

## Regulatory Information Circular – 2000-11

To: ISE Market Makers

Date: December 14, 2000

Re: Crossed or Inverted Markets - Bid/Ask Spread Relief

This circular describes specific Bids/Ask spread relief available to market makers during situations when a crossed or inverted market exists between the ISE and another market center.

### ➤ **Maximum Spread Parameters During Crossed Market Conditions**

ISE maximum spread parameters, which are contained in Rule 803, are identical to those of the other options exchanges. (See Regulatory Information Circulars 2000-1, 2000-7, and 2000-10 regarding spread requirements.) Generally, the maximum spread parameters continue to apply to market maker quotations during unusual market conditions and “fast markets” unless it is determined by an ISE official that it is appropriate to allow market maker spreads to exceed those limits on a case-by-case basis.

However, where a market maker’s quote crosses with that of another market center, the Exchange recognizes that there is an immediate arbitrage opportunity that may be detrimental to Exchange members. Accordingly, when a crossed market condition occurs, market makers are permitted to immediately move their bid or offer so that it is not crossed or locked with the other market center, even if the spread between its bid and offer would temporarily exceed the limits contained in Rule 803. While the quote spread may be wider than prescribed by Rule 803, market makers should move the crossed bid or offer only so far as necessary to avoid a locked or crossed situation. The market maker is expected to re-establish a quote within the legal spread requirement as described in Rule 803 as soon as it is possible to do so without locking or crossing another market.

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