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2354. Discretionary Accounts

The Rule

Notices

Insofar as a member or person associated with a member exercises discretion to trade in index warrants, currency index warrants, or currency warrants in a customer's account, such account shall be subject to the provisions of [Rule 2360\(b\)\(18\)](#). The term "option" as used therein shall be deemed to include such warrants for purposes of this Rule.

Amended by SR-FINRA-2008-032 eff. Feb. 17, 2009.

Adopted by SR-NASD-95-37 eff. Sept. 28, 1995.

Selected Notices: [95-82](#), [08-57](#), [08-78](#).

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2355. Supervision of Accounts

The Rule

Notices

The provisions of Rule 2360(b)(20) shall apply to all customer accounts of a member in which transactions in index warrants, currency index warrants, or currency warrants are effected. The term "option" as used therein shall be deemed to include such warrants for purposes of this Rule.

Amended by SR-FINRA-2008-032 eff. Feb. 17, 2009.

Adopted by SR-NASD-95-37 eff. Sept. 28, 1995.

Selected Notices: 95-82, 08-57, 08-78.

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2356. Customer Complaints

The Rule

Notices

The record-keeping requirements of Rule 2360(b)(17)(A) concerning the receipt and handling of customer complaints relating to options shall also apply to customer complaints relating to index warrants, currency index warrants, or currency warrants and the required records of such complaints shall be maintained together with the records pertaining to options related complaints, provided that complaints related to index warrants, currency index warrants, or currency warrants shall be clearly identified as such. The term "option" as used therein shall be deemed to include such warrants for purposes of this Rule.

Amended by SR-FINRA-2008-032 eff. Feb. 17, 2009.

Adopted by SR-NASD-95-37 eff. Sept. 28, 1995.

Selected Notices: 95-82, 08-57, 08-78.

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2357. Communications with the Public and Customers Concerning Index Warrants, Currency Index Warrants and Currency Warrants

The Rule

Notices

The provisions of Rule 2220 shall be applicable to communications to customers regarding index warrants, currency index warrants, or currency warrants. The term "option" as used therein shall be deemed to include such warrants for purposes of this Rule and the term "The Options Clearing Corporation" shall be deemed to mean the issuer of such warrants.

Amended by SR-FINRA-2009-078 eff. Dec. 14, 2009.
Amended by SR-FINRA-2008-032 eff. Feb. 17, 2009.
Adopted by SR-NASD-95-37 eff. Sept. 28, 1995.

Selected Notice to Members: 95-82, 08-57, 08-78.

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2358. Maintenance of Records

The Rule

Notices

The record-keeping provisions of Rule 2360(b)(17)(B) shall be applicable to customer accounts approved to trade index warrants, currency index warrants, or currency warrants. The term "option" as used therein shall be deemed to include such warrants for purposes of this Rule.

Amended by SR-FINRA-2008-032 eff. Feb. 17, 2009.
Adopted by SR-NASD-95-37 eff. Sept. 28, 1995.

Selected Notices: 95-82, 08-57, 08-78.

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2359. Position and Exercise Limits; Liquidations

The Rule

Notices

(a) Position Limits

Except with the prior written approval of FINRA pursuant to the Rule 9600 Series for good cause shown, no member shall effect for any account in which such member has an interest, or for the account of any partner, officer, director or employee thereof, or for the account of any customer, a purchase or sale transaction in an index warrant listed on a national securities exchange if the member has reason to believe that as a result of such transaction the member, or partner, officer, director or employee thereof, or customer would, acting alone or in concert with others, directly or indirectly, hold or control an aggregate position in an index warrant issue on the same side of the market, combining such index warrant position with positions in index warrants overlying the same index on the same side of the market, in excess of the position limits established by the exchange on which the index warrant is listed.

(b) Exercise Limits

(1) Except with the prior written approval of FINRA pursuant to the Rule 9600 Series for good cause shown, in each instance, no member or person associated with a member shall exercise, for any account in which such member or person associated with such member has an interest, or for the account of any partner, officer, director or employee thereof, or for the account of any customer, a long position in any index warrant if as a result thereof such member or partner, officer, director or employee thereof or customer, acting alone or in concert with others, directly or indirectly, has or will have exceeded the applicable exercise limit fixed from time to time by an exchange for an index warrant.

(2) FINRA, pursuant to the Rule 9600 Series for good cause shown, may institute other limitations concerning the exercise of index warrants from time to time. Reasonable notice shall be given of each new limitation fixed by FINRA. These exercise limitations are separate and distinct from any other exercise limitations imposed by the issuers of index warrants.

(c) Liquidations

(1) Whenever FINRA determines that a person or group of persons acting in concert holds or controls an aggregate position (whether short or long) in index warrants overlying the same index in excess of the position limitations established by paragraph (a), it may, when deemed necessary or appropriate in the public interest and for the protection of investors, direct any member or all members carrying a position in index warrants overlying such index for such person or persons to liquidate such position or positions, or portions thereof, as expeditiously as possible and consistent with the maintenance of an orderly market, so as to bring such person or persons into compliance with the position limitations contained in paragraph (a).

(2) Whenever such a directive is issued by FINRA no member receiving notice thereof shall accept and/or execute for any person or persons named in such directive any order to purchase or sell short any index warrants based on the same index, unless in each instance express approval therefor is given by FINRA, or the directive is rescinded.

Amended by SR-FINRA-2008-032 eff. Feb. 17, 2009.

Amended by SR-NASD-2005-087 eff. Aug. 1, 2006

Amended by SR-NASD-97-28 eff. Aug. 7, 1997.

Adopted by SR-NASD-95-37 eff. Sept. 28, 1995.

Selected Notices: 95-82, 08-57, 08-78.

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2360. Options

The Rule

Notices

(a) Definitions

The following terms shall, unless the context otherwise requires, have the stated meanings:

(1) Aggregate Exercise Price — The term "aggregate exercise price" means the exercise price of an option contract multiplied by the number of units of the underlying security covered by such option contract.

