

**MEMORANDUM**

**To:** All XLE Equity Participants, and Member Organizations  
**From:** Equities Surveillance Department  
**Date:** January 31, 2007  
**Subject:** Qualified Contingent Trades

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In order to be in compliance with PHLX Rule 760, PHLX Member firms and XLE Participants handling (executing) a Qualified Contingent Trade<sup>1</sup> have an affirmative obligation to record information regarding derivative components of any such transaction. XLE Participants, at time of receipt of a Qualified Contingent Trade order connected to options, must annotate such order record with the size, symbol, series, price, the “Delta” of the derivative transaction upon which the stock portion is contingent and the Exchange on which the options portion of the transaction was executed.

The requirement to document accurate records of the components of Qualified Contingent Trades will enable XLE Participants to demonstrate the appropriate use of the order type, and may reduce the need for further information requests of the firm and customer.

Arbitrage transactions will require that a relationship between the components exists in the form of related classes of securities (e.g. convertible bonds, preferred stocks, etc.), or securities of participants engaged in mergers, either in progress, or of announced intent.

If you have any questions regarding these requirements, please contact Christine McMaster at 215-496-1486.

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<sup>1</sup> Qualified Contingent Trades are permitted today in Nasdaq Securities pursuant to Phlx Rule 185A(d). Beginning on March 5, 2007, Qualified Contingent Trades will be permitted in any security traded on XLE pursuant to Phlx Rule 185(c)(3).

