



<b>Circular number:</b>	ISE: 2014-013 ISE Gemini: 2014-019	<b>Contact:</b>	Russ Davidson Surveillance Officer
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## **Subject: Crossing Mechanisms**

Prior to entering orders into a Crossing Mechanism,<sup>1</sup> Electronic Access Members (“EAMs”) must ensure they are in possession of a bona-fide contra-side order that has committed to trade against the order they represent as agent (the Agency Order).<sup>2</sup>

### **Example:**

Firm XYZ has an agency order to buy 1,000 contracts. XYZ enters a solicitation order to buy 1,000 contracts without having the contra-side order for the entire 1,000 contracts, which may consist of one or more parties.

Entering such crossing orders into one of the Crossing Mechanisms for the purpose of attracting participants to respond to the auction without having a bona-fide contra-side order is a violation of one or more of the ISE/ISE Gemini Rules stated below:

Rule 400 – Just and Equitable Principles of Trade, states that no Member shall engage in acts or practices inconsistent with just and equitable principles of trade.

Rule 405(a) states that no Member shall effect or induce the purchase, sale or exercise of any security for the purpose of creating or inducing a false, misleading, or artificial appearance of activity in such security or in the underlying security, or for the purpose of unduly or improperly influencing the market price of such security or of the underlying security or for the purpose of making a price which does not reflect the true state of the market in such security or in the underlying security.

Rule 716(d) states that Facilitation Mechanism is a process by which an Electronic Access Member can execute a transaction wherein the Electronic Access Member seeks to facilitate a block-size order it represents as agent, and/or a transaction wherein the Electronic Access Member solicited interest to execute against a block-size order it represents as agent. Electronic Access Members must be willing to execute the entire size of orders entered into the Facilitation Mechanism.

<sup>1</sup> Crossing Mechanisms consist of the Facilitation Mechanism, Solicited Order Mechanism and the Price Improvement Mechanism.

<sup>2</sup> The contra-side could consist of multiple counterparties.

Rule 716(e) states that the Solicited Order Mechanism is a process by which an Electronic Access Member can attempt to execute orders of 500 or more contracts it represents as agent (the "Agency Order") against contra orders that it solicited.

Rule 723(a) states that the Price Improvement Mechanism is a process by which an Electronic Access Member can provide price improvement opportunities for a transaction wherein the Electronic Access Member seeks to facilitate an order it represents as agent, and/or a transaction wherein the Electronic Access Member solicited interest to execute against an order it represents as agent.

Supplementary Material .05 to Rule 716 states that Members may enter contra orders that are solicited. The Solicited Order Mechanism provides a facility for Members that locate liquidity for their customer orders. Members may not use the Solicited Order Mechanism to circumvent Exchange Rule 717(d) limiting principal transactions.

Please contact me with any questions.