

OPTIONS EXCHANGE

Market Information Circular

Circular number:	2009-07	Contact:	Jodi Burns, Director of Product Operations
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The purpose of this Market Information Circular is to provide information about the new Alternative PMM program.

Introduction

What is an Alternative Primary Market Maker?

An Alternative Primary Market Maker (PMM) is a Competitive Market Maker (CMM) that will serve as PMM in certain options products. The Alternative PMM has all of the responsibilities and privileges of a PMM under ISE Rules. Privileges include allocation rights including the 5-lot-and-under entitlement. Responsibilities include the obligation to provide continuous quotations in 100% of the series, conduct opening rotations, manage locked customer orders, and handle Linkage orders.

Why is Alternative PMM being created?

From time to time, ISE is unable to list new products, or continue trading listed products, due to lack of PMM interest. ISE believes that CMMs may have interest in becoming a PMM for these products. These firms have the opportunity to serve as Alternative PMMs, and will therefore reduce the number of products that go un-allocated or are delisted.

Eligibility

Are all ISE products eligible to be allocated to Alternative PMMs?

Alternative PMMs can be established in the First or Second Market and can trade equity, ETF, and index products, but not FX.

Can CMMs quote these products once they have been allocated to an Alternative PMM?

Yes, all CMM may quote in these products, but there is no obligation to do so. CMM quote obligations for an options class will be consistent with the options market (First or Second) to which the product is assigned.

Can an Electronic Access Member (EAM) acting as a market maker in the Second Market become an Alternative PMM?

No, only firms that own or lease CMM Rights can be appointed as Alternative PMM.

Product Allocation Process

How will products be allocated to Alternative PMMs?

Once a lack of interest from current PMMs has been established, products will be allocated under regular procedures by the ISE Allocation Committee. In addition, listed products that are offered for reallocation will first be offered to the PMMs, and if no takers, will next be offered to the Alternative PMMs.

What happens if an Alternative PMM wishes to stop quoting a product?

Products will stay with their appointed Alternative PMMs until they are delisted by the Exchange or the Alternative PMM asks for the product to be re-allocated. ISE will attempt to re-allocate the product to the PMMs and if no interest is generated, to Alternative PMMs. Ultimately if a product is not reallocated, it will be delisted.

Technical Details

How will products be assigned to Alternative PMMs in the ISE trading system?

ISE will create new bins in the First and Second options market for each Alternative PMM. Products will be assigned to these markets based on volume, and will be subject to quarterly market re-balances, like all other listed products.

What kind of system testing is required to be an Alternative PMM?

Member firms will need to complete conformance testing with ISE Technology Member Services to ensure they are technically able to handle all PMM responsibilities, including Linkage.

What is ISE's expectation with regards to Linkage, given that the Distributive Linkage initiative is not yet launched?

CMMs interested in becoming an Alternative PMM prior to the Distributive Linkage launch will have to conform to the current linkage plan. The Alternative PMM will also be required to complete conformance testing of the Distributive Linkage plan along with all other ISE PMMs. Alternatively, CMMs may choose to wait until after Distributive Linkage goes live to begin the conformance testing process.

Are there any additional trading licenses or fees associated with the Alternative PMM concept?

No. Regular transaction fees apply to Alternative PMMs in the classes to which they are appointed.

How will PFOF be handled for products assigned to an Alternative PMM?

PFOF generated from a Non-Preferred order will be assigned to the Alternative PMM pool. PFOF generated from a Preferred order will be assigned to the Preferred MM pool.

Contact Information

To learn more about becoming an Alternative PMM, please contact Jodi Burns, Director of Product Operations, at (646) 805-1823 or jburns@ise.com.

For details regarding product allocations and option markets rebalances, please contact Mike Fodor, Listed Products Manager, at 212-897-8136 or mfodor@ise.com.

For questions about PMM functional requirements or testing in ISE's API or FIX environments, please contact Technology Member Services at (212) 897-0244 or tms@ise.com.