

## Market Operations Information Circular

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### **Subject: Back-Up PMM – Functionality and Program Implementation**

#### Background

The International Securities Exchange has received SEC approval to implement its “Back-Up Primary Market Maker” (“PMM”) functionality. The purpose of this memo is to describe the functionality and the time-line for implementation.

This system enhancement will allow a Competitive Market Maker (“CMM”) that is also a PMM to voluntarily act as Back-Up PMM when the appointed PMM experiences technical difficulties that interrupt its participation in the market. This enhancement will negate the need to operate an options class in “fast market” (or “non-firm”) in these circumstances.<sup>1</sup>

It is important to note that, when called upon, the Back-Up PMM will have all of the regulatory responsibilities and obligations of a PMM.

#### Functionality

CMMs must volunteer to participate in the Back-Up PMM program, and in doing so, will serve in this capacity for all Bins in which they are market makers. The system is designed such that multiple CMMs may act as the Back-Up PMM within a given options class, as the system will automatically select the Back-Up PMM within each class on a series-by-series basis. The determination is based on the CMMs’ quality of quote.

The system will automatically switch back to the appointed PMM when it re-establishes its quotes in the series.

#### Roll-out plan

The ISE will commence Back-Up PMM functionality in Bin 5 only for trading on Friday, March 24, 2006. The remaining nine Bins will follow on Tuesday, March 28, 2006. Currently, two ISE Market Makers are certified to act in the Back-Up capacity, with a third to follow shortly. We will add additional Market Makers into the program as they pass conformance testing.

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<sup>1</sup> Prior to this functionality, there were two reasons to operate in “fast”: when market conditions necessitated it, or when the PMM was unable to quote due to technical reasons.