a Portfolio, i.e., a bid to purchase the Portfolio and each of its constituent securities and an offer to sell the Portfolio and the same number of shares of each constituent security at the same price. In entering a bid or offer, the Participant may act on its own behalf, as principal, or on behalf of one or more customers, or a combination thereof. In either event, at least one party to the transaction must make a bid or offer to purchase or sell a Portfolio. Portfolio transactions between Participants or their customers shall be entered into the System by only one Participant.]

[(b) A Participant shall execute a Portfolio transaction by entering into the System the following information:]

- [(1) The name of the executing Participant and its Exchange symbol;]
- [(2) The name of the clearing Participants, if not the entering Participant;]
- [(3) The symbol, quantity and price, in decimals, for each security in the Portfolio;]
- [(4) The total value of the Portfolio; and]
- [(5) The settlement terms, if other than "regular way".]

[(c) Upon entry of the information required by paragraph (b) of this Rule, an Exchange Contract shall be made for each security comprising the Portfolio.]

### **[Filling Orders]**

[RULE 8. No Participant that has accepted for execution an order to purchase or sell a Portfolio of securities on behalf of a customer may fill such order through the Secondary Trading Session by selling or purchasing such Portfolio:]

[(a) for its own account or an account in which it or any partner, officer, or director of the Participant has a direct or indirect interest, if the Participant knows that it is holding an unexecuted order on behalf of another customer to sell or purchase a Portfolio at the same or better price; or]

[(b) for its own account or the account of a customer, if a Participant has a quotation through the System to sell or purchase such Portfolio at the same or better price.]

### **[Price of Securities]**

[RULE 9. The price at which a Portfolio transaction is executed, both in the aggregate and on a security-by-security basis, shall be fair, taking into consideration all relevant circumstances, including market conditions with respect to such security or securities at the time of the transaction, the expense involved and the fact that the Participant is entitled to a profit; provided, however, that, except as may otherwise be permitted by an officer of the Exchange, the price at which the Portfolio transaction is executed shall not be less than 95 percent of the aggregate value of the securities comprising the Portfolio, calculated using the last price for each of the securities comprising the Portfolio as reported on the Consolidated Transaction Reporting System or the NASDAQ Transaction Reporting System on the day the transaction is executed ("Last Reported Price"), or greater than 105 percent of the Last Reported Price; and, provided further, that the price of each security in the Portfolio at which the Portfolio transaction is executed shall not be less than 90 percent of the Last Reported Price for that security or greater than 110 percent of the Last Reported Price for such security.]

**[Errors]**

[RULE 10. Whenever a Participant discovers an error in a Portfolio transaction, such error may be corrected in accordance with the rules of the registered clearing agency through which the transaction is settled.]

**[Record of Orders]**

[RULE 11. Every Participant shall preserve for at least three years, a record of every Portfolio transaction executed by such Participant through the System. Such record shall include the name and quantity of each security in the Portfolio, the date and time at which the transaction was entered for execution and the name or designation of the account for which the transaction was executed.]

**[Disputes]**

[RULE 12. Disputes involving Portfolio transactions, if not settled between the parties, shall be settled by the Committee on Floor Procedures.]

**[Fees]**

[RULE 13. (a) Participants that elect to participate in the Portfolio Trading System shall pay a fee of \$2,500 per month, which shall be payable quarterly in advance on the first day of January, April, July and October. This fee shall be reduced by an amount equal to the amount of transaction fees such Participant shall be required to pay in accordance with paragraph (b) of this Rule.]

[(b) Each Participant shall pay a transaction fee equal to the greater of \$100 per Portfolio transaction or \$.025 per \$1000 valuation.]

**[Liability of Exchange Relating to Operation of Portfolio Execution System]**

[RULE 14. (a) The Exchange shall not be liable for any loss resulting from or claimed to have resulted from any Portfolio transaction, or any act, error or omission of a Participant with respect thereto.]

[(b) Whenever a registered clearing agency excludes a Portfolio transaction from its clearance procedures, either because the registered clearing agency ceases to act (either with respect to transactions generally or as to a particular transaction) for a Participant, or because of the insolvency of such Participant, the Exchange shall not be obligated to assume and honor any one or more or all of such excluded Portfolio transactions for the account of and on behalf of the Participant for which the registered clearing agency ceased to act or which is insolvent and such trade shall be returned to such Participant.]

**[ARTICLE XXXVI]**  
**[Baskets]**

**[Introduction]**

[The rules in this Article are applicable only to baskets (as defined below). Baskets are also subject to the general rules of the Exchange to the same extent as such rules apply to equity securities except where the context otherwise requires.]

**[Definitions]**

[RULE 1. When used in this Article XXXVI the following terms have the following meanings with respect to baskets provided for in this Article, unless the context otherwise requires:]

**[Basket]**

[(1) The term "basket" shall mean a group of securities that the Exchange designates as eligible for execution in a single trade and that consists of securities whose inclusion and relative representation in the group are determined by the Exchange.]

