

ISE Strengthens Leadership Position in 2003 Plans to Increase Product Lines in 2004

NEW YORK, January 7, 2004 – The International Securities Exchange (ISE), which completed its third full year of operations in 2003, ended the trading year as the world's largest equity options exchange.

ISE secured its 2003 advancements by continuing to enhance its trading systems to provide members and customers with more flexibility in executing their orders. Many of the trading system enhancements were created and introduced in response to requests from ISE's customers and members.

"The US options industry benefited from strong growth in 2003 as options contracts grew in popularity among individual and institutional investors," said David Krell, ISE's President and Chief Executive Officer. "ISE's market share increased as a result of its ongoing efforts to introduce new trading technologies and to attract new firms to enter the market."

ISE's average daily trading volume increased 61% to 971,742 contracts, compared to 604,251 contracts in the year-ago period. In total, ISE traded 244,879,035 million options contracts in 2003, up 61% from 152,271,279 million contracts in the previous year.

ISE's market share in its listings was 32%, up 33% compared to the same year-ago figure. ISE's total market share, which includes index options, was 30%, up 10% compared to the same year-ago figure.

In another important measure of ISE's position within its industry, ISE executed more customer volume in ISE-listed options in 2003 than any other US exchange. The spreads available in ISE's listed options classes are tighter than, or equal to, away markets more than 93% of the time. Moreover, ISE's PMMs and CMMs are willing to provide an average of more than four times the liquidity than counterparts at competing exchanges.

"In 2003, ISE concentrated on strengthening its core technology and building the infrastructure to expand its product line into index options. We enter 2004 committed to provide investors and members with additional products and trading functionality. As always, ISE will continue to approach these improvements by consulting its customer base and aligning new functionality and products with customer demand," said Gary Katz, ISE's Chief Operating Officer.

In 2003:

- ISE implemented a "one size fits all" trading rule in January that ensures market makers and firms receive the same order execution privileges long enjoyed by customers. In a "one size market," the displayed size of ISE's Primary Market Makers (PMMs) and Competitive Market Makers (CMMs) applies to incoming orders from customers, broker/dealers, firms, away market makers, and immediate or cancel orders entered by other market makers. The Securities and Exchange Commission's approval of this trading rule marked the first time in the 30-year history of the US options market that professional traders have been able to enjoy the same order-execution benefits as public customers.
- ISE introduced ISE *spreads*, allowing members to automatically execute multiple part trades, such as spreads, straddles, strangles and butterflies, against the combination order book and against bids and offers posted in ISE's regular order book and also

against incoming bids and offers. Volume in multiple part trades on ISE has increased 56% since its introduction on February 7, 2003.

- ISE launched the ISE Sentiment Index (ISEE) which measures opening customer transactions in call and put options, providing investors with information on the customer buying and selling activity within the world's largest equity options exchange.
- Many of the securities industry's largest brokerage firms sent letters to the Securities and Exchange Commission (SEC) in support of ISE's 2002 petition with the SEC asking the regulatory agency to use its rule-making authority to amend its rules to prohibit an exchange from being a party to exclusive or preferential licensing arrangements with respect to index options products and options overlaying other instruments. ISE believes that prohibiting such license arrangements will enhance competition in the market and will result in significant benefits for the investing public.
- ISE implemented the technological and regulatory foundation to trade index options, which allowed ISE to expand its product base. The Standard & Poor's SmallCap 600 Index, which was ISE's first listed index product, has experienced a 99% increase in average daily volume since it began trading on October 3, 2003.
- ISE introduced a low cost Virtual Private Network (VPN) connectivity solution that allows broker/dealers to use ISE trader workstations to route orders to ISE's market over the Internet.
- ISE implemented a \$1.00 strike price pilot program covering options classes on stocks priced between \$3.00 and \$20.00 to offer investors greater flexibility in managing their investments by more closely aligning options strike prices with stock prices.
- ISE increased the liquidity available in the US options market.
 - The following firms joined ISE as PMMs in 2003:
 - Citadel Derivatives Group, a subsidiary of Citadel Investors Group
 - Merrill Lynch Professional Clearing Corporation
 - The following firms joined ISE as CMMs in 2003:
 - Citadel Derivatives Group, a subsidiary of Citadel Investors Group
 - Merrill Lynch Professional Clearing Corporation
 - Optiver US, LLC
 - UBS Securities LLC
- ISE's number of Electronic Access Members (EAM) increased to 123, compared to 94 in 2002
- ISE traded its 250 millionth contract in February, its 300 millionth contract in May, and its 400 millionth contract in October.
- ISE listed 590 equity options classes at the end of 2003, up from 519 in the previous year.
- ISE's Board of Directors voted to add 30 Competitive Market Makers (CMMs) memberships, bringing the total number of CMMs from 130 to 160. The issuance is currently pending SEC approval.
- ISE elected Dr. Thomas R. Cardello, Managing Director of Morgan Stanley and Sarah Miller, Director of the Center for Securities, Trust and Investments at the American Banking Association to its Board of Directors. The ISE Board consists of 15 members, seven industry directors and eight non-industry directors.
- ISE completed its third annual customer service survey to insure that ISE's operations are optimally calibrated with the needs and desires of its members and customers.
- ISE was named Derivatives Exchange of the Year by Risk Magazine for the second time in three years.

Mr. Krell said that ISE remains committed to its founding principles of market integrity, transparency, and efficiency. He said ISE plans to move forward with a number of new products and system enhancements next year. "We believe that ISE is poised to benefit from the global trends that continue to impact the options market," Mr. Krell said.

ISE Background

The International Securities Exchange, the world's largest equity options exchange, was founded on the principle that technology fosters and infuses new efficiencies and operational innovations into securities trading. After developing an innovative market structure that integrated auction market principles into an advanced screen-based trading system, ISE launched the first fully electronic US options exchange in May 2000. ISE continually enhances its trading systems to provide investors and the trading community with the most efficient, least expensive order executions possible.

For more information about ISE, its products and its technology, visit www.iseoptions.com.

CONTACT:

Alicia Curran
Corporate Affairs Manager
Research & Corporate Affairs
International Securities Exchange
(212) 897-8181
acurran@iseoptions.com

-ISE-