Clearly Erroneous Execution

A **Clearly Erroneous Execution ("CEE")** is defined as an execution at a price, for a quantity of shares, or with a symbol, that is substantially inconsistent with the current trading pattern of the issue.

Users of ArcaEx are responsible for ensuring that the price and type of an order entered into the ArcaEx system is appropriate. To maintain the integrity of the Archipelago Exchange ("ArcaEx"), the Pacific Exchange, Equities ("PCXE") reserves the right to modify or cancel the terms of transactions executed through ArcaEx if PCXE determines such transactions resulted from the placement of an order or a system malfunction/disruption that results in a clearly erroneous execution. PCXE also reserves the right to delete from the consolidated tape(s) any CEE even if the parties do not agree to cancel or modify the terms of the transaction. PCXE's right shall be exercised in its sole discretion and upon such information that PCXE deems adequate.

Timing of CEE Request

If a User believes a CEE has occurred, the User should contact the Archipelago Trading Operations Desk ("ArcaEx TOD") by phone, email or fax, within 15 minutes of the transaction to request a ruling by the PCXE. Generally, requests for a ruling should be made within 15 minutes of the transaction in question, although in some circumstances the PCXE may consider requests made up to 30 minutes after the transaction. PCXE may consider, at its sole discretion and on a case-by-case basis, requests received after 30 minutes of the transaction in question, depending on the facts and circumstances surrounding such request.

If an order is routed away, the execution is subject to the rules and policies of the away market center.

General Requirements for Determination of a CEE

Unjust Enrichment: Users should make a good faith effort to resolve any problems that result from an erroneous execution. Users shall attempt to reconcile a problem at the request of the ArcaEx TOD when it is reasonably apparent that, but for an error, an execution at a particular price or for a quantity of shares would not have occurred. Such efforts help to ensure that a party to a CEE is not the recipient of a greater value than entitled to at an unreasonable cost to the other party. It is expected that these efforts will result in a mutual satisfactory solution to the problem, through the cancellation or modification of a trade.

Where a mutually satisfactory solution to a problem cannot be achieved, a party to the transaction may request a ruling by the PCXE, and the PCXE may determine to cancel or modify the terms of a CEE even if a party to the transaction does not request such action. The following are the guidelines the PCXE uses in determining whether to cancel or modify the terms of a transaction or to delete it from a consolidated tape. These guidelines are not PCXE rules, but rather are guidelines that may be applied at PCXE's discretion to determine whether an execution is made in clear error. As these are guidelines they are at the sole discretion of the PCXE.

In making a determination, the PCXE shall take into account all the circumstances at the time of the transaction, the preservation of the National Market System and maintenance of a fair and orderly market. CEE rulings will be made by an Officer of the PCXE working in the Market Management Department.

Ruling Resolution Criteria

Upon request for ruling, the PCXE primarily considers the numerical factors of the execution price(s) and the trade(s) in question. In addition to the numerical guidelines, PCXE may incorporate additional factors (see "Additional Factors" below).

Numerical Guidelines

Core Session:

- Securities priced < 100 dollars, executions greater than $1.00 or 10% away from the consolidated last sale.
- Securities priced = or >100 dollars, executions greater than $2.00 away from the consolidated last sale.

Early and Late Session:

- Securities priced < 100 dollars, executions greater than $2.00 or 15% away from the consolidated last sale.
- Securities priced = or >100 dollars, executions greater than $3.00 away from the consolidated last sale.

Market Order Auction ("MOA")

- Securities priced < 100 dollars, executions greater than $1.00 or 10% away from the consolidated last sale.
- Securities priced = or >100 dollars, executions greater than $2.00 away from the consolidated last sale.

Market On Close Auction ("MOC")

- Securities priced < 100 dollars, executions greater than $1.00 or 10% away from the consolidated last sale.
- Securities priced = or >100 dollars, executions greater than $2.00 away from the consolidated last sale.

Additional Factors:

- PCXE and SEC Rules
- System malfunctions or disruptions
- Volume and volatility for the security
- News released for the security
- Trading in the security was recently halted/resumed
- The security is an IPO (see Initial Public Offerings below for further information)
- Stock-split, reorganization or any other corporate action
- Overall volatility of general market conditions
- Opening and Late Session executions
- Validity of the Consolidated tapes trades and quotes
- Consideration of primary market indications

- Executions Inconsistent with Trading Patterns
  - Executions that are within the ArcaEx erroneous guidelines but are deemed by PCXE Market Management to be inconsistent with the trading patterns of a particular stock are subject to review and ruling by PCXE Market Management. Trading pattern criteria may include but is not limited to the following:
    - the current day's trading high/low
    - recent day's/week's trading high/low
    - executions outside 52 week high/low
    - news effecting high/low
    - effect of a single large order creating several prints at various prices
    - price spread or the stock's average daily trading range a stock generally exhibits, (i.e. stocks whose typical trading pattern does not fluctuate more than .10 to .15 per day vs. a stock that may fluctuate $1.00 or more dollars per day)
- Undisputed Rulings
  - The PCXE does understand that there may be legitimate occasions when material information was not available at the time an original ruling was rendered. When such circumstances are brought to the Trading Operations Desk's attention within a reasonable timeframe, an Officer of PCXE Market Management shall evaluate the information, on a case-by-case basis. In no event will PCXE or ArcaEx undo the original ruling. However, if ArcaEx determines that the execution warrants further consideration, ArcaEx could recommend to PCXE Market Management an appropriate resolution to the disadvantaged party

Incoming Order Posted Erroneously

If an incoming order enters the system and posts, execution(s) resulting from this posted order, ruled by PCXE Market Management to be erroneous, shall be busted unless both parties to the trade mutually agree to an acceptable adjustment price.

