

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-57019; File No. SR-ISE-2007-120)

December 20, 2007

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Rule 710, Minimum Trading Increments.

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 December 17, 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 the Exchange. The Exchange 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

ISE proposes to amend Rule 710, Minimum Trading Increments, to decrease the size of the minimum quoting and trading increments applicable to the Exchange’s foreign currency options (“FX options”). The text of the proposed rule change is available at ISE, the Commission’s Public Reference Room, and <http://www.ise.com>.

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).

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. 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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

ISE proposes to amend its Rule 710, Minimum Trading Increments, to decrease the size of the minimum quoting and trading increments applicable to the Exchange's FX options.⁵ The Exchange believes that by reducing the minimum trading increments applicable to ISE's FX options, the proposed rule change will provide market participants with additional trading opportunities in this product. Further, quoting and trading in smaller increments will enable market participants to trade FX options with greater precision as to price.

Currently, FX options traded on the Exchange have minimum increments of \$0.05 or \$0.10 depending on the price at which an FX option is quoting. Specifically, under the Exchange's current rules, the minimum trading increment for an FX options contract trading at less than \$3.00 is \$0.05, and for an FX options contract trading at \$3.00 or higher, the minimum trading increment is \$0.10. The proposed amendment to Rule 710 would set the minimum increment for all FX options at \$0.01 regardless of the price at which the option is quoting. Although FX options would be trading in these narrower increments, they would not actually be

⁵ The Exchange began trading FX options on the Euro, the British pound, the Japanese yen and the Canadian dollar on April 17, 2007. See Securities Exchange Act Release No. 55575 (April 3, 2007), 72 FR 17963 (April 10, 2007) (approving SR-ISE-2006-59).

trading in pennies⁶ and would not be considered part of the Exchange's pilot program currently applicable to certain equity options.⁷

Currently, options on currency futures trade in these smaller increments on the Chicago Mercantile Exchange. Also, currencies trade on the cash market in these smaller increments. Further, the Commission recently approved a proposed rule change by the Philadelphia Stock Exchange ("Phlx") permitting that exchange to trade its U.S. dollar-settled foreign currency options in \$0.01 increments.⁸ As a competitive matter, ISE seeks the opportunity to offer market participants those same, more refined increments. The Exchange notes that providing these more refined increments will permit the Exchange's market makers the opportunity to provide better fills (meaning less spread than the current wider minimum increments rules allow) to customers.

⁶ The Exchange notes that ISE's FX options have underlying values that modify the magnitude of traditionally quoted exchange rates that appear in the underlying foreign currency markets. As a result, the "rate-modified" FX options traded on the Exchange are quoted to reflect the sub-penny movements in the actual exchange rate of any underlying currency. Since all premiums in ISE's FX options are quoted in U.S. Dollars, customers will be able to trade this product in one-cent increments. Thus, while the Exchange's proposal seeks to set the minimum increment for all FX options at \$0.01, the quoted values reflect much smaller currency increments with respect to the exchange rate of the underlying currency.

⁷ The penny pilot, which permits certain options series to be quoted and traded in increments of \$0.01, began on January 26, 2007. See Securities Exchange Act Release No. 55161 (January 24, 2007), 72 FR 4754 (February 1, 2007) (approving SR-ISE-2006-62). The penny pilot was extended through September 27, 2007. See Securities Exchange Act Release No. 56151 (July 26, 2007), 72 FR 42452 (August 2, 2007) (approving SR-ISE-2007-68). The penny pilot has been extended again through March 27, 2009. See Securities Exchange Act Release No. 56564 (September 27, 2007), 72 FR 56412 (October 3, 2007) (approving SR-ISE-2007-74). With one exception, all series in options included in the penny pilot trading at a price of less than \$3.00 are currently quoted and traded in minimum increments of \$0.01, and those with a price of \$3.00 or higher are currently quoted and traded in minimum increments of \$0.05. A list of the options to be included in the penny pilot was communicated to the Exchange's members via a Regulatory Information Circular.

⁸ See Securities Exchange Act Release No. 56933 (December 7, 2007), 72 FR 71185 (December 14, 2007) (approving SR-Phlx-2007-70).

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act in general and furthers the objectives of Section 6(b)(5) in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, 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

No written comments were solicited or received with respect to the proposed rule change.

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

Because the foregoing proposed rule change does not:

(i) significantly affect the protection of investors or the public interest;

(ii) impose any significant burden on competition; and

(iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, if consistent with the protection of investors and the public interest, it has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder. As required under Rule 19b-4(f)(6)(iii) under the Act, the Exchange provided 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 the filing of the proposed rule change.

A proposed rule change filed under 19b-4(f)(6) normally may not become operative prior to 30 days after the date of filing. However, Rule 19b-4(f)(6)(iii) 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 and render the proposed rule change to become operative on January 2, 2008.⁹ The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. Waiver of the 30-day operative delay would enable the Exchange to start trading FX options in the same increments and at the same time as Phlx. For the reasons stated above, the Commission therefore designates the proposal to become operative immediately.

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.

⁹ The Exchange also may decide to start using these smaller trading increments later than January 2, 2007. Telephone conversation between Samir M. Patel, Assistant General Counsel, ISE, and Natasha Cowen, Special Counsel, Division of Trading and Markets, Commission, dated December 19, 2007.

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-2007-120 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-2007-120. 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 such 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-2007-120 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.¹⁰

Florence E. Harmon
Deputy Secretary

¹⁰ 17 CFR 200.30-3(a)(12).