

International Securities Exchange

Guide for Electronic Access Members

Introduction

The fully electronic options market being implemented at the International Securities Exchange (“ISE”) provides Electronic Access Members (“EAM”) with many benefits including:

- Displayed size available for immediate execution by customer orders
- Fast order entry/amendment/cancellation times
- An open interface to allow the connection of order routing and back office systems

The ISE system offers several unique features to improve communications between EAMs and market makers including:

- Block Order Mechanism, allowing EAMs to anonymously work large-size orders
- Facilitation Mechanism, providing EAMs an opportunity to participate in the execution of large-size orders they bring to the ISE

The ISE has available for EAMs a user-friendly trader workstation known as CLICK Trade®, which provides:

- A market information display to view the ISE best bid and offer (“ISE BBO”) with size
- The ability to enter, amend and cancel orders
- Point and click execution capability
- Order management functions
- Flexibility in customizing the workstation

Membership

There are three types of ISE members:

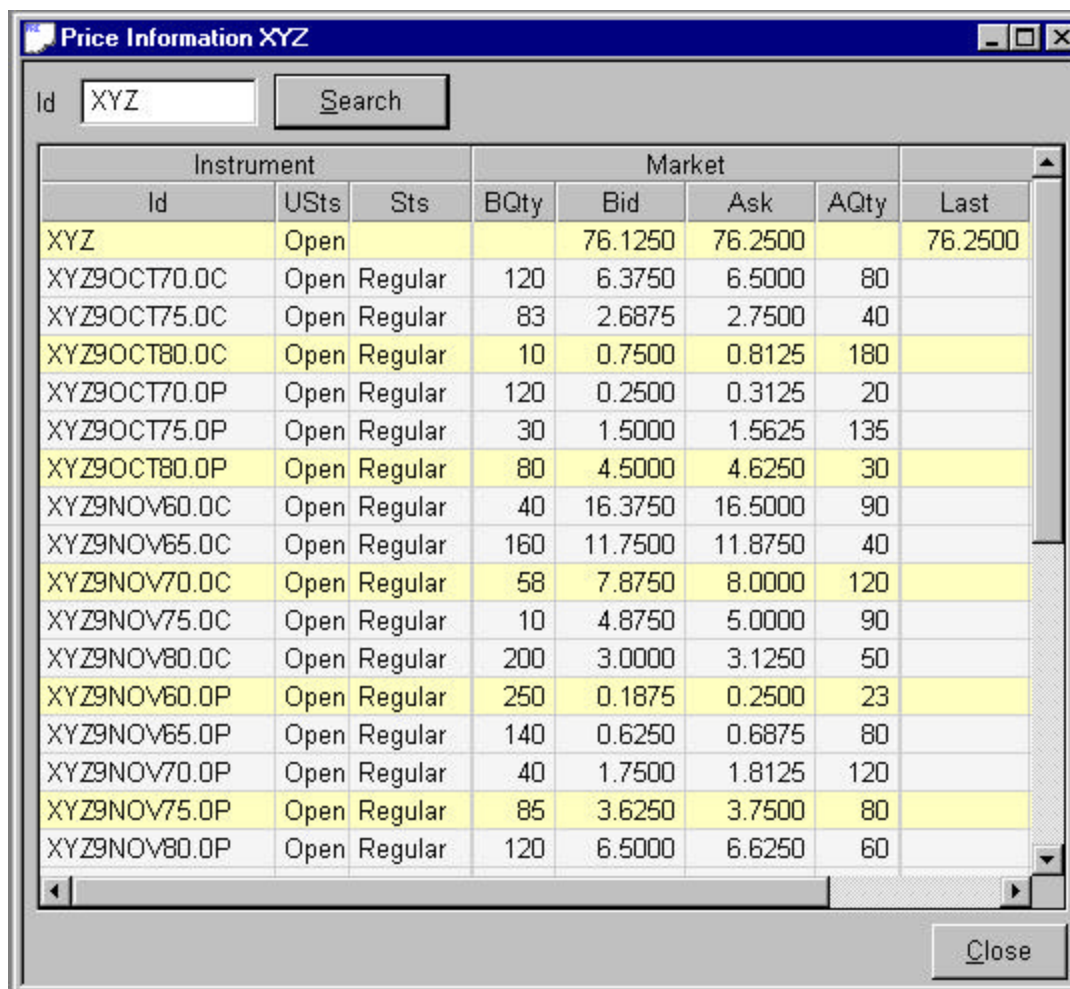
- Electronic Access Member (“EAM”) – EAMs are broker/dealers that represent agency and proprietary orders on the Exchange. EAMs cannot enter quotations or otherwise engage in market making activities.
- Primary Market Maker (“PMM”) - PMMs, similar to specialists (DPMs or LMMs), are market makers with significant responsibilities, including overseeing the opening, providing continuous quotations in all of their assigned options classes, and ensuring that customer orders are not executed at prices inferior to those available at other options exchanges. There is one PMM for each stock option traded on the Exchange.