(2) Call — The term "call" means an option contract under which the holder of the option has the right, in accordance with the terms of the option, to purchase the number of units of the underlying security or to receive a dollar equivalent of the underlying index covered by the option contract. In the case of a "call" issued by The Options Clearing Corporation on common stock, it shall mean an option contract under which the holder of the option has the right, in accordance with the terms of the option, to purchase from The Options Clearing Corporation the number of units of the underlying security or receive a dollar equivalent of the underlying index covered by the option contract.

(3) Class of Options — The term "class of options" means all option contracts of the same type of option covering the same underlying security or index.

(4) Clearing Member — The term "clearing member" means a FINRA member which has been admitted to membership in The Options Clearing Corporation pursuant to the provisions of the rules of The Options Clearing Corporation.

(5) Closing Sale Transaction — The term "closing sale transaction" means an option transaction in which the seller's intention is to reduce or eliminate a long position in the series of options involved in such transaction.

(6) Control

(A) The term "control" means the power or ability of an individual or entity to make investment decisions for an account or accounts, or influence directly or indirectly the investment decisions of any person or entity who makes investment decisions for an account. In addition, control will be presumed in the following circumstances:

(i) among all parties to a joint account who have authority to act on behalf of the account;

(ii) among all general partners to a partnership account;

(iii) when a person or entity:

a. holds an ownership interest of 10 percent or more in an entity (ownership interest of less than 10 percent will not preclude aggregation), or

b. shares in 10 percent or more of profits and/or losses of an account;

(iv) when accounts have common directors or management;

(v) where a person or entity has the authority to execute transactions in an account.

(B) Control, presumed by one or more of the above powers, abilities or circumstances, can be rebutted by proving the factor does not exist or by showing other factors which negate the presumption of control. The rebuttal proof must be submitted by affidavit and/or such other evidence as may be appropriate in the circumstances.

(C) FINRA will also consider the following factors in determining if aggregation of accounts is required:

(i) similar patterns of trading activity among separate entities;

(ii) the sharing of kindred business purposes and interests;

(iii) whether there is common supervision of the entities which extends beyond assuring adherence to each entity's investment objectives and/or restrictions;

(iv) the degree of contact and communication between directors and/or managers of separate accounts.

(7) Controls, Is Controlled by or Is Under Common Control With — The terms "controls," "is controlled by" and "is under common control with" shall have the meanings specified in Rule 405 of SEC Regulation C.

(8) Conventional Index Option — The term "conventional index option" means any options contract not issued, or subject to issuance, by The Options Clearing Corporation, or an OCC Cleared OTC Option, that, as of the trade date, overlies a basket or index of securities that:

(A) Underlies a standardized index option; or

(B) Satisfies the following criteria:

(i) The basket or index comprises 9 or more equity securities;

(ii) No equity security comprises more than 30% of the equity security component of the basket's or index's weighting; and

(iii) Each equity security comprising the basket or index:

a. is a component security in either the Russell 3000 Index or the FTSE All-World Index Series; or

b. has

1. market capitalization of at least \$75 million or, in the case of the lowest weighted component securities in the basket or index that in the aggregate account for no more than 10% of the weight of the index, \$50 million; and

2. trading volume for each of the preceding six months of at least one million shares or, in the case of each of the lowest weighted component securities in the basket or index that in the aggregate account for no more than 10% of the weight of the index, 500,000 shares.

(9) Conventional Option — The term "conventional option" shall mean: (A) any option contract not issued, or subject to issuance, by The Options Clearing Corporation; or (B) an OCC Cleared OTC Option.

(10) Covered — The term "covered" in respect of a short position in a call option contract means that the writer's obligation is secured by a "specific deposit" or an "escrow deposit," meeting the conditions of Rules 610(e) or 610(g), respectively, of the rules of The Options Clearing Corporation, or the writer holds in the same account as the short position, on a unit-for-unit basis, a long position either in the underlying security or in an option contract of the same class of options where the exercise price of the option contract in such long position is equal to or less than the exercise price of the option contract in such short position. The term "covered" in respect of a short position in a put option contract means that the writer holds in the same account as the short position, on a unit-for-unit basis, a long position in an option contract of the same class of options having an exercise price equal to or greater than the exercise price of the option contract in such short position.

(11) Delta Neutral — The term "delta neutral" describes an equity options position that has been fully hedged, in accordance with a Permitted Pricing Model as defined in paragraph (b)(3)(A)(ii)b. with a portfolio of instruments including or relating to the same underlying security to offset the risk that the value of the equity options position will change with incremental changes in the price of the security underlying the options position.

(12) Disclosure Document(s) — The term "disclosure document" or "disclosure documents" shall mean those documents filed with the SEC, prepared by one or more options markets and meeting the requirements of SEA Rule 9b-1. They shall contain general explanatory information relating to the mechanics of buying, writing and exercising options; the risks involved, the uses of and market for the options; transaction costs and applicable margin requirements; tax consequences of trading options; identification of the options issuer and the instrument underlying the options class; and the availability of the prospectus and the information in Part II of the registration statement.

(13) Exercise Price — The term "exercise price" in respect of an option contract means the stated price per unit at which the underlying security may be purchased (in the case of a call) or sold (in the case of a put) upon the exercise of such option contract.

(14) Expiration Date — The term "expiration date" of an option contract issued by The Options Clearing Corporation means the day and time fixed in accordance with the rules of The Options Clearing Corporation for the expiration of such option contract. The term "expiration date" of all other option contracts means the date specified thereon for such.

(15) Expiration Month — The term "expiration month" in respect of an option contract means the month and year in which such option contract expires.

(16) FLEX Equity Option — The term "FLEX Equity Option" means any options contract issued, or subject to issuance by, The Options Clearing Corporation, other than an OCC Cleared OTC Option, whereby the parties to the transaction have the ability to negotiate the terms of the contract consistent with the rules of the exchange on which the options contract is traded.

(17) Long Position — The term "long position" means the number of outstanding option contracts of a given series of options held by a person (purchaser).

