Regulatory Information Circular			
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Subject: Preferencing Rule Change

The SEC has approved the ISE pilot rule change (SR-ISE-2005-18) that allows Electronic Access Members to designate a "Preferred Market Maker" on their orders. A Preferred Market Makers will receive an enhanced trade allocation if it is quoting at the national best bid or offer ("NBBO") at the time the order is entered.

- The allocation procedure is modified so that the Preferred Market Maker will receive an enhanced allocation instead of the Primary Market Maker equal to the greater of: (i) the proportion of the total size at the best price represented by the size of its quote; or (ii) sixty percent of the contracts to be allocated if there is only one other Non-Customer Order or market maker quotation at the best price and forty percent if there are two or more other Non-Customer Orders and/or market maker quotes at the best price. Unexecuted contracts remaining after the Preferred Market Maker's allocation are allocated pro-rata based on size.

- If the Preferred Market Maker is also the Primary Market Maker, the enhanced allocation for Preferred Market Makers will apply.

- Electronic Access Members may not coordinate the entry of orders with Preferred Market Makers. Such conduct would be a violation of Rule 400.

As part of this rule change, competitive market maker quotation obligations under Rule 804 have been amended.

- A cap on the number of options classes a competitive market maker must quote has been added. The rule requires that market makers participate in the opening and make markets through the close that day in all of the series of at least 60% of the options classes in their assigned group (or "bin") or 60 options classes, whichever is lesser.

- The requirement that competitive market maker must quote certain series through the end of expiration has been eliminated. Under the revised rule, if a market maker enters a quote in any options classes, it must thereafter make continuous markets in all of the series of that class, but only through the close that day.

Please contact me with any questions.