**[Basket Contract]**

[(2) The term "basket contract" means a contract obligating the seller to sell and the purchaser to buy the designated quantity of each issue contained in the basket, with delivery of such securities to be made as provided in the Rules of any registered clearing agency.]

**[Underlying Security ]**

[(3) The term "underlying security" means a component security included in the basket.]

**[Terms of Baskets]**

[RULE 2. The number and quantity of the component securities deliverable upon settlement of a basket shall be determined by the Exchange.]

**[Baskets to Be Traded]**

[RULE 3. (a) Exchange Transactions. Only baskets approved by, and currently open for trading on, the Exchange may be purchased or sold on the Exchange. All basket transactions shall take place on the Floor.]

[(b) Component Securities. A basket may be dealt in on the Exchange only if each of its component securities has been admitted to dealings on the Exchange, pursuant to listing or unlisted trading privileges, on an "issued", "when issued", or "when distributed" basis, including component securities subject to the exemption contained in Rule 12a-7, promulgated under Section 12(a) of the Securities Exchange Act of 1934.]

[(c) Basket Changes. After approving a particular basket, the Exchange, in its discretion, may from time to time take any of the following actions if necessary or appropriate to maintain the quality and character of the basket:]

[(i) replace, add or delete one or more component securities;]

[(ii) change a component security's relative representation in a basket by changing the quantity and number of securities of that security that the basket includes; and]

[(iii) make such other basket-related changes as the Exchange may from time to time specify.]

[••• Interpretations and Policies:]

[.01 The Chicago Basket (CXM).]

[The Exchange will trade a basket of stocks based upon the Chicago Mercantile Exchange's stock index XMI futures contract (the "Merc futures contract"). The CXM will consist of the stocks included in the Merc futures contract in a fixed quantity of 25 shares of each of the stocks included in the futures contract.]

[The trading market for the CXM will consist of a registered specialist, to be known as a Designated Primary Market Maker ("DPM"), and Registered Market Makers ("RM"). DPMs will be required to continuously make a two-sided market for 4 CXM baskets; RMs will be required to continuously make a two-sided market for 1 CXM Basket with at least one side equal in price to the DPM's quoted market. The DPM capital requirement (as the term "capital" or "net capital" is defined for specialists in SEC Rule 15c3-1) shall be the greater of (i) \$150,000 or (ii) the capital requirement imposed on specialists by SEC Rule 15c3-1. All Exchange members will have access to buy and sell the CXM.]

[The CXM will be traded in a price of whole dollars and fractions of one dollar with a minimum variation of \$.10. The CXM will be traded in quantities of 100 shares where 100 shares equal 1 CXM basket. 100 shares shall be the minimum unit of trade for the CXM. In the price expression, one point will equal one dollar.]

[Trading in the CXM basket will be halted in the event that there is a regulatory halt in the Merc futures contract. However, trading in the CXM basket may be permitted to continue in the event of a regulatory halt in the trading of any of the underlying issues, subject to Rule 19 of this Article.]

[The Designated Primary Market Maker and Registered Market Makers in the CXM Basket are members registered as specialists in the securities underlying the basket for purposes of the Securities Exchange Act of 1934 and as such are entitled to obtain exempt credit by financing their CXM basket transactions.]

[Registration and Administration of Designated Primary Market Maker and Registered Market Makers. Upon application, the DPM shall be chosen by the Committee on Specialist Assignment and Evaluation upon the recommendation of the Exchange's New Product Committee.]



**[Meaning of Bids and Offers]**

[RULE 4. Bids and offers shall be expressed in terms of dollars and fractions of one dollar.]

**[Dissemination of Information]**

[RULE 5. The Exchange shall disseminate or cause to be disseminated after the close of business and from time-to-time on days on which transactions in baskets are made on the Exchange: (i) the price at which each transaction in baskets has been effected and the transaction volume of baskets at such price; and (ii) the prices at which bids and offers are made on the floor of the Exchange. The Exchange shall maintain, in files available to the public, information identifying the component securities.]

**[Opening of Trading]**

[RULE 6. The market basket specialist, to be known as a Designated Primary Market Maker ("DPM"), shall conduct the opening procedures for each basket at or as soon as practicable after the Exchange opening, or upon a resumption in trading after trading has been halted or suspended (whether pursuant to Article IX, Rule 10A or otherwise) in such a manner as to result in a single price opening.]

**[Delivery and Payment]**

[RULE 7. [Delivery of the component securities upon the sale of a basket, and payment of the basket price in respect thereof, shall be in accordance with the Rules of a registered clearing agency.]

**[Margins]**

[RULE 8. The margin requirements for baskets shall be determined in accordance with the provisions of Article X of the Exchange's Rules, which shall apply to the positions (long or short) in the component securities.]

**[Doing Business with the Public]**

[RULE 9. (a) Account Opening. In approving a customer's account for basket transactions, a Participant shall exercise due diligence to learn the essential facts as to the customer and his investment objectives and financial situation. Based upon such information, the branch office manager or other principal of the Participant shall approve in writing the customer's account. A general securities account that has previously been approved by the Participant does not have to be separately approved for basket trading.]

