

retain copies of notices of hypothecation of customer accounts in accordance with the rule, and collect written consents from customers in accordance with the rule. The information is necessary to ensure compliance with the rule, and to advise customers of the rule's protections.

There are approximately 177 respondents per year (*i.e.*, broker-dealers that carry or clear customer accounts that also have bank loans) that require an aggregate total of 3,983 hours to comply with the rule. Each of these approximately 177 registered broker-dealers makes an estimated 45 annual responses, for an aggregate total of 7,965 responses per year. Each response takes approximately 0.5 hours to complete. Thus, the total compliance burden per year is 3,983 burden hours.

An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid control number.

Written comments regarding the above information should be directed to the following persons: (a) Desk Officer for the Securities and Exchange Commission, Office of Information and Regulatory Affairs, Office of Management and Budget, Room 10102, New Executive Office Building, Washington DC 20503; and (b) Kenneth A. Fogash, Acting Associate Executive Director/CIO, Office of Information Technology, Securities and Exchange Commission, 450 Fifth Street, NW, Washington DC 20549. Comments must be submitted to OMB within 30 days of this notice.

Dated: April 28, 2003.

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 03-10820 Filed 5-1-03; 8:45 am]

BILLING CODE 8010-01-P

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-47748; File No. SR-Amex-2002-108]

Self-Regulatory Organizations; Order Granting Approval to Proposed Rule Change by the American Stock Exchange LLC To Amend Amex Rule 152 To Provide That a Member That Fails To Execute an Order May Be Compelled To Take or Supply the Securities Named in the Order

April 25, 2003.

On December 18, 2002, the American Stock Exchange LLC ("Amex") filed with the Securities and Exchange Commission ("Commission"), pursuant

to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and rule 19b-4 thereunder,² a proposed rule change to amend Amex rule 152 to provide that a member that fails to execute an order may be compelled to take or supply the securities named in the order. The proposed rule change was published for comment in the **Federal Register** on March 20, 2003.³ The Commission received no comments on the proposal.

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.⁴ Specifically, the Commission finds that the proposal is consistent with section 6(b)(5) of the Act,⁵ which requires, among other things, that the Amex's rules be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

The Commission believes that the Amex's proposal to explicitly provide that a member that has failed to execute an order may be compelled to take or supply the securities in the order should highlight the significant obligations of members in the handling of any order entrusted to them and their responsibility to correct transactions on behalf of their customers in cases of error.⁶ Furthermore, the Amex has noted that the consent provisions outlined in Amex rule 152(a) would continue to apply to the error transactions conducted under Amex rule 152(a)(1). Consequently, the Commission believes that the Amex's proposal would continue to reflect that, unless otherwise agreed, an agent is subject to a duty not to deal with his principal as an adverse party in a

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 47493 (March 13, 2003), 68 FR 13743.

⁴ In approving this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

⁵ 15 U.S.C. 78f(b)(5).

⁶ The Commission also notes that the proposed Amex rule is identical to the New York Stock Exchange, Inc.'s rule. See NYSE rule 91(a).

transaction connected with his agency without the principal's knowledge.

It is therefore ordered, pursuant to section 19(b)(2) of the Act,⁷ that the proposed rule change (File No. SR-Amex-2002-108) be, and it hereby is, approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁸

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 03-10821 Filed 5-1-03; 8:45 am]

BILLING CODE 8010-01-P

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-47749; File No. SR-ISE-2003-05]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change, and Amendment No. 1 Thereto, by International Securities Exchange, Inc., Relating to Rules for Trading Options on Indices

April 25, 2003.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on February 24, 2003, the International Securities Exchange ("ISE" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the ISE. The ISE filed Amendment No. 1 to the proposal on April 17, 2003.³ The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

The ISE is proposing to adopt rules relating to trading options on indices.

The text of the proposed rule change appears below.⁴ Additions are *italicized*; deletions are in [brackets].

⁷ 15 U.S.C. 78s(b)(2).

⁸ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See letter from Katherine Simmons, Vice President and Associate General Counsel, ISE to Florence Harmon, Senior Special Counsel, Division of Market Regulation ("Division"), Commission, dated April 16, 2003. In Amendment No. 1, the ISE submitted a new Form 19b-4, which replaced the original filing in its entirety.

⁴ The Commission notes that it made minor typographical corrections to the rule text submitted in the proposed rule change. Telephone conversation between Katherine Simmons, Vice

Rule 413. Exemptions From Position Limits

* * * * *

(b) Market Maker Exemption. The provisions set forth below apply only to market makers seeking an exemption to the standard position limits in all options traded on the Exchange for the purpose of assuring that there is sufficient depth and liquidity in the marketplace, and not to confer a right upon the market maker applying for an exemption.

* * * * *

(3) Generally, an exemption will be granted only to a market maker who has requested an exemption, who is appointed to the options class in which the exemption is requested pursuant to Rule 802, whose positions are near the current position limit and who is significant in terms of daily volume. The positions must generally be within ten percent (10%) of the limits contained in Rule 412 for equity options and twenty percent (20%) of those limits for broad-based index options.

* * * * *

Rule 418. Other Restrictions on Options Transactions and Exercises

(a) The Exchange may impose such restrictions on transactions or exercises in one or more series of options of any class traded on the Exchange as the Exchange in its judgment deems advisable in the interests of maintaining a fair and orderly market in options contracts or in underlying securities, or otherwise deems advisable in the public interest or for the protection of investors.

(1) During the effectiveness of such restrictions, no Member shall, for any account in which it has an interest or for the account of any customer, engage in any transaction or exercise in contravention of such restrictions.

(2) Notwithstanding the foregoing, during the ten (10) business days prior to the expiration date of a given series of options, *other than index options*, no restriction on exercise under this Rule may be in effect with respect to that series of options. *With respect to index options, restrictions on exercise may be in effect until the opening of business on the last business day before the expiration date.*

(3) *Exercises of American-style, cash-settled index options 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 (a)(3)(iii) are subject to the authority of the Board to impose restrictions on transactions and exercises pursuant to paragraph (a) of this Rule; and

(iv) An Exchange officer 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 701. Trading Rotations

* * * * *

(c) Rotations After Trading Hours. Normally, the close of trading for options classes shall occur two (2) minutes after the primary market on which the underlying stock trades closes for trading. However, as provided below transactions may be effected in a class of options after the end of normal trading hours in connection with a trading rotation.