An important advantage of having a PMM assigned to each stock option is that members have a point of contact, who is responsible for maintaining orderly markets and is available to answer market questions and resolve trading related issues.

- Competitive Market Maker (“CMM”) - CMMs are market makers that add depth and liquidity to the market. CMMs are required to provide continuous quotations in a significant portion of the options classes in their assigned group. Each CMM quotes independently. There are up to ten CMMs for each stock option traded on the Exchange.

To participate in the ISE market as an EAM, your organization must become a member and enter into an Access Agreement for connection to the market and receipt of trading services. No membership or “seat” purchase is required; rather, an access fee is charged.

A membership application form must be completed and forwarded to the ISE.



The screenshot shows a window titled "Price Information XYZ" with a search bar containing "XYZ" and a "Search" button. Below is a table with columns for Instrument, Market, Bid, Ask, and Last. The table lists various instruments with their respective market data.

Instrument			Market				
Id	USts	Sts	BQty	Bid	Ask	AQty	Last
XYZ	Open			76.1250	76.2500		76.2500
XYZ9OCT70.0C	Open	Regular	120	6.3750	6.5000	80	
XYZ9OCT75.0C	Open	Regular	83	2.6875	2.7500	40	
XYZ9OCT80.0C	Open	Regular	10	0.7500	0.8125	180	
XYZ9OCT70.0P	Open	Regular	120	0.2500	0.3125	20	
XYZ9OCT75.0P	Open	Regular	30	1.5000	1.5625	135	
XYZ9OCT80.0P	Open	Regular	80	4.5000	4.6250	30	
XYZ9NOV60.0C	Open	Regular	40	16.3750	16.5000	90	
XYZ9NOV65.0C	Open	Regular	160	11.7500	11.8750	40	
XYZ9NOV70.0C	Open	Regular	58	7.8750	8.0000	120	
XYZ9NOV75.0C	Open	Regular	10	4.8750	5.0000	90	
XYZ9NOV80.0C	Open	Regular	200	3.0000	3.1250	50	
XYZ9NOV60.0P	Open	Regular	250	0.1875	0.2500	23	
XYZ9NOV65.0P	Open	Regular	140	0.6250	0.6875	80	
XYZ9NOV70.0P	Open	Regular	40	1.7500	1.8125	120	
XYZ9NOV75.0P	Open	Regular	85	3.6250	3.7500	80	
XYZ9NOV80.0P	Open	Regular	120	6.5000	6.6250	60	

Figure 1. The Price Information display on the CLICK Trade® workstation, showing the size available at the ISE best bid and offer

Trading Features

The ISE provides EAMs with tools necessary to effectively manage orders and communicate with market participants. The following pages describe features available to EAMs.

➤ ***Central Orderbook***

The ISE maintains a central orderbook for each listed series into which orders and quotations are entered. Quotes and limit orders are entered with quantity and price, and are stored in the central orderbook in price priority. Customer orders at the same price are stored in time priority. All customer orders have priority over market maker quotes and non-customer orders at the same price.

The ISE BBO, including the aggregated size of the ISE BBO, is continually broadcast to all ISE members for display upon their workstations (see Figure 1). The ISE BBO is determined by the highest bid and the lowest offer available in the series. This is true whether the bid or offer is a market maker quote, or an agency or proprietary order. The ISE BBO is firm for customer orders.

