

A vertical blue gradient bar is on the left side of the slide. A horizontal blue line is positioned near the top, starting from the vertical bar and extending across the width of the slide.

**New York University**

**David Krell**

**March 29, 2004**

# International Securities Exchange

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# What Do Exchanges Provide

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- Price discovery
- Liquidity
- Order flow consolidation
- Transparency
- Price stability
- Immediacy
- Regulation & Surveillance
- Fairness



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“While technology has enabled us to do things that we couldn’t have dreamed of 10 or 20 years ago, it’s a very small part of the work that has to be done in order to get the value.”

“The Information Paradox”  
John Thorp



## Electronic Vs. Floor Trading



# Question

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What is the definition of electronic trading?



The basis of the U.S. options industry's experience with electronic trading is derived from international electronic exchanges.



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The international electronic market model will not work in the United States

- Few Competitors
- Mostly Professional Participants
- Order by Order
- Number of products
- Capacity



# Advantages of Electronic Trading

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- Cost
  - Market Impact
  - Exchange Fees
  - Brokerage Charges
  - Memberships
- Speed
- Independent Quoting
- Size Associated with Quotes



# Advantages of Electronic Trading

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- Anonymity
- Product Coverage
  - Within One Exchange
  - Across Multiple Exchanges
- Risk Management
- Immediate Comparison



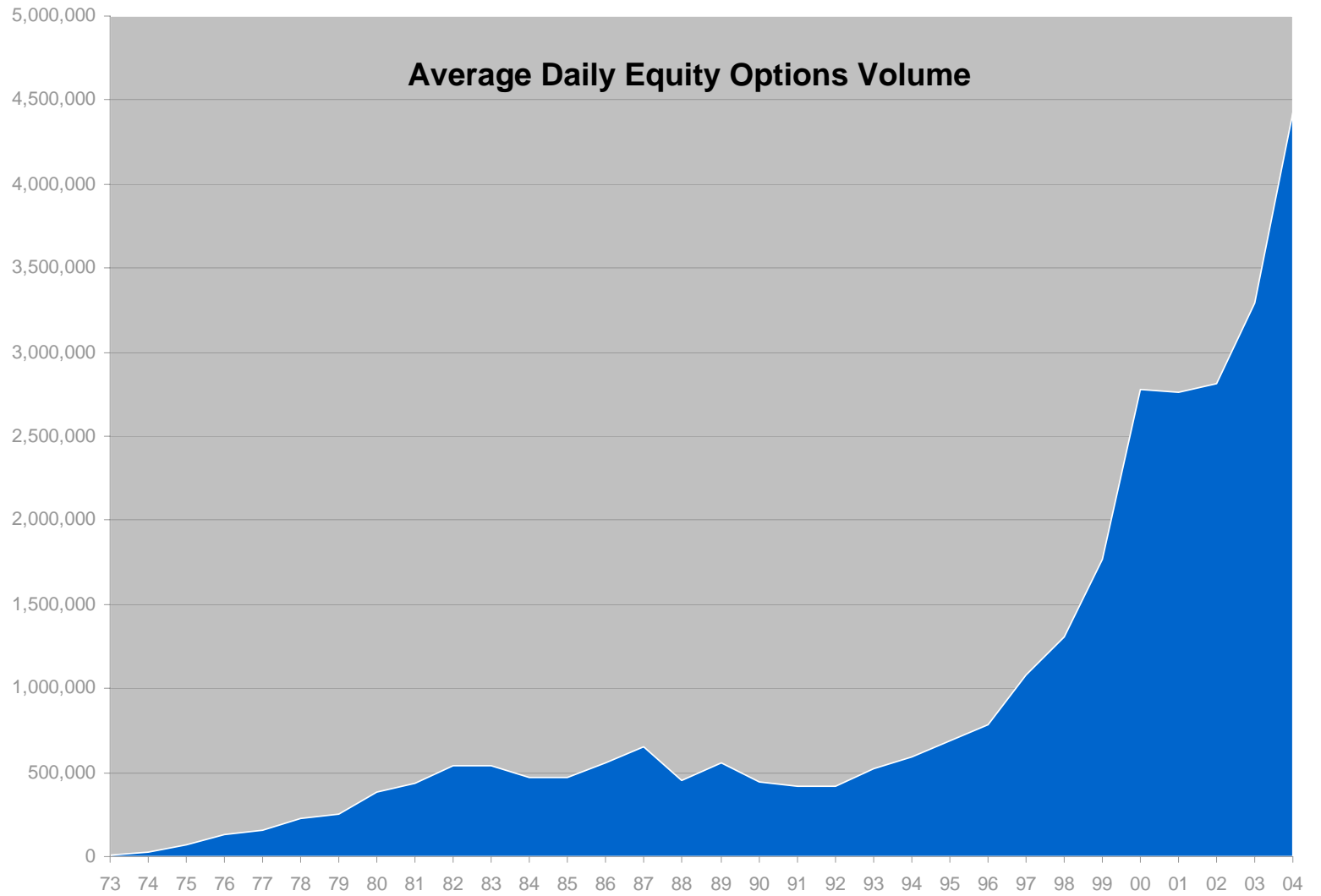
# Advantages of Electronic Trading

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- Latest Technology
- Open API
- Transparency : WYSIWYG
- Electronic Audit Trail