(1) A trading rotation may be employed whenever the Exchange concludes that such action is appropriate in the interests of a fair and orderly market. The factors that may be considered include, but are not limited to, whether there has been a recent opening or reopening of trading in the underlying security, a declaration of a "fast market" pursuant to Rule 704, or a need for a rotation in connection with expiring individual stock or index options, an end of the year rotation, or the restart of a rotation which is already in progress.

* * * * *

Rule 705. Limitation of Liability

(a) The Exchange, its Directors, officers, committee members, employees, contractors or agents shall not be liable to Members nor any persons associated with Members for any loss, expense, damages or claims arising out of the use of the facilities, systems or equipment afforded by the Exchange, nor any interruption in or failure or unavailability of any such facilities, systems or equipment, whether or not such loss, expense, damages or claims result or are alleged to result from negligence or other unintentional errors or omissions on the part of the Exchange, its Directors, officers, committee members, employees, contractors, agents or other persons acting on its behalf, or from systems failure, or from any other cause within or outside the control of the Exchange. *Without limiting the generality of the foregoing, the Exchange shall have no liability to any person for any loss, expense, damages or claims that result from any error, omission or delay in calculating or disseminating any current or closing index value or any reports of transactions in or quotations for options or other securities, including underlying securities.*

* * * * *

Rule 803. Obligations of Market Makers

(a) General. Transactions of a market maker should constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and market makers should not make bids or offers or enter into transactions that are inconsistent with such a course of dealings. Ordinarily, market makers are expected to:

(1) Except in unusual market conditions, refrain from purchasing a call option or a put option at a price more than \$0.25 below parity. In the case of calls, parity is measured by the bid in the underlying security, and in the case of puts, parity is measured by the offer in the underlying security.

(2) Not bid more than \$1 lower or offer more than \$1 higher than the last preceding transaction price for the particular options contract, plus or minus the aggregate change in the last sale price of the underlying security since the time of the last preceding transaction for the particular options contract. This provision applies from one day's close to the next day's opening and from one transaction to the next in intra-day transactions. With respect to inter-day transaction this provision applies if the closing

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:

* * * * *

(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

* * * * *

(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

* * * * *

(c) A short sale may be designated as a bid test exempt sale if:

(1) The sale qualifies for an exemption from the short sale bid test established in NASD rule 3350; or

(2) The short sale is by or for the account of a Primary or Competitive Market Maker and is an exempt hedge transaction in a designated Nasdaq National Market security underlying a class of stock options or included in an index underlying a class of index options to which a registered ISE market maker is appointed under Rule 803.

(d) Definitions. For purposes of paragraph (c) of this Rule:

(1) An "exempt hedge transaction" shall mean a short sale in a designated Nasdaq National Market security that was effected to hedge, and in fact serves to hedge, an existing offsetting options position or an offsetting options position that was created in one or more transactions contemporaneous with the short sale, provided that[.];

(i) In the case of a stock option, when establishing the short position the market maker receives or is eligible to receive good faith margin pursuant to Section 220.12 of Regulation T of the Federal Reserve Board for that transaction[.]; and

(ii) In the case of an index option, (A) the designated Nasdaq National Market security sold short is a component security of the index underlying such index option, (B) at least ten percent (10%) of the value of the index underlying such index option is represented by one or more designated Nasdaq National Market securities, and (C) the current aggregate value of the designated Nasdaq National Market securities sold short does not exceed the aggregate current index value of the index options position being hedged. Notwithstanding the foregoing, a transaction unrelated to normal options market making activity, such as index arbitrage or risk arbitrage that in either case is independent of a market maker's market making functions, will not be considered an "exempt hedge transaction." Once an underlying index has satisfied the ten percent (10%) test in this subparagraph (ii), the continued qualification of the index shall be reviewed as of the end of each calendar quarter, and the index shall cease to qualify if the value of the index represented by one or more designated Nasdaq National Market securities is less than eight percent (8%) at the end of any subsequent calendar quarter.

* * * * *

Chapter 20

Index Rules

Rule 2000. Application of Index Rules

The Rules in this Chapter are applicable only to index options (options on indices of securities as defined below). The Rules in Chapters 1 through 19 are also applicable to the options provided for in this Chapter, unless such Rules are specifically replaced or are supplemented by Rules in this Chapter. Where the Rules in this Chapter indicate that particular indices or requirements with respect to particular indices will be "Specified," the Exchange shall file a proposed rule change with the Commission to specify such indices or requirements.

Rule 2001. Definitions

(a) The term "aggregate exercise price" means the exercise price of the options contract times the index multiplier.

(b) The term "American-style index option" means an option on an industry or market index that can be exercised on any business day prior to expiration.

(c) The term "A.M.-settled index option" means an index options contract for which the current index value at expiration shall be determined as provided in Rule 2009(a)(5).

(d) The term "call" means an options contract under which the holder of the option has the right, in accordance with the terms of the option, to purchase from the Clearing Corporation the current index value times the index multiplier.

(e) The term "current index value" with respect to a particular index options contract means the level of the underlying index reported by the reporting authority for the index, or any multiple or fraction of such reported level specified by the Exchange. The current index value with respect to a reduced-value long term options contract is one-tenth of the current index value of the related index option. The "closing index value" shall be the last index value reported on a business day.

(f) The term "exercise price" means the specified price per unit at which the current index value may be purchased or sold upon the exercise of the option.

(g) The term "European-style index option" means an option on an industry or market index that can be exercised only on the last business day prior to the day it expires.

(h) The term "index multiplier" means the amount specified in the contract by which the current index value is to be multiplied to arrive at the

value required to be delivered to the holder of a call or by the holder of a put upon valid exercise of the contract.

(i) The term "industry index" and "narrow-based index" mean an index designed to be representative of a particular industry or a group of related industries.

(j) The term "market index" and "broad-based index" mean an index designed to be representative of a stock market as a whole or of a range of companies in unrelated industries.

