

## Regulatory Information Circular – 2002-10

**To:** ISE Primary Market Makers

**Date:** July 8, 2002

**Re: Handling of Large Market Orders**

This circular is being issued to ISE Primary Market Makers (“PMM”) in order to highlight their obligations in the handling of large market orders and limit orders.

- **System Functionality.** When received, market orders and limit orders will automatically trade against quotes and orders in the system to the extent possible without trading through another options exchange. At the point where a trade at the next price level would cause a trade through, the order will lock for handling by the PMM. If an order is released by the PMM while a better price remains on another exchange, the order will trade at only one price level and, if not fully executed, the balance will lock again. Please note that as part of the Gemini change, once a customer order is locked, only the PMM’s action can cause the order’s release.
- **PMM Order Handling Obligations.** When a large market order or marketable limit order is locked, the PMM is obligated to handle the order appropriately given current market conditions. Because it would be unusual for an EAM or its customer to enter a market order of very large size in comparison to the size available at the ISE BBO, or a large limit order that crossed the market by more than a few price intervals, the PMM should consider whether it is likely that the order was entered in error before releasing the order into the market for execution. In any case where the size or price of the order suggests to the PMM that the order was entered in error, the PMM should contact ISE Market Control before releasing the order. Without limiting the forgoing, any market order for more than 3,000 contracts, or limit order for more than 3,000 contracts at a price that crosses the market by more than \$1, should be presumed a potential error. Once the PMM alerts Market Control to a potential erroneous order, Market Control will contact the entering EAM to confirm the order.

Failure to follow the guidelines outlined above may be considered inconsistent with the PMM’s obligation to maintain a fair and orderly market, as well as a violation of ISE Rule 400, Just and Equitable Principals of Trade.

Questions regarding this circular may be directed to Jim Sampson, Vice President of Market Supervision, at 212/897-0235.