

**MEMORANDUM**

TO: Members, Member Organizations, Participants, Participant Organizations

FROM: Richard S. Rudolph  
Vice President and Counsel

DATE: June 18, 2008

RE: Catastrophic Errors  
Rule 1092

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The Exchange has filed, **for immediate effectiveness**, an amendment to Exchange Rule 1092, Obvious Errors, to: (i) define a “Catastrophic Error;” (ii) extend the time period for member notification to Exchange staff that the member believes it has participated in a trade that resulted from a Catastrophic Error; and (iii) state in the Rule that, if the parties to such a trade do not agree on an adjustment price, trades resulting from a Catastrophic Error will be adjusted to the Theoretical Price of the affected option series, plus or minus a pre-determined adjustment value, depending on the Theoretical Price of the series.

The new rule addresses particularly egregious options trading errors, called Catastrophic Errors. An Options Exchange Official would determine that a Catastrophic Error occurred when the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount equal to at least the minimum amount shown below:

<b>Theoretical Price</b>	<b>Minimum Amount</b>
<b>Below \$2</b>	<b>\$1</b>
<b>\$2 to \$5</b>	<b>\$2</b>
<b>Above \$5 to \$10</b>	<b>\$5</b>
<b>Above \$10 to \$50</b>	<b>\$10</b>
<b>Above \$50 to \$100</b>	<b>\$20</b>
<b>Above \$100</b>	<b>\$30</b>

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The new rule also sets forth the procedure to be followed when an Exchange member believes that he/she has participated in a trade resulting from a Catastrophic Error. Significantly, the time period within which such a member is required to notify

the Exchange's Market Surveillance staff that such an error may have occurred would be extended well beyond the time period applicable to an Obvious Error under current Rule 1092. Members would have until 8:30 a.m. ET on the first trading day following the date on which the Catastrophic Error occurred to make such a notification, except that for such transactions in an expiring options series that take place on an expiration day, an Exchange member must notify the Exchange by 5:00 pm ET that same day.

If it is determined that a Catastrophic Error has occurred, unless both (all) parties agree to adjust the transaction to a different price, the execution price(s) of the transaction(s) will be adjusted to the theoretical price, (i) plus the adjustment value provided below for erroneous buy transactions, and (ii) minus the adjustment value provided for erroneous sell transactions, as described below.

<b>Theoretical Price</b>	<b>Adjustment Value</b>
<b>Below \$2</b>	<b>\$1</b>
<b>\$2 to \$5</b>	<b>\$2</b>
<b>Above \$5 to \$10</b>	<b>\$3</b>
<b>Above \$10 to \$50</b>	<b>\$5</b>
<b>Above \$50 to \$100</b>	<b>\$7</b>
<b>Above \$100</b>	<b>\$10</b>

A member that requests a review under the new rule will be charged \$5,000 by the Exchange if there is no adjustment or nullification of the transaction. The initial ruling by the Options Exchange Official is appealable to the Exchange's Referee.

The text of the new rule is attached. Questions concerning the rule may be addressed to Rick Rudolph in the Phlx Legal Department at (215) 496-5074.

Brackets indicate deletions; underlining indicates new text.

### **Obvious Errors and Catastrophic Errors**

**Rule 1092.** The Exchange shall either nullify a transaction or adjust the execution price of a transaction that results in an Obvious Error as provided in this Rule.

(a) (i) No change.

(ii) Catastrophic Error. For purposes of this Rule only, a Catastrophic Error will be deemed to have occurred when the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount equal to at least the minimum amount shown below:

<b>Theoretical Price</b>	<b>Minimum Amount</b>
<b>Below \$2</b>	<b>\$1</b>

<b>\$2 to \$5</b>	<b>\$2</b>
<b>Above \$5 to \$10</b>	<b>\$5</b>
<b>Above \$10 to \$50</b>	<b>\$10</b>
<b>Above \$50 to \$100</b>	<b>\$20</b>
<b>Above \$100</b>	<b>\$30</b>

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(b) - (e) No change.

(f) Catastrophic Error Procedure.

(i) Notification. If an Exchange member believes that it participated in a transaction that qualifies as a Catastrophic Error pursuant to paragraph (a)(ii) above, it must notify Market Surveillance by 8:30 am ET, on the first trading day following the date on which the Catastrophic Error occurred. For transactions in an expiring options series that take place on an expiration day, an Exchange member must notify the Exchange by 5:00 pm ET that same day. Relief will not be granted under this paragraph: (i) unless notification is made within the prescribed time period; and (ii) if an Options Exchange Official has previously rendered a decision with respect to the transaction in question pursuant to Rule 1092(e).

(ii) Catastrophic Error determination. An Options Exchange Official will determine whether the transaction(s) qualifies as a Catastrophic Error. If it is determined that a Catastrophic Error has occurred, the Options Exchange Official will adjust the execution price(s) of the transaction(s) according to subparagraph (f)(iii) below. If it is determined that a Catastrophic Error has not occurred, the member requesting the determination will be subject to a charge of \$5,000.

(iii) Adjustment. If it is determined that a Catastrophic Error has occurred, unless both (all) parties agree to adjust the transaction to a different price, the execution price(s) of the transaction(s) will be adjusted to the theoretical price, (i) plus the adjustment value provided below for erroneous buy transactions, and (ii) minus the adjustment value provided for erroneous sell transactions.

<b>Theoretical Price</b>	<b>Minimum Amount</b>
<b>Below \$2</b>	<b>\$1</b>
<b>\$2 to \$5</b>	<b>\$2</b>
<b>Above \$5 to \$10</b>	<b>\$3</b>
<b>Above \$10 to \$50</b>	<b>\$5</b>
<b>Above \$50 to \$100</b>	<b>\$7</b>
<b>Above \$100</b>	<b>\$10</b>

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(iv) Appeal. An Exchange member may appeal the Options Exchange Official's determination to the Referee pursuant to paragraph (g) below.

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Commentary:

No change.