(k) The term "put" means an options contract under which the holder of the option has the right, in accordance with the terms and provisions of the option, to sell to the Clearing Corporation the current index value times the index multiplier.

(l) The term "reporting authority" with respect to a particular index means the institution or reporting service designated by the Exchange as the official source for (1) calculating the level of the index from the reported prices of the underlying securities that are the basis of the index and (2) reporting such level. The reporting authority for each index approved for options trading on the Exchange shall be Specified (as provided in Rule 2000) in the Supplementary Material to this Rule 2001.

(m) The term "underlying security" or "underlying securities" with respect to an index options contract means any of the securities that are the basis for the calculation of the index.

Rule 2002. Designation of an Index

(a) The component securities of an index underlying an index option contract need not meet the requirements of Rule 502. Except as set forth in subparagraph (b) below, the listing of a class of index options on an industry index requires the filing of a proposed rule change to be approved by the SEC under Section 19(b) of the Exchange Act.

(b) The Exchange may trade options on a narrow-based index pursuant to Rule 19b-4(e) of the Securities Exchange Act of 1934, if each of the following conditions is satisfied:

(1) The options are designated as A.M.-settled index options;

(2) The index is capitalization-weighted, price-weighted or equal dollar-weighted, and consists of 10 or more component securities;

(3) Each component security has a market capitalization of at least \$75 million, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10 percent of the

weight of the index, the market capitalization is at least \$50 million;

(4) Trading volume of each component security has been at least one million shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10 percent of the weight of the index, trading volume has been at least 500,000 shares for each of the last six months;

(5) In a capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30 percent of the total number of component securities in the index each have had an average monthly trading volume of at least 2,000,000 shares over the past six months;

(6) No single component security represents more than 25 percent of the weight of the index, and the five highest weighted component securities in the index do not in the aggregate account for more than 50 percent (60 percent for an index consisting of fewer than 25 component securities) of the weight of the index;

(7) Component securities that account for at least 90 percent of the weight of the index and at least 80 percent of the total number of component securities in the index satisfy the requirements of Rule 502 applicable to individual underlying securities;

(8) All component securities are "reported securities" as defined in Rule 11Aa3-1 under the Exchange Act;

(9) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not in the aggregate represent more than 20 percent of the weight of the index;

(10) The current underlying index value will be reported at least once every 15 seconds during the time the index options are traded on the Exchange;

(11) An equal dollar-weighted index will be rebalance at least once every calendar quarter; and

(12) If an underlying index is maintained by a broker-dealer, the index is calculated by a third party who is not a broker-dealer, and the broker-dealer has erected a "Chinese Wall" around its personnel who have access to information concerning changes in and adjustments to the index.

(c) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (b) above:

(1) The requirements stated in subparagraphs (b)(1), (3), (6), (7), (8), (9), (10), (11) and (12) must continue to be satisfied, provided that the requirements stated in subparagraph (b)(6) must be satisfied only as of the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than 33 $\frac{1}{3}$ percent from the number of component securities in the index at the time of its initial listing, and in no event may be less than nine component securities;

(3) Trading volume of each component security in the index must be at least 500,000 shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10 percent of the weight of the index, trading volume must be at least 400,000 shares for each of the last six months; and

(4) In a capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30 percent of the total number of stocks in the index each have had an average monthly trading volume of at least 1,000,000 shares over the past six months. In the event a class of index options listed on the Exchange fails to satisfy the maintenance listing standards set forth herein, the Exchange shall not open for trading any additional series of options of that class unless such failure is determined by the Exchange not to be significant and the SEC concurs in that determination, or unless the continued listing of that class of index options has been approved by the SEC under Section 19(b)(2) of the Exchange Act.

Rule 2003. Dissemination of Information

(a) The Exchange shall disseminate, or shall assure that the current index value is disseminated, after the close of business and from time-to-time on days on which transactions in index options are made on the Exchange.

(b) The Exchange shall maintain, in files available to the public, information identifying the stocks whose prices are the basis for calculation of the index and the method used to determine the current index value.

Rule 2004. Position Limits for Broad-Based Index Options

(a) Rule 412 generally shall govern position limits for broad-based index options, as modified by this Rule 2004.

There may be no position limit for certain Specified (as provided in Rule 2000) broad-based index options contracts. All other broad-based index options contracts shall be subject to a contract limitation fixed by the Exchange, which shall not be larger than limits Specified (as provided in Rule 2000) in this paragraph.

(b) Index options contracts shall not be aggregated with options contracts on any stocks whose prices are the basis for calculation of the index.

(c) Positions in reduced-value index options shall be aggregated with positions in full-value indices. For such purposes, ten reduced-value contracts shall equal one contract.

Rule 2005. Position Limits for Industry Index Options

(a)(1) Rule 412 generally shall govern position limits for industry index options, as modified by this Rule 2005. Options contracts on an industry index shall, subject to the procedures specified in subparagraph (3) of this rule, be subject to the following position limits:

(i) 18,000 contracts if the Exchange determines, at the time of a review conducted pursuant to subparagraph (2) of this paragraph (a), that any single underlying stock accounted, on average, for thirty percent (30%) or more of the index value during the thirty (30)-day period immediately preceding the review; or

(ii) 24,000 contracts if the Exchange determines, at the time of a review conducted pursuant to subparagraph (2) of this paragraph (a), that any single underlying stock accounted, on average, for twenty percent (20%) or more of the index value or that any five (5) underlying stocks together accounted, on average, for more than fifty percent (50%) of the index value, but that no single stock in the group accounted, on average, for thirty percent (30%) or more of the index value, during the thirty (30)-day period immediately preceding the review; or

(iii) 31,500 contracts if the Exchange determines that the conditions specified above which would require the establishment of a lower limit have not occurred.

(2) The Exchange shall make the determinations required by subparagraph (1) of this paragraph (a) with respect to options on each industry index at the commencement of trading of such options on the Exchange and thereafter review the determination semi-annually on January 1 and July 1.