(18) Net Delta — The term "net delta" means the number of shares that must be maintained (either long or short) to offset the risk that the value of an equity options position will change with incremental changes in the price of the security underlying the options position.

(19) OCC Cleared OTC Option — The term "OCC Cleared OTC Option" means any put, call, straddle or other option or privilege that meets the definition of an "option" under Rule 2360(a)(21), and is cleared by The Options Clearing Corporation, is entered into other than on or through the facilities of a national securities exchange, and is entered into exclusively by persons who are "eligible contract participants" as defined in the Exchange Act.

(20) Opening Writing Transaction — The term "opening writing transaction" means an option transaction in which the seller's (writer's) intention is to create or increase a short position in the series of options involved in such transaction.

(21) Option — The term "option" shall mean any put, call, straddle or other option or privilege, which is a "security" as defined in Section 2(1) of the Securities Act, as amended, but shall not include any (A) tender offer, (B) registered warrant, (C) right, (D) convertible security or (E) any other option in respect to which the writer (seller) is the issuer of the security which may be purchased or sold upon the exercise of the option.

(22) Option Transaction — The term "option transaction" means a transaction effected by a member for the purchase or sale of an option contract, or for the closing out of a long or short position in such option.

(23) Options Contract — The term "options contract" means any option as defined in paragraph (a)(21). For purposes of paragraphs (b) (3) through (12), an option to purchase or sell common stock shall be deemed to cover 100 shares of such stock at the time the contract granting such option is written. If a stock option is granted covering some other number of shares, then for purposes of paragraphs (b)(3) through (12), it shall be deemed to constitute as many option contracts as that other number of shares divided by 100 (e.g., an option to buy or sell five hundred shares of common stock shall be considered as five option contracts). A stock option contract that, when written, grants the right to purchase or sell 100 shares of common stock shall continue to be considered as one contract throughout its life, notwithstanding that, pursuant to its terms, the number of shares that it covers may be adjusted to reflect stock dividends, stock splits, reverse splits, or other similar actions by the issuer of such stock.

(24) Options Contract Equivalent of the Net Delta — the term "options contract equivalent of the net delta" means the net delta divided by the number of shares underlying the options contract.

(25) Options Trading — The term "options trading" means trading (A) in any option issued by The Options Clearing Corporation, and (B) in any conventional option.

(26) Outstanding — The term "outstanding" in respect of an option contract means an option contract which has neither been the subject of a closing sale transaction nor has been exercised nor reached its expiration date.

(27) Premium — The term "premium" means the aggregate price of the option contracts agreed upon between the buyer and writer/seller or their agents.

(28) Put — The term "put" means an option contract under which the holder of the option has the right, in accordance with the terms of the option, to sell the number of units of the underlying security or deliver a dollar equivalent of the underlying index covered by the option contract. In the case of a "put" issued by The Options Clearing Corporation on common stock, it shall mean an option contract under which the holder of the option has the right, in accordance with terms of the option, to sell to The Options Clearing Corporation the number of units of the underlying security covered by the option contract or to tender the dollar equivalent of the underlying index.

(29) Rules of The Options Clearing Corporation — The term "rules of The Options Clearing Corporation" means the by-laws and the rules of The Options Clearing Corporation, and all written interpretations thereof as may be in effect from time to time.

(30) Series of Options — The term "series of options" means all option contracts of the same class of options having the same exercise price and expiration date and which cover the same number of units of the underlying security or index.

(31) Short Position — The term "short position" means the number of outstanding option contracts of a given series of options with respect to which a person is obligated as a writer (seller).

(32) Standardized Equity Option — The term "standardized equity option" means any equity options contract issued, or subject to issuance by, The Options Clearing Corporation that is not a FLEX Equity Option and not an OCC Cleared OTC Option.

(33) Standardized Index Option — The term "standardized index option" means any options contract issued, or subject to issuance, by The Options Clearing Corporation that is based upon an index and is not an OCC Cleared OTC Option.

(34) The Options Clearing Corporation — The term "The Options Clearing Corporation" means The Options Clearing Corporation.

(35) Type of Option — The term "type of option" means the classification of an option contract as either a put or a call.

(36) Uncovered — The term "uncovered" in respect of a short position in an option contract means the short position is not covered. For purposes of paragraph (b)(16) (Opening of Accounts), paragraph (b)(20) (Supervision of Accounts) and paragraph (b)(11) (Delivery of Current Disclosure Document(s)), the term "writing uncovered short option positions" shall include combinations and any other transactions which involve uncovered writing.

(37) Underlying Index — The term "underlying index" means an index underlying a Standardized Index Option or a Conventional Index Option.

(38) Underlying Security — The term "underlying security" in respect of an option contract means the security which The Options Clearing Corporation or another person shall be obligated to sell (in the case of a call) or purchase (in the case of a put) upon the valid exercise of such option contract.

(39) Unit — The term "unit" shall mean the smallest interest in a particular security which can be purchased or sold, such as one share of stock, one warrant, one bond, and so forth.

(b) Requirements

(1) Applicability

This Rule shall be applicable to the extent appropriate unless otherwise stated herein: (A) to the conduct of accounts, the execution of transactions, and the handling of orders in exchange-listed options by members that are not members of an exchange on which the option executed is listed; (B) to the conduct of accounts, the execution of transactions, and the handling of orders in conventional options by all members; and (C) to other matters related to options trading.

Subparagraphs (3) through (12) shall apply only to standardized and conventional options on common stock. Subparagraphs (13) through (24) shall apply to transactions in all options as defined in paragraph (a)(21), including common stock unless otherwise indicated herein.

(2) FLEX Equity Options

The position and exercise limits for FLEX Equity Options for members that are not also members of the exchange on which FLEX Equity Options trade shall be the same as the position and exercise limits as applicable to members of the exchange on which such FLEX Equity Options are traded.

