

## **Regulatory Information Circular – 2000-7**

**To:** ISE Market Makers

**Date:** August 16, 2000

**Re: “Trade or Fade” Policy**

ISE Rule 804(d)(2) provides that market makers must either trade with a non-customer order up to the displayed size of their quotes or “change their quotes to reflect that the previously displayed quote is no longer available.”

In the ISE’s electronic market, the trade-or-fade rule is accomplished as follows: A market maker presets parameters to indicate how much of the displayed size of a quote it would be willing to trade with non-customer orders. If there is insufficient non-customer size available to execute a non-customer order entirely at the displayed price, the quote is automatically moved down (for a bid) and up (for an offer).

Absent a change in the underlying security price, when a market maker’s quotation is automatically moved as a result of this process, it is inconsistent with the trade-or-fade rule for the market maker to immediately requote at the previous price. Such immediate re quoting does not comply with the requirement of the rule that the quote “reflect that the previously displayed quote is no longer available.” A market maker must wait a reasonable amount of time before re quoting. A reasonable time will depend on the specific options series involved and market conditions. However, absent unusual circumstances, a market maker should not requote at the same price within 15 seconds of being automatically moved as a result of the trade-or-fade process.

As noted, one exception to this policy would permit a re quoting at the same price to reflect a corresponding movement in the underlying security. In addition, the ISE’s market structure includes multiple market makers quoting independently and immediate display of limit orders. This could result in the ISE’s best bid or offer returning to the previous price independent from the “faded” market maker’s quote. In this instance, a “faded” market maker also may requote any time after the price has been re-established by another market participant.

For further information on the “trade-or-fade” rule, or if you have any questions, please contact Pat Gillespie at 212-897-0130, Associate Director, Trading Analysis, or Jim Sampson, Director Market Surveillance and Regulation at 212-897-0235.