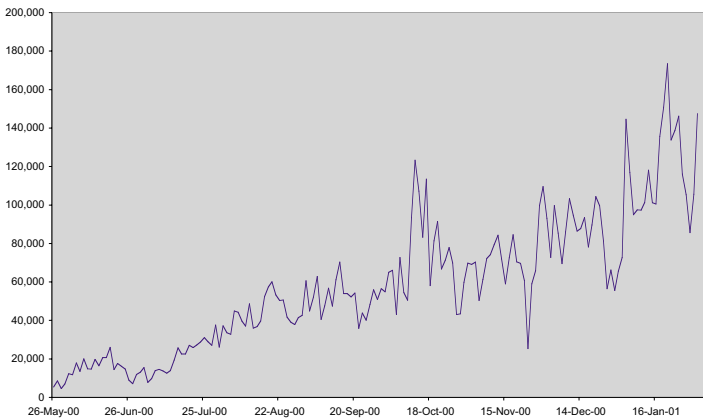
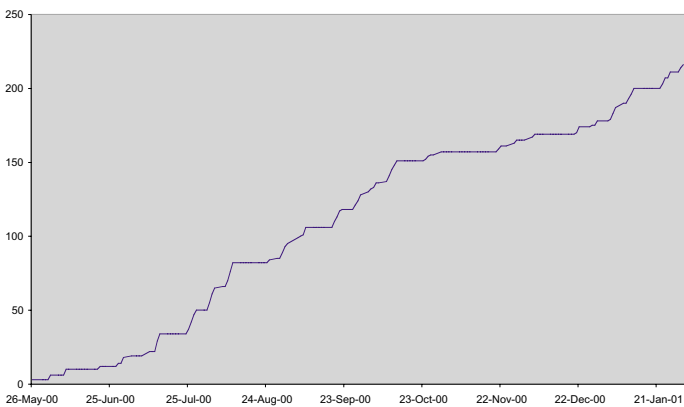


WINTER 2001

ISE VOLUME THRU JANUARY 31, 2001



ISE LISTED PRODUCTS THRU JANUARY 31, 2001



ISE NAMED DERIVATIVES EXCHANGE OF THE YEAR 2001



The International Securities Exchange is the proud recipient of the Derivatives Exchange of the Year 2001 award presented by Risk Waters Group. *Risk* is a trade publication service which disseminates information through its magazines, newsletters, conferences and the Internet. Individuals and companies within the derivatives industry are presented these annual awards based on their innovation and excellence. *Risk* analyzes competitors in each category to determine their ability to surmount challenges and to advance their industry.

The ISE was selected for this prestigious award because of the innovations it has made in the derivatives industry. *Risk* cited the industry impact that ISE had prior to the inception of its trading, as well as the many changes that have occurred as a result of the implementation of its innovative structure and trading systems, including the multiple-listing of options, widespread reductions in transaction fees, and significantly narrowed spreads.

The future looks even brighter. The ISE has seen significant growth in listing new products and currently trades options on over 200 equity securities with plans to list the 600 most popular issues. On January 31, the ISE traded its 10 millionth contract, its average daily volume has exceeded 150,000 contracts and market share in currently listed products has grown to approximately 10%. ISE plans to build on its success, while continuing to provide high quality service to its customers. As ISE's president and CEO, David Krell, states, "Our main aim is to grow the business, but we are currently focusing on quality."

Please go to the following address to read more about this award: <http://www.risk.net/riskawards2001/derivativesexchange.htm>

TECHNOLOGY DIVISION

In this and the next several issues of CIRCUIITS, we will highlight the workings and contributions of each of ISE's five divisions, describing the role that each plays in supporting ISE's unique marketplace and providing a description of some of the challenges currently being addressed.

The primary responsibility of the Technology Division, headed by Dan Friel, is to ensure that the technical infrastructure upon which the ISE trading system resides operates efficiently and without interruption. This task, which goes to the heart of ISE's business model and trading philosophy, is accomplished in a variety of ways.

The first step in this process, which began almost three years ago, was to design and build a redundant system and communications network that would meet this requirement while providing sufficient flexibility and scalability to permit adjustments quickly. A large part of this effort was accomplished in the thirteen-month period between Mr. Friel's first day on the job and the launch of trading on May 26, 2000.

The component parts of this initial phase of revolutionizing the U.S. equity options market included: hiring the right staff to support and operate the system; selecting a telecommunications provider and building a nationwide communications network; the build-out of two complete data centers, including the selection of a location for the back-up site;

and developing a structure to ensure that ISE remains fully operational and on the leading edge of this type of technology.

ISE's initial strategy for large development efforts was to acquire software from outside suppliers. Consistent with this strategy, OM Technologies was engaged to build the host trading system and front-end quoting & order input applications (Torque & CLICK®), while BEA developed the surveillance system and S1 built the order entry interface system. At that time, this proved to be a sound method of providing state-of-the-art support, rapidly and efficiently. Since then, the ISE has realized the need for its own in-house development capability and has started building a high caliber team for this purpose.

