INTERNATIONAL SECURITIES EXCHANGE

Regulatory Information Circular – 2000-13

To: ISE Members and Member Firms

Date: December 26, 2000

Re: Regulatory Responsibilities & Payment for Order Flow

As you know, the Exchange recently adopted a new marketing fee that may result in more Primary Market Makers ("PMMs") on ISE offering to pay for order flow. This action was taken in response to the growing use of payment for order flow by specialists on other options exchanges, and it may in turn lead to further expansion of these practices in other markets. Those Exchange members who accept payment for order flow, whether from Exchange PMMs or from any other source must comply with Securities and Exchange Commission disclosure rules under the Securities Exchange Act of 1934: Exchange Act Rules 10b-10 and 11Ac1-3. [1]

Members accepting payment for order flow from any source should also note that the order routing decisions of any particular firm that accepts payment must be based on fulfilling the firm's obligation to provide best execution of customer orders, and that this obligation must not be compromised by the payment firms may receive for directing orders to a particular market. In other words, in deciding where to direct a customer's order for execution, a firm should analyze the various execution alternatives available to it from the perspective of how to achieve best execution of the customer's order without regard to the firm's economic self-interest in obtaining payment for the order.

If you have any questions regarding the foregoing, please contact Michael Simon, General Counsel (212-897-0230; msimon@iseoptions.com) or Katherine Simmons, Associate General Counsel (212-897-0233; ksimmons@iseoptions.com)