

## **Regulatory Information Circular – 2001-10**

**To:** ISE Members and Member Firms

**Date:** June 2, 2001

**Re: Handling of FARMM Orders in the Context of Firm Quote Rule**

This circular is being issued to remind ISE Primary Market Makers of their obligations under the Firm Quote Rule when dealing with FARMM orders (please note that this RIC supercedes RIC 2000-02).

FARMM orders are not automatically executed when presented for execution to the Exchange. Previously, the ISE established a policy requiring a PMM to trade with or release FARMM orders within 60 seconds of being presented for execution, barring unusual market conditions. However, the SEC recently amended its Firm Quote Rule (Rule 11Ac1-1 under the Securities Exchange Act) so that it now applies to the options markets. The SEC also has approved amendments to the ISE's market maker quote rule (Rule 804) that implement the SEC's rule. Together, these rules have effectively changed the quotation responsibilities and requirements placed upon options market makers.

With the application of the SEC and ISE quotation rules, when FARMM orders are presented to the PMM for handling, the PMM must trade with or release the order within 30 seconds. Additionally, the Firm Quote Rule requires that marketable FARMM orders receive a minimum of one contract at the disseminated bid or offer at the time the order enters into the system. Failing to interact with a FARMM order in this manner may be a violation of ISE Rules and subject the member to disciplinary proceedings.

For additional information on these revised quotation obligations, see RIC 2001-06. Questions regarding this circular may be directed to Jim Sampson, Director of Market Surveillance and Regulation, at 212/897-0235.