A significant effort is currently underway in this division, as the Exchange prepares for a major upgrade that will enhance the efficiency and operational capabilities of the already cutting edge ISE marketplace. This involves three elements:

- Installation and conversion to the newest generation of processor (EV6/7)



*Dan Friel,
ISE Senior VP,
Technology and CIO*

- A revised Application Program Interface (API)
- An expansion of the ISE trading system test environment that will result in expanded testing capacity as well as further host system redundancies

This upgrade is anticipated to take place in the second quarter of this year and will assure that ISE continues to deliver the highest level of performance and efficiency.

NOTEWORTHY...

PAYMENT FOR ORDER FLOW

On January 10, ISE announced that the Securities and Exchange Commission (SEC) approved ISE's proposed rule change that adopts a payment-for-order-flow fee program.

The SEC's action marks the first time that such a plan was approved by the SEC pursuant to Section 19(b)(1), following a public comment period in which interested parties were provided the opportunity to submit their opinions of this controversial practice. This differs from the plans of other exchanges in that all others were submitted as fee schedule revisions that were deemed approved upon filing. Under the

ISE's plan, fees are imposed on Primary Market Makers (PMMs) and Competitive Market Makers (CMMs) and are distributed to Electronic Access Members (EAMs) at the discretion of the PMMs. As well, ISE's plan establishes bin advisory committees composed of the PMM and CMMs specific to each bin, to provide a forum for the discussion of payment-for-order-flow issues.

QUOTES WITH SIZE

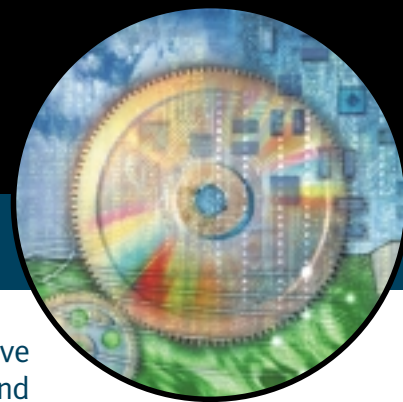
On January 22, the ISE began distributing quotes with size to the Options Price Reporting Authority (OPRA). OPRA, in turn, distributes this information to all of its customers. For the first time, all data vendors now have the capability of displaying ISE's quotes with size.

ISE is the first and only U.S. equity options exchange to provide dynamically updating size with quotes.

Initially, this applies only with respect to those options trading in decimals (NYSE and Amex issues). It is anticipated that Nasdaq stocks will commence migration to decimal trading on March 12.

This is a significant milestone in ISE's development and provides all options traders an opportunity to see the depth and liquidity at the ISE.

CLICK® & TORQUE NEWS



ISE members can now learn about pending enhancements and their expected release dates through *CIRCUITS*. CLICK® and Torque release information will be published in this newsletter under the section entitled "CLICK® & TORQUE NEWS".

The majority of enhancements featured in each release are generated from member comments and suggestions. Continued member involvement in this process is strongly encouraged. If there are features that would simplify your interaction with the system or improve your ability to transact business on the ISE, please contact Wendy Hoffman at whoffman@iseoptions.com with detailed suggestions.

Development requests also emerge from regula-

tory initiatives, competitive issues, internal testing and system monitoring. Each release that we craft represents a delicate blending of all these issues. The timing of the delivery is often influenced by externally imposed deadlines.

All enhancement issues are compiled, documented and prioritized. Our requests are then delivered to OM Technology for technical analysis, cost estimates and projected delivery time frames. Before the revised software is implemented, release notes are distributed to familiarize users with the content, impact and benefits associated with the revisions.

ENHANCEMENTS OF THE NEW RELEASE, ANTICIPATED FOR THE 2ND QUARTER 2001:

Order Status Window: This new window will combine Orderbook functionality with Company Trades information. At a glance, EAMs will be able to see the complete status of each of their orders: the original order quantity, the number of contracts executed and the remaining quantity open on the book.

Option Symbols: This new feature will allow users to enter the option symbol, as well as the underlying symbol, to retrieve prices; e.g., INQ will yield information for all INTEL options. The option symbol may also be added as a column to other windows. Adding this to the Company Trades window

may assist in back office processing.

New Screen Formats: Members will be able to view price information in a "Split Screen" format that separates calls from puts. Alternatively, calls and puts for a given strike may be viewed together. These formats may be saved as a part of the desktop.

Multiple CMTAs: Members will be able to reallocate the traded quantity, assigning it to multiple CMTA accounts.

Price Modification: Previously, changing the price of an order was achieved by canceling and replacing the order. The Change Order Ticket will allow members to modify price. The system will issue the cancel and replace on your behalf.

Preferred Symbol List: This function will allow you to create a list of 20 to 30 commonly used symbols. These

will be available in the ID field allowing "point-and-click" access.

