

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-57425; File No. SR-ISE-2008-19)

March 4, 2008

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the Quarterly Options Series Pilot Program to Permit the Listing of Additional Series

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on March 3, 2008, the International Securities Exchange, LLC (“Exchange” or “ISE”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been substantially prepared by the Exchange. The Exchange has designated this proposal as non-controversial under Section 19(b)(3)(A)(iii) of the Act³ and Rule 19b-4(f)(6) thereunder,⁴ which renders the proposed rule change effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The ISE proposes to amend Supplementary Material .03 to Rule 504, Quarterly Options Series Pilot Program, to permit the Exchange to list strike prices for Quarterly Options Series (“QOS”) in exchange traded fund (“ETF”) options that fall within a percentage range (30%) above and below the price of the underlying ETF. Additionally, upon demonstrated customer interest, the Exchange also will be permitted to open additional strike prices of QOS in ETF options that are

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(iii).

⁴ 17 CFR 240.19b-4(f)(6).

more than 30% above or below the current price of the ETF. Market Makers trading for their own account will not be considered when determining customer interest under this provision. In addition to the initial listed series, the Exchange may list up to sixty (60) additional series per expiration month for each QOS in ETF options. Further, the proposal includes a delisting program to be undertaken by the Exchange in connection with QOS in ETF options.

The text of the proposed rule change is available on the Exchange's Web site (<http://www.ise.com>), at the Exchange's principal office, and at the Commission's Public Reference Room.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of this rule filing is to amend Supplementary Material .03 to Rule 504, Quarterly Options Series Pilot Program to allow the Exchange to open additional strike prices of QOS in ETF options that are within thirty percent (30%) above or below the closing price of the underlying ETF on the preceding business day. Additionally, upon demonstrated customer interest, the Exchange also will be permitted to open additional strike prices of QOS in ETF options that are more than 30% above or below the current price of the underlying ETF. Market

Makers trading for their own account will not be considered when determining customer interest under this provision. The Exchange will be permitted to list up to sixty (60) additional series per expiration month for each QOS in ETF options.

On May 2, 2006, the Exchange filed with the Commission a pilot program proposal to permit the listing and trading of QOS in options on indexes or options on ETFs that satisfy the applicable listing criteria under ISE rules.⁵ QOS trade based on calendar quarters that end in March, June, September and December. The Exchange lists QOS that expire at the end of the next consecutive four calendar quarters, as well as the fourth quarter of the next calendar year. For example, if the Exchange were trading QOS in iShares Russell 2000 Index Fund (“IWM”) in the month of April 2008, it would list series at the end of the second quarter 2008 (June), third quarter 2008 (September), fourth quarter 2008 (December) and first quarter 2009 (March) and fourth quarter 2009 (December).

Currently, the Exchange lists QOS in five ETF options: (1) Nasdaq-100 Index Tracking Stock (“QQQQ”); (2) IWM; (3) DIAMONDS Trust, Series 1 (“DIA”); (4) Standard & Poor’s Depository Receipts/SPDRs (“SPY”); and (5) Energy Select SPDR (“XLE”). The average trading volume and total volume for QOS in IWM options significantly exceeds the volumes for

⁵ See Securities Exchange Act Release No. 54113 (July 7, 2006), 71 FR 39694 (July 13, 2006) (SR-ISE-2006-24) (“Pilot Program Approval Order”). Under the pilot program, the Exchange lists QOS in up to five currently listed option classes that are either options on ETFs or indexes. The Exchange also is permitted to list QOS in any options class that is selected by other securities exchanges that employ a similar pilot program under their respective rules.

QOS in other ETF options that are listed and traded on the Exchange. The chart below provides trading volume figures for the fourth quarter in 2007, demonstrating that QOS in IWM options are by far the most popular and heavily traded QOS on the Exchange.