(3) If the Exchange determines, at the time of a semi-annual review, that the position limit in effect with respect to

options on a particular industry index is lower than the maximum position limit permitted by the criteria set forth in paragraph (1) of this paragraph (a), the Exchange may effect an appropriate position limit increase immediately. If the Exchange determines, at the time of a semi-annual review, that the position limit in effect with respect to options on a particular industry index exceeds the maximum position limit permitted by the criteria set forth in subparagraph (1) of this paragraph (a), the Exchange shall reduce the position limit applicable to such options to a level consistent with such criteria; provided, however, that such a reduction shall not become effective until after the expiration date of the most distantly expiring options series relating to the industry index that is open for trading on the date of the review; and provided further that such a reduction shall not become effective if the Exchange determines, at the next semi-annual review, that the existing position limit applicable to such options is consistent with the criteria set forth in subparagraph (1) of this paragraph (a).

(b) Index options contracts shall not be aggregated with options contracts on any stocks whose prices are the basis for calculation of the index.

(c) Positions in reduced-value index options shall be aggregated with positions in full-value index options. For such purposes, ten (10) reduced-value options shall equal one (1) full-value contract.

Rule 2006. Exemptions From Position Limits

(a) **Broad-based Index Hedge Exemption.** The broad-based index hedge exemption is in addition to the other exemptions available under Exchange Rules, interpretations and policies. The following procedures and criteria must be satisfied to qualify for a broad-based index hedge exemption:

(1) The account in which the exempt options positions are held ("hedge exemption account") must have received prior Exchange approval for the hedge exemption specifying the maximum number of contracts that may be exempt under this Rule. The hedge exemption account must have provided all information required on Exchange-approved forms and must have kept such information current. Exchange approval may be granted on the basis of verbal representations, in which event the hedge exemption account shall within two business days, or such other time period designated by the Exchange, furnish the Exchange with appropriate forms and documentation substantiating the basis for the exemption. The hedge exemption

account may apply from time to time for an increase in the maximum number of contracts exempt from the position limits.

(2) A hedge exemption account that is not carried by a Member must be carried by a member of a self-regulatory organization participating in the Intermarket Surveillance Group.

(3) The hedge exemption account maintains a qualified portfolio, or will effect transactions necessary to obtain a qualified portfolio concurrent with or at or about the same time as the execution of the exempt options positions, of:

(i) A net long or short position in common stocks in at least four industry groups and contains at least twenty (20) stocks, none of which accounts for more than fifteen percent (15%) of the value of the portfolio or in securities readily convertible, and additionally in the case of convertible bonds economically convertible, into common stocks which would comprise a portfolio; or

(ii) A net long or short position in index futures contracts or in options on index futures contracts, or long or short positions in index options or index warrants, for which the underlying index is included in the same margin or cross-margin product group cleared at the Clearing Corporation as the index options class to which the hedge exemption applies.

To remain qualified, a portfolio must at all times meet these standards notwithstanding trading activity.

(4) The exemption applies to positions in broad-based index options dealt in on the Exchange and is applicable to the unhedged value of the qualified portfolio. The unhedged value will be determined as follows:

(i) The values of the net long or short positions of all qualifying products in the portfolio are totaled;

(ii) For positions in excess of the standard limit, the underlying market value (A) of any economically equivalent opposite side of the market calls and puts in broad-based index options, and (B) of any opposite side of the market positions in stock index futures, options on stock index futures, and any economically equivalent opposite side of the market positions, assuming no other hedges for these contracts exist, is subtracted from the qualified portfolio; and

(iii) The market value of the resulting unhedged portfolio is equated to the appropriate number of exempt contracts as follows: the unhedged qualified portfolio is divided by the correspondent closing index value and the quotient is then divided by the index multiplier or 100.

(5) Positions in broad-based index options that are traded on the Exchange are exempt from the standard limits to the extent Specified (as provided in Rule 2000) in this subparagraph (a)(5).

(6) Only the following qualified hedging transactions and positions are eligible for purposes of hedging a qualified portfolio (i.e. stocks, futures, options and warrants) pursuant to this Rule:

(i) Long put(s) used to hedge the holdings of a qualified portfolio;

(ii) Long call(s) used to hedge a short position in a qualified portfolio;

(iii) Short call(s) used to hedge the holdings of a qualified portfolio; and

(iv) Short put(s) used to hedge a short position in a qualified portfolio. The following strategies may be effected only in conjunction with a qualified stock portfolio for non-P.M. settled, European style index options only:

(v) A short call position accompanied by long put(s), where the short call(s) expires with the long put(s), and the strike price of the short call(s) equals or exceeds the strike price of the long put(s) (a "collar"). Neither side of the collar transaction can be in-the-money at the time the position is established. For purposes of determining compliance with Rule 411 and this Rule 2006, a collar position will be treated as one contract;

(vi) A long put position coupled with a short put position overlying the same broad-based index and having an equivalent underlying aggregate index value, where the short put(s) expires with the long put(s), and the strike price of the long put(s) exceeds the strike price of the short put(s) (a "debit put spread position"); and

(vii) A short call position accompanied by a debit put spread position, where the short call(s) expires with the puts and the strike price of the short call(s) equals or exceeds the strike price of the long put(s). Neither side of the short call, long put transaction can be in-the-money at the time the position is established. For purposes of determining compliance with Rule 412 and this Rule 2006, the short call and long put positions will be treated as one contract.

(7) The hedge exemption account shall:

(i) Liquidate and establish options, stock positions, their equivalent or other qualified portfolio products in an orderly fashion; not initiate or liquidate positions in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes; and not initiate or liquidate a stock position or its equivalent with an equivalent index options position with a view toward

taking advantage of any differential in price between a group of securities and an overlying stock index option;

(ii) Liquidate any options prior to or contemporaneously with a decrease in the hedged value of the qualified portfolio which options would thereby be rendered excessive; and

(iii) Promptly notify the Exchange of any material change in the qualified portfolio which materially affects the unhedged value of the qualified portfolio.

(8) If an exemption is granted, it will be effective at the time the decision is communicated. Retroactive exemptions will not be granted.

(9) The hedge exemption account shall promptly provide to the Exchange any information requested concerning the qualified portfolio.

(10) Positions included in a qualified portfolio that serve to secure an index hedge exemption may not also be used to secure any other position limit exemption granted by the Exchange or any other self regulatory organization or futures contract market.

