

Regulatory Information Circular			
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Subject: Second Market

The Exchange's Second Market for the trading of low-volume securities has been approved by the SEC and trading will start on Monday, October 16th. The new rules are attached. No changes were made to other ISE rules.

- Electronic Access Members: Whether a security is listed in the ISE's existing "First Market" or in the new Second Market will be transparent to Electronic Access Members. All of the Exchange's existing rules applicable to Electronic Access Members apply to orders entered in Second Market options without modification.
- Second Market Primary Market Makers ("SMPMMs"): All of the market making requirements applicable to primary market makers in the First Market are applicable to SMPMMs. Among other things, SMPMMs are required continuously quote all of the series of all of the options classes to which they are appointed.
- Second Market Competitive Market Makers ("SMCMMs"): SMCMMs may quote in all of the options classes listed in the second market. However, unlike competitive market makers in the First Market, SMCMMs are not required to quote in a minimum number of options classes, so they can choose to make markets in as many or as few options classes as they wish on a daily basis. If a SMCMM chooses to make markets in one or more Second Market options classes, it must initiate quoting at the open and continuously quote in all of the series of each options class for the entire day. This means that unlike a competitive market maker in the First Market, an SMCMM is not permitted to start quoting in a Second Market options class intraday.

Please contact me with any questions.

Chapter 9 Second Market

Rule 900. Definition of Second Market

The “Second Market” refers to the trading of low volume equity options classes (excluding options on exchange traded funds) according to modified marketplace rules as provided in this Chapter 9. For purposes of this Chapter, the trading of all other securities on the Exchange is referred to as the “First Market.”

Rule 901. Application of Exchange Rules to Second Market

All of the Exchange’s Rules applicable to the listing and trading of equity options are applicable to the trading of options listed in the Second Market except as otherwise provided in this Chapter 9.

Rule 902. Member Access to Second Market

(a) Electronic Access Members. All Electronic Access Members may enter orders into the Second Market.

(b) Second Market Primary Market Maker (“SMPMM”). The Exchange will appoint one SMPMM for each options class traded in the Second Market. Only those Members that are approved to exercise the trading privileges associated with one or more Primary Market Maker Memberships are eligible to be appointed as a SMPMM for options classes listed in the Second Market. Such Primary Market Makers are automatically eligible for Second Market appointments so long as they pay the stated monthly access fee.

(c) Second Market Competitive Market Makers (“SMCMM”).

(1) There is no limitation on the number of Members that may participate in the Second Market as SMCMMs. SMCMMs are entitled to make markets in all options classes listed in the Second Market.

(2) Members that are approved to exercise the trading privileges associated with one or more Primary Market Maker Memberships or Competitive Market Maker Memberships are automatically eligible to participate in the Second Market as SMCMMs so long as they pay the stated monthly access fee.

(3) Members that are approved as Electronic Access Members are eligible to apply to become SMCMMs. Such Electronic Access Members must complete a market maker application, be approved by the Exchange, and pay the stated monthly access fee. The market maker application and standards for

approval shall be the same as those applicable to exercising the trading privileges associated with a Competitive Market Maker Membership.

Rule 903. Second Market Listing

(a) Listing Standards. All securities listed for trading in the Second Market must meet the initial listing and delisting criteria contained in Chapter 5.

(b) Initial Listings. All newly listed options classes that are traded on another options exchange and that had an average daily market volume below 500 contracts over the previous six (6) month period will be listed in the Second Market. The maximum average daily market volume for such options classes eligible for initial listing in the Second Market shall be 1500 contracts over the previous six (6) month period. Such newly listed options classes with an average daily market volume of 500 to 1500 contracts may be listed in either the First Market or Second Market as the Exchange deems appropriate.

(c) Listing Adjustments. Starting one (1) year after trading in the Second Market is initiated, the Exchange will review the market in which options classes are listed every three months. Options classes that are listed and trading in the First Market will be moved into the Second Market if the average daily volume over the prior six (6) month period is less than 300 contracts. Such options classes will remain in the Second Market for at least twelve (12) months before being returned to the First Market. Options classes will be moved out of the Second Market and into the First Market if the average daily volume over the prior six (6) month period exceeds 750 contracts.

Rule 904. Market Maker Quotes and Orders

(a) Quotes. Except as provided below, all of the requirements of Rules 803, 804, and 805 related to quoting obligations of Primary Market Makers and Competitive Market Makers apply to SMPMMs and SMCMMs respectively. For purposes of the Rules, SMCMMs are considered appointed to all of the options classes listed in the Second Market.

(1) SMCMMs are not required to make markets in a minimum number of options classes in the Second Market. SMCMMs may choose whether to make markets in one or more options classes traded in the Second Market on a daily basis.

(2) If an SMCMM chooses to make markets in one or more options classes in the Second Market, it must participate in the opening rotation and make markets and enter into any resulting transactions on a continuous basis in all of the series of the options class until the close of trading that day. SMCMMs may not initiate quoting in an options class intraday.

(b) Market Maker Orders.

(1) SMPMMs may enter orders in options classes listed in the Second Market to which they are not appointed, so long as the total number of contracts executed during a quarter by a SMPMM in Second Market options to which it is not appointed does not exceed ten percent (10%) of the total number of contracts it traded in the Second Market.

(2) SMCMMs may enter orders in options classes listed in the Second Market for which they are not currently making markets, so long as: (1) they are making markets in at least one options class listed in the Second Market at the time such orders are entered; and (2) the total number of contracts resulting from such orders does not exceed twenty five percent (25%) of the total number of contracts they executed in the Second Market during a quarter.