

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-62442; File No. SR-ISE-2010-64)

July 2, 2010

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Expand its \$1 Strike 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 June 24, 2010, the International Securities Exchange, LLC (the “Exchange” or the “ISE”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I and II below, which Items have been 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

The ISE proposes to expand the \$1 Strike Program. The text of the proposed rule change is available on the Exchange’s Web site (<http://www.ise.com>), at the principal office of the Exchange, on the Commission’s Web site at www.sec.gov, 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 self-regulatory organization 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 self-regulatory organization 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 this proposed rule change is to expand the \$1 Strike Program.³ The \$1 Strike Program currently allows ISE to select a total of 55 individual stocks on which option series may be listed at \$1 strike price intervals. In order to be eligible for selection into the \$1 Strike Program, the underlying stock must close below \$50 in its primary market on the previous trading day. If selected for the \$1 Strike Program, the Exchange may list strike prices at \$1 intervals from \$1 to \$50, 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 may also list \$1 strikes on any other option class designated by another securities exchange that employs a similar \$1 Strike Program under their respective rules. The Exchange may not list long-term option series ("LEAPS")⁴ at \$1 strike price intervals for any class selected for the \$1 Strike Program, except as specified in subparagraph (c) to Supplementary Material .01 to Rule

³ The Commission approved the \$1 Strike Program as a pilot 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 \$1 Strike Program was subsequently extended through extended through June 5, 2008. See Exchange Act Release Nos. 49827 (June 8, 2004), 69 FR 33966 (June 17, 2004) (SR-ISE-2004-21); 50060 (July 22, 2004), 69 FR 45864 (July 30, 2004) (SR-ISE-2004-26); 51769 (May 31, 2005), 70 FR 33232 (June 7, 2005) (SR-ISE-2005-22); 53806 (May 15, 2006), 71 FR 29694 (SR-ISE-2006-20); and 55715 (May 7, 2007), 72 FR 26854 (May 11, 2007) (SR-ISE-2007-26). The \$1 Strike Program was subsequently expanded and permanently approved in 2008. See Securities Exchange Act Release No. 57169 (January 18, 2008), 73 FR 4654 (January 25, 2008) (SR-ISE-2007-110). The \$1 Strike Program was last expanded in 2009. See Securities Exchange Act Release No. 59587 (March 17, 2009), 74 FR 12414 (March 24, 2009) (SR-ISE-2009-04).

⁴ LEAPS are long-term options that generally have up to thirty-nine months from the time they are listed until expiration. See Rule 506, Long-Term Options Contracts.

504.⁵ The Exchange is also restricted from listing series with \$1 intervals within \$0.50 of an existing strike price in the same series, except that strike prices of \$2, \$3, and \$4 shall be permitted within \$0.50 of an existing strike price for classes also selected to participate in the \$0.50 Strike Program.⁶

The Exchange now proposes to expand the \$1 Strike Program to allow ISE to select a total of 150 individual stocks on which option series may be listed at \$1 strike price intervals. 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 (unless an option class is selected to participate in both the \$1 Strike Program and the \$0.50 Strike Program).

As stated in the Commission order that initially approved ISE's Program and in subsequent extensions and expansions of the \$1 Strike Program,⁷ ISE believes that \$1 strike price intervals provide investors with greater flexibility in the trading of equity options that overlie lower price stocks by allowing investors to establish equity options positions that are better tailored to meet their investment objectives.

⁵ Supplementary Material .01(c) to Rule 504 states that the Exchange may list \$1 strike prices up to \$5 in LEAPS in up to 200 option classes in individual stocks. See Securities Exchange Act Release No. 61102 (December 3, 2009), 74 FR 65191 (December 9, 2009) (SR-ISE-2009-102).

⁶ Regarding the \$0.50 Strike Program, which allows \$0.50 strike price intervals for options on stocks trading at or below \$3.00, see Supplementary Material .05 to Rule 504 and Securities Exchange Act Release No. 60696 (September 18, 2009), 74 FR 49053 (September 25, 2009) (SR-ISE-2009-65). See also Securities Exchange Act Release No. 61737 (March 18, 2010), 75 FR 14225 (March 24, 2010) (SR-ISE-2010-22) (allowing concurrent listing of \$3.50 and \$4 strikes for classes that participate in both the \$0.50 Strike Program and the \$1 Strike Program).