An EAM trading for its own account may enter orders into the central orderbook and have standing equal to the market makers.

➤ ***Anonymity***

The ISE offers completely anonymous trading. Members that enter orders or quotes are identified in the ISE system, but this information is not visible to any ISE participants. Even the PMM, who can view the full orderbook, is not given member identity information. When executions occur, the parties involved in the execution are informed that they have traded; however, they are not advised of the identity of the counter-party.

➤ ***Away Market Price Protection***

A customer market or marketable limit order will not be executed automatically against the ISE BBO while another options exchange is disseminating a better price. If the away BBO is better, the order is referred to the PMM who will either match the away market price or attempt to get the better price from the away market. An EAM can designate that an order not receive away market price protection when the order is submitted. Non-customer orders do not receive away market price protection and will be automatically executed at the ISE BBO.

➤ ***Size Associated With The ISE BBO***

The ISE BBO is displayed with size, which is firm for customer orders. The size at the ISE BBO is always ten or more contracts. When a customer order improves the ISE BBO for less than ten contracts, the PMM either joins the order to make up the difference, or executes the order. This PMM obligation, however, does not apply to non-customer orders, which must therefore be a minimum size of ten contracts if they improve upon the ISE BBO. While the ISE BBO is firm for customer orders, the Exchange maintains the same rule for market maker quotes as the

other options markets; accordingly, the displayed size of the ISE BBO may not be fully available for non-customer orders.

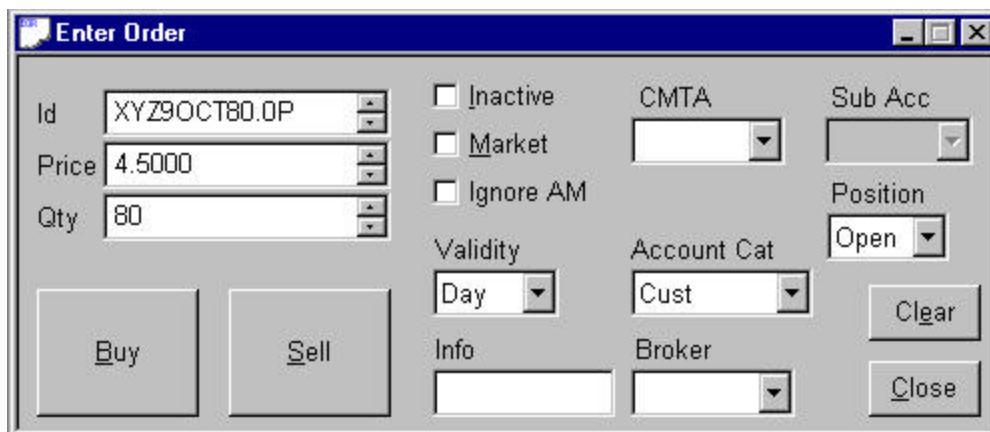


Figure 2. The Enter Order window on the CLICK Trade® workstation

➤ **Order Entry**

When entering orders, an EAM must enter certain information into the central orderbook (see Figure 2).

The source of the order must be specified as one of the following:

- Customer – Anyone that is not a registered broker/dealer
- Professional – The EAM or another registered broker/dealer other than an options market maker from another exchange
- Away Market Maker – An options market maker from another exchange

The type of order must also be specified:

- Limit Orders – Limit orders trade to the limit price, and any unexecuted portion is stored in the orderbook. Limit orders can be good-until-cancelled, in which case the order will remain in the book until executed or expired, or day orders, in which case any unexecuted amount at the end of the day is cancelled.
- Fill or Kill (“FOK”) Limit Orders – FOK orders trade to the limit price. If the order cannot be executed in full, it is cancelled and no trade occurs.
- Immediate or Cancel (“IOC”) Limit Orders – IOC orders trade to the limit price and any unexecuted portion is cancelled.
- Market Orders – Market orders are entered without a price and will always be executed in full. If there is insufficient size at the ISE BBO to execute the full size of a market order, the order will continue to be executed at the next price level for the available size. This will continue until the entire order is executed or an away market offers a better price, in which case it is referred to the PMM. Market orders may only be entered for customers.