(11) Any Member that maintains a broad-based index options position in such Member's own account or in a customer account, and has reason to believe that such position is in excess of the applicable limit, shall promptly take the action necessary to bring the position into compliance. Failure to abide by this provision shall be deemed to be a violation of Rules 412 and this Rule 2006 by the Member.

(12) Violation of any of the provisions of this Rule, absent reasonable justification or excuse, shall result in withdrawal of the index hedge exemption and may form the basis for subsequent denial of an application for an index hedge exemption hereunder.

(13) Each member (other than Exchange market-makers) that maintains a broad-based index options position on the same side of the market in excess of a Specified (as provided in Rule 2000) number of contracts for its own account or for the account of a customer, shall report information as to whether the positions are hedged and provide documentation as to how such contracts are hedged, in the manner and form required by the Exchange. The Exchange may impose other reporting requirements.

(14) Whenever the Exchange determines that additional margin is warranted in light of the risks associated with an under-hedged options position in Specified (as provided in Rule 2000) broad-based indices, the Exchange may impose additional margin upon the account maintaining such under-hedged position pursuant to its authority under

Rule 1204. The clearing firm carrying the account also will be subject to capital charges under Rule 15c3-1 under the Exchange Act to the extent of any margin deficiency resulting from the higher margin requirements.

(b) Industry Index Hedge Exemption. The industry (narrow-based) index hedge exemption is in addition to the other exemptions available under Exchange Rules, interpretations and policies, and may not exceed twice the standard limit established under Rule 2005. Industry index options positions may be exempt from established position limits for each options contract "hedged" by an equivalent dollar amount of the underlying component securities or securities convertible into such components; provided that, in applying such hedge, each options position to be exempted is hedged by a position in at least seventy-five percent (75%) of the number of component securities underlying the index. In addition, the underlying value of the options position may not exceed the value of the underlying portfolio. The value of the underlying portfolio is: (1) the total market value of the net stock position; and (2) for positions in excess of the standard limit, subtract the underlying market value of: (i) any offsetting calls and puts in the respective index option; (ii) any offsetting positions in related stock index futures or options; and (iii) any economically equivalent positions (assuming no other hedges for these contracts exist). The following procedures and criteria must be satisfied to qualify for an industry index hedge exemption:

(1) The hedge exemption account must have received prior Exchange approval for the hedge exemption specifying the maximum number of contracts that may be exempt under this Interpretation. The hedge exemption account must have provided all information required on Exchange-approved forms and must have kept such information current. Exchange approval may be granted on the basis of verbal representations, in which event the hedge exemption account shall within two business days, or such other time period designated by the Exchange, furnish the Exchange with appropriate forms and documentation substantiating the basis for the exemption. The hedge exemption account may apply from time to time for an increase in the maximum number of contracts exempt from the position limits.

(2) A hedge exemption account that is not carried by a Member must be carried by a member of a self-regulatory

organization participating in the Intermarket Surveillance Group.

(3) The hedge exemption account: shall liquidate and establish options, stock positions, or economically equivalent positions in an orderly fashion; shall not initiate or liquidate positions in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes; and shall not initiate or liquidate a stock position or its equivalent with an equivalent index options position with a view toward taking advantage of any differential in price between a group of securities and an overlying stock index option. The hedge exemption account shall liquidate any options prior to or contemporaneously with a decrease in the hedged value of the portfolio which options would thereby be rendered excessive. The hedge exemption account shall promptly notify the Exchange of any change in the portfolio which materially affects the unhedged value of the portfolio.

(4) If an exemption is granted, it will be effective at the time the decision is communicated. Retroactive exemptions will not be granted.

(5) The hedge exemption account shall promptly provide to the Exchange any information requested concerning the portfolio.

(6) Positions included in a portfolio that serve to secure an index hedge exemption may not also be used to secure any other position limit exemption granted by the Exchange or any other self regulatory organization or futures contract market.

(7) Any Member that maintains an industry index options position in such Member's own account or in a customer account, and has reason to believe that such position is in excess of the applicable limit, shall promptly take the action necessary to bring the position into compliance. Failure to abide by this provision shall be deemed to be a violation of Rule 412 and this Rule 2006 by the Member.

(8) Violation of any of the provisions of this Rule 2006, absent reasonable justification or excuse, shall result in withdrawal of the index hedge exemption and may form the basis for subsequent denial of an application for an index hedge exemption hereunder.

Rule 2007. Exercise Limits

(a) In determining compliance with Rule 414, exercise limits for index options contracts shall be equivalent to the position limits prescribed for options contracts with the nearest expiration date in Rule 2004 or 2005. There may be no exercise limits for

Specified (as provided in Rule 2000) broad-based index options.

(b) For a market-maker granted an exemption to position limits pursuant to Rule 413(b), the number of contracts that can be exercised over a five business day period shall equal the market-maker's exempted position.

(c) In determining compliance with exercise limits applicable to stock index options, options contracts on a stock index group shall not be aggregated with options contracts on an underlying stock or stocks included in such group, options contracts on one stock index group shall not be aggregated with options contracts on any other stock index group.

(d) With respect to index options contracts for which an exemption has been granted in accordance with the provisions of Rule 2006(a), the exercise limit shall be equal to the amount of the exemption.

Rule 2008. Trading Sessions

(a) Days and Hours of Business. Except as otherwise provided in this Rule or under unusual conditions as may be determined by the President or his designee, transactions in index options may be effected on the Exchange between the hours of 9:30 a.m. and 4:15 p.m. Eastern time. With respect to options on foreign indexes, an Exchange official designated by the Board shall determine the days and hours of business.

(b) Trading Rotations. The opening rotation for index options shall be held at or as soon as practicable after 9:30 a.m. Eastern time. An Exchange official designated by the Board may delay the commencement of the opening rotation in an index option whenever in the judgment of that official such action is appropriate in the interests of a fair and orderly market. Among the factors that may be considered in making these determinations are: (1) Unusual conditions or circumstances in other markets; (2) an influx of orders that has adversely affected the ability of the Primary Market Maker to provide and to maintain fair and orderly markets; (3) activation of opening price limits in stock index futures on one or more futures exchanges; (4) activation of daily price limits in stock index futures on one or more futures exchanges; (5) the extent to which either there has been a delay in opening or trading is not occurring in stocks underlying the index; and (6) circumstances such as those which would result in the declaration of a fast market under Rule 804(d).

