

<b>Regulatory Information Circular</b>			
<b>Circular number:</b>	2007-01	<b>Contact:</b>	Michael J. Simon Chief Regulatory Officer
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## **Subject: Disciplinary Actions**

The purpose of this Regulatory Information Circular is to set forth final disciplinary actions that resulted in the imposition of penalties for violations of specified provisions of the federal securities laws and/or the Constitution and Rules of the Exchange during 2006.

### **A.) Disciplinary Sanctions Imposed Pursuant to ISE Rule 1614, Imposition of Fines for Minor Rule Violations:**

- File No. 2005-187. A member was fined \$500 when it failed to expose customer orders it represented as agent for 30 seconds prior to entering offsetting and interacting firm proprietary orders. (ISE Rule 717(d))
- File No. 2005-187. Two members were fined \$3,500 when they failed to expose customer orders they represented as agent for 30 seconds prior to entering offsetting and interacting firm proprietary orders. (ISE Rule 717(d))
- File No. 2006-097. A member was fined \$500 when it failed to expose customer orders it represented as agent for 30 seconds prior to entering offsetting and interacting firm proprietary orders. (ISE Rule 717(d))
- File No. 2006-097. A member was fined \$1,000 when it failed to expose customer orders it represented as agent for 30 seconds prior to entering offsetting and interacting firm proprietary orders. (ISE Rule 717(d))
- File No. 2005-165. A member was fined \$2,000 when it failed to expose customer orders it represented as agent for 30 seconds prior to entering offsetting and interacting broker dealer orders. (ISE Rule 717(e))
- File No. 2005-165. A member was fined \$5,000 when it failed to expose customer orders it represented as agent for 30 seconds prior to entering offsetting and interacting broker dealer orders. (ISE Rule 717(e))
- File No. 2005-187. A member was fined \$1,000 when it failed to expose customer orders it represented as agent for 30 seconds prior to entering offsetting and interacting broker dealer orders. (ISE Rule 717(e))
- File No. 2005-201. A member was fined \$1,000 when it failed to expose customer orders it represented as agent for 30 seconds prior to entering offsetting and interacting broker dealer orders. (ISE Rule 717(e))
- File No. 2005-201. A member was fined \$4,000 when it failed to expose customer orders it represented as agent for 30 seconds prior to entering offsetting and interacting broker dealer orders. (ISE Rule 717(e))

- File No. 2006-054. A member was fined \$4,000 when it failed to expose customer orders it represented as agent for 30 seconds prior to entering offsetting and interacting broker dealer orders. (ISE Rule 717(e))

**B.) Disciplinary Sanctions Imposed Pursuant to ISE Rule 1603, Letters of Consent:**

File Nos. 2003-0331-13; 2003-0530-03; 2003-0630-06; 2003-0829-04; 2004-0131-33; 2004-0229-33; 2004-0331-33; 2004-0430-33; 2003-1121-22; 2003-1219-22; 2004-0116-22; 2004-0220-22; 2004-0319-22; 2004-0416-22; 2004-0521-22; 2004-0618-22; 2004-0716-22; 2005-06; 2005-136; 2005-174; 2006-32; 2004-0331-26; 2004-0630-26; 2004-0930-26; 2004-39; 2004-0331-27; 2004-0630-27; 2004-0930-27; 2004-40; 2005-57; 2005-109; 2005-158; 2004-0430-23; 2004-0531-23; 2004-0630-23; 2004-0731-21; 2004-0731-23; 2004-0831-21; 2004-0831-23; 2004-0930-21; 2004-0930-23; 2004-59; 2004-61; 2004-63; 2005-8; 2005-135; 2005-173; 2006-30

Bear Wagner Specialists, LLC (“Bear Wagner”) was fined \$125,000 for the following conduct:

Bear Wagner, as Primary Market Maker, failed to give priority to the highest bid and lowest offer, gave public customer orders a price inferior to the best price offered on the Exchange, failed to trade or release public customer orders within the prescribed time period which resulted in either no execution or an execution at a price inferior to the best bid or offer at the Exchange, failed to execute trades at a price at least as favorable as its own published quote, failed either to execute Public Customer Orders at a price that matched the National Best Bid or Offer or to send a Linkage Order to the other exchange(s) displaying the better price, and traded ahead of public customer orders. (ISE Rules 400; 713(b); 713(c); 713(e); 803(a); 803(c)(2); 804(d); SEC Rule 11Ac1-1)

