

Market Operations Information Circular

Circular Number:	2004-13	Contact:	Jim Sampson, VP Market Supervision
Date:	April 28, 2004	Telephone:	212/897-0235

Subject: Real Size

The SEC recently approved an International Securities Exchange rule filing removing the requirement that the ISE best bid and offer always have a minimum displayed size of 10 contracts.

There were a number of requirements contained in the ISE rules and functionality to support the 10-up requirement that will no longer be applicable. Market Makers do not need to make parameter adjustments to accommodate these changes.

- While market maker quotes must continue to be entered initially with a minimum size of 10, there is no longer a requirement that the quote be stepped-up or faded if the size of the quote is reduced below 10 contracts causing the ISE BBO to be less than 10. Thus, market maker quotes will no longer be automatically faded in this circumstance. The quote will automatically be faded only when the size of the quotation is completely depleted. However, market makers can continue to indicate size in the step-up buffer, in which case their quotes will continue to be automatically refreshed to 10 contracts.
- The limitation on non-customer orders at the BBO for less than 10 contracts will no longer apply. Thus, the system will no longer reject such non-customer orders when they cause the ISE BBO to be less than 10 contracts.
- The need for the PMM to derive size when small Customer orders are at the ISE BBO has been removed.

Note that the rule change does not change ISE's linkage obligations, which includes providing a minimum of 10 contracts to incoming linkage orders. Thus, the PMM will continue to "derive" size for incoming linkage orders when the ISE BBO is less than 10 contracts.

The changes will be effective for trade date Friday, April 30, 2004.

Please call me with any questions.