(c) Instituting Halts and Suspensions. Trading on the Exchange in any index

option shall be halted or suspended whenever trading in underlying securities whose weighted value represents more than twenty percent (20%), in the case of a broad based index, and ten percent (10%) for all other indices, of the index value is halted or suspended. An Exchange official designated by the Board also may halt trading in an index option when, in his or her judgment, 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:

(1) Whether all trading has been halted or suspended in the market that is the primary market for a plurality of the underlying stocks;

(2) Whether the current calculation of the index derived from the current market prices of the stocks is not available;

(3) The extent to which the rotation has been completed or other factors regarding the status of the rotation; and

(4) Other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present, including, but not limited to, the activation of price limits on futures exchanges.

(d) Resumption of Trading Following a Halt or Suspension. Trading in options of a class or series that has been the subject of a halt or suspension by the Exchange may resume if an Exchange official designated by the Board determines that the interests of a fair and orderly market are served by a resumption of trading. Among the factors to be considered in making this determination are whether the conditions that led to the halt or suspension are no longer present, and the extent to which trading is occurring in stocks underlying the index. Upon reopening, a rotation shall be held in each class of index options unless an Exchange official designated by the Board concludes that a different method of reopening is appropriate under the circumstances, including but not limited to, no rotation, an abbreviated rotation or any other variation in the manner of the rotation.

(e) Circuit Breakers. Rule 703 applies to index options trading with respect to the initiation of a marketwide trading halt commonly known as a "circuit breaker."

(f) Special Provisions for Foreign Indices. When the hours of trading of the underlying primary securities market for an index option do not overlap or coincide with those of the Exchange, all of the provisions as described in paragraphs (c), (d) and (e) above shall not apply except for (c)(4).

(g) Pricing When Primary Market Does Not Open. When the primary market for a security underlying the current index value of an index option does not open for trading on a given day, the price of that security shall be determined, for the purposes of calculating the current index value at expiration, based on the opening price of that security on the next day that its primary market is open for trading. This procedure shall not be used if the current index value at expiration is fixed in accordance with the Rules and By-Laws of the Clearing Corporation.

Rule 2009. Terms of Index Options Contracts

(a) General.

(1) Meaning of Premium Bids and Offers. Bids and offers shall be expressed in terms of dollars and cents per unit of the index.

(2) Exercise Prices. The Exchange shall determine fixed-point intervals of exercise prices for call and put options.

(3) Expiration Months. Index options contracts may expire at three (3)-month intervals or in consecutive months. The Exchange may list up to six (6) expiration months at any one time, but will not list index options that expire more than twelve (12) months out.

(4) "European-Style Exercise." Specified (as provided in Rule 2000) European-style index options, some of which may be A.M.-settled as provided in paragraph (a)(5), may be approved for trading on the Exchange.

(5) A.M.-Settled Index Options. The last day of trading for A.M.-settled index options shall be the business day preceding the last day of trading in the underlying securities prior to expiration. The current index value at the expiration of an A.M.-settled index option shall be determined, for all purposes under these Rules and the Rules of the Clearing Corporation, on the last day of trading in the underlying securities prior to expiration, by reference to the reported level of such index as derived from first reported sale (opening) prices of the underlying securities on such day, except that:

(i) In the event that the primary market for an underlying security does not open for trading on that day, the price of that security shall be determined, for the purposes of calculating the current index value at expiration, as set forth in Rule 2008(g), unless the current index value at expiration is fixed in accordance with the Rules and By-Laws of the Clearing Corporation; and

(ii) In the event that the primary market for an underlying security is open for trading on that day, but that

particular security does not open for trading on that day, the price of that security, for the purposes of calculating the current index value at expiration, shall be the last reported sale price of the security.

A.M.-settled index options that are approved for trading on the Exchange shall be Specified (as provided in Rule 2000) in this subparagraph (a)(5).

(b) Long-Term Index Options Series.

(1) Notwithstanding the provisions of Paragraph (a)(3), above, the Exchange may list long-term index options series that expire from twelve (12) to sixty (60) months from the date of issuance.

(i) Index long term options series may be based on either the full or reduced value of the underlying index. There may be up to ten (10) expiration months, none further out than sixty (60) months. Strike price interval, bid/ask differential and continuity Rules shall not apply to such options series until the time to expiration is less than twelve (12) months.

(ii) When a new Index long term options series is listed, such series will be opened for trading either when there is buying or selling interest, or forty (40) minutes prior to the close, whichever occurs first. No quotations will be posted for such options series until they are opened for trading.

(2) Reduced-Value Long Term Options Series.

(i) Reduced-value long term options series may be approved for trading on Specified (as provided in Rule 2000) indices.

(ii) Expiration Months. Reduced-value long term options series may expire at six-month intervals. When a new expiration month is listed, series may be near or bracketing the current index value. Additional series may be added when the value of the underlying index increases or decreases by ten (10) to fifteen (15) percent.

(c) Procedures for Adding and Deleting Strike Prices. The procedures for adding and deleting strike prices for index options are provided in Rule 504, as amended by the following:

(1) The interval between strike prices will be no less than \$5.00; provided, that in the case of the certain Specified (as provided in Rule 2000) classes of index options, the interval between strike prices will be no less than \$2.50.

(2) New series of index options contracts may be added up to the fifth business day prior to expiration.

(3) When new series of index options with a new expiration date are opened for trading, or when additional series of index options in an existing expiration date are opened for trading as the current value of the underlying index to

which such series relate moves substantially from the exercise prices of series already opened, the exercise prices of such new or additional series shall be reasonably related to the current value of the underlying index at the time such series are first opened for trading. In the case of all classes of index options, the term "reasonably related to the current value of the underlying index" shall have the meaning set forth in Paragraph (c)(4) below.

