



Regulatory Information Circular			
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Subject: ISE Market Maker Continuous Quotation Obligations

Failure to maintain continuous quotations as required by Rule 804 for any reason other than legitimate temporary technical difficulties may result in disciplinary action against a member. Moreover, chronic or unusually frequent technical problems that are within the control of the member could result in disciplinary action against the member if the Exchange finds that the member has failed to implement, maintain or support adequate systems to fulfil its market making responsibilities.

➤ ***PMM Continuous Quotations Requirement***

Primary market makers are required to provide continuous two-sided markets in all of the open options classes in their assigned bin.

➤ ***CMM Continuous Quotation Requirement***

Competitive market makers are required under Rule 804 to provide continuous two-sided quotations in all of the series of at least 60% of the options open for trading in their assigned group or "bin." Where a member is a competitive market maker in more than one bin, it must make continuous quotations in at least 60% of the options classes in each bin. To satisfy this 60% requirement, competitive market makers must enter quotations prior to the opening so that they participate in the opening rotation.¹

¹ While competitive market makers are not obligated to provide continuous quotations in all of the open options in their assigned bins, once they enter a quote or order in a series of an assigned option, they must continuously quote all of the series of that option that are within the same expiration month for the remainder of that day. In addition to this quotation obligation, any time a competitive market maker enters a quote or order in a series of an assigned option during the series' expiration month, it must quote all of the series of that option within the same expiration month through expiration.

➤ ***Definition of “Continuous”***

The term “continuous” means that a market maker has a two-sided quote present in the system at all times.

➤ ***Legitimate Temporary Technical Difficulties***

Legitimate temporary technical difficulties include losing communication with the ISE, as well as ISE or member system problems that prevent the member from being able to maintain timely and accurate quotations on the Exchange.

➤ ***Unacceptable Interruptions in Quotations***

The following are NOT legitimate reasons to disrupt continuous quotations:

- ⇒ Unusual market conditions, rapid executions against a quote or any other events related to trading in the marketplace.
- ⇒ A “fast” market condition, whether caused by the absence of a PMM in an options class or by unusual market conditions.
- ⇒ Apparent or perceived system problems in the ISE market that do not affect the member’s ability to provide timely and accurate quotations. For example, a systems problem in one options class or bin does not justify a market maker’s failure to maintain continuous quotations in unaffected options classes or unaffected bins.
- ⇒ Any type of personnel issues, such as the absence of a particular Designated Trading Representative (“DTR”).

➤ ***Real-Time Notification Of Disruptions In Quotations***

In some cases, a legitimate technical difficulty will require the market maker to contact the ISE’s market control center to withdraw the market maker’s quotes from one or more options classes.

- If a market maker’s quotes are removed from the system in one or more options classes for any reason without the assistance of ISE personnel and not immediately restored, the market maker must contact the market control center to report that its quotes have been removed from the system.

➤ ***Record Keeping And Reporting Requirements For Disruptions in Quotations***

The burden is on the member to show that a disruption in its quotes was the result of legitimate temporary technical difficulties.

- Each market maker member must maintain a log of each time any quote that is required to be continuous under Rule 804 was removed from the system, including the options class or classes affected, the time the quotes were removed, the time they were restored, and the reason for the disruption in the member's continuous quoting. As part of its market surveillance program, the Exchange may request to review this log from time to time.
- In the event that a market maker fails to quote in one or more options classes as required by Rule 804 for a period exceeding two minutes due to legitimate temporary technical difficulties, the market maker must provide the Exchange with a report (with supporting documentation) showing that such disruption was legitimate. Such report must be provided to ISE Market Surveillance within five business days of the disruption.