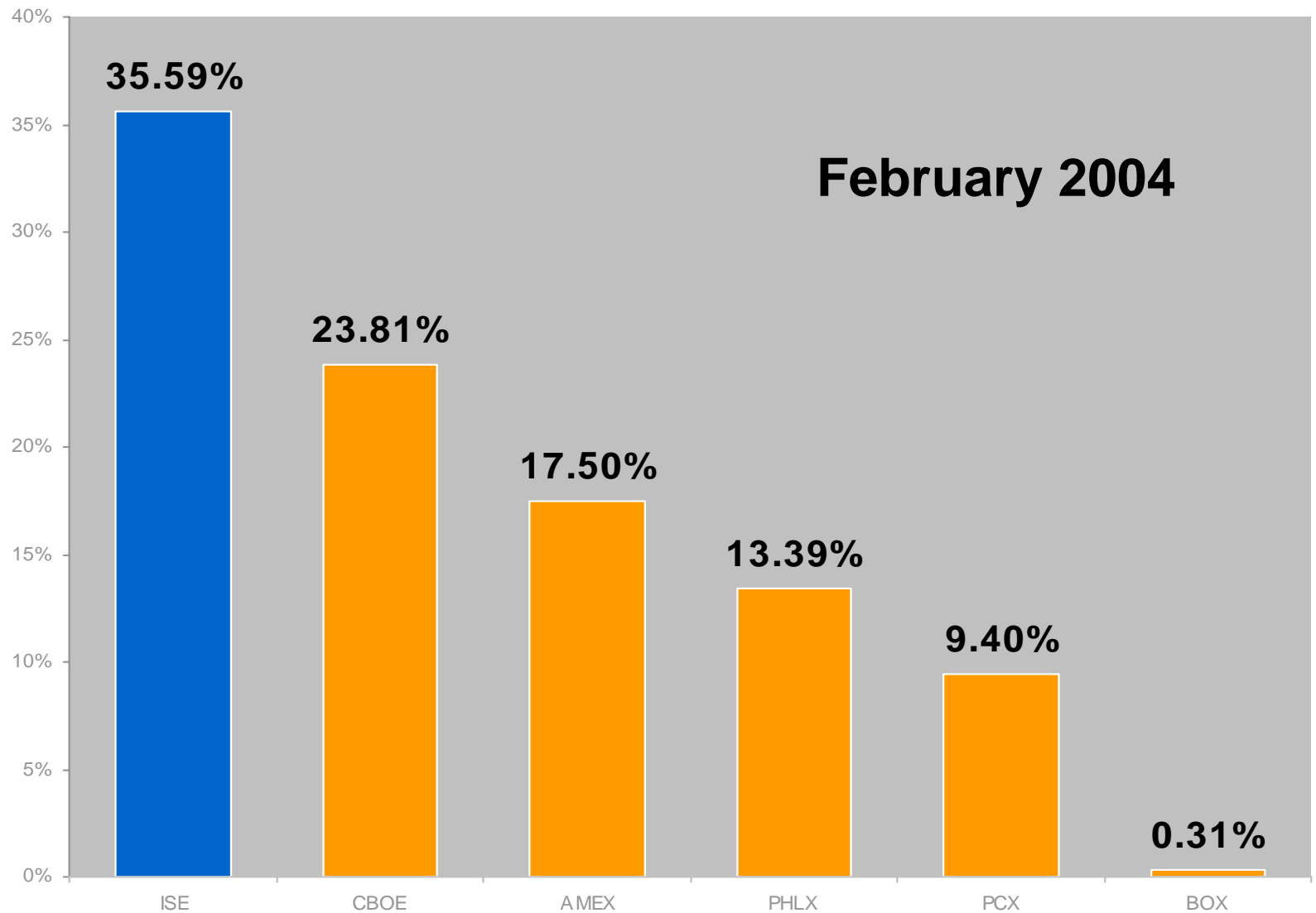
# Growth of Industry





# Market Share by Exchange

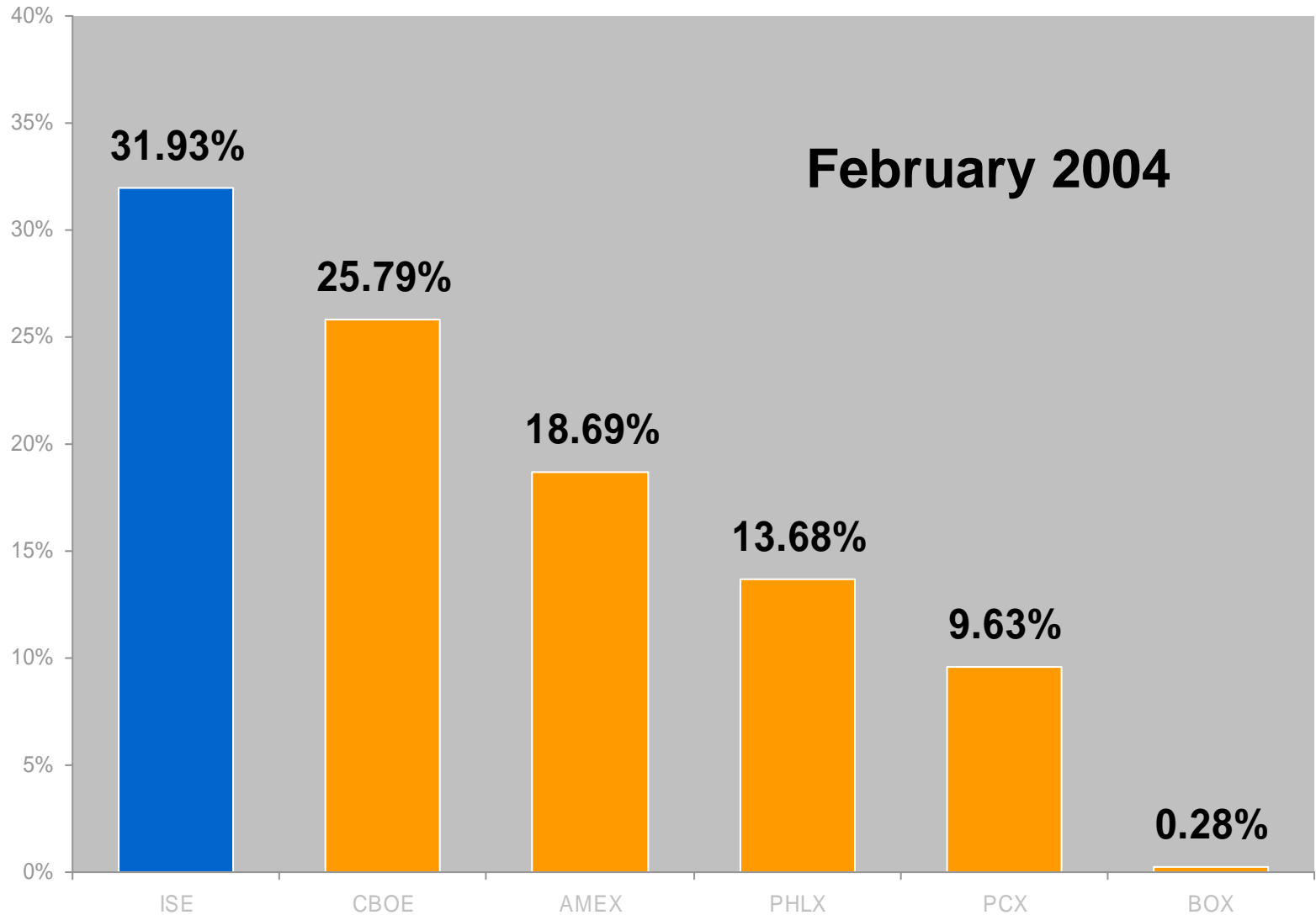
ISE Listed Products





# Market Share by Exchange

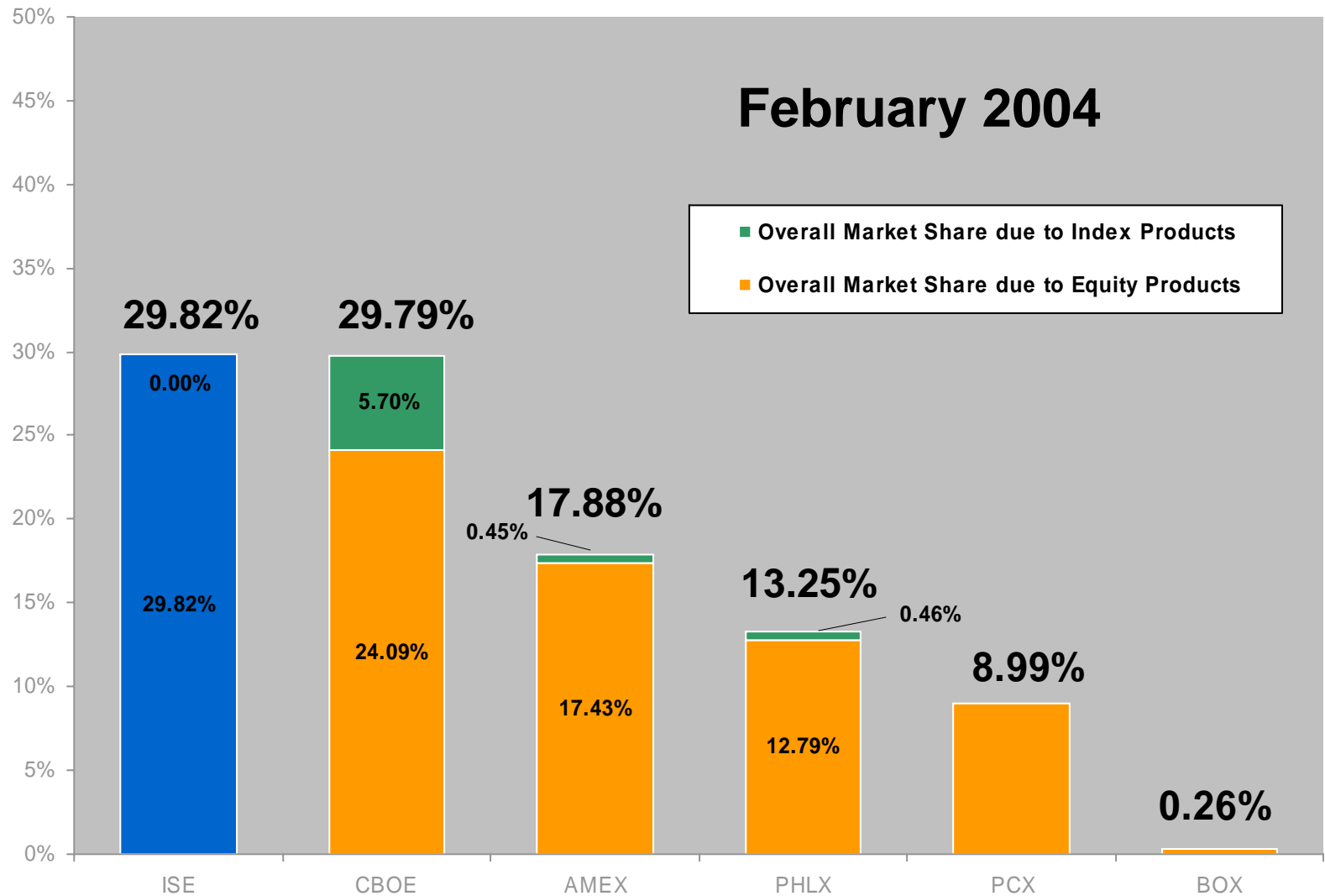
Equity Options





# Market Share by Exchange

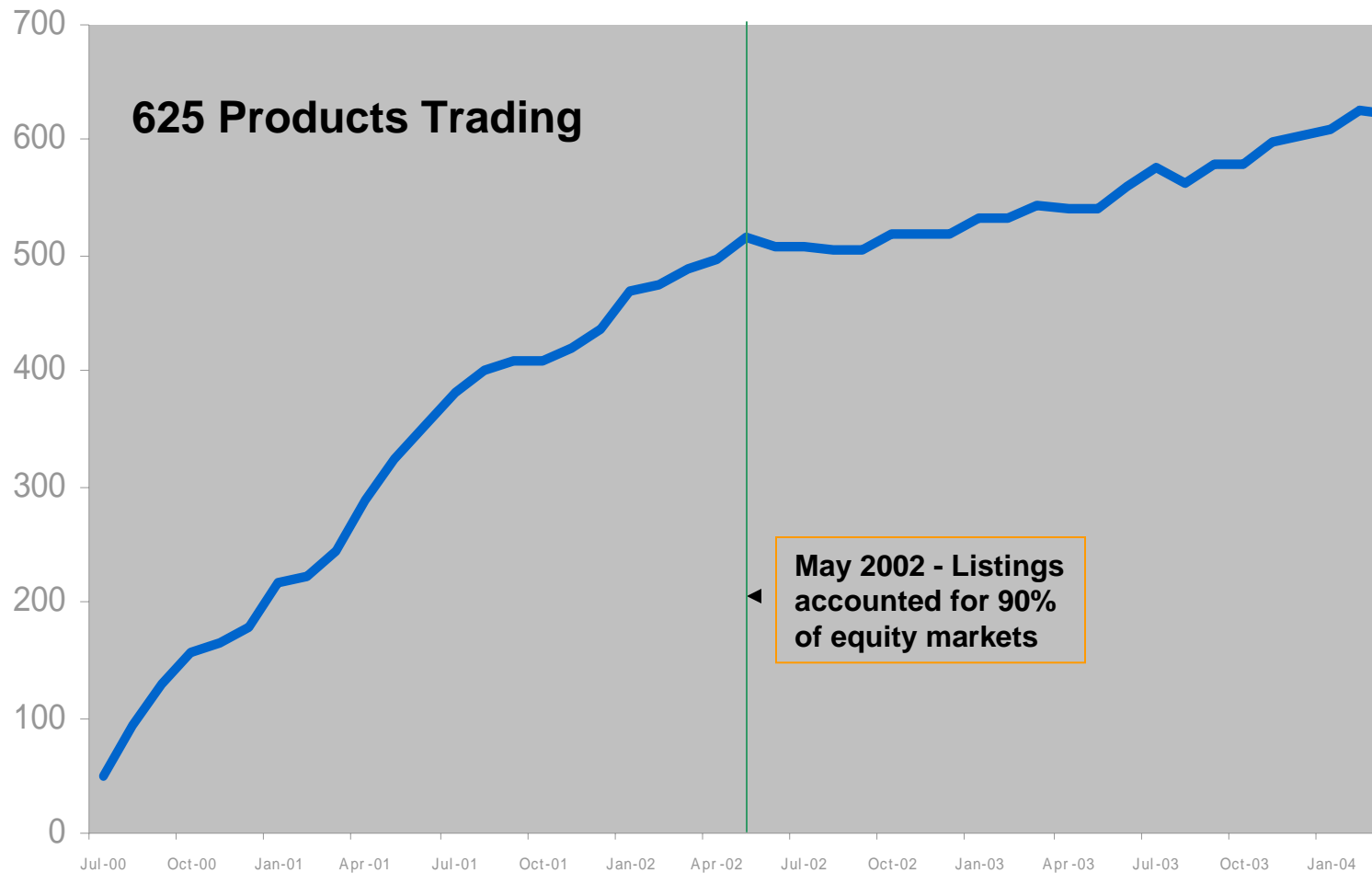
All Options Products





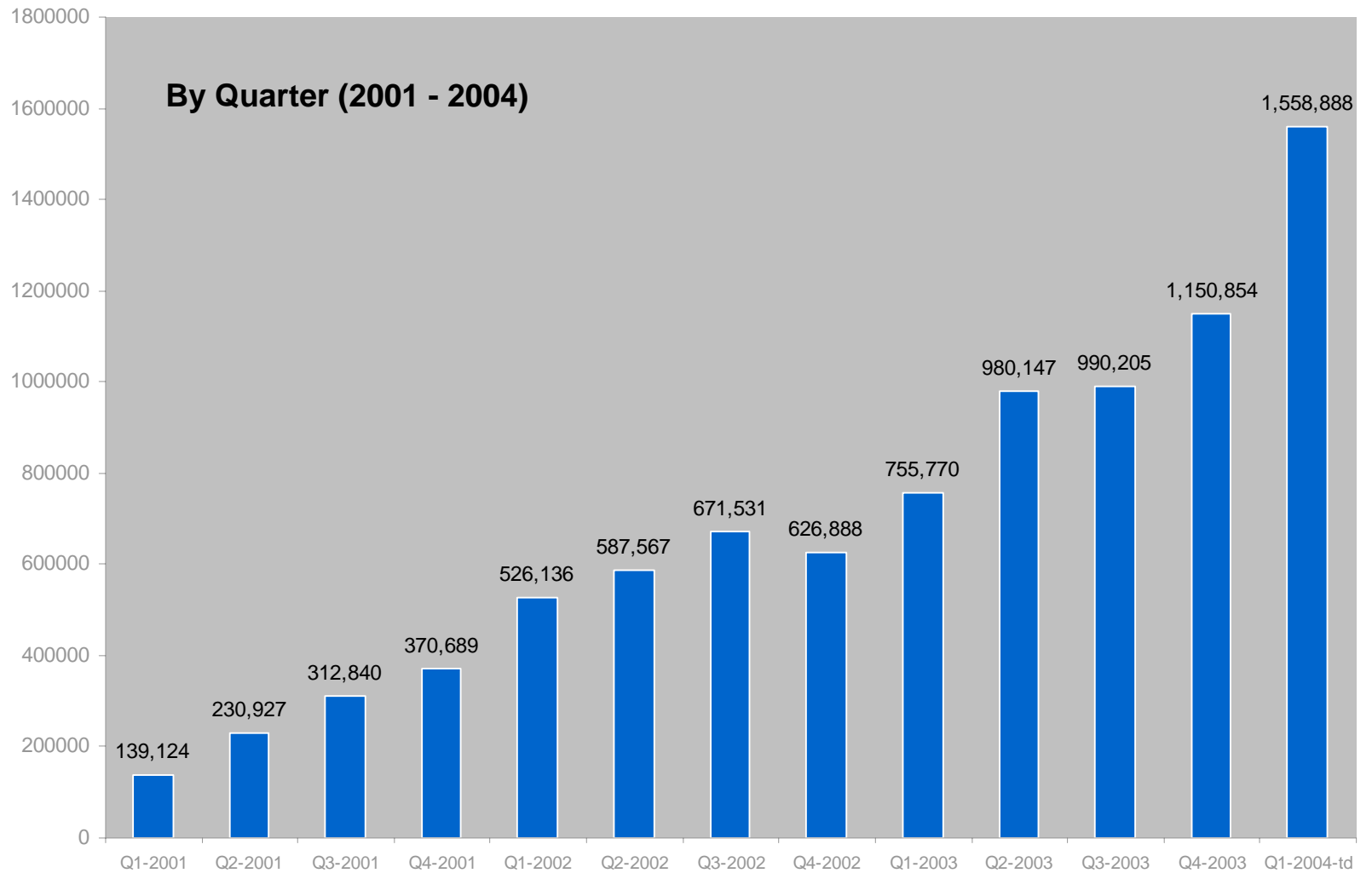
# ISE Products Trading

Through February 29, 2004