[(b) Confirmations. A Participant shall promptly furnish to each customer a written confirmation of each transaction in baskets. Pursuant to an exemption from Rule 10b-10, each such confirmation shall show the class of basket, the Exchange, basket price, number of baskets purchased or sold, commissions, date of transaction and settlement

date, and shall indicate whether the transaction is a purchase or sale and whether a principal or agency transaction. A Participant that participates in the National Institutional Delivery System of the Depositories may use the confirmations generated by that System to satisfy the requirements of this Rule to the extent that such confirmations contain the information required to be furnished to customers, provided that the Participant shall remain responsible for ensuring that all required information is furnished to its customers.]

[Each basket confirmation that contains less than complete information as to each component security purchased or sold will contain a statement that, upon request, the broker-dealer will furnish complete written information reflecting the identity, price, and number of shares of each of the component stocks included in the transaction. The additional information will be furnished as soon as practicable following the request, but in any event within 5 business days of the request, or if the transaction was more than 30 days prior to the request, within 15 business days.]

[(c) Communications to Customers. No Participant or Associated Person shall utilize any advertisement, sales literature or other communication to any customer or member of the public concerning baskets which:]

[(i) contains any untrue statement or omission of a material fact or is otherwise false or misleading;]

[(ii) contains promises of specific results, exaggerated or unwarranted claims, opinions for which there is no reasonable basis or forecasts of future events which are unwarranted or which are not clearly labeled as forecasts;]

[(iii) contains hedge clauses or disclaimers which are not legible, but which attempt to disclaim responsibility for the content of such literature or for opinions expressed therein, or which are otherwise inconsistent with such advertisement or sales literature; or]

[(iv) fails to meet general standards of good taste and truthfulness.]

[(d) Advertisements. All advertisements, sales literature (except completed work sheets), and educational material issued by a Participant pertaining to baskets shall be approved in advance by a principal of the Participant (including a branch office manager). Copies thereof, together with the names of the persons who prepared the material, the names of the persons who approved the material and, in the case of sales literature, the source of any recommendations contained therein, shall be retained by the Participant and be kept at an easily accessible place for examination by the Exchange for a period of three years. For purposes of this Rule, the terms "advertisement," "educational material," and "sales literature" shall have the same meaning as in Article XIII, Rule 4.]

### **[Designated Primary Market Maker Financial Requirements]**

[RULE 10. A Participant registered as a basket Designated Primary Market Maker on the floor must maintain net capital as determined by the Exchange.]

**[Market Maker Financial Requirements]**

[RULE 11. A Participant registered as a basket market maker on the Floor must maintain net capital as determined by the Exchange.]

**[Unit of Trading]**

[RULE 12. (a) The Unit of trading for each basket shall be 100 shares as specified by the Exchange.]

[(b) All bids or offers for baskets shall be deemed to be for one unit of trading unless a larger number of baskets is expressed in the bid or offer.]

[(c) All bids and offers for a basket shall be expressed in terms of dollars and fractions of dollars.]

[(d) All bids made and accepted, and all offers made and accepted, in accordance with these Basket Rules and other Rules made applicable to basket transactions executed shall be binding.]

**[Limitation of Order Type]**

[RULE 13. Basket orders may be market orders or limited price orders; however, with the exception of a Good Till Canceled ("GTC") order, no other conditional orders shall be valid when dealing in basket transactions.]

**[Certain Rules Inapplicable]**

[RULE 14. The following Rules of the Exchange shall not be applicable to trading in baskets:]

[(a) Guaranteed Execution System—(Article XX, Rule 37). This Rule shall not be applicable to trading in baskets except that the Exchange's MAX System shall be available for order routing purposes.]

[(b) ITS "Trade-Throughs" and "Locked Markets"—(Article XX, Rule 40). The inapplicability of Article XX, Rule 40 shall only be with respect to trading in the basket causing a trade-through or otherwise affecting, the individual securities comprising the basket.]

[(c) Short-Sales—(Article XX, Rule 7 Interpretation and Policy .07).]

[(d) Odd Lots and Odd-Lot Dealers, Dual System—(Article XXXI, Rules 1-15).]

### **[Interplay Between Stock Trading and Basket Trading]**

[RULE 15. Each of the following provisions clarifies the impact of basket trading on certain Rules regulating the markets for component stocks or the impact of certain stock Rules on basket trading.]

- [(a) Article IX, Rule 5 shall not preclude a Participant from initiating basket transactions when the Participant or an associated party holds or has knowledge of an unexecuted order for one or more of a basket's component stocks.]
- [(b) Article XXX, Rule 9 shall not preclude a specialist from initiating basket transactions solely because the basket contains his specialty stock.]
- [(c) Article VIII, Rule 20 shall not preclude a Participant from effecting transactions for the account of any customer in, or from making recommendations with respect to, a basket that contains a security issued by the Participant or any corporation controlling, controlled by or under common control with the Participant.]
- [(d) Article IX, Rule 15 shall not preclude a Participant who holds or has granted a put, call, straddle or option on one or more of a basket's component stocks from initiating basket purchases and sales on the Exchange for any account in which the Participant or any of its Associated Persons parties has a direct or indirect interest.]
- [(e) Article IX, Rule 3 shall not preclude a specialist from originating for a discretionary account orders for a basket that contains his specialty stock.]

