

Regulatory Information Circular			
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Subject: Rule Change for Split Prices

The SEC has approved an ISE rule change (SR-ISE-2003-07) that makes several changes to the Block, Facilitation and Solicitation Mechanisms under Rule 716:

- Orders and responses may be entered into the Block, Facilitation and Solicitation Mechanisms and receive executions at the mid-price between the standard minimum trading increments for the options series (“Split Prices”). This means that orders and responses for options with a minimum increment of 5 cents may be entered into the Block, Facilitation and Solicitation Mechanisms and receive executions in 2.5 cent increments (e.g., \$1.025, \$1.05, \$1.075, etc.), and that orders and responses for options with a minimum increment of 10 cents may be entered into the Block, Facilitation and Solicitation Mechanism and receive executions at 5 cent increments (e.g., \$4.05, \$4.10, \$4.15, etc.). Orders and quotes in the market that receive the benefit of the block execution price under paragraph (c)(2)(i) and facilitation price under paragraph (d)(2)(i) may also receive executions at Split Prices.
- When orders are entered into the Block, Facilitation or Solicitation Mechanism, the broadcast message will now be sent to all members instead of being limited to the “trading crowd.” All members can respond to the broadcast message as principal or agent, but responses may not be entered for the account of an options market maker from another options exchange (so called FARMM orders).
- Orders of 50 to 499 contracts executed through the Block and Facilitation Mechanisms will not be executed at a price inferior to the national best bid or offer at the time of execution. Orders of 500 or more contracts executed through the Block, Facilitation and Solicited Order Mechanisms will continue to be executed without consideration of any prices that might be available on other exchanges trading the same options contract. However, with respect to such trades, members will continue to be subject to the provisions of the trade-through rule (Rule 1902) applicable to Block Trades.

- The rule no longer limits use of the Facilitation Mechanism to public customer orders. Members may now use the Facilitation Mechanism to facilitate orders for the account of their broker-dealer customers.

Please contact me with any questions.