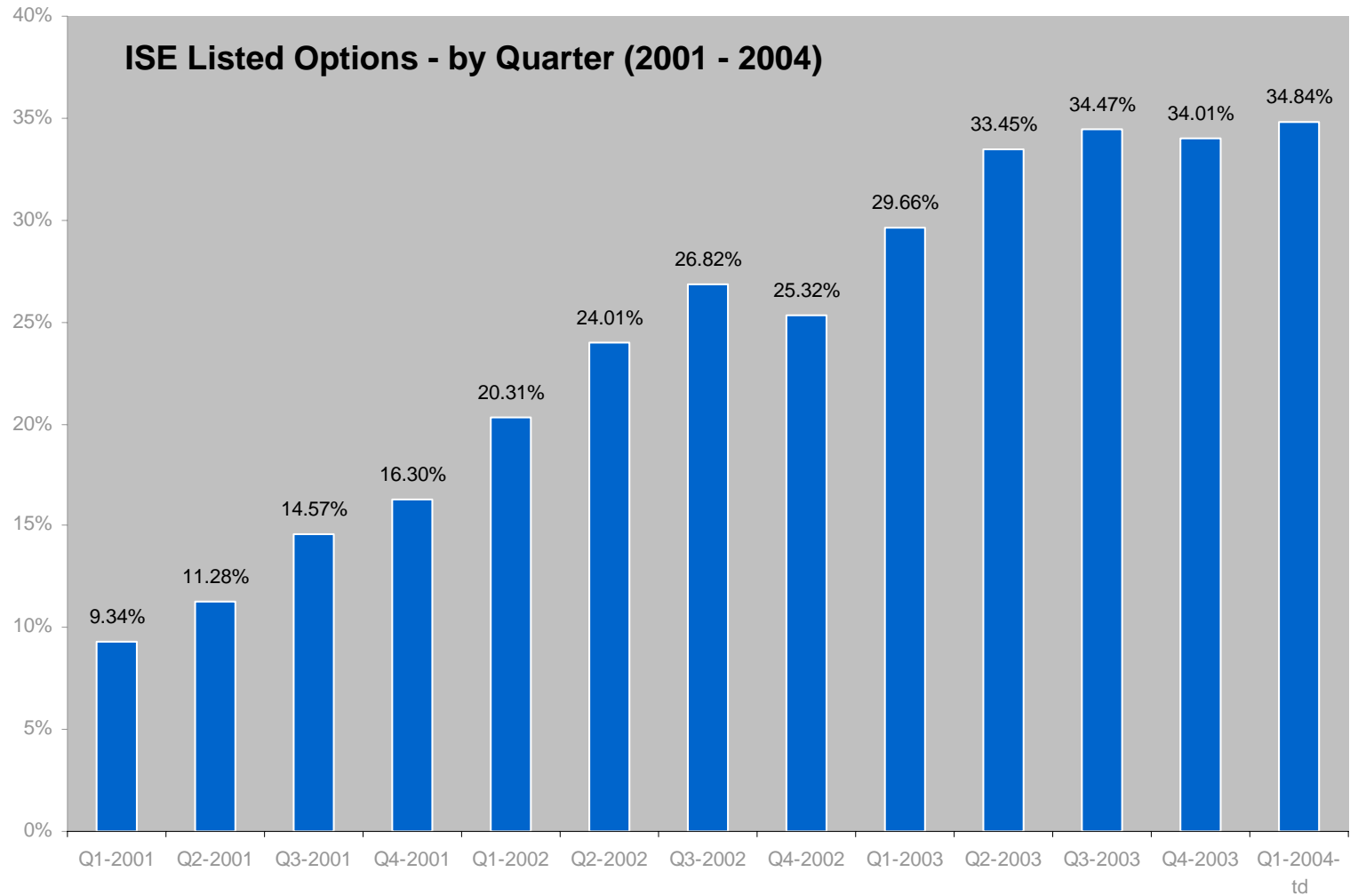


# Average Daily Volume on the ISE



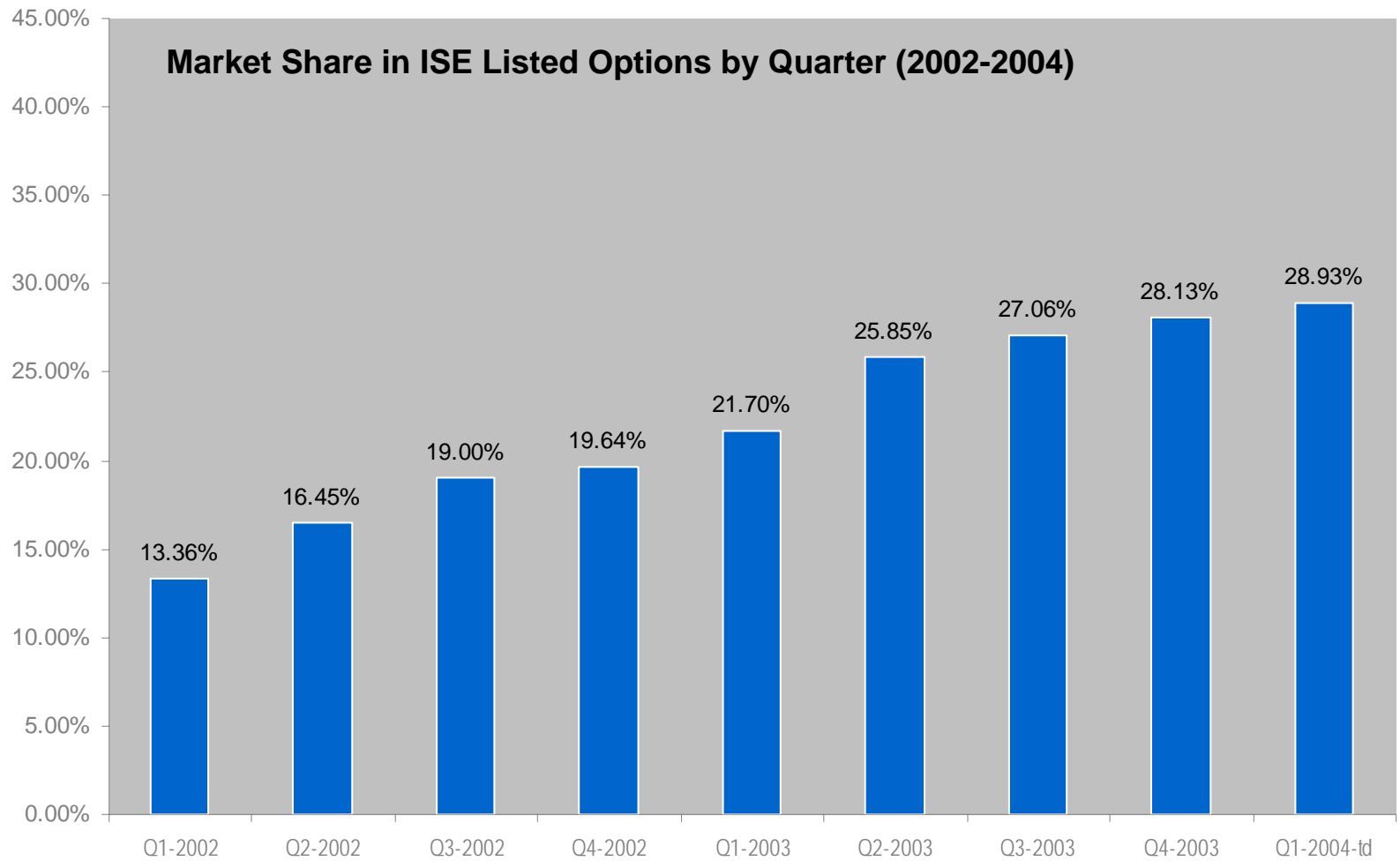


# Market Share Growth



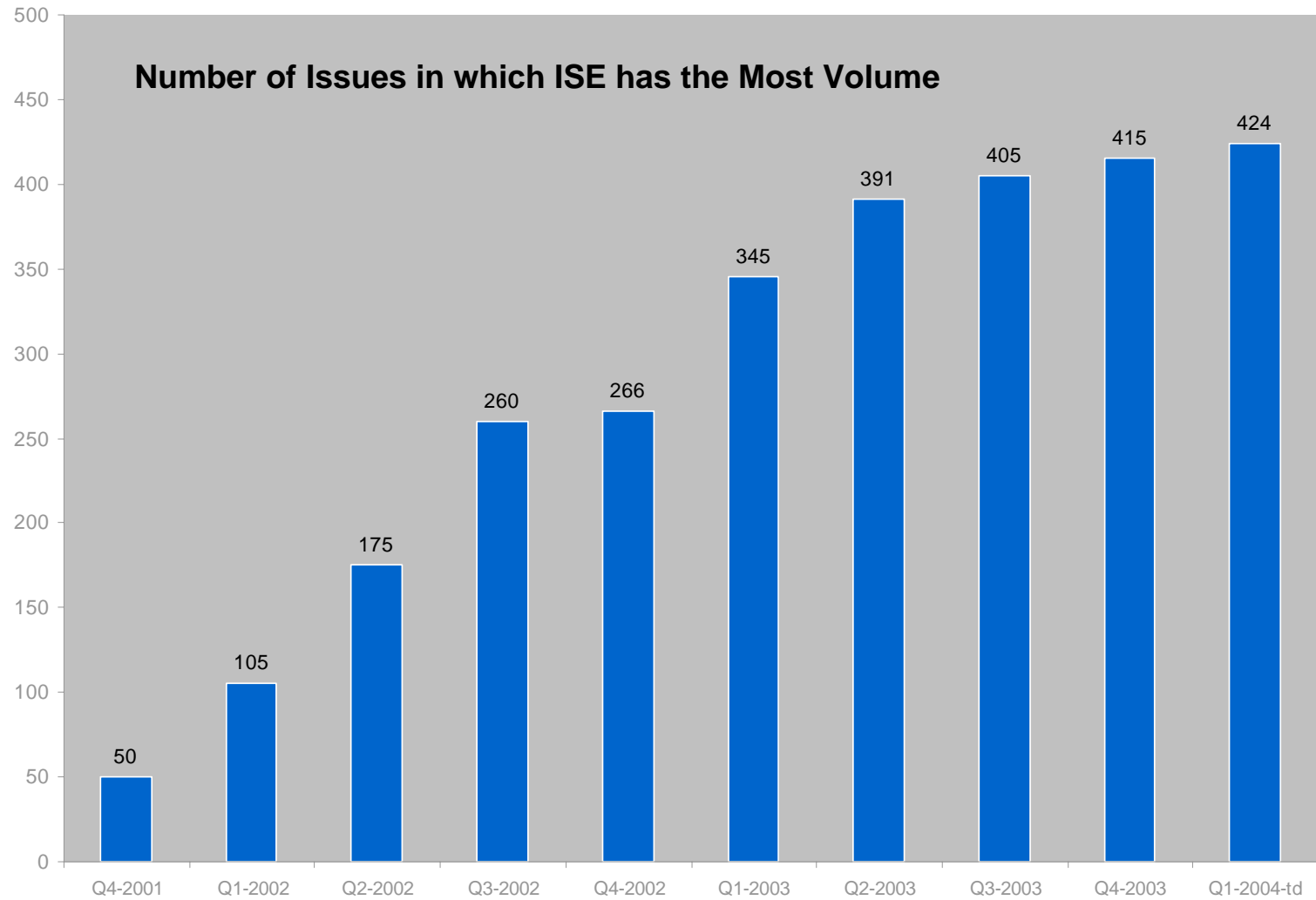


# Customer Market Share





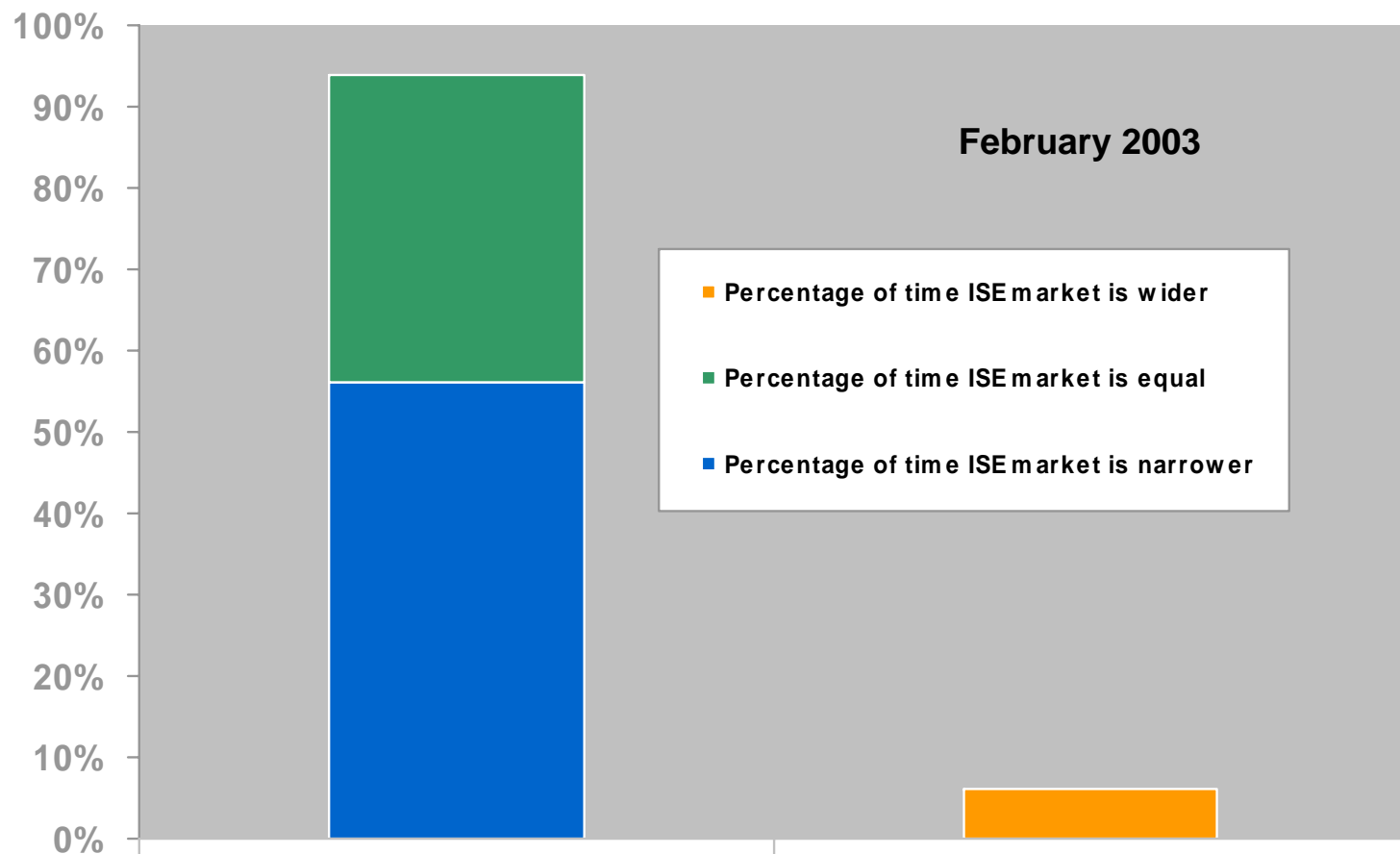
# Lead Market Analysis





# Quality of Markets

For All Options Premiums





# Liquidity


ISE is five times more liquid than the other options exchanges combined.\*