### **[Basket Quotation Dissemination Requirements]**

[RULE 16. (a) For purposes of this Rule, the terms "responsible broker or dealer", "quotation vendor", "bid", "offer", "quotation size", "published bid", "published offer", "published quotation size", "make available" and "aggregate quotation size" shall have the meaning given to them in their respective definitions as set forth in paragraph (a) of SEC Rule 11Ac1-1, except that references in those definitions to "reported securities" (as defined in that rule) shall refer to "baskets".]

[(b) Each responsible broker or dealer shall meet in respect of baskets the same obligations as paragraph (c) of Rule 11Ac1-1 imposes in respect of "reported securities" and shall abide by such rules and procedures adopted by the Exchange, as in effect from time to time, in order to enable the Exchange to collect, process and make available to quotation vendors bids, offer, quotation sizes and aggregate quotation sizes in respect of baskets as if paragraph (b) of Rule 11Ac1-1 applied to the Exchange in respect of baskets.]

### **[Voluntary Withdrawal of Registration]**

[RULE 17. Any Participant may withdraw its Basket Market-Maker registration by giving the Exchange (Market Regulation) such advance written notice of the withdrawal as the Exchange may from time to time prescribe.]

**[Limitation of Liability]**

[RULE 18. (a) Neither the Exchange, nor any affiliate, nor any licensor or administrator shall have any liability for any loss, damages, claim or expense arising from or occasioned by any inaccuracy, error or delay in, or omission of or from, (i) any basket information or (ii) the collection, calculation, compilation, maintenance, reporting or dissemination of any basket information, resulting either from any negligent act or omission by the Exchange, any affiliate or any licensor or administrator or from any act, condition or cause beyond the reasonable control of the Exchange, any affiliate or any licensor or administrator, including, but not limited to, flood, extraordinary weather conditions, earthquake or other acts of God, fire, war, insurrection, riot, labor dispute, accident, action of government, communications or power failure, or equipment or software malfunction.]

[(b) Neither the Exchange, any affiliate, nor any licensor or administrator makes any express or implied warranty as to results that any person or party may obtain from using (i) any basket or basket information, for trading or for any other purpose. The Exchange, its affiliates, licensors, and administrators make no express or implied warranties, and disclaim all warranties of merchantability or fitness for a particular purpose or use, with respect to any such basket.]

**[Basket Trading Halts]**

[RULE 19. (a) Trading on the Exchange in a basket shall be halted whenever the Chairman or, in his absence, Vice Chairman or other Exchange Officer(s) as the Chairman may designate, in consultation with a majority, but not fewer than two, of the Floor Governors then available on the floor, shall conclude in their judgment that such action is appropriate in the interests of a fair and orderly market and to protect investors. Among the facts that may be considered are the following:]

[(vi) trading has been halted or suspended in underlying stocks whose weighted value represents 20% or more of the basket value;]

[(vii) the current calculation of the basket derived from the current market prices of the stocks is not available; or]

[(b) Trading in a basket that has been the subject of a halt or suspension by the Exchange may resume if the Chairman or, in his absence, Vice Chairman or other Exchange Officer(s) as the Chairman may designate, in consultation with a majority, but not fewer than two, of the Floor Governors then available on the floor, determine that the conditions which led to the halt or suspension are no longer present or that the interests of a fair and orderly market are served by a resumption of trading. In either event, the reopening may not begin until the Exchange has determined that trading in underlying stocks whose weighted value represents more than 50% of the basket value is occurring.]

[(c) Article IX, Rule 10A (Trading Halts Due to Extraordinary Market Volatility) shall apply to trading in a basket.]

[(d) When the hours of trading of the securities underlying the basket do not overlap or coincide with the hours of trading of the basket, all of the provisions as described in paragraphs (a), (b) and (c) above shall not apply except for (a) (iii).]

[••• Interpretations and Policies:]

[.01 The Exchange has determined that the activation of price limits on futures exchanges is one of the factors which could comprise other unusual conditions or circumstances pursuant to Rule 19 (a) (iii) of this Article.]

**[ARTICLE XXXVII]**  
**[Chicago Match]**

**[Applicability of Other Rules]**

[RULE 1. (a) The Rules in this Article XXXVII shall apply to Exchange Contracts in the Chicago Match facility. Except to the extent that specific Rules in this Article govern or unless the context otherwise requires, the provisions of the Constitution and all other Rules and policies of the Board of Governors shall be applicable to Exchange Contracts in the Chicago Match facility.]

[(b) The Exchange's Short-Sale Rule (Article XX, Rule 7 Interpretation and Policy .07) shall not be applicable to transactions on the Chicago Match.]

