



<b>Regulatory Information Circular</b>			
<b>Circular number:</b>	2005-01	<b>Contact:</b>	Michael J. Simon Chief Regulatory Officer
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## **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 2004.

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

- File No. 2004-0916-01. A member was fined \$1,245 when it established an option position in excess of the contract limit. (ISE Rule 412)
- File No. 2004-0831-01. A member was fined \$5,000 when it established an option position in excess of the contract limit. (ISE Rule 412)
- File Nos. 2004-0630-04; 2004-0531-04. A member was fined \$3,000 when it failed to expose customer orders it represented as agent for 30 seconds prior to entering offsetting and interacting firm proprietary orders. (ISE Rule 717(d))
- File No. 2004-0504-01. A member was fined \$557 when it established an option position in excess of the contract limit. (ISE Rule 412)
- File No. 2004-0430-04. A member was fined \$1,000 when it failed to expose customer orders it represented as agent for 30 seconds prior to entering offsetting and interacting broker dealer orders. (ISE Rule 717(e))
- File No. 2004-0429-02. A member was fined \$5,000 when it established an option position in excess of the contract limit. (ISE Rule 412)
- File No. 2004-0331-04. 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 firm proprietary orders. (ISE Rule 717(d))
- File No. 2004-0319-01. A member was fined \$1,962 when it established an option position in excess of the contract limit. (ISE Rule 412)
- File No. 2003-1231-04. A member was fined \$1,000 when it failed to expose customer orders it represented as agent for 30 seconds prior to entering offsetting and interacting firm proprietary orders. (ISE Rule 717(d))

- File No. 2003-1231-04. 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 firm proprietary orders. (ISE Rule 717(d))
- File No. 2003-1231-04. A member was fined \$1,000 when it failed to expose customer orders it represented as agent for 30 seconds prior to entering offsetting and interacting broker dealer orders. (ISE Rule 717(e))
- File No. 2003-1231-04. 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 firm proprietary orders. (ISE Rule 717(d))
- File No. 2003-1231-04. 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 broker dealer orders. (ISE Rule 717(e))
- File No. 2003-1130-04. 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 broker dealer orders. (ISE Rule 717(e))
- File No. 2003-1130-04. 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 firm proprietary orders. (ISE Rule 717(d))
- File No. 2003-1130-04. A member was fined \$1,000 when it failed to expose customer orders it represented as agent for 30 seconds prior to entering offsetting and interacting broker dealer orders. (ISE Rule 717(e))
- File No. 2003-1130-04. 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 broker dealer orders. (ISE Rule 717(e))
- File No. 2003-1130-04. A member was fined \$4,000 when it failed to expose customer orders it represented as agent for 30 seconds prior to entering offsetting and interacting firm proprietary orders. (ISE Rule 717(d))
- File No. 2003-1031-03. 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 firm proprietary orders. (ISE Rule 717(d))
- File No. 2003-1031-03. 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 firm proprietary orders and broker dealer orders. (ISE Rule 717(d), 717(e))
- File No. 2003-1031-03. A member was fined \$1,000 when it failed to expose customer orders it represented as agent for 30 seconds prior to entering offsetting and interacting firm proprietary orders. (ISE Rule 717(d))
- File No. 2003-1031-03. A member was fined \$1,500 when it failed to expose customer orders it represented as agent for 30 seconds prior to entering offsetting and interacting broker dealer orders. (ISE Rule 717(e))
- File No. 2003-0514-01. A member was fined \$360 when it established an option position in excess of the contract limit. (ISE Rule 412)

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

File No. 2002-1018-02 (Letter of Acceptance, Waiver, and Consent)

SLK-Hull Derivatives LLC (“SLK-Hull”) was censured and fined \$5,000 for the following conduct: During the time period between September 30, 2002 and October 17, 2002, SLK-Hull traded against the entire size of six locked orders at a price equal to the ISE best bid or offer when one or more Competitive Market Makers were quoting at that price and SLK-Hull was not. (ISE Rules 713(b), 803(a), RIC 2000-3) SLK-Hull traded against the entire size of five locked orders at a price equal to the ISE best bid or offer when SLK-Hull and one or more Competitive Market Makers were quoting at that price. (ISE Rules 713(e), 803(a), RIC 2000-3)

File Nos. 2002-1130-03; 2002-1231-10; 2003-0131-04; 2003-0228-01; 2003-0430-03 (Letter of Acceptance, Waiver, and Consent)

Goldman, Sachs & Co. (“Goldman”) was censured and fined \$15,000 for the following conduct: On 21 occasions during the fourth quarter 2002, and on 23 occasions during the first and second quarter of 2003, Goldman failed to expose customer orders it represented as agent for 30 seconds prior to entering offsetting and interacting firm proprietary orders. (ISE Rule 717(d)) Goldman failed to maintain satisfactory written procedures to assure compliance with proper facilitation of customer orders. (ISE Rule 401) The fine was composed of \$10,000 for violations of 717(d) and \$5,000 for the written supervisory procedures violation.