⁷ See supra note 3.

During the time that the \$1 Strike Program was a pilot, the Exchange submitted three pilot reports to the Commission in which the Exchange discussed, among other things, the strength and efficacy of the Program based upon the steady increase in volume and open interest of options traded on the Exchange at \$ 1 strike price intervals; and that the Program had not and, in the future, should not create capacity problems for ISE or the Options Price Reporting Authority (“OPRA”) systems.⁸ This has not changed. Moreover, the number of \$1 strike options traded on the Exchange has continued to increase since the inception of the \$1 Strike Program such that these options are now among some of the most popular products traded on the Exchange.

The Exchange believes that market conditions have led to an increase in the number of securities trading below \$50 warranting the proposed expansion of the \$1 Strike Program. In addition, the Exchange notes that this filing is based on a filing previously submitted by NASDAQ OMX PHLX, Inc (“PHLX”) that the Commission recently noticed.⁹ With regard to previous expansions of the \$1 Strike Program, the Commission has approved proposals from the options exchanges that employ a \$1 Strike Program in lockstep.

With regard to the impact of this proposal on system capacity, ISE has analyzed its capacity and represents that it and OPRA have the necessary systems capacity to handle the potential additional traffic associated with the listing and trading of an expanded number of series in the \$1 Strike Program.

⁸ See Exchange Act Release Nos. 49827 (June 8, 2004), 69 FR 33966 (June 17, 2004) (SR-ISE-2004-21); 50060 (July 22, 2004), 69 FR 45864 (July 30, 2004) (SR-ISE-2004-26); 51769 (May 31, 2005), 70 FR 33232 (June 7, 2005) (SR-ISE-2005-22); 53806 (May 15, 2006), 71 FR 29694 (SR-ISE-2006-20); and 55715 (May 7, 2007), 72 FR 26854 (May 11, 2007) (SR-ISE-2007-26).

⁹ See Securities Exchange Act Release No. 62151 (May 21, 2010), 75 FR 30078 (May 28, 2010) (SR-Phlx-2010-72).

The Exchange believes that the \$1 Strike Program has provided investors with greater trading opportunities and flexibility and the ability to more closely tailor their investment and risk management strategies and decisions to the movement of the underlying security. Furthermore, the Exchange has not detected any material proliferation of illiquid options series resulting from the narrower strike price intervals. For these reasons, the Exchange requests an expansion of the current \$1 Strike Program and the opportunity to provide investors with additional strikes for investment, trading, and risk management purposes.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the “Act”) and the rules and regulations thereunder and, in particular, the requirements of section 6(b)¹⁰ of the Act. Specifically, the Exchange believes the proposed rule change is consistent with Section 6(b)(5)¹¹ requirements 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 for 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 current \$1 Strike Program will result in a continuing benefit to investors by giving them more flexibility to closely tailor their investment decisions in greater number of securities.

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

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.

¹⁰ 15 U.S.C. 78f(b).

¹¹ 15 U.S.C. 78f(b)(5).

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

Because the foregoing proposed rule change does not significantly affect the protection of investors or the public interest, does not impose any significant burden on competition, and, by its terms, does not become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act¹² and Rule 19b-4(f)(6) thereunder.¹³

The Exchange has requested that the Commission waive the 30-day operative delay. The Commission believes that waiver of the operative delay is consistent with the protection of investors and the public interest because the proposal is substantially similar to a rule of another exchange that has been approved by the Commission.¹⁴ Therefore, the Commission designates the proposal operative upon filing.¹⁵

¹² 15 U.S.C. 78s(b)(3)(A).

¹³ 17 C.F.R. 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires the Exchange to give the Commission written notice of the Exchange's 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 pre-filing requirement.

¹⁴ See Securities Exchange Act Release No. 62420 (June 30, 2010) (SR-Phlx-2010-72) (order approving expansion of \$1 strike program to 150 classes).

¹⁵ 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).

At any time within 60 days of the filing of the 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-2010-64 on the subject line.

Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-ISE-2010-64. 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 Web site viewing and printing 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-2010-64 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.¹⁶

Elizabeth M. Murphy
Secretary

¹⁶ 17 CFR 200.30-3(a)(12).