Market Information Circular

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The purpose of this Market Information Circular (MIC) is to introduce the trading community to a new order type, the PIM Order (Price Improvement Mechanism).

This order may be entered by any EAM wishing to guarantee price improvement to its customer. Other members may participate in the 3-second auction at the PIM price or further improve the price.

This order will be activated on January 10, 2005.

Price Improvement Mechanism

The EAM enters a customer order together with the contra-side improvement order (known as the Primary Improvement Order) in a single transaction. The contra-side order may represent any order category (Customer, Firm, FarMM, ISE MM or B/D) and must be for the full volume of the order. The price may be expressed in pennies and must be at least one cent better than the prevailing NBBO.

When a PIM order is entered, the system initiates a broadcast informing all market participants of the order details. Any participant wishing to join or improve upon the auction may submit a response in penny increments. A reply from any member other than the contra-side (Improvement Order) may be for less than the entire quantity.

Each time the quantity of a response is increased or the price is improved, another broadcast is sent. A member may update its initial response by sending in an improved response; subsequent responses will automatically replace the previous one.

The PIM order may trade at multiple prices but it will always trade the total size. At the end of the three-second auction, the PIM order will trade first with price-improved orders and responses. Customer orders and responses will be filled at each price level ahead of non-customer responses. Next, the Primary Improvement Order is allocated 40% of the original order quantity. Non-customer orders and responses will then trade pro-rata. Last, as the contra-side order is always for the full quantity, any remaining quantity will be allocated to the Primary Improvement Order.

A PIM may be terminated early due to the arrival of an unrelated marketable order. In this case, the PIM transaction will be completed before the unrelated order is addressed. An unrelated order on the same side as the PIM may benefit from the price improvement provided to the PIM order as it will trade with any unexecuted PIM responses before those responses are deleted.

A PIM order cannot be altered or cancelled.

Comments and Questions

Please address any questions and comments you have regarding PIM order functionality to Market Operations at (877) 473-9989.