

MEMORANDUM

TO: Members, Member Organizations, Participants, Participant Organizations

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

DATE: August 13, 2007

RE: SEC Approves Proposal to Establish New Procedure for Options Trading Halts

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The Securities and Exchange Commission (“SEC” or “Commission” has **approved** amendments to Exchange Rules 1047, Trading Rotations, Halts and Suspensions concerning equity options, 1047A, Trading Rotations, Halts or Reopenings concerning index options, and OFPA G-2, Trading Rotations, Halts or Reopenings, to establish new procedures to be followed when trading halts on the primary market for the underlying security.

Under current Exchange rules, in order to halt trading in an option, the specialist in the option must seek out and obtain prior approval from an Options Exchange Official to do so. Typically, when trading in the underlying security halts on the primary market, a period of time passes before the specialist (a) learns of the halt on the primary market in the underlying security; and (b) is able to obtain the necessary approval to halt trading in the overlying option. During this time period, the specialist and ROTs continue to disseminate quotations in the option and are at significant market risk due to uncertainty in the pricing of the option. Trades that occur during this time period often cannot be nullified (absent an Obvious Error under the Exchange’s Obvious Error rule).

The new rule changes the procedure for halting trading in equity options when the overlying option when trading is halted on the primary market in the underlying security, and in index options when trading on the primary market in underlying securities representing more than 10% of the current index value is halted. Specifically, the rule permits the specialist to halt trading in the option in these circumstances prior to receiving approval from an Options Exchange Official, **provided that such approval is granted within five minutes following the halt of trading in the option.** This should reduce the time period following a trading halt on the primary market in the underlying security, thus enabling specialists to halt trading in the overlying option more expeditiously.

The purpose of the rule change is to help Exchange specialists and ROTs better manage risk following a trading halt on the primary market in the underlying security by permitting specialists to halt trading in the overlying option prior to receiving approval from an Options Exchange Official. The text of the new rule change is set forth below.

Questions may be directed to Richard S. Rudolph, Vice President and Counsel, at (215) 496-5074.

## Rule Text

Brackets indicate deletions; bold underlining indicates new text.

### Trading Rotations, Halts and Suspensions

**Rule 1047.** (a) – (c) No Change.

**(d) In the event that trading is halted in the underlying security on the primary market for such security, the specialist may halt trading in the option overlying such security, subject to the approval of an Options Exchange Official within five minutes of the halt in trading in the option.**

Commentary: No change.

### Trading Rotations, Halts or Reopenings

**Rule 1047A.** (a) – (b) No change.

(c) \*\*\*\*\*

(i)-(iii) No Change

**(iv) In the event that trading is halted on the primary market in underlying securities representing more than 10% of the current index value, the specialist may halt trading in the option overlying such index, subject to the approval of an Options Exchange Official within five minutes of the halt in trading in the option.**

(d) – (f) No change.

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### G-2 Trading Rotations, Halts or Reopenings

(a) – (b) No Change.

(c) \*\*\*\*\*

(i)-(iii) No Change.

**(iv) In the event that trading is halted on the primary market in underlying securities representing more than 10% of the current index value, the specialist may halt trading in the option overlying such index, subject to the approval of an Options Exchange Official within five minutes of the halt in trading in the option.**

(d) – (f) No change.