

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-57416; File No. SR-ISE-2008-20)

March 3, 2008

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change, as Modified by Amendment No. 1 Thereto, to Make Permanent Two Pilot Programs That Increase Position and Exercise Limits on Equity Options

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 February 28, 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. On February 29, 2008, NYSE submitted Amendment No. 1 to the proposed rule change.³ The Exchange has designated this proposal as non-controversial under Section 19(b)(3)(A)(iii) of the Act⁴ and Rule 19b-4(f)(6) thereunder,⁵ 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, as amended, from interested persons.

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

The Exchange seeks to make permanent two pilot programs that increase position and exercise limits for equity options. To permanently establish the two pilot programs, the Exchange proposes to amend Rule 412, Position Limits, and Rule 414, Exercise Limits. The text

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ In Amendment No. 1, the Exchange made a technical correction to the proposed rule text.

⁴ 15 U.S.C. 78s(b)(3)(A)(iii).

⁵ 17 CFR 240.19b-4(f)(6).

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 the proposed rule change is to make permanent two pilot programs that increase position and exercise limits for equity options. To permanently establish the two pilot programs, the Exchange proposes to amend Rule 412, Position Limits, and Rule 414, Exercise Limits. Rule 412 subjects equity options to one of five different position limits depending on the trading volume and outstanding shares of the underlying security. Rule 414 establishes exercise limits for the corresponding options at the same levels as the corresponding security's position limits.

The first pilot program, the "Rule 412 Pilot Program," commenced on March 2, 2005, and provides for an increase to the standard (or "non-pilot") position and exercise limits for equity option contracts and for options on the PowerShares QQQ Trust ("QQQQ").⁶ The second

⁶ The Rule 412 Pilot Program was approved by the Commission on March 2, 2005. See Securities Exchange Act Release No. 51295 (March 2, 2005), 70 FR 11292 (March 8, 2005) (SR-ISE-2005-14). The Rule 412 Pilot Program has been extended five times for six month periods by the Commission, and expires on March 1, 2008. See Securities

pilot program, the “iShares Russell 2000 Index Fund (‘IWM’) Option Pilot Program,” commenced on January 25, 2007, and increases the position and exercise limits for IWM options from 250,000 contracts to 500,000 contracts.⁷

The standard position limits were last increased in 1998. Since that time, there has been a steady increase in the number of accounts that (a) approach the position limit; (b) exceed the position limits; and (c) are granted an exemption to the applicable position limit. The Exchange represents that over the course of the last year, when both pilot programs were in effect, the Exchange’s Market Surveillance Department encountered only a handful of violations. The Exchange believes that all of these violations were deemed inadvertent and were due primarily to miscounting, technical problems, or a misinterpretation of position limit calculation methodologies. None of these violations were deemed to be a result of manipulative activities.

Since the last position limit increase, there has been an exponential increase in the overall volume of exchange traded options. Part of this volume is attributable to a corresponding

Exchange Act Release Nos. 52265 (August 15, 2005), 70 FR 48996 (August 22, 2005) (SR-ISE-2005-39); 53345 (February 22, 2006), 71 FR 10579 (March 1, 2006) (SR-ISE-2006-10); 54335 (August 18, 2006), 71 FR 50954 (August 28, 2006) (SR-ISE-2006-47); 55311 (February 16, 2007), 72 FR 8408 (February 26, 2007) (SR-ISE-2007-15); and 56263 (August 15, 2007), 72 FR 47105 (August 22, 2007) (SR-ISE-2007-69).

In connection with the March 21, 2007 transfer of sponsorship of the Nasdaq-100 Trust, the name of the trust was changed to the “PowerShares QQQ Trust.” See QQQQ prospectus available at <http://www.powershares.com/pdf/P-QQQ-PRO-1.pdf>.

⁷ The IWM Option Pilot Program doubles the position and exercise limits for IWM options under the Rule 412 Pilot Program. See Rule 412, Supplementary Materials .01. Absent both of these pilot programs, the standard position and exercise limit for IWM options is 75,000 option contracts.

The proposal that established the IWM Option Pilot Program was effective upon filing. See Securities Exchange Act Release No. 55175 (January 25, 2007), 72 FR 4753 (February 1, 2007) (SR-ISE-2007-07). The IWM Option Pilot Program has been extended twice by the Commission and expires on March 1, 2008. See Securities Exchange Act Release Nos. 56020 (July 6, 2007), 72 FR 38109 (July 12, 2007) (SR-ISE-

increase in the number of overall market participants. This growth in market participants has in turn brought about additional depth and increased liquidity in exchange traded options.

Further, since the last position limit increase, and throughout the duration of the two pilot programs, the Exchange has not encountered any regulatory issues regarding the applicable position limits, and states that there is a lack of evidence of market manipulation schemes, which justifies making permanent the Rule 412 and IWM Option Pilot Programs.

As the anniversary of listed options trading approaches its 35th year, the Exchange believes that the existing surveillance procedures and options reporting requirements at the ISE, at other options exchanges, and at the several clearing firms are capable of properly identifying unusual and/or illegal trading activity. The Exchange's procedures include daily monitoring of market movements via automated surveillance techniques to identify unusual activities in both options and their underlying securities.

Accordingly, the Exchange represents that its surveillance procedures and options reporting procedures, in conjunction with the financial requirements and risk management review procedures generally in place at the clearing firms and the Options Clearing Corporation, will serve to adequately address any concerns the Commission may have with respect to account(s) engaging in any manipulative schemes or assuming too high a level of risk exposure. Further, the Exchange believes that the current financial requirements imposed by the Exchange and by the Commission adequately address concerns that a member or its customer may try to maintain an inordinately large unhedged position in an equity option.

The Exchange believes that the trading volume in equity options will continue to grow and that such continued growth provides investors an opportunity to participate in the options

2007-56); and 57144 (January 14, 2008), 73 FR 3785 (January 22, 2008) (SR-ISE-2008-03).

markets. The Exchange believes that the non-pilot position and exercise limits are restrictive, and maintaining those limits will hamper the listed options markets from being able to compete fairly and effectively with the over-the-counter markets.

Equity option position limits have been gradually expanded from 1,000 contracts in 1973 to the current level of 75,000 contracts for the largest and most actively traded equity options. To date, there have been no adverse affects on the markets as a result of these past increases in the limits for equity option contracts.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the requirements provided under Section 6(b)(5)⁸ of the Act that the rules of an 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

⁸ 15 U.S.C. 78(f)(b)(5).

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 pursuant to Section 19(b)(3)(A) of the Act⁹ and subparagraph (f)(6) of Rule 19b-4 thereunder.¹⁰ The Exchange notes that the proposed rule change is based on a similar proposal recently approved by the Commission.¹¹ 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 Rule 412 Pilot Program and the IWM Option Pilot Program were scheduled to expire on March 1, 2008. The Commission believes that waiving the 30-day operative delay of the Exchange's proposal is consistent with the protection of investors and the public interest because it will allow the position and exercise limits to remain at consistent levels during the transition from the pilot programs to permanent status.¹² Therefore, the Commission designates the proposal to be 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

⁹ 15 U.S.C. 78s(b)(3)(A).

¹⁰ 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.

¹¹ See Securities Exchange Act Release No. 57352 (February 19, 2008), 73 FR 10076 (February 25, 2008) (order granting accelerated approval to SR-CBOE-2008-07).

¹² 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).

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 No. SR-ISE-2008-20 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-2008-20. 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-2008-20 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.¹³

Florence E. Harmon
Deputy Secretary

¹³ 17 CFR 200.30-3(a)(12).