

transaction occurred within one hour of the close and the opening transaction occurred within one hour after the opening. With respect to intra-day transactions, this provision applies to transactions occurring within one hour of one another.

An Exchange Official designated by the Board may waive the provisions of subparagraphs (1) and (2) in an index option when the primary underlying securities market for that index is not trading.

(b) Appointment. With respect to each options class to which a market maker is appointed under Rule 802, the market maker has a continuous obligation to engage, to a reasonable degree under the existing circumstances, in dealings for his own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of and demand for a particular options contract, or a temporary distortion of the price relationships between options contracts of the same class. Without limiting the foregoing, a market maker is expected to perform the following activities in the course of maintaining a fair and orderly market:

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(4) To price options contracts fairly by, among other things, bidding and offering so as to create differences of no more than \$.25 between the bid and offer for each options contract for which the bid is less than \$2, no more than \$.40 where the bid is at least \$2 but does not exceed \$5, no more than \$.50 where the bid is more than \$5 but does not exceed \$10, no more than \$.80 where the bid is more than \$10 but does not exceed \$20, and no more than \$1 where the bid is \$20 or greater, provided that the Exchange may establish differences other than the above for one or more options series.

(i) The bid/offer differentials stated in subparagraph (b)(4) of this Rule [above] shall not apply to in-the-money options series where the underlying securities market is wider than the differentials set forth above. For these series, the bid/ask differential may be as wide as the quotation on the primary market of the underlying security.

(ii) The Exchange or its authorized agent may calculate bids and asks for various indices for the sole purpose of determining permissible bid/ask differentials on options on these indices. These values will be calculated by determining the weighted average of the bids and asks for the components of the corresponding index. These bids and asks will be disseminated by the Exchange at least every fifteen (15)

seconds during the trading day solely for the purpose of determining the permissible bid/ask differential that market-makers may quote on an in-the-money option on the indices. For in-the-money series in index options where the calculated bid/ask differential is wider than the applicable differential set out in subparagraph (b)(4) of this Rule, the bid/ask differential in the index options series may be as wide as the calculated bid/ask differential in the underlying index. The Exchange will not make a market in the basket of stock comprising the indices and is not guaranteeing the accuracy or the availability of the bid/ask values.

Rule 1100. Exercise of Options Contracts

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(h) Clearing Members must follow the procedures of the Clearing Corporation when exercising American-style cash-settled index options contracts issued or to be issued in any account at the Clearing Corporation. Members must also follow the procedures set forth below with respect to American-style cash-settled index options:

(1) For all contracts exercised by the Member or by any customer of the Member, an "exercise advice" must be delivered by the Member in such form or manner prescribed by the Exchange no later than 4:20 p.m. Eastern time, or if trading hours are extended or modified in the applicable options class, no later than five (5) minutes after the close of trading on that day.

(2) Subsequent to the delivery of an "exercise," should the Member or a customer of the Member determine not to exercise all or part of the advised contracts, the Member must also deliver an "advice cancel" in such form or manner prescribed by the Exchange no later than 4:20 p.m. Eastern time, or if trading hours are extended or modified in the applicable options class, no later than five (5) minutes after the close of trading on that day.

(3) An Exchange official designated by the Board may determine to extend the applicable deadline for the delivery of "exercise advice" and "advice cancel" notifications pursuant to this paragraph (h) if unusual circumstances are present.

(4) No Member may prepare, time stamp or submit an "exercise advice" prior to the purchase of the contracts to be exercised if the Member knew or had reason to know that the contracts had not yet been purchased.

(5) The failure of any Member to follow the procedures in this paragraph (h) may result in the assessment of a fine, which may include but is not

limited to disgorgement of potential economic gain obtained or loss avoided by the subject exercise, as determined by the Exchange.

(6) Preparing or submitting an "exercise advice" or "advice cancel" after the applicable deadline on the basis of material information released after such deadline, in addition to constituting a violation of this Rule, is activity inconsistent with just and equitable principles of trade.

(7) The procedures set forth in subparagraphs (1)-(2) of this subparagraph (h) do not apply (i) on the business day prior to expiration in series expiring on a day other than a business day or (ii) on the expiration day in series expiring on a business day.

(8) Exercises of American-style, cash-settled index options (and the submission of corresponding "exercise advice" and "advice cancel" forms) shall be prohibited during any time when trading in such options is delayed, halted, or suspended, subject to the following exceptions:

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

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

(iii) Exercises of American-style, cash-settled index options shall not be prohibited during a trading halt that occurs at or after 4:00 p.m. Eastern time. In the event of such a trading halt, exercises may occur through 4:20 p.m. Eastern time. In addition, if trading resumes following such a trading halt (such as by closing rotation), exercises may occur during the resumption of trading and for five (5) minutes after the close of the resumption of trading. The provisions of this subparagraph (iii) are subject to the authority of the Board to impose restrictions on transactions and exercises pursuant to Rule 417.

(iv) An Exchange official designated by the Board may determine to permit the exercise of American-style, cash-settled index options while trading in such options is delayed, halted, or suspended.

Rule 1407. Short Sales in Nasdaq National Market Securities

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