(3) Position Limits

(A) Stock Options —

(i) Standardized Equity Options

Except in highly unusual circumstances, and with the prior written approval of FINRA pursuant to the [Rule 9600](#) Series for good cause shown in each instance, no member shall effect for any account in which such member has an interest, or for the account of any partner, officer, director or employee thereof, or for the account of any customer, non-member broker, or non-member dealer, an opening transaction on any exchange in a stock option contract of any class of stock options if the member has reason to believe that as a result of such transaction the member or partner, officer, director or employee thereof, or customer, non-member broker, or non-member dealer, would, acting alone or in concert with others, directly or indirectly, hold or control or be obligated in respect of an aggregate standardized equity options position in excess of the highest position limit established by an exchange on which the option trades, or such other number of stock option contracts as may be fixed from time to time by FINRA as the position limit for one or more classes or series of options provided that reasonable notice shall be given of each new position limit fixed by FINRA.

(ii) Equity Option Hedge Exemptions

a. The following qualified hedge strategies and positions described in subparagraphs 1. through 6. below shall be exempt from the established position limits under this Rule for standardized options. Hedge strategies and positions described in subparagraphs 7. and 8. below in which one of the option components consists of a conventional option, shall be subject to a position limit of five times the established position limits contained in paragraphs (b)(3)(A)(iii)a.1. through 6. below. Hedge strategies and positions in conventional options as described in subparagraphs 1. through 6. below shall be subject to a position limit of five times the established position limits contained in paragraphs (b)(3)(A)(iii)a.1. through 6. below. Options positions limits established under this subparagraph shall be separate from limits established in other provisions of this Rule.

1. Where each option contract is "hedged" or "covered" by 100 shares of the underlying security or securities convertible into the underlying security, or, in the case of an adjusted option, the same number of shares represented by the adjusted contract: (a) long call and short stock; (b) short call and long stock; (c) long put and long stock; or (d) short put and short stock.

2. Reverse Conversions — A long call position accompanied by a short put position, where the long call expires with the short put, and the strike price of the long call and short put is equal, and where each long call and short put position is hedged with 100 shares (or other adjusted number of shares) of the underlying security or securities convertible into such underlying security.

3. Conversions — A short call position accompanied by a long put position where the short call expires with the long put, and the strike price of the short call and long put is equal, and where each short call and long put position is hedged with 100 shares (or other adjusted number of shares) of the underlying security or securities convertible into such underlying security.

4. Reverse Collars — A long call position accompanied by a short put position where the long call expires with the short put and the strike price of the long call equals or exceeds the short put and where each long call and short put position is hedged with 100 shares of the underlying security (or other adjusted number of shares). Neither side of the long call, short put position can be in-the-money at the time the position is established.

5. Collars — A short call position accompanied by a long put position, where the short call expires with the long put, and the strike price of the short call equals or exceeds the strike price of the long put position and where each short call and long put position is hedged with 100 shares (or other adjusted number of shares) of the underlying security or securities convertible into such underlying security. Neither side of the short call/long put position can be in-the-money at the time the position is established.

6. Box Spreads — A long call position accompanied by a short put position with the same strike price and a short call position accompanied by a long put position with a different strike price.

7. Back-to-Back Options — A listed option position hedged on a one-for-one basis with an over-the-counter (OTC) option position on the same underlying security. The strike price of the listed option position and corresponding OTC option position must be within one strike price interval of each other and no more than one expiration month apart.

8. For reverse conversion, conversion, reverse collar and collar strategies set forth above in subparagraphs 2., 3., 4. and 5., one of the option components can be an OTC option guaranteed or endorsed by the firm maintaining the proprietary position or carrying the customer account.

b. Delta Hedging Exemption For Members and Non- Member Affiliates

An equity options position of a member or non-member affiliate in standardized and/or conventional equity options that is delta neutral under a Permitted Pricing Model shall be exempt from position limits under this Rule. Any equity options position of such member or non-member affiliate that is not delta neutral shall be subject to position limits, subject to the availability of other options position limit exemptions. The number of options contracts attributable to a position that is not delta neutral shall be the options contract equivalent of the net delta.

1. Permitted Pricing Model shall mean:

A. A pricing model maintained and operated by the Options Clearing Corporation ("OCC Model") when used by a member, or non-member affiliate permitted to rely on subparagraphs B or C;

B. A pricing model maintained and used by a member subject to consolidated supervision by the SEC pursuant to Appendix E of SEA Rule 15c3-1, or by an affiliate that is part of such member's consolidated supervised holding company group, in accordance with its internal risk management control system and consistent with the requirements of Appendices E or G, as applicable, to SEA Rule 15c3-1 and SEA Rule 15c3-4, as amended from time to time, in connection with the calculation of risk-based deductions from capital or capital allowances for market risk thereunder, provided that the member or affiliate of a member relying on this exemption in connection with the use of such model is an entity that is part of such member's consolidated supervised holding company group;

C. A pricing model maintained and used by a financial holding company ("FHC") or a company treated as an FHC under the Bank Holding Company Act, or by an affiliate that is part of either such company's consolidated supervised holding company group, in accordance with its internal risk management control system and consistent with:

i. the requirements of the Board of Governors of the Federal Reserve System, as amended from time to time, in connection with the calculation of risk-based adjustments to capital for market risk under capital requirements of the Board of Governors of the Federal Reserve System, provided that the member or affiliate of a member relying on this exemption in connection with the use of such model is an entity that is part of such company's consolidated supervised holding company group; or

ii. the standards published by the Basel Committee on Banking Supervision, as amended from time to time and as implemented by such company's principal regulator, in connection with the calculation of risk-based deductions or adjustments to or allowances for the market risk capital requirements of such principal regulator applicable to such company – where "principal regulator" means a member of the Basel Committee on Banking Supervision that is the home country consolidated supervisor of such company – provided that the member or affiliate of a member relying on this exemption in connection with the use of such model is an entity that is part of such company's consolidated supervised holding company group;

D. A pricing model maintained and used by an OTC derivatives dealer registered with the SEC pursuant to SEA Rule 15c3-1(a)(5) in accordance with its internal risk management control system and consistent with the requirements of Appendix F to SEA Rule 15c3-1 and SEA Rule 15c3-4, as amended from time to time, in connection with the calculation of risk-based deductions from capital for market risk thereunder, provided that only such OTC derivatives dealer and no other affiliated entity (including a member) may rely on this subparagraph D; or

E. A pricing model used by a national bank under the National Bank Act maintained and used in accordance with its internal risk management control system and consistent with the requirements of the Office of the Comptroller of the Currency, as amended from time to time, in connection with the calculation of risk-based adjustments to capital for market risk under capital requirements of the Office of the Comptroller of the Currency, provided that only such national bank and no other affiliated entity (including a member) may rely on this exemption.

