

determinations to be made in accordance with OCC's Ex-by-Ex procedures where applicable; or (ii) submit a "Contrary Exercise Advice" to the Exchange by the deadline specified in paragraph (c) below. A Contrary Exercise Advice is a communication either (A) to not exercise an option that would be automatically exercised under OCC's Ex-by-Ex procedure, or (B) to exercise an option that would not be automatically exercised under OCC's Ex-by-Ex procedure. A Contrary Exercise Advice may be submitted by a Member or Member Organization by using the Exchange's Contrary Exercise Advice Form, OCC's ENCORE System, a Contrary Exercise Advice form of any other national securities exchange of which the firm is a Member and where the option is listed, or such other method as the Exchange may prescribe. A Contrary Exercise Advice may be canceled by filing an "Advice Cancel" with the Exchange or resubmitted at any time up to the submission cut-off times specified below.

(c) *Exercise cut-off time.* Option holders have until 2:30 p.m. (PST) on the business day immediately prior to the expiration date to make a final decision to exercise or not exercise an expiring option. For customer accounts, Members and Member Organizations may not accept exercise instructions after 2:30 p.m. (PST) but have until 3:30 p.m. (PST) to submit a Contrary Exercise Advice. For non-customer accounts, Members and Member Organizations may not accept exercise instructions after 2:30 p.m. (PST) but have until 3:30 p.m. (PST) to submit a Contrary Exercise Advice if such Member or Member Organization employs an electronic submission procedure with time stamp for the submission of exercise instructions by option holders. Consistent with Commentary .04, Members and Member Organizations are required to submit a Contrary Exercise Advice by 2:30 p.m. (PST) for non-customer accounts if such Members and/or Member Organization do not employ an electronic submission procedure with time stamp for the submission of exercise instructions by option holders.

(d) If OCC has waived the Ex-by-Ex procedure for an options class, Members and Member Organizations must either:

- (i) submit to the Exchange, a Contrary Exercise Advice, in a manner specified by the Exchange, within the time limits specified in paragraph (c) above if the holder intends to exercise the option, or
- (ii) take no action and allow the option to expire without being exercised.

The applicable underlying security price in such instances will be as described in OCC Rule 805(j). In cases where the Ex-by-Ex procedure has been waived, OCC rules require that Members and Member Organizations wishing to exercise such options must submit an affirmative Exercise Notice to OCC, whether or not a Contrary Exercise Advice has been filed with the Exchange.

(e) An Exchange Member Organization that has accepted the responsibility to indicate final exercise decisions on behalf of another Member or non-Member firm shall take the necessary steps to ensure that such decisions are properly indicated to the Exchange. Such Member Organization may establish a processing cut-off time prior to the Exchange's exercise cut-off time at which it will no longer accept final exercise decisions in expiring options from option holders for whom it indicates final exercise decisions. Each Member or Member Organization that indicates final exercise decisions through another broker-dealer is responsible for ensuring that final exercise decisions for all of its proprietary (including market maker) and public customer account positions are indicated in a timely manner to such broker-dealer.

(f) Members and Member Organizations may receive and submit final exercise decisions after the exercise cut-off time but prior to expiration without having submitted a Contrary Exercise Advice: (i) In order to remedy mistakes made in good faith; (ii) to take appropriate action as the result of a failure to reconcile unmatched Exchange option transactions; or (iii) where exceptional circumstances have restricted an option holder's ability to inform a Member organization of a decision regarding exercise, or a Member organization's ability to receive an option holder's decision by the cut-off time. The burden of establishing any of the above exceptions rests solely on the Member or Member Organization seeking to rely on such exceptions.

(g) In the event the Exchange provides advance notice on or before 2:30 p.m. (PST) on the business day immediately prior to the last business day before the expiration date indicating that a modified time for the close of trading in equity options on such last business day before expiration will occur, then the deadline to make a final decision to exercise or not exercise an expiring option shall be 1 hour 28 minutes following the time announced for the close of trading on that day instead of the 2:30 p.m. (PST) deadline found in Rule 6.24(c). However, Members and Member Organizations may deliver a

Contrary Exercise Advice or Advice Cancel to the Exchange within 2 hours 28 minutes following the time announced for the close of trading in equity options on that day instead of the 3:30 p.m. (PST) deadline found in Rule 6.24(c) for customer accounts and non-customer accounts where such Member firm employs an electronic submission procedure with time stamp for the submission of exercise instructions. For non-customer accounts, Members and Member Organizations that do not employ an electronic procedure with time stamp for the submission of exercise instructions are required to deliver a Contrary Exercise Advice or Advice Cancel within 1 hour and 28 minutes following the time announced for the close of trading on that day instead of the 2:30 p.m. (PST) deadline found in Rule 6.24(c).

(h)(1) The Exchange may establish extended cut-off times for decision to exercise or not exercise an expiring option and for the submission of Contrary Exercise Advices on a case by case basis due to unusual circumstances.

(2) The Exchange with at least one (1) business day prior advance notice, by 9 a.m. (PST) on such day, may establish a reduced cut-off time for the decision to exercise or not exercise an expiring option and for the submission of Contrary Exercise Advices on a case-by-case basis due to unusual circumstances; provided, however, that under no circumstances should the exercise cut-off time and the time for submission of a Contrary Exercise Advice be before the close of trading.

Commentary

[.01 The exercise cut-off time pursuant to Rule 6.24(b) for option contracts shall be 2:30 P.M. (PT) on the business day immediately prior to the expiration date. In the event a member organization does not carry accounts for customers, it shall nevertheless be subject to such exercise cut-off time for the purposes of the third and fourth sentences of Rule 6.24(b).

.02 Each member organization shall prepare a memorandum of every exercise instruction received from a customer showing the time when such instruction was so received. Such memoranda shall be subject to the requirements of SEC Rules 17a-3(a)(6) and 17a-4(b).

.03 In the event a member submits an exercise instruction or tenders an exercise notice pursuant to an exception set forth in clause (ii), (iii) or (iv) of Rule 6.24(b), the member shall maintain a memorandum setting forth the circumstances giving rise to such