(4) Notwithstanding any other provision of this paragraph (c), the Exchange may open for trading additional series of the same class of index options as the current index value of the underlying index moves substantially from the exercise price of those index options that already have been opened for trading on the Exchange. The exercise price of each series of index options opened for trading on the Exchange shall be reasonably related to the current index value of the underlying index to which such series relates at or about the time such series of options is first opened for trading on the Exchange. The term "reasonably related to the current index value of the underlying index" means that the exercise price is within thirty percent (30%) of the current index value. The Exchange may also open for trading additional series of index options that are more than thirty percent (30%) away from the current index value, provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate, or individual customers or their brokers. Market-makers trading for their own account shall not be considered when determining customer interest under this provision.

(d) Index Level on the Last Day of Trading. The reported level of the underlying index that is calculated by the reporting authority on the last day of trading in the underlying securities prior to expiration for purposes of determining the current index value at the expiration of an A.M.-settled index option may differ from the level of the index that is separately calculated and reported by the reporting authority and that reflects trading activity subsequent to the opening of trading in any of the underlying securities.

(e) Index Values for Settlement. The Rules of the Clearing Corporation specify that, unless the Rules of the Exchange provide otherwise, the current index value used to settle the exercise of an index options contract shall be the closing index for the day on which the index options contract is exercised in

accordance with the Rules of the Clearing Corporation or, if such day is not a business day, for the most recent business day.

Rule 2010. Debit Put Spread Cash Account Transactions

Debit put spread positions in European-style, broad-based index options traded on the Exchange (hereinafter "debit put spreads") may be maintained in a cash account as defined by Federal Reserve Board Regulation T Section 220.8 by a Public Customer, provided that the following procedures and criteria are met:

(a) The customer has received Exchange approval to maintain debit put spreads in a cash account carried by an Exchange member organization. A customer so approved is hereinafter referred to as a "spread exemption customer."

(b) The spread exemption customer has provided all information required on Exchange-approved forms and has kept such information current.

(c) The customer holds a net long position in each of the stocks of a portfolio that has been previously established or in securities readily convertible, and additionally in the case of convertible bonds economically convertible, into common stocks which would comprise a portfolio. The debit put spread position must be carried in an account with a member of a self-regulatory organization participating in the Intermarket Surveillance Group.

(d) The stock portfolio or its equivalent is composed of net long positions in common stocks in at least four industry groups and contains at least twenty (20) stocks, none of which accounts for more than fifteen percent (15%) of the value of the portfolio (hereinafter "qualified portfolio"). To remain qualified, a portfolio must at all times meet these standards notwithstanding trading activity in the stocks.

(e) The exemption applies to European-style broad-based index options dealt in on the Exchange to the extent the underlying value of such options position does not exceed the unhedged value of the qualified portfolio. The unhedged value would be determined as follows: (1) The values of the net long or short positions of all qualifying products in the portfolio are totaled; (2) for positions in excess of the standard limit, the underlying market value (A) of any economically equivalent opposite side of the market calls and puts in broad-based index options, and (B) of any opposite side of the market positions in stock index futures, options on stock index futures,

and any economically equivalent opposite side of the market positions, assuming no other hedges for these contracts exist, is subtracted from the qualified portfolio; and (3) the market value of the resulting unhedged portfolio is equated to the appropriate number of exempt contracts as follows “the unhedged qualified portfolio is divided by the correspondent closing index value and the quotient is then divided by the index multiplier or 100.

(f) A debit put spread in Exchange-traded broad-based index options with European-style exercises is defined as a long put position coupled with a short put position overlying the same broad-based index and having an equivalent underlying aggregate index value, where the short put(s) expires with the long put(s), and the strike price of the long put(s) exceeds the strike price of the short put(s). A debit put spread will be permitted in the cash account as long as it is continuously associated with a qualified portfolio of securities with a current market value at least equal to the underlying aggregate index value of the long side of the debit put spread.

(g) The qualified portfolio must be maintained with either a Member, another broker-dealer, a bank, or securities depository.

(h) The spread exemption customer shall agree promptly to provide the Exchange any information requested concerning the dollar value and composition of the customer's stock portfolio, and the current debit put spread positions.

(1) The spread exemption customer shall agree to and any Member carrying an account for the customer shall:

(i) Comply with all Exchange Rules and regulations;

(ii) liquidate any debit put spreads prior to or contemporaneously with a decrease in the market value of the qualified portfolio, which debit put spreads would thereby be rendered excessive; and

(iii) promptly notify the Exchange of any change in the qualified portfolio or the debit put spread position which causes the debit put spreads maintained in the cash account to be rendered excessive.

(i) If any Member carrying a cash account for a spread exemption customer with a debit put spread position dealt in on the Exchange has a reason to believe that as a result of an opening options transaction the customer would violate this spread exemption, and such opening transaction occurs, then the Member has violated this Rule 2010.

(j) Violation of any of these provisions, absent reasonable

justification or excuse, shall result in withdrawal of the spread exemption and may form the basis for subsequent denial of an application for a spread exemption hereunder.

Rule 2011. Disclaimers

(a) Applicability of Disclaimers. The disclaimers in paragraph (b) below shall apply to the reporting authorities identified in the Supplemental Material to Rule 2001.

(b) Disclaimer. No reporting authority, and no affiliate of a reporting authority (each such reporting authority, its affiliates, and any other entity identified in this Rule are referred to collectively as a “Reporting Authority”), makes any warranty, express or implied, as to the results to be obtained by any person or entity from the use of an index it publishes, any opening, intra-day or closing value therefor, or any data included therein or relating thereto, in connection with the trading of any options contract based thereon or for any other purpose. The Reporting Authority shall obtain information for inclusion in, or for use in the calculation of, such index from sources it believes to be reliable, but the Reporting Authority does not guarantee the accuracy or completeness of such index, any opening, intra-day or closing value therefor, or any data included therein or related thereto. The Reporting Authority hereby disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to such index, any opening, intra-day, or closing value therefor, any data included therein or relating thereto, or any options contract based thereon. The Reporting Authority shall have no liability for any damages, claims, losses (including any indirect or consequential losses), expenses, or delays, whether direct or indirect, foreseen or unforeseen, suffered by any person arising out of any circumstance or occurrence relating to the person's use of such index, any opening, intra-day or closing value therefor, any data included therein or relating thereto, or any options contract based thereon, or arising out of any errors or delays in calculating or disseminating such index.

