

Regulatory Information Circular 2002-08

To: ISE Members

Date: June 14, 2002

Re: Stock-Option Combination Orders

On June 4, 2002, the ISE began accepting Stock-Option Combination orders (e.g., delta neutral orders). Rule 722(b)(2) and Supplementary Material .02 to Rule 722 set forth the order handling requirements that apply to the stock-option combination orders. The following highlights certain requirements for stock-option combination orders, as well as how such orders are executed on the ISE.

- **Definition.** A stock-option order is an order to buy or sell options contracts and the stock underlying those options for the same account. Both legs of a stock-option combination order must be for the same account.
- **Order Entry.** The price and number of contracts for the options-leg of the combination is entered on the order ticket, with the stock price and option's delta entered in the order ticket's message field. Stock-option combination orders are not subject to the restrictions on order entry pertaining to the electronic generation of orders and multiple orders for the same beneficial account as contained in ISE Rule 717(f) and (h).
- **Order Execution.** The stock-option combination order must be entered, and the options leg executed on the ISE, before the stock leg of the order is completed. If the stock cannot be executed at the agreed upon price, the ISE will break the options leg upon the request of a party to the trade. The central system will not allow a stock-option combination order to be executed if the price of the options leg is inferior to the ISE best bid or offer. Additionally, the system will not allow the options leg to be executed at the same price as the ISE best bid or offer if there is a Public Customer order on the book at that price. There is no away-market price protection for the options leg of the stock-option orders. A contra party to a stock-option combination order must execute both the option and stock legs of the trade.
- **Stock Leg Execution.** Following execution of the stock-option combination order on the ISE, members must take immediate steps to execute the agreed-upon stock leg of the trade. Under normal market conditions, the time between execution of the option leg and the stock leg should not exceed five minutes. The initiating party must provide a copy of the stock confirmation or

a time-stamped trade report for the execution of the stock leg of a combination trade at the request of the Market Surveillance Department.

- **Facilitation of Orders.** There is no “facilitation mechanism” available for stock-option combination orders. However, the initiating party may immediately execute up to 40% of the order (i.e., both the options and the stock leg in combination) as principal upon the order’s entry. The remaining portion of the order must be exposed for at least thirty seconds before the initiating firm may execute it as principal.

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