Incoming Erroneous Order Accesses Liquidity Providing Quote

An incoming customer order that accesses a Liquidity Providing quote in the book and such Liquidity Providing quote is a reasonable quote, that is equal to or less than 25% away from last sale during core trading session or, equal to or less than 30% away from last sale in pre/post market sessions in that it is in-line with last sale etc., the disadvantaged party will be forced to accept an adjustment as within the stated guidelines of the CEE policy.
An incoming customer order that accesses a Liquidity Providing quote that is equal to or greater than 25% away from last sale during core trading session or, equal to or greater than 30% away from last sale in pre/post market sessions the resulting trades will be automatically busted and no adjustments will be made.

Incoming Customer Order with Multiple Orders/Securities Executions

In the event of an extraordinary customer order containing multiple securities and multiple executions (I.E. basket order), the party requesting a ruling shall provide ArcaEx with an electronic spreadsheet of all trades in question. The spreadsheet shall contain the security, the time of execution, the executed price and the consolidated last sale. In the interest of providing timely trade resolutions and maintaining a fair and orderly market, PCXE Market Management will review such occurrences utilizing strict numerical guidelines only. "Additional Factors" noted in the CEE policy will not be used. Execution prices outside the numerical guidelines will be busted. Price adjustments will not be considered.
Trade resolutions will be communicated to the involved parties to the trade via telephonic, email and/or website display (www.tradearca.com).

Initial Public Offerings

Given the unique nature of Initial Public Offerings (IPO's), public customers have an expectation that the opening will be orderly and that the pricing will be reasonable for the listing company. Opening execution prices transacted on the primary listed exchange (and other market centers) represent the price of the stock in the secondary market, which may not necessarily reflect the IPO pricing disseminated prior to the start of secondary market trading by the underwriters/syndicates.

PCXE will review the opening of IPO's on ArcaEx on a best efforts basis. The review of IPO opening prices will utilize criteria that is also used to judge erroneous executions during the pre-core, core and post-core sessions. Opening IPO trades will be evaluated for uniformity with the primary listed exchange as well as with other market centers' prints. Initial trades on ArcaEx that are executed at prices more than $1.00 from the primary listed exchange's opening print will be busted or adjusted to the primary listed exchange's opening price. Additionally, executions that are priced within a $1.00 of the primary listed exchange's opening executions may also be reviewed if they are deemed outside the trading pattern of the IPO after the opening. In addition, criteria used to judge erroneous executions during the launch of an IPO may include a review of the subsequent executions after the opening has occurred. The time period for a review of subsequent executions could be up to, but not limited to, one minute after the opening print of the primary exchange hits the tape.

Appeal Process

PCXE Rule 7.10(c)(2)-(4) implements a appeal process for determinations on clearly erroneous executions. The Rule allows a party affected by a determination to request an appeal to the Clearly Erroneous Execution Panel ("CEE Panel") to review the determination made by the Officer under PCXE Rule 7.10(c)(1). Requests for appeal must be made by the ETP Holder, via facsimile or e-mail within thirty (30) minutes after the party requesting the appeal is given notification of the initial ruling determination. The ETP Holder <u>must</u> include reason(s) for requesting an appeal, including any additional factors that in their opinion may not have been considered during the original ruling. Such determination by the CEE Panel will be considered a final action by the Corporation on the matter at issue. All final determinations made by the CEE Panel shall be rendered without prejudice as to the rights of the parties to the transaction to submit their dispute to arbitration.

Removal of Trades from the Tape

The PCXE may direct the processors for the consolidated tapes to remove any executions determined to be a CEE even if not cancelled or adjusted pursuant to this rule to avoid having a CEE establish a consolidated high, low, opening, closing, or other key market price that is not reasonably related to the current consolidated market price at the time of the CEE.

Odd Lot Prohibitions

In accordance with PCXE Rule 7.38(c), failure to aggregate odd lot orders into round lot orders when such orders are for the same account of for various accounts in which there is a common monetary interest is prohibited. Also prohibited is unbundling round lots for the purpose of entering odd lot limit orders in comparable amounts. A violation of these prohibitions is considered conduct inconsistent with just and equitable principals of trade and is subject to enforcement action. <u>See</u> PCXE Rule 6.2(b).

Prohibitions of unbundling and failing to aggregate odd lot orders are applicable during the Early, Core and Late Trading Session, as well as during the Limit Order Auction (8:00 a.m. ET) and the Market Order Auction (9:30 a.m. ET). **Prohibited Odd Lot transactions are subject to being broken by the PCXE.**