Improved Messaging: Look for "UR Out" and "Nothing Done" amongst the new system responses.

CIRCUITS NOW PROVIDES YOU WITH A SNEAK PREVIEW OF WHAT'S TO COME!

This publication discusses exchange-traded options issued by The Options Clearing Corporation. No statement in this publication is to be construed as a recommendation to purchase or sell a security, or to provide investment advice. Options involve risk and are not suitable for all investors. Prior to buying or selling an option, a person must receive a copy of *Characteristics and Risks of Standardized Options*. Copies of this document may be obtained from your broker or from the International Securities Exchange by calling 212-943-2400 or by writing the Exchange at 60 Broad Street, New York, NY 10004. A prospectus, which discusses the role of The Options Clearing Corporation, is also available without charge upon request addressed to The Options Clearing Corporation, 440 South LaSalle Street, Suite 908, Chicago, IL 60605, or to the Exchange.

CONNECTING TO ISE

There are several methods available for member firms to connect to the ISE. Members may use ISE provided workstations (CLICK® for order entry and Torque for market maker quote generation), or trader stations developed in-house or by third party system providers. A list of third party system providers with approved trading applications is available on the ISE web site at: <http://www.iseoptions.com/download/thirdpartydevelopers.html>

ISE also supports connection via several order routing interfaces. Connection may be made using a FIX interface. A drop copy function is available using the FIX interface where clearing or trading firms may be provided with copies of trades in real time. The Standard Order Format is supported on either TCP/IP or Bisynch protocols. Several versions of the Standard Order Format are available and individual customizations can generally be accommodated.

For members that use order routing service bureaus, ISE has several bureau interfaces established and addi-

tional members can be added to those interfaces with little delay.

The detailed specification of the ISE order routing interfaces is available from ISE Member Services. Please contact Jon Nadel at 212-897-0248 or Matt D'Elia at 212-897-0251.



The International Securities Exchange recently became a member of The Options Industry Council (OIC). The OIC is a non-profit organization founded in 1992 by the nation's options exchanges to provide investor education about equity options. Today, its members include the International Securities Exchange, American Stock Exchange, Chicago Board Options Exchange, The Options Clearing Corporation, Pacific Exchange and Philadelphia Stock Exchange. OIC provides extensive educational opportunities, including a web site (www.888options.com), evening

seminars throughout the continental United States and Canada, instructional videos, educational brochures and interactive software. Information regarding these and other OIC services is available via the web site or by calling 1-888-OPTIONS.

DTR* EXAM SCHEDULE

The DTR exam will be administered at ISE headquarters at 60 Broad Street, New York, NY 10004 on the following dates:

March 21st
April 4th & 18th
May 2nd, 16th & 30th
June 13th & 27th

In addition, the ISE will continue administering exams at members' offices located outside of the New York City area.

All exam arrangements must be made in advance with Shannon Trombino.

Please call her at 212-897-0241 for details.

*Designated Trading Representative
(for market makers only)

ISE APPOINTS CHIEF OPERATING OFFICER

ISE is pleased to announce that Gary Katz, a co-founder of the Exchange, has been promoted to chief operating officer. Mr. Katz, previously senior vice president of marketing & business development, is one of four co-founders of the ISE and was instrumental in the design and creation of the first fully electronic options exchange in the U.S. He is also co-inventor on several patents filed by the ISE.

As COO, Mr. Katz leads ISE's state-of-the-art technology program (including technical services, member services and IT operations) and the market operations team. He is also responsible for ISE's marketing and business development efforts.

Before co-founding the ISE, Mr. Katz was president of K-Squared Research, a financial services consulting firm. From 1986 to 1997, Mr. Katz was managing director of the options and index products division of the New York Stock Exchange. During this period, he co-founded The Options Industry Council, a trade group dedicated to promoting the equity options sector by educating the investing public. Mr. Katz currently represents the ISE on the board of directors of The Options Clearing Corporation.

Mr. Katz has an MS in Statistics with Distinction from New York University and a BA from Queens College. He lives with his wife and four children on Long Island.

QUESTIONS?

EMAIL THEM TO
THESE ADDRESSES
AT ISE

DECIMALS@ISEOPTIONS.COM - for decimalization issues, such as testing and related rules
RECRUITMENT@ISEOPTIONS.COM - for career opportunities at the ISE
APISUPPORT@ISEOPTIONS.COM - for info on API and related member test systems
NETWORKS@ISEOPTIONS.COM - for scheduling equipment installation
CONNECT@ISEOPTIONS.COM - for getting connected to the ISE
ARECEIVABLE@ISEOPTIONS.COM - for info on member billing
MARKETING@ISEOPTIONS.COM - for info on membership, ISE brochures and events
SURVEILLANCE@ISEOPTIONS.COM - for info on ISE rules and interpretations
MAIL@ISEOPTIONS.COM - for general inquiries