Non-customer marketable orders will be rejected if they cannot be executed within two ticks of the ISE BBO.

The screenshot shows a software window titled "Enter Special Order". It contains the following fields and controls:

- Id:** XYZ9NOV70.0C
- Price:** 8.0000
- Qty:** 500
- Order Type:** Block
- Account Cat:** Cust
- Validity:** IOC
- CMTA:** (empty)
- Expose:** Bid/Ask (checked), Price (unchecked), Qty (checked), Validity (unchecked)
- Pos:** Open
- Firm Pos:** Open
- Info:** (empty)
- Broker:** (empty)
- Buttons:** Buy, Sell, Clear, Close

Figure 3. Entry of a block order

➤ **Block Order Mechanism**

The Block Order Mechanism allows an EAM to obtain liquidity from the trading crowd for large-size customer orders (50 or more contracts). The steps involved in a Block Order Mechanism are as follows:

1. **Order Entry** – The EAM enters the block order, with size and limit price. The order must be marked either IOC or FOK. While normally non-customers may not enter FOK orders, it is permitted when using the Block Order Mechanism to indicate an “all or none” interest. The EAM specifies any combination of the buy/sell intention, price, quantity and validity (IOC or FOK) to be disclosed.
2. **Broadcast Message** – An anonymous message is broadcast to the market makers assigned to that options class, as well as other participants with proprietary bids or offers at the ISE BBO in the particular options series (the “crowd”). The message contains only those details of the order that the EAM specified be disclosed.
3. **Responses** – The members of the crowd have a limited amount of time (30 seconds) to respond to the block request with additional trading interest. Members may enter multiple responses, with different prices and sizes, which need not be two sided. The responses are stored by the central system and are not disclosed to any market participants, including the initiating EAM. The EAM may cancel the block order and respondents may cancel and re-enter their block responses during this period.
4. **Execution** - At the end of the response period, if there is sufficient quantity available to meet demand, a trade execution will occur, after which any remaining responses are cancelled. There are two elements to the execution: price and allocation.

Price – Block orders are executed at a single price. At the end of the response time period, the system will determine the execution price by using the orders in the book and the block responses. If the order is marked FOK, the execution price will be the best price where there is sufficient quantity to execute the entire order. If there is insufficient size to execute the

order in full, no execution will occur. If the block order is marked IOC, the execution price will be the best price where there is sufficient quantity to execute the entire order. If there is insufficient size to execute the entire order, the order will be executed at the best available price, up to the limit price. Any unexecuted portion of an IOC order will be cancelled. Due to the larger size of block orders, the execution price can be outside the ISE BBO, in which case better priced bids and offers in the orderbook have priority and are protected by being executed at the block price.

Allocation – All trading interest (i.e., orders, quotes and responses) at a better price than the block execution price will be executed first, and will receive the better execution price. Customer orders at the execution price will then be executed. Thereafter, responses to the quote request, as well as market maker quotes and non-customer orders in the orderbook at the execution price, share in the execution of the order according to the trade-sharing algorithm described in the *Guide for Market Makers*.