**[Definitions]**

[RULE 2. (a) The term "Clearing Broker" shall mean a Participant and a Participant in the Midwest Clearing Corporation who clears the Chicago Match Exchange Contracts for Users.]

[(b) The term "Conditional Order" shall mean an order in which a User has entered the conditions listed in paragraphs (4), (5) (6), (7) or (8) or Rule 6(e) of this Article.]

[(c) The term "Consolidated Best Bid and Offer" shall mean the highest bid and the lowest offer disseminated through the Consolidated Quotation System.]

[(d) The term "Cross Time" shall mean a random time during the Cross Window.]

[(e) The term "Cross Window" shall mean up to two ten-minute time intervals during the Primary Trading Session, as determined by the Exchange from time to time.]

[(f) The term "Default Liquidity Fee or Credit" shall mean the Liquidity Fee or Liquidity Credit associated with orders entered pursuant to Rule 6(c) of this Article as determined by the Exchange from time to time.]

[(g) The term "Default Size" shall mean 10,000 shares for the two hundred securities listed or admitted to unlisted trading privileges on the Exchange with the highest consolidated trading volume, 5,000 shares for the one hundred securities with the next highest trading volume and 2,000 shares for all other securities.]

[(h) The term "Display-Eligible Order" shall mean an order entered by a User which the User agrees may be displayed to all Users prior to Cross Time.]

[(i) The term "Displayed Liquidity Fee or Credit" shall be the Liquidity Fee or Credit associated with Displayed Orders and shall be determined in accordance with Rule 8.]

[(j) The term "Displayed Order" shall mean a Display-Eligible Order or Chicago Match Market Maker Order that is displayed in accordance with Rule 8.]

[(k) The term "Displayed Size" shall mean the size associated with all Displayed Orders and shall be determined in accordance with Rule 8.]

[(l) The term "Excluded User" shall mean a User whose orders cannot be matched with another User because the match might result in a "prohibited transaction" as that term is defined in the Employee Retirement Income Security Act of 1974, as amended.]

[(m) The term "Group" shall mean all buy orders or all sell orders, as the case may be, which have the same Liquidity Fee or Credit.]

[(n) The term "Linked Order" shall mean an order whose execution is conditioned on the execution (or non-execution) of one or more other orders.]

[(o) The term "Liquidity Credit" shall mean the credit a User receives from the Exchange, in accordance with Rule 15 of this Article.]

[(p) The term "Liquidity Fee" shall mean the fee charged by the Exchange in accordance with Rule 15 of this Article.]

[(q) The term "Chicago Match" shall mean the electronic communications system provided by or specified by the Exchange for the execution of transactions pursuant to this Article XXXVII. Transactions executed through the Chicago Match shall be deemed to be executed on the Exchange.]

[(r) The term "Minimum Round Lot Size" shall mean a specific number of shares of a particular security, determined by the Exchange from time to time.]

[(s) The term "Minimum Size" shall be a specified number of shares associated with an order which limits the minimum execution size of that order.]

[(t) The term "Chicago Match Market Order" shall mean an order to buy or sell a stated amount of a security at the price specified in Rule 11 of this Article.]

[(u) The term "Chicago Match Market Maker Order" shall mean an order entered pursuant to Rule 6(c) of this Article.]

[(v) The term "Chicago Match Limited Price Order" shall mean an order to buy or sell a stated amount of a security at the price specified in Rule 11 of this Article which, in the case of a buy order, shall be no higher than the price stated in the order and in the case of a sell order, no lower than the price stated in the order.]

[(w) The term "Near Match" shall mean two orders for a particular security in which (i) the number of shares of each order equals or exceeds the Minimum Size specified by the



other order; and (ii) the Liquidity Credit required by one side is greater than the Liquidity Fee offered by the other side.]

[(x) The term "Near Match Broker" shall mean all participating Participants that have been entered in the Chicago Match by a User for the purpose of negotiating any of the User's orders that result in a Near Match.]

[(y) The term "Near Match Range" shall mean an amount entered with respect to a particular order which specifies the difference between the Liquidity Credit and Liquidity Fee.]

[(z) The term "Non-Participant User" shall mean a User that is not a Participant.]

[(aa) The term "Pre-Cross Period" shall mean the time period before the beginning of the first Cross Window that occurs on a given trading day and, in the event that there is more than one Cross Window on a given trading day, the time between Cross Windows, as determined by the Exchange from time to time.]

[(ab) The term "Size Conditions" shall be a specific number entered by the User which represents the minimum number of shares required in order for another order to be considered for a Near Match against that User's order.]

[(ac) The term "User" shall mean any person or organization authorized to use the Chicago Match facility, including Participants and non-Participants.]

[(ad) The term "Display Eligible Size" shall mean 500 shares.]

#### **[Securities to be Traded]**

[RULE 3. Only Exchange Contracts in securities which are listed or admitted to unlisted trading privileges on the Exchange may be entered into the Chicago Match.]

#### **[Order Types]**

[RULE 4. (a) Only Chicago Match Market Orders or Chicago Match Limited Price Orders may be entered into the Chicago Match.]

