



## Market Operations Information Circular

<b>Circular Number:</b>	2005-29	<b>Contact:</b>	Jim Sampson - VP, Trading & Market Operations
<b>Date:</b>	November 22, 2005	<b>Telephone:</b>	212-897-0235

### **Subject: Payment For Order Flow – program changes**

The ISE intends on making certain changes to its Payment For Order Flow (“PFOF”) program subject to an SEC filing which is expected to be completed on or around December 1<sup>st</sup>, 2005. The purpose of this circular is to notify the ISE membership of the pending changes.

- Today, ISE market makers pay a PFOF fee into a specific bin’s pool which is then distributed to order flow providers by the Primary Market Maker (PMM) for that bin.
- Due to Preferred Orders, starting on or around December 1<sup>st</sup>, 2005, there will be additional and separate PFOF pools for Competitive Market Makers (CMM) that receive Preferred Orders. With this change, individual CMMs will control the allocation of funds collected on orders they were preferred on. PMMs that are also preferred as CMMs will have one general payment pool.
- Market Makers will have the ability to “Opt Out” of PFOF fees on orders preferred to them if they choose to do so. However, these market makers will continue to pay the PFOF fee on non-preferred orders as well as orders preferred to other market makers, and will not control or influence decisions regarding payment recipients on Preferred Orders.
- PFOF fees will continue to be collected on non-preferred orders and distributed into pools which are controlled by the PMM based on symbol.

Questions regarding this circular may be directed to Boris Ilyevsky at 212/897-0242, or Barbara Wheeler at 212/897-0252.