QOS	October 2007		November 2007		December 2007	
	ADV	Total Vol.	ADV	Total Vol.	ADV	Total Vol.
IWM	19,132	440,035	23,529	494,107	28,970	579,399
QQQQ	7,943	182,689	12,510	262,707	18,856	377,123
SPY	3,740	86,022	15,067	316,399	19,984	399,686
DIA	709	16,314	1,671	35,092	2,202	44,043
XLE	778	17,901	6,141	128,966	1,925	38,507

Over time, the Exchange has continually received requests from market participants to add additional strike prices for QOS in IWM options that would be outside of the price range for setting strikes as provided under Supplementary Material .03 to Rule 504 (hereinafter “+/- \$5 range”).⁶

Investors and other market participants have advised the Exchange that they are buying and selling QOS in IWM options to trade volatility. In order to adequately replicate the desired volatility exposure, these market participants need to trade several IWM options series, many having strike prices that fall outside of the +/- \$5 range currently allowed under the QOS rules.

In addition, other participants have advised the Exchange that their investment strategies involve trading options tied to a particular option “delta,”⁷ rather than a particular level of the

⁶ Supplementary Material .03 to Rule 504 provides that the Exchange shall list strike prices for a QOS that are within \$5 from the closing price of the underlying on the preceding day.

⁷ “Delta” is a measure of how an option price will change in response to a \$1 price change in the underlying security or index. For example, an ABC option with a delta of “50” can be expected to change by \$0.50 in response to a \$1 change in the price of ABC.

underlying security or index. At issue is the fact that delta depends on both the relative difference between the level of the underlying security or index and the option strike price, and time to expiration. For example, with IWM trading at \$85 per share, the strike price corresponding to a “25-delta” IWM call (i.e., a call option with a delta of 25) with one month to expiration would be 89. However, the strike price corresponding to a “25-delta” IWM call with 3 months to expiration would be 93, and the strike price of a “25-delta” IWM call with 1 year to expiration would be 106. In short, ISE has been advised that the +/- \$5 range for QOS in IWM options is insufficient to satisfy customer demand.

In order to meet customer demand, the Exchange proposes to amend Supplementary Material .03 to Rule 504, which governs the Quarterly Options Series Pilot Program. Specifically, the Exchange proposes to revise Supplementary Material .03 to Rule 504 to allow the Exchange to open additional strike prices of QOS in ETF options that are within thirty percent (30%) above or below the closing price of the underlying ETF Shares as defined in Rule 502(h) on the preceding business day. The Exchange also will be permitted to open additional strike prices of QOS in ETF options that are more than 30% above or below the current price of the underlying ETF, provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their brokers. Market Makers trading for their own account will not be considered when determining customer interest under this proposed provision. The Exchange will be permitted to list up to sixty (60) additional series per expiration month for each QOS in ETF options.

The Exchange also is proposing to add new paragraph (g) to Supplementary Material .03 to Rule 504, which will set forth a delisting policy. Specifically, with respect to QOS in ETF options, the Exchange will, on a monthly basis, review series that are outside a range of five (5)

strikes above and five (5) strikes below the current price of the underlying ETF, and delist series with no open interest in both the put and the call series having a: (1) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; or (2) strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month.

To illustrate how the proposed delisting program will work, assume that IWM closed at \$70 on the day the Exchange conducts the monthly review of QOS in ETF options. Series having strike prices above \$75 and below \$65 would be reviewed by the Exchange for possible delisting. Assume that the Exchange lists the following QOS in IWM options that expire in June 2008:

Calls – Jun 08 exp		Puts – Jun 08 exp	
Strike	Open Interest?	Strike	Open Interest?
62	No	62	No
63	No	63	Yes
64	Yes	64	Yes
*****	*****	*****	*****
76	Yes	76	Yes
77	Yes	77	Yes
78	Yes	78	Yes
79	Yes	79	Yes
80	Yes	80	Yes
81	Yes	81	Yes
82	Yes	82	Yes
83	No	83	No
84	No	84	No
85	No	85	Yes
86	Yes	86	No
87	Yes	87	Yes
88	Yes	88	Yes
89	Yes	89	No
90	Yes	90	No
91	No	91	No
92	No	92	No
93	No	93	No

The Exchange would delist the first series listed above, as well as the last three: \$62, \$91, \$92 and \$93. The Exchange would not, however, delist the \$83 and \$84 series because there are series having open interest with strike prices higher than these two series. In addition, the Exchange would not delist the \$63 series because there is open interest in the put series.