[(b) All orders shall expire immediately after the Cross Time if not executed. All Exchange Contracts made through Chicago Match shall be settled "regular way".]

#### **[Non-Participant Access]**

[RULE 5. (a) Prior to a Non-Participant User using the Chicago Match facility, that User shall (i) enter into a give-up agreement with a Clearing Broker and file such agreement with the Exchange, and (ii) enter into an agreement with a Clearing Broker and the Exchange, whereby the Clearing Broker agrees to be jointly and severally liable

for all actions of the User and whereby that User agrees to be bound by all applicable Rules of the Exchange to the same extent as if it were a Participant.]

[(b) Any Clearing Broker that establishes credit limits for Non-Participant Users shall include such credit limits in a schedule to the give-up agreement described in Rule 5(a) of this Article.]

### **[Entry of Orders]**

[RULE 6. (a) All Users may enter, modify or cancel orders directly into Chicago Match during a Pre-Cross Period.]

[(b) The Exchange's publicly disseminated bid or offer shall be entered into Chicago Match as an order with a Liquidity Credit equal to one-half (1/2) the spread of the Consolidated Best Bid and Offer.]

[(c) At the beginning of each Pre-Cross Period, Chicago Match shall automatically enter orders to buy and orders to sell each security in which a Chicago Match Market Maker is registered. The Liquidity Fee and Credit associated with such orders shall be equal to the Default Liquidity Fee or Credit. The size of each such Chicago Match Market Maker Order shall be equal to the Default Size.]

[(d) Floor Brokers may enter indications of interest. These indications of interest are not firm orders and are not binding on Floor Brokers.]

[(e) All bids or offers to purchase or sell securities shall include the following information:]

- [(1) the stock ticker symbol;]
- [(2) the number of shares of the order (which shall be equal to the Minimum Round Lot Size or a multiple thereof);]
- [(3) a designation of the order as "buy", "sell", or "sell short";]
- [(4) the limit price if the order is a Chicago Match Limited Price Order;]
- [(5) Linked Order conditions, if any;]
- [(6) the Minimum Size, if any;]
- [(7) any excluded category of contra parties;]
- [(8) the names of any Excluded Users;]
- [(9) any Liquidity Fees or Liquidity Credits that are required (entered in cents, entered relative to the Consolidated Best Bid or Offer at Cross Time or entered as a computed quantity);]
- [(10) the Near Match Range, any Size Conditions, and Near Match Broker, if any;]
- [(11) whether the order will be a Display-Eligible Order; and]
- [(12) the name of the Clearing Broker.]

[(f) Any order entered by a Non-Participant User that exceeds such User's Credit Limit, as described in Rule 5(b) of this Article, shall not be accepted for execution in the Chicago Match.]

[(g) Any order designated as "sell short" shall not be executed if the order includes a liquidity fee.]

**[Chicago Match Market Makers]**

[RULE 7. (a) Any Participant may be registered as a Chicago Match Market Maker in one or more securities by filing a notice with the Exchange. By filing such notice, the Participant agrees to be bound by the terms of this Rule.]

[(b) All Chicago Match Market Makers shall maintain net capital as determined by the Exchange.]

[(c) Any Participant may withdraw its Chicago Match Market Maker registration by filing a notice with the Exchange. Such withdrawal shall be effective 2 days after receipt.]

[(d) A Chicago Match Market Maker may enter, modify or cancel orders in accordance with Rule 6 of this Article. A Chicago Match Market Maker may also, during a Pre-Cross Period, modify the Chicago Match Market Maker Order entered on his or her behalf pursuant to Rule 6(c) of this Article so long as, after such modification, the Chicago Match Market Maker Order has a size which is equal to or greater than the Default Size and has a Liquidity Fee or Credit which is of a higher priority than the Default Liquidity Fee or Credit. For purposes of these rules, Liquidity Fees and Credits shall be prioritized with the highest Liquidity Fee having the highest priority and the highest Liquidity Credit having the lowest priority.]

[(e) All Chicago Match Market Makers shall be subject to the Suspension and Termination provisions of Rule 16 of Article XXXIV.]

[(f) For the purpose of determining applicable margin requirements, Chicago Match Market Makers are deemed to be specialists and therefore the margin requirements specified in Interpretation and Policy .01 under Rule 17 of Article XXXIV shall govern.]

[••• Interpretations and Policies:]

[.01 Net Capital]

[Chicago Match Market Makers' net capital requirements shall be the net capital specified for Market Makers in Rule 15 of Article XXXIV.]

### **[Disclosure of Orders]**

[RULE 8. (a) Except as provided in this Rule, no order in Chicago Match will be displayed to other Users. Users may view the Displayed Size and Displayed Liquidity Fee or Credit in any security with a Displayed Order.]