Bear Wagner failed to preserve for a period of not less than three years the memorandum of each purchase or sale for Bear Wagner’s account. Wagner failed to establish an adequate system to supervise persons associated with the firm to achieve compliance with Exchange Rules and the federal securities laws. Wagner failed to maintain documentation to identify the traders who executed transactions as a PMM on the Exchange and failed to document its supervisory activities relating to the firm’s market making desk. (ISE Rules 401; 1400(a); SEC Rule 17a-4)

Bear Wagner, as Competitive Market Maker (“CMM”), failed to maintain continuous quotes in 60 percent of its appointed options classes, failed to participate on the opening rotation within 60 percent of its appointed options classes, failed to maintain a continuous quote in the expiring series of an option class during the month the series expired, and failed to maintain a continuous quote for all series within the same expiration month until the close of trading that day after having entered a quote in an options class to which it was appointed. (ISE Rule 804(e)(2))

Bear Wagner, as CMM, sent principal orders through the Linkage when the Exchange had declared a fast market. (ISE Rule 1901(b)(1))

Bear Wagner, as CMM, sent principal orders through the Linkage when it was not permitted to do so due to volume percentage restrictions. (ISE Rule 1904)

Bear Wagner, as CMM, submitted quotations that exceeded the spread quote differential both prior to and after the opening rotation. (ISE Rule 803(b)(4))

File No. 2003-0331-30; 2004-0430-30; 2004-0531-30; 2004-0630-30; 2004-0731-30; 2004-0830-30

Citadel Derivatives Group LLC was fined \$10,000 for, as Competitive Market Maker, effecting transactions for its principal orders in options series at prices that were inferior to the National Best Bid or Offer. (ISE Rule 1902)

File Nos. 2003-0930-15; 2004-0531-30; 2004-0630-30; 2004-0731-30; 2004-0830-30; 2004-0930-30

Knight Financial Products LLC was fined \$15,000 for, as Primary Market Maker, failing to execute Public Customer Orders at a price that matched the National Best Bid or Offer or failing to send a Linkage Order to the other exchange(s) displaying the better price. (ISE Rule 803(c)(2))

File Nos. 2003-1121-22; 2003-1219-22; 2004-0116-22; 2004-0220-22; 2004-0319-22; 2004-0416-22; 2004-0521-22; 2004-0618-22; and 2004-0716-22

BNP Paribas Securities Corp was fined \$10,000 for, as Competitive Market Maker, failing to maintain continuous quotes in 60 percent of its appointed option classes and within the expiring series of an option class during the month the series expired. (ISE Rule 804(e)(2))

File Nos. 2004-0116-22; 2004-0220-22; 2004-0319-22; 2004-0416-22; 2004-0521-22; 2004-0618-22; and 2004-0716-22

Geneva Trading LLC was fined \$10,000 for, as Competitive Market Maker, failing to maintain continuous quotes in 60 percent of its appointed option classes and within the expiring series of an option class during the month the series expired. (ISE Rule 804(e)(2))

File Nos. 2004-0131-25; 2004-0229-25; 2004-0331-25; 2004-0430-25; 2004-0531-25; 2004-0630-25; 2004-0731-25; 2004-0831-25; 2004-0930-25; 2004-03; 2004-20; 2004-37

Knight Financial Products LLC was fined \$5,000 for, as Competitive Market Maker, creating a locked or crossed market and failing to unlock or uncross that market or to direct a principal order through the Linkage to trade against the bid or offer that it locked or crossed. (ISE Rule 1903)

File No. 2004-0131-33; 2004-0229-33; 2004-0331-33; 2004-0430-33; 2004-0531-33; 2004-0630-33; 2004-0731-33; 2004-0831-33

Knight Financial Products LLC was fined \$60,000 for, as Primary Market Maker, failing to execute trades at a price at least as favorable as its own published quote, failing to trade or release public customer orders within the prescribed time period which resulted in either no execution or an execution at a price inferior to the best bid or offer at the Exchange, failing either to execute Public Customer Orders at a price that matched the National Best Bid or Offer or to send a Linkage Order to the other exchange(s) displaying the better price, and traded ahead of public customer orders. (ISE Rules 400; 803(a); 803(c)(2); 804(d); SEC Rule 11Ac1-1)

File Nos. 2004-0331-27; 2004-0630-27; 2004-0930-27; 2004-40; 2005-109; 2005-158

Timber Hill LLC was censured and fined \$20,000 for, as Competitive Market Maker, sending principal orders through the Linkage when it was not permitted to do so due to volume percentage restrictions. (ISE Rule 1904)

