

MEMORANDUM

TO: Members, Member Organizations, Participants, Participant Organizations

FROM: Richard S. Rudolph, Vice President and Counsel
Legal Department

DATE: January 26, 2007

RE: Quote Mitigation

As one element of a larger plan to conserve quote capacity (in light of the implementation of penny quoting and trading in options), and in order to address the costs required to process excess quoting, the Securities and Exchange Commission (“SEC” or “Commission”) has **approved** new Exchange Rule 1082(a)(ii)(C). New Rule 1082(a)(ii)(C) sets forth the conditions under which the Exchange will disseminate updated quotations to the option Price Reporting Authority (“OPRA”) based on changes in the Exchange’s disseminated price and/or size.

Beginning January 26, 2007, the Exchange will disseminate an updated bid and offer price, together with the size associated with such bid and offer, when:

- (1) the Exchange’s disseminated bid or offer **price increases or decreases**;
- 2) the **size** associated with the Exchange’s disseminated bid or offer **decreases**; or
- (3) the **size** associated with the Exchange’s bid (offer) **increases** by an amount greater than or equal to **10%** of the size associated with previously disseminated bid (offer).

The new rule applies to all options traded on the Exchange, and is not limited to options quoted and traded in penny increments.

The text of the new rule is set forth below. Questions concerning the new rule may be addressed to Richard S. Rudolph, Vice President and Counsel, at (215) 496-5074.

Brackets indicate deletions; underlining indicates new text.

Firm Quotations

Rule 1082. (a) Definitions.

(i) No change.

(ii) The term “disseminated size” shall mean with respect to the disseminated price for any quoted options series:

(A) Except as provided in sub-paragraph (a)(ii)(C)(3) below, [A] at least the sum of the size associated with limit orders, specialists’ quotations, SQTs’ quotations, and RSQTs’ (as defined in Rule 1014(b)(ii)(B)) quotations.

(B) No change.

(C) The Exchange shall disseminate an updated bid and offer price, together with the size associated with such bid and offer, when:

(1) the Exchange’s disseminated bid or offer price increases or decreases;

(2) the size associated with the Exchange’s disseminated bid or offer decreases; or

(3) the size associated with the Exchange’s bid (offer) increases by an amount greater than or equal to a percentage (never to exceed 20%) of the size associated with previously disseminated bid (offer). Such percentage, which shall never exceed 20%, shall be determined on an issue-by-issue basis by the Exchange and announced to membership via Exchange circular.