



Regulatory Information Circular			
Circular number:	2004-01	Contact:	Jim Sampson, VP Market Supervision
Date:	January 14, 2004	Telephone:	212/897-0235

Subject: Disciplinary Actions

The purpose of this Regulatory Information Circular is to set forth final disciplinary actions that resulted in the imposition of penalties for violations of specified provisions of the federal securities laws and/or the Constitution and Rules of the Exchange during 2003.

A.) Disciplinary Sanctions Imposed Pursuant to ISE Rule 1614, Imposition of Fines for Minor Rule Violations:

- File No. 2003-0630-08. A member was fined \$11,500 for allowing its customers to enter multiple orders for less than ten contracts for a single trading interest. (ISE Rule 717(c)(1))
- File Nos. 2003-0331-03; 2003-0430-03; 2003-0531-03; 2003-0603-06; 2003-0731-03. A member was fined \$2,000 when it failed to expose customer orders it represented as agent for 30 seconds prior to entering offsetting and interacting orders. (ISE Rule 717(d))
- File No. 2003-1020-01. A member was fined \$2,000 when it failed to adhere to the maximum allowable option bid/ask requirement. (ISE Rule 803(b)(4))
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- File No. 2003-0131-04. A member was fined \$500 when it failed to expose customer orders it represented as agent for 30 seconds prior to entering offsetting and interacting orders. (ISE Rule 717(d))
- File No. 2002-1227-01. A member was fined \$200 when it failed to adhere to the maximum allowable option bid/ask requirements. (ISE Rule 803(b)(4))
- File No. 2002-1227-01. A member was fined \$400 when it failed to adhere to the maximum allowable option bid/ask requirements. (ISE Rule 803(b)(4))
- File No. 2002-1227-01. A member was fined \$800 when it failed to adhere to the maximum allowable option bid/ask requirements. (ISE Rule 803(b)(4))
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- File No. 2002-1227-01. A member was fined \$800 when it failed to adhere to the maximum allowable option bid/ask requirements. (ISE Rule 803(b)(4))
- File Nos. 2002-1130-03/2002-1231-10. A member was fined \$2,000 when it failed to expose customer orders it represented as agent for 30 seconds prior to entering offsetting and interacting orders. (ISE Rule 717(d))
- File No. 2002-0226-35. A member was fined \$5,000 when it established an option position in excess of the contract limit. (ISE Rule 412)

B.) Disciplinary Sanctions Imposed Pursuant to ISE Rule 1603, Letter of Consent:

File No. 2002-0415-60 (Offer of Settlement)

Bear Stearns & Co. Inc. was fined \$8,000 and censured for the following conduct: During the period of April 2, 2002 through April 12, 2002, Bear Stearns responded to twenty-two block/facilitation requests with size in excess of the displayed size of the incoming order. In particular, on twenty occasions, Bear Stearns entered multiple responses that were, in aggregate, larger than the incoming order. On two occasions, Bear Stearns entered multiple responses, of which one or more were larger than the incoming order. Bear Stearns activities increased its allocation with respect to block/facilitation orders, thereby disenfranchising other crowd participants by decreasing their allocation in those same trades. (ISE Rules 400 and 716, as interpreted through Regulatory Information Circular 2000-4)

File No. 2002-0419-91(Offer of Settlement)

Bear Stearns & Co, Inc. was fined \$20,000, censured, and made a payment of \$132,702 in disgorgement for the following conduct: On April 19, 2002 (an Expiration Friday), Bear Stearns caused to be exercised 1,301 April 5 WorldCom Group ("WCOM") puts via the entry of a Contrary Exercise Advise ("CEA"). The April 5 WCOM puts were noncash-settled equity option contracts that would otherwise not have been exercised under Options Clearing Corporation Exercise-by-Exception procedures. Bear Stearns failed to deliver the CEA in a form or manner prescribed by the ISE by no later than 5:30 Eastern Time on April 19, 2002 as is required for all such CEAs. As a result of this conduct, Bear Stearns realized improper gains. (ISE Rule 1100(g)(1))

File Nos. 2002-1107-02 and 2003-0331-08 (Offer of Settlement)

Bear Stearns & Co. Inc. was fined \$40,000 and censured for the following conduct: On three separate occasions in November 2002 and March 2003, prior to the execution of a trade, Bear Stearns order desk, functioning as an Electronic Access Member, communicated market information regarding an incoming order to Bear Stearns market making desk, functioning as a Competitive Market Maker. Thereafter, in each instance, the Competitive Market Maker adjusted the size of its quotation and subsequently interacted with the incoming order. Additionally, Bear Stearns failed to supervise its associated persons to assure compliance with applicable ISE rules regarding the maintenance of a Chinese Wall between Bear Stearns market making activities and its other business activities. The fine was composed of \$35,000 for violation of breaches of a Chinese Wall and \$5,000 for supervision. (ISE Rules 401 and 810)