File Nos. 2004-0831-24; 2004-0930-24; 2004-12; 2004-49; 2004-51; 2005-10; 2005-137; 2005-176; 2006-33

Timber Hill LLC was censured and fined \$45,000 for, as Primary Market Maker, failing to give the highest bid or lowest offer priority, providing customer orders with inferior prices, and failing to properly allocate executions to the ISE market place. (ISE Rules 713(b); 713(c); 713(e); 803(a); 804(d))

File No. 2004-0930-27; 2004-40; 2005-57

Morgan Stanley & Co., Incorporated was fined \$7,500 for, as Competitive Market Maker, sending principal orders through the Linkage when it was not permitted to do so due to volume percentage restrictions. (ISE Rule 1904)

File No. 2004-41

Knight Financial Products LLC was fined \$5,000 for, as Primary Market Maker, sending P/A Orders through the Linkage that did not reflect an unexecuted public customer order, sending P/A Orders through the Linkage when the corresponding public customer order had already been filled, and failing to pass executions of P/A Orders to public customer orders that had not yet been filled. (ISE Rule 400)

File Nos. 2005-06; 2005-136; 2005-174; 2006-32

Geneva Trading LLC was fined \$15,000 for, as Competitive Market Maker, failing to maintain continuous quotes in 60 percent of its appointed options classes, failing to participate on the opening rotation within 60 percent of its appointed options classes, failing to maintain a continuous quote in the expiring series of an option class during the month the series expired, and failing to maintain a continuous quote for all series within the same expiration month until the close of trading that day after having entered a quote in an options class to which it was appointed. (ISE Rule 804(e)(2))

File Nos. 2005-06; 2005-136; 2005-174; 2006-32; 2006-82; 2006-130; 2006-173

UBS Securities LLC was fined \$25,000 for, as Competitive Market Maker, failing to participate on the opening rotation within 60 percent of its appointed options classes, failing to maintain a continuous quote in the expiring series of an option class during the month the series expired, and failing to maintain a continuous quote for all series until the close of trading that day. (ISE Rule 804(e)(2))

File Nos. 2005-10; 2005-137

UBS Securities LLC was fined \$30,000 for, as Primary Market Maker, failing to give priority to the highest bid and lowest offer, giving public customer orders a price inferior to the best price offered on the Exchange, failing to give priority to Public Customer Orders that represented the best quotation on the Exchange, failing to properly allocate executions to the ISE market place, and trading ahead of a public customer order. (ISE Rules 400; 713(b); 713(c); 713(e); 803(a); 804(d))

File No. 2005-59

Deutsche Bank Securities, Inc. was fined \$5,000 for, as Primary Market Maker, sending P/A Orders through the Linkage that did not reflect an unexecuted public customer order, and failing to pass executions of P/A Orders to public customer orders that had not yet been filled. (ISE Rule 400)

File Nos. 2005-60; 2005-112

Deutsche Bank Securities, Inc. was fined \$10,000 for, as Primary Market Maker, failing to properly send the appropriate number of P/A Orders through the Linkage with regard to the Firm Customer Quote Size. (ISE Rule 1901(c)(2))

File Nos. 2005-60; 2005-112; 2005-156

UBS Securities LLC was fined \$15,000 for, as Primary Market Maker, failing to properly send the appropriate number of P/A Orders through the Linkage with regard to the Firm Customer Quote Size. (ISE Rule 1901(c)(2))

File No. 2005-61

UBS Securities LLC was fined \$10,000 for, as Primary Market Maker, failing either to execute Public Customer Orders at a price that matched the National Best Bid or Offer ("NBBO") or to send a Linkage Order to the other exchange(s) displaying the better price; additionally UBS, as Competitive Market Maker, effected transactions for its principal orders in options series at prices that were inferior to the NBBO. (ISE Rules 803(c)(2); 1902(d))

File Nos. 2005-113; 2005-157

Timber Hill LLC was censured and fined \$10,000 for, as Primary Market Maker, failing either to execute Public Customer Orders at a price that matched the National Best Bid or Offer or to send a Linkage Order to the other exchange(s) displaying the better price. (ISE Rule 803(c)(2))

File No. 2005-157

Banc of America Securities LLC was fined \$3,500 for, as an Electronic Access Member, effecting transactions in options series at prices that were inferior to the National Best Bid or Offer. (ISE Rule 1902)