

price of a transaction is higher or lower than the Theoretical Price for the series by an amount equal to at least two (2) times the maximum bid/ask spread allowed for the option, so long as such amount is 50 cents or more; or

(ii) During fast market conditions (*i.e.*, the Exchange has declared a fast market status for the option in question), the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount equal to at least three (3) times the maximum bid/ask spread allowed for the option, so long as such amount is 50 cents or more.]

(b) Definition of Theoretical Price. For purposes of this Rule only, the Theoretical Price of an options series is:

(1) If the series is traded on at least one other options exchange, the last bid price with respect to an erroneous sell transaction, [or] and last offer price with respect to an erroneous buy transaction, just prior to the trade, [found on] disseminated by the competing options exchange that has the most liquidity in that option [as provided in

Supplementary Material .02 below]; or

(2) If there are no quotes for comparison purposes, as determined by designated personnel in the Exchange's market control center ("Market Control").

[(c) Adjustments. Where the execution price of a transaction executed as the result of an Obvious Error is adjusted, the adjusted price will be:

(1) The Theoretical Price of the option in the case where the erroneous price is displayed in the market and subsequently executed by quotes or orders that did not exist in the System at the time the erroneous price was entered; or

(2) The last bid or offer, just prior to the trade, found on the exchange that has the most liquidity in that option as provided in Supplementary Material .03 below in the case where an erroneous price executes against quotes or orders already existing in the System at the time the erroneous price was entered.

(d) [(c) Obvious Error Procedure. Market Control shall administer the application of this Rule as follows.

(1) *Notification.* If a market maker on the Exchange believes that it participated in a transaction that was the result of an Obvious Error, it must notify Market Control within five (5) minutes of the execution. If an Electronic Access Member believes an order it executed on the Exchange was the result of an Obvious Error, it must notify Market Control within twenty (20) minutes of the execution. Absent unusual circumstances, Market Control will not grant relief under this Rule

unless notification is made within the prescribed time periods.

(2) *Adjust or Bust.* Market Control will determine whether there was an Obvious Error as defined above. If it is determined that an Obvious Error has occurred, Market Control shall take one of the [following] actions *listed below.* [Upon taking final action, Market Control shall promptly notify both parties to the trade.

(i) [w]Where each party to the transaction is a market maker on the Exchange, the execution price of the transaction will be adjusted by Market Control to the prices provided in paragraphs (A) and (B) below unless both parties agree to adjust the transaction to a different price or agree to bust the trade within ten (10) minutes of being notified by Market Control of the Obvious Error.]; or]

(A) *Erroneous buy transactions will be adjusted to their Theoretical Price (1) plus \$.15 if the Theoretical Price is under \$3, and (2) plus \$.30 if the Theoretical Price is at or above \$3.*

(B) *Erroneous sell transactions will be adjusted to their Theoretical Price (1) minus \$.15 if the Theoretical Price is under \$3, and (2) minus \$.30 if the Theoretical Price is at or above \$3.*

(ii) [w]Where at least one party to the Obvious Error is not a market maker on the Exchange, the trade will be busted by Market Control unless both parties agree to [adjust the] an adjustment price [of] for the transaction within thirty (30) minutes of being notified by Market Control of the Obvious Error. [Upon taking final action, Market Control shall promptly notify both parties to the trade.]

(e) Obvious Error Panel.

(1) *Composition.* An Obvious Error Panel will be comprised of representatives from four (4) Members. Two (2) of the representatives must be directly engaged in market making activity and two (2) of the representatives must be employed by an Electronic Access Member.

(2) [Request for] *Scope of Panel's Review.* If a party affected by a determination made under this Rule so requests within the time permitted in (3) below, the Obvious Error Panel will review decisions made by Market Control under this Rule, including whether an Obvious Error occurred, whether the correct Theoretical Price was used, and whether an adjustment was made at the correct price. A party may also request that the Obvious Error Panel provide relief [under] as provided in this Rule in cases where the party failed to provide the notification required in paragraph [(d)](c)(1) and Market Control declined to grant an

extension, but unusual circumstances must merit special consideration.

(3) *Procedure for Requesting Review.* A request for review must be made in writing within thirty (30) minutes after a party receives verbal notification of a final determination by Market Control under this Rule, except that if notification is made after 3:30 p.m. Eastern Time, either party has until 9:30 a.m. Eastern Time the next trading day to request review. The Obvious Error Panel shall review the facts and render a decision on the day of the transaction, or the next trade day in the case where a request is properly made after 3:30 on the day of the transaction or where the request is properly made the next trade day.

[(3)] (4) *Panel Decision.* The Obvious Error Panel may overturn or modify an action taken by Market Control under this Rule upon agreement by a majority of the Panel representatives. All determinations by the Obvious Error Panel shall constitute final Exchange action on the matter at issue.

Supplementary Material to Rule 720

.[01 For purposes of paragraph (a) of this Rule, the maximum bid/ask spread shall be the maximum bid/ask spread allowed under Rule 803(b), unless a wider spread has been allowed by the Exchange for the option because of unusual market conditions, such as high market volatility.

.02 The Theoretical Price will be determined under paragraph (b)(1) above as follows: (i) The bid price from the exchange providing the most volume will be used with respect to an erroneous bid price entered on the Exchange, and (ii) the offer price from the exchange providing the most volume will be used with respect to an erroneous offer price entered on the Exchange.

.03 The price to which a transaction is adjusted under paragraph (c)(2) above will be as follows: (i) The bid price from the exchange providing the most volume for the option will be used with respect to an erroneous offer price entered on the Exchange, and (ii) the offer price from the exchange providing the most volume for the option will be used with respect to an erroneous bid price entered on the Exchange. If there are no quotes for comparison purposes, the adjustment price will be determined by Market Control.]

.[04] .01 When Market Control determines that an Obvious Error has occurred and action is warranted under paragraph [(d)](c)(2) above, the identity of the parties to the trade will be disclosed to each other in order to encourage conflict resolution.