Option Class	NBBO Average Size	ISE Average Size
QQQ	1066	4,780
MSFT	323	1,271
INTC	276	909
CSCO	410	1,251
EBAY	88	406
IBM	128	423
DELL	157	914
ORCL	383	1,262
AMZN	101	505
AMAT	166	1,003

\*Based upon average quoted size available at the NBBO in the 100 most-actively traded options classes listed on ISE from the period June 1 through December 31, 2003. For this comparison, the NBBO was calculated without the ISE's quotes included.



# Proprietary Trading Fees

	Transaction Fee	Match/Comparison Fee	Exchange Floor Broker Fee	Total	% Higher than ISE
<b>AMEX</b>	\$0.19	\$0.04	\$0.03	\$0.26	<b>44%</b>
Autoex	\$0.50	\$0.04		\$0.54	<b>200%</b>
<b>CBOE</b>	\$0.19	\$0.05	\$0.04	\$0.28	<b>56%</b>
Autoex	\$0.49*	\$0.05		\$0.54	<b>200%</b>
<b>PCX</b>	\$0.21	\$0.05	\$0.00	\$0.26	<b>44%</b>
Autoex	\$0.41	\$0.05		\$0.46	<b>156%</b>
<b>PHLX</b>	\$0.20	\$0.04	\$0.05	\$0.29	<b>61%</b>
Autoex	\$0.45	\$0.04		\$0.49	<b>172%</b>
<b>BOX</b>	\$0.20	\$0.00	0	\$0.20	<b>11%</b>
	<b>\$0.15</b>	<b>\$0.03</b>	<b>\$0.00</b>	<b>\$0.18</b>	<b>CHEAPER FASTER BETTER</b>

**>> All fees listed do not include monies paid to executing floor brokers.**

\*This fee is composed of a 19 cent per contract transaction fee and a 30 cent per contract RAES access surcharge at the CBOE. Fee information was obtained from fee schedules publicly available from the options exchanges as of March 1, 2004. Some fees were not discernable in their applicability to certain transactions. International Securities Exchange, Inc. used its best efforts to confirm all fees with exchange members. The ISE transaction fee is for March 2004, and is variable depending on average daily volume.



# Success in Business

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The pure model for any successful business:

- Provide a high quality product
- Maintain lowest production cost
- Respond to customer needs
- Innovate



# Conclusion

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The successful exchange, **whether electronic or floor based**, incorporates:

- Order flow
- Liquidity
- Service

# International Securities Exchange

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