

Regulatory Information Circular			
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Subject: ISE Rule Change – Information Barriers

The International Securities Exchange has received SEC approval of a change to Rule 810 (Exchange Act Release No. 34-50433 (September 23, 2004) (SR-ISE-2004-18)).

Rule 810 requires ISE market makers to physically locate their market making personnel separately from personnel conducting "Other Business Activities," as defined in the rule. Among other things, the same person at a firm may not engage in ISE market making activities while also "functioning as an Electronic Access Member."

- The rule change deletes the term "functioning as an Electronic Access Member," and instead specifies in this regard that Other Business Activities include: (i) handling listed options orders as agent on behalf of Public Customers or other broker-dealers, and (ii) conducting non-market making proprietary listed options trading activities. This change is consistent with the interpretation of "functioning as an Electronic Access Member" that has been applied by the Exchange since adoption of Rule 810.

The exemption to the Information Barrier requirement has been amended and expanded.

- A market maker may handle orders as agent if: (1) the market maker does so only for the account of affiliated entities and solely in options classes contained in bins (or "Groups") to which the firm is not appointed as a market maker or in which the firm is prohibited from acting as a market maker pursuant to regulatory requirements; or (2) the market maker handles orders as agent pursuant to an exchange- sponsored Directed Order Program.¹

¹ Allowable Directed Order Programs are narrowly defined rules of an options exchange that (1) permit an options market maker to handle orders directed to it anonymously through an exchange system; (2) require the market maker to accept directed orders from all sources eligible to direct orders using such exchange system; and (3) require the options market maker to execute such directed orders on such exchange under specified order handling procedures. A Directed Order Program specifically does not include any rules of an exchange that permit a market maker to accept orders directly, without being routed through an exchange system, from customers or another broker-dealer, nor any rules or system that allows a market maker to handle orders on a disclosed or discretionary basis. Currently, the Boston Options Exchange operates the only program that would qualify as an exchange-sponsored Directed Order Program under this rule.

- A market maker may enter proprietary orders to the extent that the market maker, or affiliated broker-dealer: (1) engages solely in proprietary trading and does not, under any circumstances, maintain customer accounts or solicit orders or funds from or on behalf of Public Customers, including broker-dealers and other securities firms; and (2) does not participate in any Directed Order Programs, or utilize any other order types which call for the participation of, or interaction with, Public Customers, including broker-dealers and other securities firms.