2. Effect on Aggregation of Account Positions

A. Members and non-member affiliates who rely on this exemption must ensure that the Permitted Pricing Model is applied to all positions in or relating to the security underlying the relevant options position that are owned or controlled by such member or non-member affiliate.

B. Notwithstanding subparagraph b.2.A. of this Rule, the Net Delta of an options position held by an entity entitled to rely on this exemption, or by a separate and distinct trading unit of such entity, may be calculated without regard to positions in or relating to the security underlying the options positions held by an affiliated entity or by another trading unit within the same entity, provided that:

i. the entity demonstrates to FINRA's satisfaction that no control relationship, as discussed in Supplementary Material .02, exists between such affiliates or trading units; and

ii. the entity has provided FINRA written notice in advance that it intends to be considered separate and distinct from any affiliate, or — as applicable — which trading units within the entity are to be considered separate and distinct from each other for purposes of this exemption.

C. Notwithstanding subparagraph b.2.A. or b.2.B. of this Rule, a member or non-member affiliate who relies on this exemption shall designate, by prior written notice to FINRA, each trading unit or entity whose options positions are required under FINRA rules to be aggregated with the option positions of such member or non-member affiliate that is relying on this exemption for purposes of compliance with FINRA position limits or exercise limits. In any such case:

i. the Permitted Pricing Model shall be applied, for purposes of calculating such member's or affiliate's net delta, only to the positions in or relating to the security underlying any relevant option position owned and controlled by those entities and trading units who are relying on this exemption; and

ii. the net delta of the positions owned or controlled by the entities and trading units who are relying on this exemption shall be aggregated with the nonexempt option positions of all other entities and trading units whose options positions are required under FINRA rules to be aggregated with the option positions of such member or affiliate.

3. Obligations of Members and Affiliates

A member that relies, or whose affiliate relies, upon this exemption must provide a written certification to FINRA that it and/or its affiliates are using a Permitted Pricing Model pursuant to subparagraph 1. above and that if the affiliate ceases to hedge stock options positions in accordance with such Permitted Pricing Model, it will provide immediate written notice to the member.

The options positions of a non-member relying on this exemption must be carried by a member with which it is affiliated.

4. Reporting

A. Each member must report in accordance with paragraph (b)(5), all equity option positions (including those that are delta neutral) of 200 or more contracts (whether long or short) on the same side of the market covering the same underlying security that are effected by the member.

B. In addition, each member on its own behalf or on behalf of a designated aggregation unit pursuant to paragraph (b)(3)(A)(ii)b.2. shall report in a manner specified by FINRA the options contract equivalent of the net delta of each position that represents 200 or more contracts (whether long or short) on the same side of the market covering the same underlying security that are effected by the member.

(iii) Conventional Equity Options

a. For purposes of this paragraph (b), standardized equity option contracts of the put class and call class on the same side of the market overlying the same security shall not be aggregated with conventional equity option contracts or FLEX Equity Option contracts overlying the same security on the same side of the market. Conventional equity option contracts of the put class and call class on the same side of the market overlying the same security shall be subject to a position limit of:

1. 25,000 option contracts, combining for purposes of this position limit long positions in put options with short positions in call options, and short positions in put options with long positions in call options; or
2. 50,000 option contracts for option contracts on securities that underlie exchange-traded options qualifying under applicable rules for a position limit of 50,000 option contracts; or
3. 75,000 option contracts for option contracts on securities that underlie exchange-traded options qualifying under applicable rules for a position limit of 75,000 option contracts; or
4. 200,000 option contracts for option contracts on securities that underlie exchange-traded options qualifying under applicable rules for a position limit of 200,000 option contracts; or
5. 250,000 option contracts for option contracts on securities that underlie exchange-traded options qualifying under applicable rules for a position limit of 250,000 option contracts; or
6. for selected conventional options on exchange-traded funds ("ETF"), the position limits are listed in the chart below:

Security Underlying Option	Position Limit
The DIAMONDS Trust (DIA)	300,000 contracts
The Standard and Poor's Depository Receipts Trust (SPY)	3,600,000 contracts
The iShares Russell 2000 ETF (IWM)	1,000,000 contracts
The PowerShares QQQ Trust (QQQ)	1,800,000 contracts
The iShares MSCI Emerging Markets ETF (EEM)	1,000,000 contracts
iShares China Large-Cap ETF (FXI)	1,000,000 contracts
iShares MSCI EAFE ETF (EFA)	1,000,000 contracts
iShares MSCI Brazil Capped ETF (EWZ)	500,000 contracts
iShares 20+ Year Treasury Bond Fund ETF (TLT)	500,000 contracts
iShares MSCI Japan ETF (EWJ)	500,000 contracts
iShares iBoxx High Yield Corporate Bond Fund (HYG)	500,000 contracts
iShares iBoxx \$ Investment Grade Corporate Bond ETF (LQD)	500,000 contracts
Financial Select Sector SPDR Fund (XLF)	500,000 contracts
VanEck Vectors Gold Miners ETF (GDX)	500,000 contracts

b. In order for a security not subject to standardized equity options trading to qualify for an options position limit of more than 25,000 contracts, a member must first demonstrate to FINRA's Market Regulation Department that the underlying security meets the standards for such higher options position limit and the initial listing standards for standardized options trading.

