

October 31, 2006

Nancy M. Morris  
Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, D.C. 20549-1090

Re: File No. SR-ISE-2006-62

Dear Ms. Morris:

optionsXpress, Inc. appreciates the opportunity to offer comments on the Securities and Exchange Commission ("Commission") proposal for the implementation of a pilot program to quote and to trade certain options in pennies.

optionsXpress (the "Firm") applauds the Commission's Penny Pilot impetus in options. The Firm expects a net positive effect for our customers seeking tighter markets and improved transparency in the most liquid option classes. The Firm believes it is necessary for the Securities and Exchange Commission to play an active role in guiding the pilot. A lack of coordination and communication will lead to an ineffective pilot and a bad experience for the growing customer segment of the options business.

The Firm's main concerns for the pilot center on the quality of quotes, latency in the system due to increased quote traffic, and problems with the options market linkage system. It is the Firm's hope that the Commission reviews the pilot data thoroughly with the help of industry representatives to determine the optimal products in which the benefits of pennies outweigh the costs to the marketplace. It is also the Firm's hope that a more logical threshold between penny and nickel quoting will result from the pilot program and that the Commission will encourage more efficient "private" linkages between exchanges.<sup>1</sup>

The International Securities Exchange ("ISE") proposal appears to be consistent with the goals of the pilot program. The Firm is concerned that a longer holdback timer period will result in confusion as to the BBO

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<sup>1</sup> The current proposals use a \$3.00 threshold where all options under \$3 will be quoted in .01 increments and above \$3 will be quoted in .05 increments, with the exception of QQQQ options which will all be quoted in .01 increments. The Firm believes this is due to current exchange technology and encourages a more open approach for future trading thresholds.

and best execution. While optionsXpress' typical customer is not actively quoting and trading options multiple times on a daily basis, a longer holdback will increase the probability that the displayed quote differs from the actual exchange quote.<sup>2</sup> This difference may result in executions outside of expectations and would undermine the confidence in the transparency and market quality of options. The Firm believes that the Commission should closely review the amount of transactions that occur at the ISE where the Exchange's internal BBO does not match what has been pushed to OPRA. Additionally, it is anticipated that the current problems of linkage will become larger issues in the penny classes. The Commission should also closely monitor instances where a customer order that is sent from the ISE to another exchange with an improved quote, does not get filled at that price in addition to instances where a similar order does not receive the ISE BBO due to a change in quote while the order was subject to linkage. The current linkage timer does not appear to be synchronized with available industry technology and is merely a reflection of the self-interests of the weaker exchanges.

optionsXpress values its opportunity to provide these comments to the Commission and would be pleased to discuss the proposal further. We look forward to reviewing and commenting on the penny pilot proposals of the other four option exchanges not yet submitted.

Sincerely,

Peter J. Bottini  
Executive Vice-President  
optionsXpress, Inc.

(Peter Bottini is an Industry Representative on the ISE Board of Directors)

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<sup>2</sup> The average optionsXpress customer makes 2.4 options trades per month, based on the Firm's most recent figures.