

Market Information Circular			
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The purpose of this Market Information Circular (MIC) is to provide information about quarterly options, which will commence trading in July 10, 2006. These options will trade under a one year pilot. The symbols selected for this pilot are: QQQQ, SPY, DIA, XLE, and IWM.

What are Quarterly Options (“Quarterlies”)?

Quarterly options are options on index-based products (ETFs or indices) which expire on the last trading day of the calendar quarter. Quarterly options function much like their monthly counterparts, with a few exceptions:

- Quarterly options can expire on any weekday.
- All Quarterly Index Options will be PM-settled.
- For any given Quarterly Option, the expiration and last trading dates will always be the same day.

How many Quarterly Options classes will be offered?

The Quarterly Options Pilot Program allows ISE to offer Quarterly Options on five currently-listed options classes, as well as trade any Quarterly Options offered by other exchanges operating a similar pilot (assuming the standard option is listed on the ISE). The ISE will announce the five options classes selected for the Pilot Program prior to the July 2006 launch.

How many series per Quarterly Options class will be offered?

For each options class, the ISE will offer five expiration dates: four front calendar quarters and the fourth quarter from the following year. Initially, the ISE will offer Quarterly Options expiring on the last trading days in September and December 2006, plus March, June, and December 2007.

For each expiration date, the ISE will start with at least five Quarterly Options series, with at least two strike prices above and below the value of the underlying security at the time the Quarterly Option is created. Like standard options, new strikes will be added as the underlying security price changes. New strikes must be within \$5 of the prior day’s underlying closing price. Quarterly options will be subject to corporate actions affecting the underlying security.

What will Quarterly Options symbols and codes look like?

Each Quarterly options class will have unique OPRA symbols, distinct from those used for the standard monthly, LEAP or WRAP symbol. Each Quarterly Options class will require two unique OPRA symbols to differentiate the near December and far December series. Month and strike codes will follow the same standard format (e.g., a Quarterly Option 50 Call expiring in January will have a month/strike code of AJ).

How will Quarterly Options affect Market Maker Parameters?

Market Maker Parameter expiration groups, used by market makers to establish Tick Worse settings, will change as a result of Quarterly options. When setting Market Maker Parameters, members currently assign series to Expiration Groups by expiration month. For the five pilot symbols only, the Expiration Groups will not map directly to the expiration month, and instead will use each distinct expiration date.

As an example, the July options series are currently assigned to Expiration Group 1, while the August and September options are currently assigned to Expiration Group 2. After the change, in the beginning of September, the September standard options will be in group 1, while September quarterly and October standard options will be in expiration group 2. After the expiration of September standard options, September quarterly options will be in Group 1, while October and November options will be in Group 2.

The above change to the Parameters will affect only those market makers using different Tick Worse settings for each Expiration Group. Please contact Market Operations (877-473-9989) if your firm uses different Tick Worse settings in these 5 pilot symbols.

Where can I get more information about Quarterly Options?

The ISE has posted its SEC rule filing on Quarterly Options on its website (http://www.iseoptions.com/legal/proposed_rule_changes.asp). You may also contact Jodi Burns, Product Operations Director, at 646-805-1823 or jburns@iseoptions.com.