Provided, however, that for certain securities in an index designated by FINRA, a member may claim such higher position limit as permitted in accordance with the volume and float criteria specified by FINRA; provided further, that a member claiming a higher position limit under this subparagraph must notify FINRA's Market Regulation Department in writing in such form as may be prescribed by FINRA and shall be filed no later than the close of business day on the next business day following the day on which the transaction or transactions requiring such limits occurred; and provided further, that the member must agree to reduce its position in the event that FINRA staff determines different position limits shall apply.

(B) Index Options

Except in highly unusual circumstances, and with the prior written approval of FINRA pursuant to the [Rule 9600](#) Series for good cause shown in each instance, no member shall effect for any account in which such member has an interest, or for the account of any partner, officer, director or employee thereof, or for the account of any customer, an opening transaction in an option contract of any class of index options dealt in on an exchange if the member has reason to believe that as a result of such transaction the member or partner, officer, director or employee thereof, or customer, would, acting alone or in concert with others, directly or indirectly, hold or control or be obligated in respect of an aggregate position in excess of position limits established by the exchange on which the option trades.

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

(D) FINRA will notify the SEC at any time it approves a request to exceed the limits established pursuant to paragraph (b)(3).

(4) Exercise Limits

Except in highly unusual circumstances, and with the prior written approval of FINRA pursuant to the [Rule 9600](#) Series for good cause shown in each instance, no member or person associated with a member shall exercise, for any account in which such member or person associated with a member has an interest, or for the account of any partner, officer, director or employee thereof or for the account of any customer, non-member broker, or non-member dealer, any option contract if as a result thereof such member or partner, officer, director or employee thereof or customer, non-member broker, or non-member dealer, acting alone or in concert with others, directly or indirectly, has or will have exercised within any five (5) consecutive business days a number of option contracts of a particular class of options in excess of the limits for options positions in paragraph (b)(3). FINRA may institute other limitations concerning the exercise of option contracts from time to time by action of FINRA. Reasonable notice shall be given of each new limitation fixed by FINRA.

(5) Reporting of Options Positions

(A)(i)a. Conventional Options

Each member shall file or cause to be filed with FINRA a report with respect to each account in which the member has an interest, each account of a partner, officer, director or employee of such member, and each customer, non-member broker, or non-member dealer account, which, acting alone or in concert, has established an aggregate position of 200 or more option contracts (whether long or short) of the put class and the call class on the same side of the market covering the same underlying security or index, combining for purposes of this subparagraph long positions in put options with short positions in call options and short positions in put options with long positions in call options, provided, however, that such reporting with respect to positions in conventional index options shall apply only to an option that is based on an index that underlies, or is substantially similar to an index that underlies, a standardized index option.

b. Standardized Options

Each member that conducts a business in standardized options but is not a member of the options exchange upon which the standardized options are listed and traded shall file or cause to be filed with FINRA a report with respect to each account in which the member has an interest, each account of a partner, officer, director or employee of such member, and each customer, non-member broker, or non-member dealer account, which, acting alone or in concert, has established an aggregate position of 200 or more option contracts (whether long or short) of the put class and the call class on the same side of the market covering the same underlying security or index, combining for purposes of this subparagraph long positions in put options with short positions in call options and short positions in put options with long positions in call options.

(ii) The reports required by this subparagraph shall identify the person or persons having an interest in such account and shall identify separately the total number of option contracts of each such class comprising the reportable position in such account. The reports shall be in such form as may be prescribed by FINRA and shall be filed no later than the close of business on the next business day following the day on which the transaction or transactions requiring the filing of such report occurred. Whenever a report shall be required to be filed with respect to an account pursuant to this subparagraph, the member filing such shall file with FINRA such additional periodic reports with respect to such account as FINRA may from time to time prescribe.

(B) In addition to the reports required by subparagraph (A) above, each member shall report promptly to FINRA any instance in which such member has a reason to believe that a person, acting alone or in concert with others, has exceeded or is attempting to exceed the position limits or the exercise limits set forth in paragraphs (b)(3) and (4).

(6) Liquidation of Positions and Restrictions on Access

(A) Whenever FINRA determines that a person or group of persons acting in concert holds or controls, or is obligated in respect of, an aggregate position in option contracts covering any underlying security or index in excess of the position limitations established by paragraph (b)(3), it may, when deemed necessary or appropriate in the public interest and for the protection of investors, direct:

(i) any member or all members carrying a position in option contracts covering such underlying security or index for such person or persons to liquidate such position or positions, or portions thereof, as expeditiously as possible and consistent with the maintenance of an orderly market, so as to bring such person or persons into compliance with the position limitations contained in paragraph (b)(3);

(ii) that such person or persons named therein not be permitted to execute an opening transaction, and that no member shall accept and/or execute for any person or persons named in such directive, any order for an opening transaction in any option contract, unless in each instance express approval therefor is given by FINRA, the directive is rescinded, or the directive specifies another restriction appropriate under the circumstances.

(B) Prior to the issuance of any directive provided for in subparagraph (A), FINRA shall notify, in the most expeditious manner possible, such person, or group of persons of such action, the specific grounds therefor and provide them an opportunity to be heard thereon. In the absence of unusual circumstances, in the case of a directive pursuant to the provisions of subparagraph (A)(i) hereof, the hearing shall be held within one business day of notice. In the case of a directive pursuant to the provisions of subparagraph (A)(ii) hereof, the hearing shall be held as promptly as possible under the circumstances. In any such proceeding a record shall be kept. A determination by FINRA after hearing or waiver of hearing, to implement such directive shall be in writing and shall be supported by a statement setting forth the specific grounds on which the determination is based. Any person aggrieved by action taken by FINRA pursuant to this subparagraph may make application for review to the SEC in accordance with Section 19 of the Exchange Act.

(7) Limit on Uncovered Short Positions

Whenever FINRA shall determine in light of current conditions in the markets for options, or in the markets for underlying securities, that there are outstanding a number of uncovered short positions in option contracts of a given class in excess of the limits established by FINRA for purposes of this subparagraph or that a percentage of outstanding short positions in option contracts of a given class are uncovered, in

excess of the limits established by FINRA for purposes of this subparagraph, FINRA, upon its determination that such action is in the public interest and necessary for the protection of investors and the maintenance of a fair and orderly market in the option contracts or underlying securities, may prohibit any further opening writing transactions in option contracts of that class unless the resulting short position will be covered, and it may prohibit the uncovering of any existing covered short position in option contracts of one or more series of options of that class.