[(b) Display-Eligible Orders will be converted into Displayed Orders in the following manner. A Display-Eligible Order with the highest priority Liquidity Fee or Credit shall have first priority to become a Displayed Order. After the entry of any Display-Eligible Order or Chicago Match Market Maker Order, such Display-Eligible Order or Chicago Match Market Maker Order shall be aggregated with other Display-Eligible Orders (starting with orders that have the next highest priority Liquidity Fee or Credit) until such aggregation equals or exceeds the Display-Eligible Size, at which time, all such orders comprising the aggregation, plus any other Display-Eligible Order or Chicago Match Market Maker Order that has a Liquidity Fee or Liquidity Credit equal to the Displayed Liquidity Fee or Credit, shall become Displayed Orders. The Displayed Liquidity Fee or Credit shall be the lowest priority Liquidity Fee or Credit of all the Displayed Orders. The Displayed Size shall be the sum of the sizes associated with all Displayed Orders.]

### **[Grouping and Priority of Orders]**

[RULE 9. (a) Immediately prior to each match, all orders for each security shall be sorted into Groups. Groups will be prioritized separately for buy orders and sell orders by the priority of their Liquidity Fee or Credit.]

[(b) Despite anything in Rule 10 or paragraph (a) of this Rule to the contrary, all orders with a liquidity credit that exceeds one-half (1/2) the spread of the Consolidated Best Bid and Offer (and has not been otherwise reduced to one-half (1/2) of the spread of the Consolidated Best Bid and Offer at Cross Time pursuant to User's instructions), shall not be placed in any Group and shall not be matched or executed in the order matching process described in Rule 10, but such orders shall be included in the near match process described in Rule 16(b) of this Article. If an order contains a liquidity fee greater than one-half (1/2) of the spread of the Consolidated Best Bid and Offer, the amount of such liquidity fee shall be reduced to one-half (1/2) of the spread of the Consolidated Best Bid and Offer at Cross Time.]

### **[Order Matching]**

[RULE 10. (a) At Cross Time Chicago Match will start with the Group of buy orders with the highest priority and attempt to match that Group with the Group of sell orders with the highest priority. The Groups will be matched if the Liquidity Credit required by orders in one Group is less than or equals the Liquidity Fee offered by orders in the other Group.]

[(b) If the aggregate size of all orders in both Groups is the same, all orders in both Groups will be matched.]

[(c) If orders cannot be matched in accordance with paragraph (b) above, orders in the Group with the smaller aggregate size shall be allocated among orders in the group with the larger size on a pro-rata basis based on the size of the orders in the larger Group. If, as a result of this allocation, an order in the larger group receives an amount that is not a multiple of the Minimum Round Lot Size, the allocation for such order shall be rounded down until the amount received is a multiple of the Minimum Round Lot Size. The excess shall then be aggregated with the excess from other orders (whose allocation shall also have been rounded down) and shall be given to the largest size order in the larger Group. In the event that two or more orders are tied as the largest size order, such excess shall be randomly allocated among those orders.]

[(d) If, after matching orders in accordance with paragraphs (b) and (c) above, unmatched orders remain in the Group of buy orders, Chicago Match will continue the process of matching this Group with successively lower priority Groups of sell orders until all of the orders in the Group of buy orders are either matched or are unable to be matched.]

[(e) The process described in paragraphs (a), (b), (c), and (d) above shall then be repeated starting with successively lower priority Groups of buy orders until no more matches can be made.]

[(f) Once the matching process described in paragraph (e) above has been completed, Chicago Match will then determine whether any matched orders are Conditional Orders and if so, whether their conditions are fully satisfied. If the conditions described in Rule 6(e)(6), (7), or (8) of this Article are not fully satisfied, Chicago Match will attempt to rearrange existing matches (without violating any priority rules) to satisfy those conditions. If those conditions are still not fully satisfied, Chicago Match will remove that order (and any other orders whose conditions are not fully satisfied) from the match. Chicago Match will then erase the match for all orders in that security and will restart the matching process (in accordance with Rule 10(a) of this Article) excluding all Conditional Orders whose conditions were not fully satisfied in the last matching process.]

[(g) Notwithstanding anything in this Rule to the contrary, with respect to the Group that contains orders entered pursuant to Rule 6(b) of this Article, orders entered pursuant to Rule 6(b) shall have the highest priority within such Group.]

### **[Pricing]**

[RULE 11. The price at which orders in the Chicago Match will be executed will be the market price at Cross Time. The market price shall be equal to the mid-point between the Consolidated Best Bid and Offer.]

### **[Limitation of Liability]**

[RULE 12. (a) Neither the Exchange, nor any affiliate shall have any liability for any loss, damages, claim or expense arising from or occasioned by any inaccuracy, error or delay in, or omission of or from, (i) the Chicago Match facility or (ii) the collection, calculation, compilation, maintenance, reporting or dissemination of any information derived from the Chicago Match facility, resulting either from any negligent act or omission by the Exchange, any affiliate or any licensor or administrator or from any act, condition or cause beyond the reasonable control of the Exchange, any affiliate or any licensor or administrator, including, but not limited to, flood, extraordinary weather conditions, earthquake or other acts of God, fire, war, insurrection, riot, labor dispute, accident, action of government, communications or power failure, or equipment or software malfunction.]

