Regulatory Information Circular – 2000-3

To: ISE Members and Member Firms

Date: July 24, 2000

Re: **Trade Report Procedures FARMM Orders**

Attention Primary Market Makers:

At the present, the PMM can not determine the depth of the market for FARMM orders because the full displayed size of CMM quotes may not be available. The displayed size indicates only the maximum number of contracts for which a CMM may be firm for FARMM orders. Thus, when a PMM releases a large-size FARMM order into the market, the order often receives a partial execution for far fewer contracts than the size of CMM quotes being displayed. Because most FARMM orders are IOC, the balance of the order is returned and the volume is not executed on the ISE.

A PMM can release the full size of a FARMM order to execute against the quotes and orders at the BBO or, if a PMM wants to provide added liquidity to FARMM orders, it can use the trade report function to execute the order. When using the trade report function to provide added liquidity to a FARMM order at the ISE BBO, the PMM needs to assure that the available trading interest at the ISE BBO is satisfied. Since the PMM can not determine how much size is available for FARMM orders with respect to CMM quotes at the ISE BBO, the following guidelines should be followed: When choosing to utilize a trade report to execute an order at the same price as the ISE BBO, the PMM should release a portion of the order that is at least (1) sufficient to execute all limit orders at the ISE BBO, <u>and</u> (2) sufficient to execute the displayed size of CMM quotes (up to an aggregate size of 150 contracts).   For example, if there only are two CMMs at the ISE BBO for a displayed total of 50 contracts, the PMM should release at least 50 contracts. If there is a limit order for 25 contracts on the book and two CMM quotes that total 200 contracts, the PMM should release at least 175 (25 plus 150).

As stated above, the purpose of the guidelines is to assure that trading interest at the ISE BBO available to execute against FARMM orders is given an opportunity to trade when a PMM uses a trade report to execute a FARMM order at the same price. If in the PMM's experience CMMs in an options class are firm for their entire displayed size, the PMM should release a sufficient number of contracts to execute the entire size of the displayed quotes, even when such quotes exceed 150 contracts in the aggregate.

If there are any questions regarding this procedure, please contact Jim Sampson (212-897-0235) or Tom Kennelly (212-897-0262).