File Nos. 2002-1219-06; 2003-0131-03; 2003-0228-94 2003-0331-13; 2003-0331-13; 2003-0530-03; 2003-0630-06; 2003-0731-06; 2003-0829-04; 2003-0930-16; 2003-1031-08; 2003-1130-23 (Letter of Acceptance, Waiver, and Consent)

Knight Financial Products LLC (“Knight”) was censured and fined \$60,000 for the following conduct: During the time period of December 11, 2002 through November 30, 2003, and in connection with 354 trades during this period, on 39 occasions, Knight traded ahead of Public Customer Orders and failed to give priority to Public Customer Orders. (ISE Rules 400, 713(c), 803(a)) On 288 occasions, Knight failed to give the highest bid or lowest offer priority on the Exchange. (ISE Rules 713(b), 803(a)) On 47 occasions, when two or more Non-Customer Orders or market maker quotes were at the Exchange’s best bid or offer, Knight failed to allocate executions at that price between the Non-Customer Orders and market maker quotes. (ISE Rules 713(e), 803(a)) On 64 occasions Knight failed to provide orders with executions up to the firm Non-Customer quote size at the ISE’s best bid or offer. (ISE Rules 803(a), 804(d)) On 37 occasions, Knight failed to execute orders presented to it at a price at least as favorable as Knight’s published bid or offer in an amount up to its published quotation size. (ISE Rules 803(a), 804(d), SEC Rule 11Ac1-1)

File No. 2002-1231-11 (Letter of Acceptance, Waiver, and Consent)

Chicago Trading Company L.L.C. (“CTC”) was fined \$2,500 and made a restitution payment of unpaid execution fees due the Exchange in the amount of \$5,539.05 for the following conduct: From July 1, 2002 through September 23, 2003, CTC entered 155 non-customer orders that were incorrectly marked as customer orders. (ISE Rule 712)

File No. 2002-1231-11 (Letter of Acceptance, Waiver, and Consent)

Parallax Fund, L.P. (“Parallax”) was fined \$2,500 and made a restitution payment of unpaid execution fees due the Exchange in the amount of \$4,239.40 for the following conduct: From July 1, 2002 through September 23, 2003, Parallax entered 174 non-customer orders that were incorrectly marked as customer orders. (ISE Rule 712)

File No. 2002-1231-11 (Letter of Acceptance, Waiver, and Consent)

Peak6 Capital Management, LLC (“Peak6”) was fined \$1,000 and made a restitution payment of unpaid execution fees due the Exchange in the amount of \$470.54 for the following conduct: From July 1, 2002 through December 31, 2002, Peak6 entered 174 non-customer orders that were incorrectly marked as customer orders. (ISE Rule 712)

File Nos. 2003-0731-04; 2003-0830-05; 2003-0930-05; 2003-1031-07; 2003-1130-03 (Letter of Acceptance, Waiver, and Consent)

Terra Nova Trading, LLC (“Terra Nova”) was censured, fined \$30,000, and made a restitution payment of \$31,815 for the following conduct: On 383 occasions during the period July 1, 2003 through November 30, 2003, Terra Nova entered into the ISE system, as agent on behalf of a customer, multiple orders for a single trading interest when one or more of the orders was for fewer than ten contracts. (ISE Rule 717(c)) Terra Nova failed to maintain adequate written supervisory procedures to assure compliance with rules regarding limitations on orders. (ISE Rule 401) The fine was composed of \$25,000 for the order entry violations and a \$5,000 fine for the supervision violation.

File Nos. 2003-1231-26; 2004-0331-26 (Letter of Acceptance, Waiver, and Consent)

Knight Financial Products LLC (“Knight”) was censured and fined \$25,000 for the following conduct: On 36 occasions during the fourth quarter 2003, and on 83 occasions during the first quarter 2004, Knight sent Principal Orders through the Linkage while ISE was disseminating Non-Firm quotations. (ISE Rule 1901(b)(1))

File No. 2004-0510-01 (Letter of Acceptance, Waiver, and Consent)

UBS Securities LLC (“UBS”) was fined \$2,500 for the following conduct: During August 22, 2003 through May 10, 2004, UBS failed to submit Net Liquidating Equity reports on a daily basis to the Exchange. (ISE Rule 809; RIC 2001-12)

**C.) Disciplinary Sanctions Imposed Pursuant to ISE Rule 1609, Offers of Settlement:**

Disciplinary Proceeding No. ISE03-0001 (Offer of Settlement)

Bear Wagner Specialists LLC (“Bear Wagner”) was fined \$20,000 and censured for the following conduct: On 97 occasions, Bear Wagner, acting as a Competitive Market Maker, failed to maintain continuous quotations in expiring-month options. (ISE Rule 804(e)(2)(ii)) On 20 occasions, Bear Wagner, acting as a Primary Market Maker, failed to open equity options promptly following the opening of the underlying security. (ISE Rule 701(b)(2)) On 43 occasions, Bear Wagner, acting as a Primary Market Maker, violated SEC and ISE rules in connection with the handling of locked orders. (ISE Rules 713(b); 713(e); 803(a), as interpreted through RIC 2000-03; and 804(d), as interpreted through RIC 2001-10; and SEC Rule 11Ac1-1) The fine was composed of \$3,000 for failure to maintain continuous quotations, \$2,000 for untimely opening of options, and \$15,000 for the handling of locked orders.