Rule 2012. Exercise of American-Style Index Options

No Member may prepare, time stamp or submit an exercise instruction for an American-style index options series if the Member knows or has reason to know that the exercise instruction calls for the exercise of more contracts than the then “net long position” of the account for which the exercise instruction is to be tendered. For

purposes of this Rule: (i) The term “net long position” shall mean the net position of the account in such option at the opening of business of the day of such exercise instruction, plus the total number of such options purchased that day in opening purchase transactions up to the time of exercise, less the total number of such options sold that day in closing sale transactions up to the time of exercise; (ii) the “account” shall be the individual account of the particular customer, market-maker or “non-customer” (as that term is defined in the By-Laws of the Clearing Corporation) who wishes to exercise; and (iii) every transaction in an options series effected by a market-maker in a market-maker's account shall be deemed to be a closing transaction in respect of the market-maker's then positions in such options series. No Member may adjust the designation of an “opening transaction” in any such option to a “closing transaction” except to remedy mistakes or errors made in good faith.

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 ISE included statements concerning the purpose of, and basis for, the proposed rule change, as amended, and discussed any comments it received on the proposed rule change, as amended. The text of these statements may be examined at the places specified in Item IV below. The ISE 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 Change

1. Purpose

The ISE seeks to adopt rules necessary to allow the Exchange to list and trade options on indices. The proposed rules include listing and maintenance criteria for options on underlying indices, rules on dissemination of index values, position and exercise limits for index options, exemptions from the limits, and terms of index options contracts. All of the proposed rules and changes to existing Exchange Rules are based on the existing rules of the other four options exchanges.⁵

Because the rules related to trading options on indices are product specific in many areas, the Exchange will need

⁵ See, e.g. CBOE Rules 4.11, 4.16, 6.2, 6.7, 8.7, 11.1, 15.10, and 24.1 through 24.20, PCX Rules 7.11 and 13.2, Amex Rule 905C, and Phlx Rule 1033A.

to file additional proposed rule changes with the Commission when the Exchange identifies specific products. For purposes of this proposed rule change, certain rules indicate that they apply to "specified" indices. ISE Rules 2001(l), 2004(a), 2006(a), 2007(a), 2009, and 2011 all contain provisions that are dependant upon the Exchange identifying specific index products in the rule. Accordingly, ISE Rule 2000 states that where the rules in Chapter 20 indicate that particular indices or requirements with respect to particular indices will be "Specified," the ISE shall file a proposed rule change with the Commission pursuant to Section 19 of the Act⁶ and Rule 19b-4 thereunder⁷ to specify such indices or requirements.

The ISE proposes to add a new Chapter 20 to the Exchange rules, as well as conforming changes to certain existing ISE rules. The following are the specific rule changes:

Proposed ISE Rule 2000: This proposed rule specifies that Chapter 20 is applicable only to index options, and that the rules in Chapters 1 through 19 also apply to index options unless they are replaced by the new rules or the context otherwise requires.

Proposed ISE Rule 2001: This proposed rule contains the necessary definitions for index options trading.

Proposed ISE Rule 2002: This proposed rule contains the general listing standards for index option.

Proposed ISE Rule 2003: This proposed rule requires the dissemination of index values as a condition to the trading of options on an index.

Proposed ISE Rules 2004 through 2007: These proposed rules contain the standard position limit and exercise limits for index options, as well as exemption standards and the procedures for requesting exemptions from those proposed rules.

Proposed ISE Rule 2008: This proposed rule provides that index options will trade until 4:15 p.m. Eastern Time, the same as on other exchanges. The proposed rule also contains procedures for trading rotations, as well as trading halts and suspensions.

Proposed ISE Rules 2009 and 2010: Proposed ISE Rule 2009 outlines the terms of index options contracts, while proposed ISE Rule 2010 applies to debit put spreads.

Proposed ISE Rule 2011: This proposed rule disclaims liability for index reporting authorities.

Proposed ISE Rule 2012: This proposed rule contains standards for exercising American-style index options.

Amendment to ISE Rule 413: This proposed amendment adds broad-based index options to the market maker exemption from position limits.

Amendments to ISE Rules 418 and 1100: In conjunction with proposed ISE Rule 2012, this proposed rule will govern the exercise of American-style, cash settled index options.

Amendment to ISE Rule 701: This proposed amendment applies the trading rotation rule to index options.

Amendment to ISE Rule 705: In conjunction with ISE Rule 2011, this proposed rule would limit liability regarding the dissemination of index information.

Amendment to ISE Rule 803: This proposed amendment provides the Exchange with greater flexibility on applying market making obligations when the primary underlying securities market is not open for trading. It would apply only to the trading of options on non-U.S. indices.

Amendment to ISE Rule 1407: This proposed amendment would apply an exemption from the Nasdaq short sale rule to Nasdaq NMS securities underlying index options.

2. Statutory Basis

The ISE believes that the proposed rule change, as amended, is consistent with and furthers the objectives of section 6(b)(5) of the Act,⁸ in that it is designed to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transaction in securities, to remove impediments to and perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest.

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

The ISE does not believe that the proposed rule change, as amended, will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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

No written comments were solicited or received with respect to the proposed rule change, as amended.

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

Within 35 days of the date of publication of this notice in the **Federal Register** or within such longer 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 ISE consents, the Commission will:

(A) By order approve such proposed rule change, as amended; or

(B) Institute proceedings to determine whether the proposed rule change, as amended, should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change, as amended, is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change, as amended, that are filed with the Commission, and all written communications relating to the proposed rule change, as amended, 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. Copies of such filings will also be available for inspection and copying at the principal office of ISE. All submissions should refer to File No. SR-ISE-2003-05 and should be submitted by May 23, 2003.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁹

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 03-10822 Filed 5-1-03; 8:45 am]

BILLING CODE 8010-01-P

⁶ 15 U.S.C 78s.

⁷ 17 CFR 240.19b-4.

⁸ 15 U.S.C. 78(f)(b)(5).

⁹ 17 CFR 200.30-3(a)(12).