[(b) Neither the Exchange, nor any affiliate makes any express or implied warranty as to results that any person or party may obtain from using the Chicago Match facility, for trading or for any other purpose. The Exchange and its affiliates make no express or implied warranties, and disclaim all warranties of merchantability or fitness for a particular purpose or use, with respect to the Chicago Match facility.]

[(c) Nothing herein shall increase the liability of the Exchange above the liability set forth in the Exchange's Constitution or elsewhere in the Rules.]

### **[Dispute]**

[RULE 13. Disputes involving transactions in the Chicago Match facility, if not settled between the parties, shall be settled by the Committee on Floor Procedure or its appropriately designated subcommittee.]

### **[Errors]**

[RULE 14. Whenever a User or User organization discovers an error in a Chicago Match transaction, such error may be corrected in accordance with the rules of the registered clearing agency through which the transaction is settled.]

### **[Fees]**

[RULE 15. (a) Users of the Chicago Match facility whose orders are executed in the Chicago Match (or whose orders are delivered to another broker-dealer for execution, pursuant to Article XXXVII, Rule 3) shall pay a transaction fee as follows: (i) if the order executed was entered by a Chicago Match Market Maker or was automatically entered pursuant to Rule 6(b) or 6(c) of this Article, such User shall pay no transaction fee; (ii) if the order executed was entered by a User (other than an Chicago Match Market Maker) as a Display-Eligible Order, such User shall pay a transaction fee equal to \$.005 per share for each share executed; and (iii) if the order executed is not an order described in (i) or

(ii) above, the User shall pay a transaction Fee equal to \$.02 per share for each share executed.]

[(b) In addition to any fee required pursuant to paragraph (a) of this Rule, Users of the Chicago Match facility whose orders are executed in the Chicago Match shall pay a Liquidity Fee or shall receive a Liquidity Credit in accordance with this Rule. If orders with Liquidity Fees are entered both as a bid and an offer for the same security, these orders will be matched without any Liquidity Fee being paid or received. If an order with a Liquidity Fee is matched with an order without any Liquidity Fee or Liquidity Credit, no Liquidity Fee will be paid. If an order with a Liquidity Credit is matched with an order with a Liquidity Fee, a Liquidity Fee equal to the size of the Liquidity Credit shall be paid and a Liquidity Credit of the same amount shall be received.]

[(c) For each security in which the User acts as a Chicago Match Market Maker, the Exchange shall pay the Chicago Match Market Maker responsible for the order with the highest priority Liquidity Fee or Credit \$.00125 per share for each order executed in Chicago Match (other than orders entered pursuant to Rule 6(b) of this Article and other than orders of other Chicago Match Market Makers) so long as the Liquidity Fee or Credit has a higher priority than the Default Liquidity Fee or Credit. In the event that more than one Chicago Match Market Maker enters an order in the same security and the same Liquidity Fee or Credit, the \$.00125 payment shall be pro-rated among all such Chicago Match Market Makers.]

#### **[Indications of Interest and Near Matches]**

[RULE 16. (a) After each Cross Time, users who have entered orders which are not executed will receive indications of interest in that security from Floor Brokers.]

[(b) After each Cross Time, when a Near Match has occurred, Chicago Match shall send all Users who have entered an order that resulted in a Near Match an administrative message advising of the Near Match if such order falls within the Near Match Range (if one is specified by the User) and meets Size Conditions. Each User will then have the option of having any Near Match Broker call to negotiate that order. The Near Match Broker(s) shall only receive a message to call the Users to negotiate if both Users who received the Near Match Message exercise their option under this Rule 16(b).]

#### **[Trading Halts]**

[RULE 17. In the event of a halt in trading pursuant to Article IX, Rule 10A (Trading Halts Due to Extraordinary Market Volatility), the Exchange may, at its option, delay the Cross Time until such time as trading is permitted under such Rule.]

[••• Interpretations and Policies:]

[.01 Nothing in this Rule 17 should be construed to limit the ability of the Exchange to otherwise halt or suspend the trading in any stock or stocks traded in Chicago Match pursuant to any other Exchange rule or policy.]

[\* "Dow Jones Industrial Average" is a service mark of Dow Jones & Company, Inc.]

[<sup>1</sup> Example: CTA close at 30. Pre-Opening Notification sent with any one of the following price ranges: 30-1/2; 301/8-5/8; or, 301/4-3/4 or, for stocks trading in decimals, a price range of 30.10-30.60, etc. It is then determined that the stock will open at 293/4 or 297/8 or, for stocks trading in decimals, a price within the range of 29.75 to 29.99. Under paragraph (B)(1), the specialist "shall" send cancellation notification. If it is subsequently determined that stock will open at 30, 301/8, or 301/4 or, for stocks trading in decimals, a price within the range of 30 to 30.25, the specialist need not reindicate stock pursuant to paragraph (B)(2).]

[\* For the purposes of this section, the market in a security is opened (or reopened) with either a trade or quotation, if trades are being reported to the Consolidated Tape and quotes are being disseminated on the Consolidated Quotation System.]