

## Regulatory Information Circular – 2000-10

To: ISE Market Makers

Date: September 29, 2000

Re: Market Maker Quotation Requirements

This circular provides a review of market maker quotation requirements, and directs market makers to notify the Exchange when their quotations are disrupted and to maintain a record of each time there is a disruption. Members are reminded that violation of the ISE's quotation requirements may result in disciplinary action.

### ➤ ***Continuous Quotations Requirements***

Competitive market makers are required under Rule 804 to provide continuous two-sided quotations in all of the series of at least 60% of the options open for trading in their assigned group or "bin."<sup>1</sup> Where a member is a competitive market maker in more than one bin, it must make continuous quotations in at least 60% of the options classes in each bin. To satisfy this 60% requirement, competitive market makers must enter quotations prior to the opening so that they participate in the opening rotation. Primary market makers are required to provide continuous two-sided markets in all of the open options classes in their assigned bin.

While competitive market makers are not obligated to provide continuous quotations in all of the open options in their assigned bins, once they enter a quote or order in a series of an assigned option, they must continuously quote all of the series of that option that are within the same expiration month for the remainder of that day. In addition to this quotation obligation, any time a competitive market maker enters a quote or order in a series of an assigned option during the series expiration month, it must quote all of the series of that option within the same expiration month through expiration.

The term "continuous" means that, absent legitimate, temporary technical difficulties, a market maker should have a quote present in the system at all times. Temporary technical difficulties would include losing communication with

---

<sup>1</sup> The 60% requirement applies to competitive market makers when they initiated trading in an assigned Bin. As part of its initial roll-out process, the Exchange has granted some competitive market makers temporary exemptions from the 60% rule (1) to permit them to initiate trading on the Exchange in a limited number of options classes, and (2) to limit the number of options classes competitive market makers that have initiated trading in multiple Bins must quote on a continuous basis. Upon the expiration of any such temporary exemption, the competitive market maker must provide continuous quotations in at least 60% of the options open in an assigned bin.

the ISE, software problems and the like. Unusual market conditions, rapid executions against a quote or any other events related to trading in the marketplace are NOT legitimate reasons to disrupt continuous quotations. In addition, note that quotation requirements apply to the market maker member firm, and not to any particular Designated Trading Representative (“DTR”). Legitimate, temporary technical difficulties do not include any type of personnel issues, such as the absence of a particular DTR.

Failure to maintain continuous quotations as required by Rule 804 for any reason other than legitimate, temporary technical difficulties may result in disciplinary action against a member. Moreover, chronic or unusually frequent technical problems that are within the control of the member could result in disciplinary action against a member if the Exchange finds that the member has failed to implement, maintain or support adequate systems to fulfil its market making responsibilities.

➤ ***Reporting and Recording Disruptions In Continuous Quotations***

In some cases, a legitimate technical difficulty will require the market maker to contact the ISE’s market control center to withdraw the market maker’s quotes. If a market maker’s quotes are removed from the system for any reason without the assistance of ISE personnel and not immediately restored, the market maker should contact the market control center to report that its quotes have been removed from the system. The purpose of this requirement is to assure that ISE market control personnel are aware that there is a problem so they can take action if necessary to assure that fair and orderly markets are maintained. Where quotes are absent for only a brief period (i.e., a few seconds), a member need not report in retrospect that a quotation was removed and restored, but all such occurrences should be recorded in a log, as described below.

ISE personnel in the market control center will remove market maker quotations from the system as instructed by the market maker, but this does not indicate whether removal of the quotes was appropriate under Rule 804. It is the responsibility of the market maker member to keep a log of each time any quote that is required to be continuous under Rule 804 was removed from the system, the time it was restored, and the reason for the disruption in the member’s continuous quoting. As part of its market surveillance program, the Exchange may request to review this log from time to time.

➤ ***Maximum Spread Parameters***

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 and 2000-7 regarding spread requirements.)

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. If such a determination is made, the ISE will inform all market makers

quoting in that option. A market maker will be in violation of ISE Rule 803 if it exceeds the quotation limits without first obtaining authorization from an ISE official.

Notwithstanding the foregoing, a market maker has a reasonable time, generally not to exceed 5 seconds, in which to re-quote following an execution against its quote that automatically moves its bid or ask price such that the bid/ask spread exceeds the limitations contained in Rule 803.

For further information, please contact Pat Gillespie at 212-897-0130, Associate Director, Trading Analysis, or Jim Sampson, Director Market Surveillance and Regulation at 212-897-0235.