

Market Information Circular			
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The purpose of the notice is to provide members with answers to frequently asked questions about the ISE's Second Market.

What products will be listed in the Second Market?

Initially, the ISE is targeting approximately 850 equity options that are trading on other exchanges and have a minimum ADV of 100 contracts. Those products trade an aggregate 300,000 contracts per day on other exchanges. As the ISE lists new equity options going forward, it will list those options in either the First or Second Market, depending on volume. Options classes trading in the Second Market will be assigned to newly-created Second Market bins.

Who can trade in the Second Market?

All ISE members may participate in the Second Market. ISE PMM seat holders are eligible to become Second Market PMMs (SM PMMs). ISE CMM seat holders may become Second Market CMMs (SM CMMs). In addition, EAMs also will be allowed to make markets with technical and legal approval from the exchange. No CMM trading right/seat is required, but EAMs acting as market makers will pay a per-contract surcharge for the ability to make markets.

What are the obligations of a Second Market PMM and CMM?

SM PMMs have the same rights and responsibilities as First Market PMMs. They must quote in all products and series appointed to their bins, and they will receive the same pro-rata allocations as in the First Market.

SM CMMs have the same rights and responsibilities as First Market CMMs, with one exception. Unlike First Market CMMs, SM CMMs do not have a minimum number of products that must be quoted. However, a SM CMM that chooses to quote a product must submit quotes in all series for that product for the entire trading day, including the market open.

SM PMMs and CMMs may enter orders in Second Market options classes to which they are not appointed, so long as the total number of contracts executed in options classes in which they are not making markets does not exceed 10% for PMMs and 25% for CMMs. Please note that while SM CMMs have no minimum quoting obligation, they must be quoting in at least one Second Market options class on a day in which they submit market maker orders in any other Second Market options class.

How will Second Market products be allocated to PMMs?

Second Market products will be allocated to PMMs by the ISE Allocation Committee. Allocation decisions will be based on the same criteria as used for allocation of First Market products.

Will products always trade in the initial listing market?

For a period of one year following the launch of the Second Market, products will remain in their respective markets, regardless of volume changes. In subsequent years, the ISE will re-balance its First and Second Markets on a quarterly basis to account for volume changes in its respective products.

Products initially listed in the Second Market will move to the First Market if the six-month ADV increases to at least 750 contracts. Products initially listed in the First Market will move to the Second Market if the six-month ADV falls below 300 contracts. Products that move from the First Market to the Second Market must stay in the Second Market for one year, regardless of volume changes.

As products move from one market to another, they will remain with the original PMM, with two exceptions: 1) the product is moving to the Second Market and its First Market PMM is not a SM PMM, or 2) the ISE Allocation Committee determines that the First Market PMM has contributed to the volume decline by not providing a competitive market.

How do Second Market fees differ from First Market fees?

Unless specified in the following paragraphs, all Second Market fees are identical to First Market fees. In particular, the same volume-based market maker transaction fee imposed on executions in the First Market will apply to executions in the Second Market.

Transaction-based Fees:

- Second Market products will not participate in the Payment for Order Flow (PFOF) program.
- The ISE will charge an execution fee of \$.05 per contract for public customer orders.
- SM CMMs that are not CMM seat holders will pay a \$.10 per contract surcharge on each execution. This fee is in addition to the standard market maker transaction fee.

Other Fees:

- Second Market market makers (PMMs and CMMs) will pay a single monthly access fee of \$2,000 which provides access to all Second Market bins and products.
- SM CMMs that are not CMM seat holders will pay a \$5,000 annual Regulatory fee. This is equivalent to the Regulatory fee paid by CMMs in the First Market.

Will the Second Market run on the same trading system as the First Market?

Yes. Firms trading in the Second Market can rely on the same reliable, efficient, scalable, and fast technology they've experienced while trading in ISE's existing options market. These new products will trade in a new market with new bins in order to give the ISE the flexibility to adopt different quoting rules and provide selected access to members.

How do I participate in the Second Market?

Existing PMMs and CMMs can participate in the Second Market by paying a monthly access fee and requesting new Second Market user log-ins. No additional applications are required. Second Market user log-ins will follow the same naming convention as First Market user log-ins but will be used for specific Second Market bins. First Market log-ins may not be used to submit quotes in Second Market products, and Second Market log-ins may not be used to submit quotes in First Market products. In addition, the ISE will offer a new Second Market universal log-in (cross-bin) similar to the XM user offered in the First Market.

If you wish to participate in the Second Market as a market maker, please contact Jodi Burns, Director of Product Operations, 646-805-1823 or jburns@iseoptions.com.

Existing EAMs are automatically provided access to the Second Market. No access fee is incurred, and EAMs may use their existing log-ins to submit orders in Second Market products.

The ISE will conduct a Product Test for members on Saturday, August 12, 2006. Please contact ISE Market Operation at 877-473-9989 for additional information about this test. In addition, API users must perform conformance testing with ISE Technology Member Services (212-897-0244 or tms@iseoptions.com).

Additional information can be found at:

[http://www.iseoptions.com/legal/pdf/proposed_rule_changes/SR-ISE-2006-40\\$Second_Market\\$20060705.pdf](http://www.iseoptions.com/legal/pdf/proposed_rule_changes/SR-ISE-2006-40$Second_Market$20060705.pdf).

Please contact Jodi Burns, 646-805-1823 or jburns@iseoptions.com if you have questions about the Second Market.