

ISE Enhanced Foundation Of Innovation and Leadership in 2002 Poised to Increase Competition, Trading Experience In 2003

NEW YORK, January 8, 2003 – The International Securities Exchange (ISE) significantly expanded its foundation of innovation and leadership in the US securities market during 2002, the second full year of operations for the nation’s only fully-electronic options exchange.

Despite a difficult economic and financial market environment in 2002, ISE increased its market share, its average daily trading volume, its product portfolio, and its membership and customer bases. ISE also introduced several critical enhancements to its trading systems to offer members innovative technological solutions to help them better navigate the marketplace. ISE enters 2003 with a proven tool-kit of operational and technological capabilities, and a staff skilled in their application.

“The International Securities Exchange met the challenges of the last year by maintaining a vigilant focus on meeting its customer needs, identifying areas for improvement and judiciously expending corporate resources. In my view, there will be more opportunities to grow our business in the coming year. We have many exciting initiatives that I expect will generate more activity in 2003,” said David Krell, ISE’s chief executive officer and president.

Securities firms more than doubled the number of options contracts that they executed at ISE in 2002. ISE’s average daily trading volume increased 130% to 604,251 contracts, compared to 263,531 contracts in the year-ago period. In total, ISE traded 152 million options contracts in 2002, up 133% from 65 million contracts in the previous year.

“ISE’s growth during the past 12 months is an indication that the ISE trading experience continues to be embraced by firms and their customers. But the numbers tell only a fraction of ISE’s evolution in 2002, a year in which ISE entered its second growth phase,” said Gary Katz, ISE’s chief operating officer.

ISE’s accomplishments in 2002 were distinguished by its commitment to providing its members and investors with the resources needed to maximize the ISE trading experience. In 2002:

- ISE achieved in May its goal of offering options investors a selection of equity options representing 90% of the US options industry’s average daily trading volume.
- ISE continued to fulfill its promise of offering investors a superior trading experience characterized by high-quality order executions.
- ISE traded its 75th millionth options contract in January, its 100 millionth contract in March, its 150 millionth contract in July, and 200 millionth contract in October.
- ISE increased the number of CLICK ® trader workstations occupying desk real estate. At December’s end, 329 CLICK ® terminals were deployed, a 28% increase from 2001.
- ISE fulfilled its goal of establishing connectivity with the largest US brokerage firms.
- ISE’s number of Electronic Access Members (EAM) increased to 94, compared to 65 in 2001.
- ISE continued to fulfill its promise of enhancing competition and fairness in the US options market by filing a “one-size fits all” trading rule with SEC to offer all broker/dealers the same benefits historically enjoyed by customers.
- ISE shortened the Facilitation Mechanism order exposure timer to 10 seconds from 30 seconds.
- ISE fulfilled its goal of continually enhancing and improving technology solutions to help investors better navigate the market. Software upgrades versions 17.1 and version 17.2, established the foundation for ISE to offer enhanced spread trading capabilities and to participate in the electronic linkage of the US options market.
- ISE traded 519 equity options classes at the end of 2002, up from 436 in the previous year.
- Ivers W. Riley, internationally recognized as a leader in the global derivatives industry, was appointed Chairman of the Board of Directors in April. Mr. Riley previously served as chief

executive officer of the Hong Kong Futures Exchange, and chairman of the HKFE Clearing Corp. Mr. Riley has held senior level positions in the US securities industry at PaineWebber, New York Stock Exchange, Chicago Board Options Exchange, and the American Stock Exchange.

- ISE created a department of Research and Corporate Affairs to provide analytical and statistical information to make more informed corporate decisions.
- ISE demutualized its corporate structure by separating trading rights and ownership rights. Demutualization, which was approved in April by the Securities and Exchange Commission, enhances ISE's ability to execute its strategic agendas because it offers ISE greater flexibility in raising capital and also streamlines the decision-making process.
- ISE initiated its first branding campaign. Advertisements were published in national publications and securities industry trade journals to illuminate the benefits of the ISE trading experience, such as lightning-fast executions, better prices, anonymity which eliminates time and place advantages, and full transparency thanks to quotes with displayed size.
- ISE continued to enhance its commitment to members by instituting a formal customer service program. ISE contracted an outside consulting firm to conduct a detailed survey of ISE's Primary Market Makers, (PMM), Competitive Market Makers (CMM) and Electronic Access Members (EAMs) to better insure the calibration of ISE's operations, offerings, and growth plans with the needs of its customer.
- ISE introduced ISE *line*, an Internet-based instant messaging system to provide direct, real-time communications between ISE's Market Control Center, Primary Market Makers (PMM), Competitive Market Makers (CMM), and trading desks and service centers at ISE member firms.
- ISE established an Education Department to actualize ISE's corporate philosophy that educated investors make educated decisions. ISE's Education Department offers tailor-made programs and training for ISE member firms and prospective members.

Mr. Krell said ISE is prepared to address the challenges, known and unknown, that will materialize in 2003. "Our job now is to make certain that the strong base we created is continually enhanced. We cannot and will not become complacent, nor will we be satisfied, until we have completed our mission to become the best derivatives exchange in the world," Mr. Krell said.

ISE Background

The International Securities Exchange (ISE) pioneered electronic options trading in the U.S.

Within 18-months of its May 26, 2000 launch, ISE became the third largest of five domestic options exchanges, a position that it has enhanced by capturing the lead market share in its listings. ISE is the only fully-electronic U.S. options exchange, the first registered securities exchange approved by the Securities and Exchange Commission since 1973, and the first and only electronic options exchange in the global marketplace that has successfully integrated the intrinsic efficiencies of electronic trading with auction market principles.

ISE lists 524 options classes, whose aggregate volume represents more than 90% of the industry's total equity options volume. For more information about ISE, its products and its technology, visit www.iseoptions.com.

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