(8) Restrictions on Option Transactions and Exercises

FINRA may impose from time to time such restrictions on option transactions or the exercise of option contracts in one or more series of options of any class which it determines are necessary in the interest of maintaining a fair and orderly market in option contracts, or in the underlying securities covered by such option contracts, or otherwise necessary in the public interest or for the protection of investors. During the period of any such restriction, no member shall effect any option transaction or exercise any option contract in contravention of such restriction. Notwithstanding the foregoing, during the ten (10) business days prior to the expiration date of a given series of options, no restriction established pursuant to this subparagraph on the exercise of option contracts shall remain in effect with respect to that series of options.

(9) Rights and Obligations of Holders and Writers

Subject to the provisions of paragraphs (b)(4), (6), and (8), the rights and obligations of holders and writers of option contracts of any class of options issued by The Options Clearing Corporation shall be set forth in the rules of The Options Clearing Corporation.

(10) Open Orders on "Ex-Date"

Open orders for one or more option contracts of any class of options issued by The Options Clearing Corporation held by members prior to the effective date of an adjustment by The Options Clearing Corporation to the terms of a class of options pursuant to Article VI, Section 11A of the By-Laws of The Options Clearing Corporation shall be adjusted on the "ex-date" by such amount as The Options Clearing Corporation shall specify, unless otherwise instructed by the customer.

(11) Delivery of Current Disclosure Documents

(A)(i) Characteristics and Risks of Standardized Options (the "ODD"). Every member shall deliver the current ODD to each customer at or prior to the time such customer's account is approved for trading options issued by The Options Clearing Corporation, other than an OCC Cleared OTC Option. Thereafter, a copy of each amendment to the ODD shall be distributed to each customer to whom the member previously delivered the ODD not later than the time a confirmation of a transaction in the category of options to which the amendment pertains is delivered to such customer.

(ii) Special Statement for Uncovered Option Writers ("Special Written Statement"). In the case of customers approved for writing uncovered short options transactions, the Special Written Statement required by paragraph (b)(16) shall be in a format prescribed by FINRA and delivered to customers in accordance with paragraph (b)(16). A copy of each new or revised Special Written Statement shall be distributed to each customer having an account approved for writing uncovered short options not later than the time a confirmation of a transaction is delivered to each customer who enters into a transaction in options issued by The Options Clearing Corporation, other than an OCC Cleared OTC Option.

(iii) FINRA will advise members when a new or revised current disclosure document meeting the requirements of SEA Rule 9b-1 is available.

(B) Where a broker or dealer enters his orders with another member in a single omnibus account, the member holding the account shall take reasonable steps to assure that such broker or dealer is furnished reasonable quantities of current disclosure documents, as requested by him in order to enable him to comply with the requirements of SEA Rule 9b-1.

(C) Where an introducing broker or dealer enters orders for his customers with, or clears transactions through, a member on a fully disclosed basis and that member carries the accounts of such customers, the responsibility for delivering the current disclosure document(s) as provided in this paragraph (b)(11) shall rest with the member carrying the accounts. However, such member may rely upon the good faith representation of the introducing broker or dealer that the current disclosure document(s) has been delivered in compliance with paragraph (b)(11).

(12) Confirmations

Every member shall promptly furnish to each customer a written confirmation of each transaction in option contracts for such customer's account. Each such confirmation shall show the type of option, the underlying security or index, the expiration month, the exercise price, the number of option contracts, the premium, the commission, the trade and settlement dates, whether the transaction was a purchase or a sale (writing) transaction, whether the transaction was an opening or a closing transaction, whether the transaction was effected on a principal or agency basis and, for other than options issued by The Options Clearing Corporation, the date of expiration. The

confirmation shall by appropriate symbols distinguish between exchange listed and other transactions in option contracts though such confirmation does not need to specify the exchange or exchanges on which such options contracts were executed.

(13) Transactions with Issuers

No member shall enter a transaction for the sale (writing) of a call option contract for the account of any corporation which is the issuer of the underlying security thereof.

(14) Restricted Stock

For the purposes of covering a short position in a call option contract, delivery pursuant to the exercise of a put option contract, or satisfying an exercise notice assigned in respect of a call option contract, no member shall accept shares of an underlying stock, which may not be sold by the holder thereof except upon registration pursuant to the provisions of the Securities Act or pursuant to SEC rules promulgated under the Securities Act, unless, at the time such securities are accepted and at any later time such securities are delivered, applicable provisions of the Securities Act and the rules thereunder have been complied with by the holder of such securities.

(15) Statements of Account

(A) Statements of account showing security and money positions, entries, interest charges and any special charges that have been assessed against such account during the period covered by the statement shall be sent no less frequently than once every month to each customer in whose account there has been an entry during the preceding month with respect to an option contract and quarterly to all customers having an open option position or money balance. Interest charges and any special charges assessed during the period covered by the statement need not be specifically delineated if they are otherwise accounted for on the statement and have been itemized on transaction confirmations. With respect to options customers having a general (margin) account, such statements shall also provide the mark-to-market price and market value of each option position and other security position in the general (margin) account, the total market value of all positions in the account, the outstanding debit or credit balance in the account, and the general (margin) account equity. The statements shall bear a legend stating that further information with respect to commissions and other charges related to the execution of option transactions has been included in confirmations of such transactions previously furnished to the customer, and that such information will be made available to the customer promptly upon request. The statements shall also bear a legend requesting the customer promptly to advise the member of any material change in the customer's investment objectives or financial situation.

(B) For purposes of this subparagraph (15), general (margin) account equity shall be computed by subtracting the total of the "short" security values and any debit balance from the total of the "long" security values and any credit balance.

