

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-57169; File No. SR-ISE-2007-110)

January 18, 2008

Self-Regulatory Organizations; International Securities Exchange, LLC; Order Granting Approval of Proposed Rule Change to Expand and Make Permanent the \$1 Strike Program

I. Introduction

On November 14, 2007, the International Securities Exchange, LLC (“ISE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposal to amend its rules relating to the \$1 Strike Pilot Program (“Program”). The proposed rule change was published for comment in the Federal Register on December 19, 2007.<sup>3</sup> The Commission received no comments on the proposal. This order approves the proposed rule change.

II. Description of the Proposal

The purpose of the proposed rule change is to expand the Program and to request permanent approval of the Program. The 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. To be eligible for selection into the Program, the underlying stock must close below \$20 in its primary market on the previous trading day. If selected for the 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

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Securities Exchange Act Release No. 56956 (December 13, 2007), 72 FR 71986 (“Notice”).

may list \$1 strikes on any other option class designated by other securities exchanges that employ a similar 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 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 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. Additionally, ISE proposes to raise the upper limit of the price range on which it may list \$1 strikes from \$20 to \$50. The existing restrictions on listing \$1 strikes will continue, e.g., 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.

ISE concluded from its analysis of the Program that the impact on the automated systems of ISE, OPRA, and market data vendors has been minimal.<sup>4</sup> ISE has represented that it has sufficient capacity to handle an expansion of the Program, as proposed.

In its filing with the Commission, ISE stated its belief that \$1 strike price intervals provide investors with greater trading opportunities and flexibility by allowing investors to establish equity options positions that are better tailored to meet their investment objectives and that its member firms representing customers have repeatedly requested that ISE seek to expand the 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. The Exchange further stated that it has not detected

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<sup>4</sup> See Notice, id., at 71987 (providing ISE's Program analysis on systems capacity).

any material proliferation of illiquid options series resulting from the narrower strike price intervals. For the foregoing reasons, ISE requested that the Program be approved on a permanent basis.

### III. Commission's Findings and Order Granting Approval of the Proposed Rule Change

After careful review and based on the Exchange's representations, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.<sup>5</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act<sup>6</sup> in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, 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.

Specifically, the Commission believes that the proposed expansion to permit the Exchange to select a total of 10 individual underlying stocks trading at less than \$50 on which option series may be listed at \$1 strike price intervals, and the request to make the Program permanent, should provide investors with added flexibility in the trading of equity options and further the public interest by allowing investors to establish equity options positions that are better tailored to meet their investment objectives. The Commission also believes that the proposal strikes a reasonable balance between the Exchange's desire to accommodate market participants by offering a wider array of investment opportunities and the need to avoid unnecessary proliferation of options series and the corresponding increase in quotes. The

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<sup>5</sup> In approving this proposed rule change, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>6</sup> 15 U.S.C. 78f(b)(5).

Commission notes that the existing restrictions on listing \$1 strike price intervals will continue to apply, e.g., no \$1 strike price may be listed (a) that is greater than \$5 from the underlying stock's closing price in its primary market on the previous day, or (b) that would result in strike prices being \$0.50 apart.

The Commission expects the Exchange to continue to monitor for options with little or no open interest and trading activity and to act promptly to delist such options. In addition, the Commission expects that ISE will continue to monitor the trading volume associated with the additional options series listed as a result of this proposal and the effect of these additional series on market fragmentation and on the capacity of the Exchange's, OPRA's, and vendors' automated systems.

#### IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>7</sup> that the proposed rule change (SR-ISE-2007-110) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>8</sup>

Nancy M. Morris  
Secretary

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<sup>7</sup> 15 U.S.C. 78s(b)(2).

<sup>8</sup> 17 CFR 200.30-3(a)(12).