Notwithstanding the proposed delisting policy, customer requests to add strikes and/or maintain strikes in QOS in ETF options in series eligible for delisting shall be granted.

Further, in connection with the proposed delisting policy, if the Exchange identifies series for delisting, the Exchange shall notify other options exchanges with similar delisting policies regarding eligible series for listing, and shall work with such other exchanges to develop a uniform list of series to be delisted, so as to ensure uniform series delisting of multiply listed QOS in ETF options. It is expected that all options exchanges that have a QOS Pilot Program will adopt the proposed delisting policy.

The Exchange represents that it has the necessary systems capacity to support new options series that will result from this proposal. Further, as proposed, the Exchange notes that this rule change will become part of the pilot program and, going forward, will be considered by the Commission when the Exchange seeks to renew or make permanent the pilot program in the future.⁸

⁸ To the extent the Commission views the proposed rule change as an expansion of the pilot program, thus triggering the requirement under the terms of the Pilot Program Approval Order that the Exchange submit a pilot program report, the Exchange notes that it submitted a report on June 27, 2007, in connection with its filing to extend the pilot program through July 10, 2008. See Securities Exchange Act Release No. 56031 (July 9, 2007), 72 FR 38637 (July 13, 2007) (Notice of Filing and Immediate Effectiveness of SR-ISE-2007-53).

2. Statutory Basis

Because the additional new series can be added without presenting capacity problems and because the Exchange has proposed a delisting policy with respect to QOS in ETF options, the Exchange believes the proposed rule change is consistent with the Act and the rules and regulations thereunder. Specifically, the Exchange believes the proposed rule change is consistent with Section 6(b)(5)⁹ of the Act's requirements that the rules of a national securities exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts and, in general, to protect investors and the public interest.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange believes that the proposed rule change does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any unsolicited written comments from members or other interested parties.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The Exchange has designated the proposed rule change as one that: (1) does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; and (3) does not become operative for 30 days from the date of filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. Therefore, the foregoing rule change has become effective

⁹ 15 U.S.C. 78(f)(b)(5).

pursuant to Section 19(b)(3)(A) of the Act¹⁰ and subparagraph (f)(6) of Rule 19b-4 thereunder.¹¹

The Exchange notes that the proposed rule change is based on a similar proposal recently approved by the Commission.¹² The Exchange has asked the Commission to waive the operative delay to permit the proposed rule change to become operative prior to the 30th day after filing.

The Commission has determined that waiving the 30-day operative delay of the Exchange's proposal is consistent with the protection of investors and the public interest and will promote competition because such waiver will allow the Exchange to list additional series in Quarterly Options at the same time as other exchanges.¹³ Therefore, the Commission designates the proposal operative upon filing.

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate the rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

¹⁰ 15 U.S.C. 78s(b)(3)(A).

¹¹ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to provide the Commission with written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has fulfilled this requirement.

¹² See Securities Exchange Act Release No. 34-57410 (March 3, 2008) (SR-CBOE-2007-96).

¹³ For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File No. SR-ISE-2008-19 on the subject line.

Paper comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-ISE-2008-19. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of such filing also will be available for inspection and copying at the principal

office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-ISE-2008-19 and should be submitted on or before [insert date 21 days from the date of publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁴

Florence E. Harmon
Deputy Secretary

¹⁴ 17 CFR 200.30-3(a)(12).