

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56020; File No. SR-ISE-2007-56)

July 6, 2007

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the Extension of a Pilot Program for Position and Exercise Limits for Options on the iShares[®] Russell 2000[®] Index Fund

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 June 29, 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 and II below, which Items have been substantially prepared by ISE. The Exchange has filed the proposal pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(6) thereunder,⁴ which renders the proposal 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 Exchange proposes to extend an existing pilot program that increases the position and exercise limits for options on the iShares[®] Russell 2000[®] Index Fund (“IWM”) traded on the Exchange (“IWM Pilot Program”). The text of the proposed rule change is available at ISE, the Commission’s Public Reference Room, and www.iseoptions.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, ISE included statements concerning the purpose of and

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(6).

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. ISE 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 the proposed rule change is to extend the IWM Pilot Program for an additional six-month period, through January 18, 2008,⁵ and to make non-substantive changes to simplify the rule text describing the IWM Pilot Program. The IWM Pilot Program increases the position and exercise limits for IWM options traded on the Exchange.⁶ The Exchange is not proposing any other changes to the IWM Pilot Program. The Exchange represents that it has not encountered any problems or difficulties relating to the IWM Pilot Program since its inception.

The proposal that established the IWM Pilot Program was designated by the Commission to be effective and operative upon filing and provided that it would run from January 22, 2007 through July 22, 2007.⁷ In that filing, the Exchange explained that in June 2005, as a result of a 2-for-1 stock split, the position limit for IWM options was temporarily increased from 250,000 contracts (covering 25,000,000 shares) to 500,000 contracts (covering 50,000,000 shares). At the time of the split, the furthest IWM option expiration date was January 2007. Therefore, the

⁵ January 18, 2008 is the third Friday of the month (or expiration Friday), which is the day on which January 2008 IWM options will expire.

⁶ Pursuant to ISE Rule 414, the exercise limit established under Rule 414 for IWM options shall be equivalent to the position limit prescribed for IWM options in Supplementary Material .01 to Rule 412. The increased exercise limits would only be in effect during the IWM Pilot Period.

⁷ See Securities Exchange Act Release No. 55175 (January 25, 2007), 72 FR 4753 (February 1, 2007) (SR-ISE-2007-07).

temporary increase of the IWM position limit would have reverted to the pre-split level (as provided for in connection with the Rule 412 Pilot Program) of 250,000 contracts after expiration in January 2007, or on January 22, 2007.

The Exchange described in the proposal that established the IWM Pilot Program that a position limit of 250,000 contracts would prevent traders from adequately hedging their options positions, thereby impairing their ability to provide liquidity. Specifically, the Exchange stated that options on IWM are 1/10th the size of options on the Russell 2000[®] Index (“RUT”), which has a position limit of 50,000 contracts.⁸ Therefore, traders who trade IWM options to hedge positions in RUT options are likely to find a position limit of 250,000 contracts in IWM options too restrictive and insufficient to properly hedge. For example, if a trader held 50,000 RUT options and wanted to hedge that position with IWM options, the trader would, at a minimum, need 500,000 IWM options to properly hedge the position. Additionally, the Exchange notes that index options on 1/10th the RUT have a position limit of 500,000 contracts, which is consistent with and corresponds to the increased position limits permitted under the IWM Pilot Program.⁹ Therefore, the Exchange continues to believe that a position limit of 250,000 contracts is too low and may adversely affect market participants' ability to provide liquidity in this product.

As the Exchange also described in the proposal that established the IWM Pilot Program, IWM options have grown to become one of the largest options contracts in terms of trading volume. For example, through May 29, 2007, year-to-date industry volume in IWM options has averaged over 460,000 contracts per day, for a total of over 61 million contracts. Further, ISE alone has averaged more than 125,000 IWM option contracts per day during that time, for a total

⁸ See ISE Rule 2004(a).

⁹ Id.

of almost 13 million contracts. In contrast, QQQQ options, which have a position limit of 900,000 contracts, have averaged almost 575,000 contracts per day.

The Exchange believes that maintaining the increased position and exercise limits for IWM options will lead to a more liquid and more competitive market environment for IWM options that will benefit customers interested in trading this product. As a result, the Exchange requests that the Commission extend the pilot for an additional six-month period, through January 18, 2008.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with and furthers the objectives of Section 6(b)(5) of the Act,¹⁰ in that it is designed to promote just and equitable principles of trade, 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.

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

The Exchange does not believe that the proposed rule change will 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.

¹⁰ 15 U.S.C. 78f(b)(5).

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

Because the forgoing rule change does not: (1) significantly affect the protection of investors or the public interest; (2) impose any significant burden on competition; and (3) become operative for 30 days after the date of this filing, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act¹¹ and Rule 19b-4(f)(6) thereunder.¹²

A proposed rule change filed under 19b-4(f)(6) normally may not become operative prior to 30 days after the date of filing.¹³ However, Rule 19b-4(f)(6)(iii)¹⁴ permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has requested that the Commission waive the 30-day operative delay. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest because such waiver would permit position and exercise limits for options on IWM to continue at 500,000 option contracts for a six-month pilot period. For this reason, the Commission designates the proposed rule change to be operative upon filing with the Commission.¹⁵

¹¹ 15 U.S.C. 78s(b)(3)(A).

¹² 17 CFR 240.19b-4(f)(6).

¹³ 17 CFR 240.19b-4(f)(6)(iii). In addition, Rule 19b-4(f)(6)(iii) requires that a self-regulatory organization submit to the Commission 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 satisfied the five-day pre-filing notice requirement.

¹⁴ Id.

¹⁵ For the 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).

At any time within 60 days of the filing of such proposed rule change the Commission may summarily abrogate such 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.

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-2007-56 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-2007-56. 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 am and 3:00 pm. Copies of the filing also will be available for inspection and copying at the principal office of ISE. 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-2007-56 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁶

Florence E. Harmon
Deputy Secretary

¹⁶ 17 CFR 200.30-3(a)(12).