

Regulatory Information Circular – 2001-14

To: ISE Market Makers

Date: September 20, 2001

Re: Locked Markets and Firm Quote Rule Liability

As you know, orders that are entered into the ISE system during instances when an ISE market is crossed with that of another market center automatically lock for manual handling by the PMM. The ISE has established a maximum time interval of 30 seconds for the PMM to address and release orders in this situation.

Additionally, the SEC's Firm Quote Rule does not provide an exemption during a locked market situation. As such, members' quotes must be firm to customer orders for its quoted size (and non-customer orders for a minimum of one contract) at the time of an order's entry. If multiple orders enter the system during a single locked market event, the first order must be filled per the above guidelines. However, the PMM may choose to not execute subsequent orders at the locked price, provided that a "traded ahead" report is sent, and the member immediately denigrates his or her quote.

Related information on these topics may be found by reviewing:

- ✓ RIC 2001-03 "Trade Or Fade Rule"
- ✓ RIC 2001-06 "Firm Quote Rule"

For further information, or if you have any questions, please contact Jim Sampson, Director, Market Surveillance and Regulation at 212-897-0235.