

Regulatory Information Circular – 2000-4

To: ISE Members and Member Firms

Date: July 24, 2000

Re: Block Response Interpretation

Attention Members:

The Exchange offers a "Block Mechanism" for the trading of orders for 50 or more contracts. This mechanism allows the entering EAM to determine how much information about an order to display to the trading crowd. The EAM may choose not to disclose whether the order is a buy or sell, nor how many contracts are available. A broadcast is sent to the participants in the trading crowd, who have thirty seconds to respond with the prices and sizes at which they would be willing to trade with the order, based upon the information about the order that is disclosed. At the end of thirty seconds, if there is sufficient interest to execute the entire order at the limit price or better, the order will be automatically executed first against public customer orders, and then against professional orders and quotes pro-rata based upon the size of the order or quotes.

Because the EAM entering a block order may choose not to disclose the size of a block order, the Block Mechanism rule (ISE Rule 716(c)) does not contain a limitation on the size that may be contained in a response. However, when the size of the order is disclosed, it is inappropriate for a member to respond with a size greater to the size being displayed in an attempt to increase the percentage of its allocation. This type of "gaming" of the system serves no legitimate purpose, is inconsistent with fair and orderly markets, and will be a violation of ISE rules, including Rule 716 and Rule 400 governing just and equitable principles of trade. A member may not enter a response that is greater than the size of a block order if the size is disclosed, nor multiple responses at the same price that total more than the size of the block order if the size is disclosed.

If you have any questions regarding the forgoing, please contact me or Jim Sampson, Director of Regulation and Surveillance (212-897-0235).

Michael Simon
SVP and General Counsel
(212-897-0230)
