

Regulatory Information Circular – 2000-1

To: ISE Members and Member Firms

Date: July 24, 2000

Re: **Bid/Ask Spread Differentials**

This circular is being issued to remind ISE Members and Member Firms that they are obligated under Rule 803(b)(4) to maintain Bid/Ask spread differentials that do not exceed certain maximums.

The maximum spread for normal equity options may be no more than:

- $\frac{1}{4}$ of a point where the bid is less than \$2;
- $\frac{3}{8}$ of a point where the bid is at least \$2 but does not exceed \$5;
- $\frac{1}{2}$ of a point where the bid is more than \$5 but does not exceed \$10;
- $\frac{3}{4}$ of a point where the bid is more than \$10 but does not exceed \$20; and
- \$1 when the bid is \$20 or greater.

The Bid/Ask differentials stated above shall not apply to in-the-money options series where the underlying securities market is wider than the differentials set forth above. For these series, the Bid/Ask differential may be as wide as the quotation on the primary market of the underlying security.

Additionally, the ISE has established the following policy with regard to Bid/Ask spread differentials in LEAPS® options:

- For LEAPS® options with one year or less to expiration, the maximum Bid/Ask spread differential shall be the same as provided for standard equity options.
- For LEAPS® options with more than one year to expiration, the maximum Bid/Ask spread differential shall be no greater than twice the maximum provided for standard equity options, except that options priced at \$1 or less may be no wider than $\frac{3}{8}$ of a point.
- In no event may the Bid/Ask differential for a LEAPS® option be greater than \$1 wide.

Please note that failure to maintain Bid/Ask spread differentials within the above guidelines is a violation of ISE Rules. ISE Rule 1614(d)(6) delineates the fine

amounts associated with violations of Rule 803(b)(4). For the purposes of this Rule, the spread parameters in Rule 803(b)(4) will not be violated upon a change in a bid (offer) if a market maker takes immediate action to adjust his offer (bid) to comply with the maximum allowable spread. Except in unusual conditions, immediate shall mean within five (5) seconds of a change in the market makers bid or offer.

Questions regarding this circular may be directed to Jim Sampson, Director of Market Surveillance, at 212/897-0235.