(16) Opening of Accounts

(A) Approval Required

No member or person associated with a member shall accept an order from a customer to purchase or write an option contract relating to an options class that is the subject of an options disclosure document, or approve the customer's account for the trading of such option, unless the broker or dealer furnishes or has furnished to the customer the appropriate options disclosure document(s) and the customer's account has been approved for options trading in accordance with the provisions of subparagraphs (B) through (D) hereof.

(B) Diligence in Opening Accounts

In approving a customer's account for options trading, a member or any person associated with a member shall exercise due diligence to ascertain the essential facts relative to the customer, his financial situation and investment objectives. Based upon such information, the branch office manager, a Registered Options Principal or a Limited Principal—General Securities Sales Supervisor shall specifically approve or disapprove in writing the customer's account for options trading; provided, that if the branch office manager is not a Registered Options Principal or a Limited Principal—General Securities Sales Supervisor, account approval or disapproval shall within ten (10) business days be submitted to and approved or disapproved by a Registered Options Principal or a Limited Principal—General Securities Sales Supervisor.

(i) With respect to options customers who are natural persons, members shall seek to obtain the following information at a minimum (information shall be obtained for all participants in a joint account):

- a. Investment objectives (e.g., safety of principal, income, growth, trading profits, speculation);
- b. Employment status (name of employer, self-employed or retired);
- c. Estimated annual income from all sources;
- d. Estimated net worth (exclusive of family residence);
- e. Estimated liquid net worth (cash, securities, other);
- f. Marital status; number of dependents;
- g. Age; and
- h. Investment experience and knowledge (e.g., number of years, size, frequency and type of transactions) for options, stocks and bonds, commodities, and other financial instruments.

(ii) In addition, a customer's account records shall contain the following information, if applicable:

- a. Source or sources of background and financial information (including estimates) concerning the customer;
- b. Discretionary authorization agreement on file, name, relationship to customer and experience of person holding trading authority;
- c. Date disclosure document(s) furnished to customer;
- d. Nature and types of transactions for which account is approved (e.g., buying covered writing, uncovered writing, spreading, discretionary transactions);
- e. Name of registered representative;
- f. Name of Registered Options Principal or Limited Principal—General Securities Sales Supervisor approving account; date of approval; and
- g. Dates of verification of currency of account information.

(iii) Members shall consider utilizing a standard account approval form so as to ensure the receipt of all the required information.

(iv) Refusal of a customer to provide any of the information called for in subparagraph (i) shall be so noted on the customer's records at the time the account is opened. Information provided shall be considered together with the other information available in determining whether and to what extent to approve the account for options trading.

(v) A record of the information obtained pursuant to this subparagraph and of the approval or disapproval of each such account shall be maintained by the member as part of its permanent records in accordance with paragraph (b)(17).

(C) Verification of Customer Background and Financial Information

The background and financial information upon which the account of every new options customer that is a natural person has been approved for options trading, unless the information is included in the customer's account agreement, shall be sent to the customer for verification within fifteen (15) days after the customer's account has been approved for options trading. A copy of the background and financial information on file with a member shall also be sent to the customer for verification within fifteen (15) days after the member becomes aware of any material change in the customer's financial situation.

Members shall satisfy the initial and subsequent verification of customer background and financial information by sending to the customer the information required in subparagraphs (B)(i)a. through f. hereof, as contained in the member's records and providing the customer with an opportunity to correct or complete the information. In all cases, absent advice from the customer to the contrary, the information will be deemed to be verified.

(D) Account Agreement

Within fifteen (15) days after a customer's account has been approved for options trading, a member shall obtain from the customer a written agreement that the customer is aware of and agrees to be bound by FINRA rules applicable to the trading of option contracts and, if he desires to engage in transactions in options issued by The Options Clearing Corporation, other than solely for OCC Cleared OTC Options, that the customer has received a copy of the current disclosure document(s) required to be furnished under this subparagraph (16) and that he is aware of and agrees to be bound by the rules of The Options Clearing Corporation. In addition, the customer shall indicate on such written agreement that he is aware of and agrees not to violate the position limits established pursuant to paragraph (b)(3) and the exercise limits established pursuant to paragraph (b)(4).

(E) Uncovered Short Option Contracts

Each member transacting business with the public in writing uncovered short option contracts shall develop, implement and maintain specific written procedures governing the conduct of such business which shall include, at least, the following:

- (i) Specific criteria and standards to be used in evaluating the suitability of a customer for writing uncovered short option transactions;
- (ii) Specific procedures for approval of accounts engaged in writing uncovered short option contracts, including written approval of such accounts by a Registered Options Principal;
- (iii) Designation of a specific Registered Options Principal(s) as responsible for approving customer accounts that do not meet the specific criteria and standards for writing uncovered short option transactions and for maintaining written records of the reasons for every account so approved;
- (iv) Establishment of specific minimum net equity requirements for initial approval and maintenance of customer accounts writing uncovered short option transactions; and
- (v) Requirements that customers approved for writing uncovered short options transactions be provided with a special written statement for uncovered option writers approved by FINRA that describes the risks inherent in writing uncovered short option transactions, at or prior to the initial writing of an uncovered short option transaction.

(17) Maintenance of Records

(A) In addition to the requirements of Rules [2268](#), [5340](#) and [Rule 4510](#) Series, every member shall maintain and keep current a separate central log, index or other file for all options-related complaints, through which these complaints can easily be identified and retrieved. The central file shall be located at the principal place of business of the member or such other principal office as shall be designated by the member. At a minimum, the central file shall include:

- (i) identification of complainant;
- (ii) date complaint was received;
- (iii) identification of registered representative servicing the account;
- (iv) a general description of the matter complained of; and
- (v) a record of what action, if any, has been taken by the member with respect to the complaint.

For purposes of this subparagraph, the term "options-related complaint" shall mean any written statement by a customer or person acting on behalf of a customer alleging a grievance arising out of or in connection with options. Each options-related complaint received by a branch office of a member shall be forwarded to the office in which the separate, central file is located not later than 30 days after receipt by the branch office that is the subject of the complaint. A copy of every options-related complaint shall also be maintained at the branch office that is the subject of the complaint.