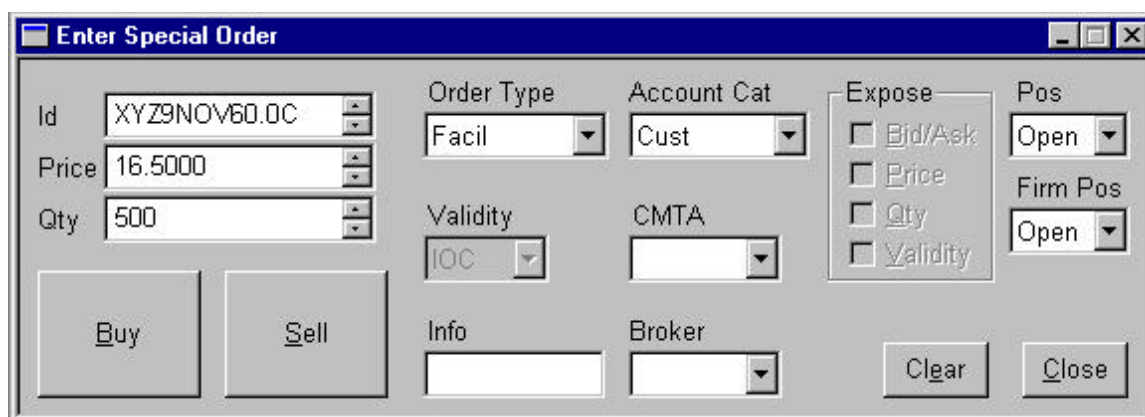


Figure 4. Entry of a Facilitation Order

➤ **Facilitation Mechanism**

An EAM may attempt to execute as principal its own block size customer orders (fifty or more contracts) through the Facilitation Mechanism. The EAM must be willing to be the counter-party for the entire size of the customer order. The Facilitation Mechanism operates in a similar manner to the Block Order Mechanism:

1. **Order Entry** – The EAM enters the facilitation order with size and limit price.
2. **Broadcast Message** – An anonymous message is broadcast to the market makers assigned to that stock option, as well as other participants with proprietary bids or offers in the particular options series at the ISE BBO (the “crowd”). The message contains full details of the order, but does not identify the firm that entered the facilitation order.
3. **Responses** – The members of the crowd have a limited amount of time (30 seconds) to respond to the facilitation request with the size they are willing to trade at the facilitation price. The responses are stored by the central system and are not disclosed to any market participants, including the initiating EAM. The EAM may cancel the facilitation order, and respondents may cancel and re-enter their facilitation responses during this period.
4. **Execution** – At the end of the response period, the execution will occur. There are two elements to the execution: price and allocation.

Price – Facilitation orders are not always executed at the facilitation price. There is opportunity for the facilitating customer to receive a better price if the electronic trading crowd chooses to insert a quote or order that is better than the facilitation price. If there are any Non-Customer orders or quotes at a better price, the facilitation order will trade at the improved price until all interest is filled. If there is sufficient size within the orderbook to completely satisfy the facilitation order at a better price, the EAM firm will not participate. Members of the crowd may improve the facilitation price by entering a quote or order into the orderbook within 20 seconds of receiving the broadcast.

Allocation – All trading interest (i.e., orders, quotes and responses) at a better price than the facilitation price will be executed first. Customer orders at the facilitation price will then be executed. Next, the EAM that entered the order will receive forty percent of the original size of the facilitation order or as much as remains if more than sixty percent has already traded. Thereafter, responses to the quote request, as well as market maker quotes and non-customer orders in the orderbook at the facilitation price, share in the execution of the order. If there is any unexecuted balance, the remainder is executed by the initiating EAM.

➤ **Cabinet Orders**

Broker/dealers may enter cabinet orders, which are routed to the PMM for execution. Cabinet orders are used for liquidating deep out-of-the-money option positions for tax management purposes.

Open Interface

The ISE central exchange system has a proprietary open interface that allows members to develop and connect applications such as:

- Trading applications which enter orders and perform all of the functions that are available through the CLICK Trade® workstation
- Back office systems that obtain trade information directly from the ISE

The open interface uses a proprietary Application Programmers Interface (“API”) library to send trading commands to the central system and to receive executions and market information from the central system.

Members may develop applications for specific purposes, which can be used in conjunction with the CLICK Trade® workstation, or use trading products supplied by third party suppliers.

Contact Member Services for more information on the open interface or to obtain a list of independent software suppliers with commercial products that connect to the open interface.

Existing Order Routing Systems

In addition to the open interface capabilities, members with an existing order routing system may utilize a protocol conversion facility provided by the ISE. This allows the connection of order routing systems to the ISE without the need to develop to a new protocol.

Trading Support

An experienced staff is available to help ISE members resolve any problems or answer questions. The ISE has established the market control group for trading support, a help desk to resolve technical issues and Member Services to provide connectivity and open interface support.

ISE Contacts

Richard Pombonyo, VP Marketing – first point of contact for member firms
(212) 897-0250

Gregory Maynard, VP Member Services – assistance with all aspects of technical
connection to the ISE
(212) 897-0277

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