

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56956; File No. SR-ISE-2007-110)

December 13, 2007

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing of Proposed Rule Change Relating to the \$1 Strike Pilot Program

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 November 14, 2007, the International Securities Exchange, LLC (“ISE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been substantially prepared by the Exchange. 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

ISE proposes to expand the \$1 Strike Pilot Program (“Pilot Program”) and requests permanent approval of the Pilot Program. The text of the proposed rule change is available at the Exchange, the Commission’s Public Reference Room, and www.ise.com.

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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

1. Purpose

The purpose of the proposed rule change is to expand the Pilot Program and to request permanent approval of the Pilot Program.³ The Pilot Program currently allows ISE to select a total of 5 individual stocks on which an option series may be listed at \$1 strike price intervals. In order to be eligible for selection into the Pilot Program, the underlying stock must close below \$20 in its primary market on the previous trading day. If selected for the Pilot Program, the Exchange may list strike prices at \$1 intervals from \$3 to \$20, but no \$1 strike price may be listed that is greater than \$5 from the underlying stock's closing price in its primary market on the previous day. The Exchange also may list \$1 strikes on any other option class designated by other securities exchanges that employ a similar Pilot Program under their respective rules. The Exchange may not list long-term option series (LEAPS) at \$1 strike price intervals for any class selected for the Pilot Program. The Exchange also is restricted from listing any series that would result in strike prices being \$0.50 apart.

The Exchange proposes to expand the Pilot Program to allow ISE to select a total of 10 individual stocks on which an option series may be listed at \$1 strike price intervals.

³ The Commission approved the Pilot Program on June 16, 2003. See Securities Exchange Act Release No. 48033 (June 16, 2003), 68 FR 37036 (June 20, 2003) (SR-ISE-2003-17). The Pilot Program has subsequently been extended through June 5, 2008. See Securities Exchange Act Release Nos. 49827 (June 8, 2004), 69 FR 33966 (June 17, 2004) (SR-ISE-2004-21) (extending the Pilot Program until August 5, 2004); 50060 (July 22, 2004), 69 FR 45864 (July 30, 2004) (SR-ISE-2004-26) (extending the Pilot Program for 10 months until June 5, 2005); 51769 (May 31, 2005), 70 FR 33232 (June 7, 2005) (SR-ISE-2005-22) (extending the Pilot Program until June 5, 2006); 53806 (May 15, 2006), 71 FR 29694 (May 23, 2006) (SR-ISE-2006-20) (extending the Pilot Program until June 5, 2007); and 55715 (May 7, 2007), 72 FR 26854 (May 11, 2007) (SR-ISE-2007-26) (extending the Pilot Program until June 5, 2008).

Additionally, ISE proposes to expand the price range on which it may list \$1 strikes from \$3 to \$50. The existing restrictions on listing \$1 strikes would continue, i.e., no \$1 strike price may be listed that is greater than \$5 from the underlying stock's closing price in its primary market on the previous day, and ISE is restricted from listing any series that would result in strike prices being \$0.50 apart.

As stated in the Commission order approving ISE's Pilot Program and in the subsequent extensions of the Pilot Program,⁴ ISE believes that \$1 strike price intervals provide investors with greater flexibility in the trading of equity options that overlie lower priced stocks by allowing investors to establish equity options positions that are better tailored to meet their investment objectives. The Exchange states that its member firms representing customers have repeatedly requested that ISE seek to expand the Pilot Program, both in terms of the number of classes on which an option series may be listed at \$1 strike price intervals and the range in which \$1 strikes may be listed.

With regard to the impact on systems capacities, ISE's analysis of the Pilot Program shows that the impact on the automated systems of ISE, the Options Price Reporting Authority ("OPRA"), and market data vendors has been minimal. The Exchange analyzed the quoting activity for all classes selected for the Pilot Program as a percentage of all quoting activity for all classes being quoted during the specified number of months.⁵ The Exchange concluded that, prior to the implementation of the Pilot Program in May 2003, the number of Best Bid/Offer ("BBO") quotes sent to OPRA in the five classes selected for the Pilot Program represented approximately 0.47% of

⁴ See id.

⁵ See Securities Exchange Act Release No. 55715 (May 7, 2007), 72 FR 26854 (May 11, 2007) (SR-ISE-2007-26), Exhibit 3, Pilot Program Report (providing empirical analyses

all BBO quotes sent by the Exchange.⁶ As of April 2007, the BBO quote share in the five classes selected for the Pilot Program remained below May 2003 levels in all months analyzed by the Exchange, with the exception of one month, February 2005.⁷ The Exchange notes that these statistics may overstate the contribution of \$1 strike prices because these figures also include quotes for options series listed in intervals higher than \$1 (i.e., \$2.50 strikes) in the same option classes. Even with the non-\$1 strike series quotes included in these figures, ISE believes that the overall impact on capacity is still minimal. ISE represents that it has sufficient capacity to handle an expansion of the Pilot Program, as proposed.

The Exchange believes that the Pilot Program has provided investors with greater trading opportunities and flexibility and the ability to more closely tailor their investment strategies and decisions to the movement of the underlying security. Furthermore, the Exchange has not detected any material proliferation of illiquid option series resulting from the narrower strike price intervals. For these reasons, ISE requests that the Pilot Program be approved on a permanent basis.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act and the rules and regulations thereunder and, in particular, the requirements of Section 6(b) of the Act.⁸ Specifically, the Exchange believes the proposed rule change is consistent with the requirements

of the impact of the Pilot Program on the capacity of automated systems during years 2003 to 2007).

⁶ Id.

⁷ Id.

⁸ 15 U.S.C. 78f(b).

of Section 6(b)(5) of the Act,⁹ in that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. The Exchange believes that expanding the Pilot Program will result in a continuing benefit to investors by giving them more flexibility to closely tailor their investment decisions in a greater number of securities and for a more extended period of time than currently permitted.

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 comments on the proposed rule change and 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

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which ISE consents, the Commission will:

- A. by order approve such proposed rule change, or
- B. institute proceedings to determine whether the proposed rule change should be disapproved.

⁹ 15 U.S.C. 78f(b)(5).

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 Number SR-ISE-2007-110 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-2007-110. 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 the 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-2007-110 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁰

Florence E. Harmon
Deputy Secretary

¹⁰ 17 CFR 200.30-3(a)(12).