

Market Information Circular			
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Date:	August 31, 2005	Telephone:	(212) 897-0245

The purpose of this Market Information Circular (MIC) is to introduce the trading community to Directed Order functionality that will be implemented on September 7, 2005.

Directed Orders will enrich our implementation of PIM, the Price Improvement Mechanism, by allowing EAMs to transfer the ability to facilitate orders to a market maker.

Understanding Directed Orders

A Directed Order is an order entered by an EAM on behalf of a public customer that is routed to a Market Maker for handling. The receiving market maker is referred to as the Directed Market Maker.

Directed Orders may be limit-priced or market-priced orders of any size.

Directed Market Makers

A Market Maker that is willing to accept Directed Orders must register its intent with Market Operations where the appropriate system configurations are recorded and maintained. Willingness to receive Directed Orders implies the readiness to accept orders from all EAMs without regard to underlying symbol or entering firm.

Changes to Directed Order processing may be introduced overnight. Contact Market Operations to alert them of your desire to suspend or reactivate the receipt of Directed Orders.

To receive Directed Orders, the Directed Market Maker must be a market maker in the ISE system but does not necessarily need to be quoting the security.

How to Direct Orders

The EAM must enter the 3-letter trading acronym of the DMM who is to receive its order. (See chart on following page.)

- CLICK Users: Directed Orders may be entered using the IOC/FOK or Day/GTC order entry tickets. When the DO checkbox is checked, the "Directed To" field will be activated for entry. A 3-letter acronym must be present on each order to be directed.
- IORS Users: If entering orders through IORS, the 3 character ISE MM acronym must be followed by the letters "DO" to distinguish a Directed Order from a Preferred Order.

- To direct an order to a market maker through IORS using FIX, one must enter a 5 letter ID composed of the 3-letter acronym followed by DO in tag 7901.
- To direct an order to a market maker through IORS in CMS format, enter a 5 letter ID composed of the 3 letter acronym followed by DO on line 1AF1 Exchange.

A list of valid market makers and their 3 character representations within ISE is provided for your convenience. The 5 letter ID required for IORS routing is also provided.

<u>Market Maker</u>	<u>Acronym</u>	<u>IOSR</u>
Archelon	ARC	ARCDO
Bear Wagner	BHR	BHRDO
BNP Paribas	BNX	BNXDO
Citadel	CDL	CDLDO
CSFB Credit Suisse	CSB	CSBDO
Geneva	GEN	GENDO
Group One	ONE	ONEDO
Holland Trading	HTH	HTHDO
JP Morgan	JPM	JPMDO
Citigroup Derivatives	KNT	KNTDO
Lehman Brothers	LEH	LEHDO
Merrill Lynch	PRO	PRODO
Morgan Stanley	MGS	MGSDO
Optiver	OPT	OPTDO
SLK-Hull	HUL	HULDO
TD Options	TDO	TDODO
Timberhill	THI	THIDO
UBS Securities	UBS	UBSDO
Wolverine	WLV	WLVDO

If an EAM member directs an order to a market maker that is not willing or not yet prepared to accept Directed Orders, the order will be treated like a regular order; it will not be directed. As well, orders entered prior to the opening or in market status queuing, halt or trying will not be directed.

Executing Directed Orders

DMM's have two alternatives for handling Directed Orders.

1. The DMM may enter the Directed Order into a PIM ensuring price improvement to the customer. The DMM submits the Primary Improvement Order for the entire size of the Directed Order and, as the initiator of the PIM, receives the 40% participation guarantee after all customer orders have been filled. The PIM process remains the same; only the recipient of the 40% differs.
2. If the DMM elects not to submit the order to a PIM, he will release the order to the Orderbook. The result will be determined by the DMM's quote in relation to the NBBO.

- a. If the DMM *is not* quoting or his quote is not at the NBBO, the order will be treated like a regular order. It will trade against the orderbook to the extent possible or lock to the PMM according to normal linkage-related processing.
- b. If the DMM *is* quoting at the NBBO, ISE rules require the DMM to guarantee an execution equal to the price and size of the DMM quote at the time it received the Directed Order. To satisfy this obligation, the system will create a Guaranteed Directed Order (GDO).

Upon releasing the Directed Order, if the order is executable against the ISE quote, it will trade excluding the GDO and the DMM's quote. If any balance remains, the system will disseminate a Directed Order broadcast soliciting interest from the entire trading community. This order will remain exposed for 3 seconds during which time interested parties may submit responses in standard trading increments.

At the conclusion of the exposure interval, the order will trade against all interest excluding the DMM's quote and the GDO. At each price level, customer orders and responses will trade first, non-customer and market maker orders and responses will trade next. The DMM quote and GDO will always trade last in priority.

If there is any size remaining after the exposure, the system will trade the GDO before the DMM's quote unless the quote has been improved.

NOTE: This exposure mechanism will also be used when the DMM is the PMM if he elects to release the Directed Order to trade against the Orderbook rather than submit it to a PIM. It will be exposed before locking the order to the PMM to satisfy linkage requirements.

Understanding the GDO

The GDO is created from the DMM's quote to guarantee the execution of the Directed Order through the end of the exposure period. Upon creation, the GDO size will be immediately subtracted from the DMM's quoted size. This ensures that the DMM will not be exposed for more than the size of its quote.

The quantity of the GDO is the lesser of the quantity of the Directed Order and the DMM's quoted size. If the size of the quote is less than or equal to the size of the Directed Order, this will cause the DMM quote to tick back.

During the Directed Order exposure interval, the DMM may continue to update its quotes in that series. The GDO remains hidden and is only executable against the Directed Order that created it.

The GDO is traded before the DMM's quote unless the quote has improved. If the quote is executed first, the GDO size is reduced by the executed quantity. Size will be restored to the quote if the GDO is not required to execute the order and the quote has not been updated since the GDO was created.

The GDO will be automatically deleted:

1. When a PIM is initiated.
2. After the order is completely executed or the balance is deleted.
3. If the Directed Order is cancelled.
4. If the balance of the order is re-locked to the PMM for Linkage.

Conclusion

Rules

ISE Rule 811 governs the behavior of ISE's Directed Orders. This rule may be found on the ISE web site under the Regulatory menu beneath Rule Changes.

http://www.iseoptions.com/legal/approved_rule_changes.asp

Look for approval order SR-ISE-2004-16 dated August 24, 2005.

EAM Participation

EAMS interested in directing orders should contact Boris Ilyevsky @ (212) 897- 0242 to determine market maker readiness.

Market Maker Participation

Market Makers interested in participating in Directed Orders must first certify their applications with Technology Member Services. They may be reached by email: tms@iseoptions.com or by phone: (212) 897-0244.

Once certified, to activate Directed Order functionality in production, you must contact Market Operations @ 877-473-9989. The production database must be updated to reflect your intent to accept Directed Orders.

General Questions

Questions regarding Directed Order functionality may be addressed to Wendy Hoffman (212) 897-0245 or email to: whoffman@iseoptions.com.