

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-66827; File No. SR-ISE-2012-26)

April 18, 2012

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing of Proposed Rule Change to List and Trade Option Contracts Overlying 10 Shares of a Security

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 April 9, 2012, International Securities Exchange, LLC (the “Exchange” or the “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 prepared by the self-regulatory organization. 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 list and trade option contracts overlying 10 shares of a security (“Mini Options”). The text of the proposed rule change is available on the Exchange’s Internet website at <http://www.ise.com>, at the principal office of the Exchange, 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).

A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Pursuant to ISE Rule 502, the Exchange currently lists and trades standardized options contracts on a number of equities and Exchange-Traded Fund Shares (“ETFs”), each with a unit of trading of 100 shares. The purpose of this proposed rule change is to expand investors’ choices by listing and trading option contracts on a select number of high-priced and actively traded securities, each with a unit of trading ten times lower than those of the regular sized option contracts, or 10 shares. Specifically, the Exchange proposes to adopt Supplementary Material .12(a) to ISE Rule 504, which states that after an option class on a stock or Exchange-Traded Fund Share with a 100 share deliverable has been approved for listing and trading on the Exchange, series of option contracts with a 10 share deliverable on that stock or Exchange-Traded Fund Share may be listed for all expirations opened for trading on the Exchange. The Exchange further proposes that Mini Options may only be listed on stocks and Exchange-Traded Fund Shares that meet the following criteria, at the time of listing: (a) the industry average daily options volume over the previous three calendar months is at least 10,000 contracts, and (b) the price of the underlying security is at least \$150.

The Exchange notes that as a result of the proposed listing criteria, only a handful of securities, ones that have significant options liquidity, will be eligible to have Mini Options listed on them. Specifically, pursuant to the listing criteria established by the Exchange for Mini Options, the following securities currently qualify to have Mini Options listed: Apple, Inc., (AAPL), SPDR Gold Trust (GLD), Google, Inc. (GOOG), Amazon, Inc. (AMZN), International Business Machines (IBM), and Priceline.com, Inc. (PCLN). The Exchange believes that Mini

² 17 CFR 240.19b-4.

Options will appeal to retail investors who may not currently be able to participate in the trading of options on such high priced securities.

Except for the difference in the deliverable of shares, the proposed Mini Options would have the same terms and contract characteristics as regular sized equity and ETF options, including exercise style. All existing Exchange rules applicable to options on equities and ETFs would apply to Mini Options, except with respect to position and exercise limits and hedge exemptions to those position limits, which would be tailored for the smaller size. Pursuant to proposed amendments to Rule 412, position limits applicable to the regular sized option contract will also apply to the Mini Options on the same underlying security, with 10 Mini Option contracts counting as one regular sized contract. Positions in both the regular sized option contract and Mini Options on the same security will be combined for purposes of calculating positions. Further, hedge exemptions will apply pursuant to ISE Rule 413(a), which the Exchange proposes to revise to provide that 10 (as opposed to 100) shares of the underlying security in the appropriate hedge for Mini Options and to make clear that the hedge exemptions apply to the position limits set forth in Rule 412(a) and any Supplementary Material thereto, as well as the position limits set forth in Rule 412(d).³

The Exchange believes that the proposal to list Mini Options will not lead to investor confusion. There are two important distinctions between Mini Options and regular options that are designed to ease the likelihood of any investor confusion. First, the premium multiplier for the proposed Mini Options will be 10, rather than 100, to reflect the smaller unit of trading. To

³ ISE Rule 414, Exercise Limits, refers to exercise limits that correspond to aggregate long positions as described in ISE Rule 412. The position limit established in a given option under ISE Rule 412 is also the exercise limit for such option. Thus, although the proposed rule change would not amend the text of ISE Rule 414 itself, the proposed amendment to ISE Rule 412 would have a corresponding effect to the exercise limits established in ISE Rule 414.

reflect this change, the Exchange proposes to add Rule 709(c) which notes that bids and offers for an option contract overlying 10 shares will be expressed in terms of dollars per 1/10th part of the total value of the contract. Thus, an offer of “.50” shall represent an offer of \$5.00 on an option contract having a unit of trading consisting of 10 shares. Second, the Exchange intends to designate Mini Options with different trading symbols than that designated for the regular sized contract. For example, while the trading symbol for regular option contracts for Apple, Inc. is AAPL, the Exchange proposes to adopt 7AAPL as the trading symbol for Mini Options on that same security.

The Exchange proposes to add Supplementary Material .12(b) to reflect that strike prices for Mini Options shall be set at the same level as for regular options. For example, a call series strike price to deliver 10 shares of stock at \$125 per share has a total deliverable value of \$1250, and the strike price will be set at 125. Further, pursuant to proposed new Supplementary Material .12(c) to Rule 504, the Exchange proposes to not permit the listing of additional series of Mini Options if the underlying is trading at \$90 or less to limit the number of strikes once the underlying is no longer a high priced security. The Exchange proposes a \$90.01 minimum for continued qualification so that additional series of Mini Options that correspond to standard strikes may be added even though the underlying has fallen slightly below the initial qualification standard. In addition, the underlying security must be trading above \$90 for five consecutive days before the listing of Mini Option contracts in a new expiration month. This restriction will allow the Exchange to list strikes in Mini Options without disruption when a new expiration month is added even if the underlying has had a minor decline in price.

The same trading rules applicable to existing equity and ETF options will apply to Mini Options. The Exchange notes that by listing the same strike price for Mini Options as for regular

options, the Exchange seeks to keep intact the long-standing relationship between the underlying security and an option strike price thus allowing investors to intuitively grasp the option's value, i.e., option is in the money, at the money or out of the money. The Exchange believes that by not changing anything but the multiplier and the option symbol, as discussed above, retail investors will be able to grasp the distinction between regular size option contracts and Mini Options. The Exchange notes that The Options Clearing Corporation ("OCC") Symbology is structured for contracts that have a deliverable of other than 100 shares to be designated with a numeric added to the standard trading symbol. Further, the Exchange believes that the contract characteristics of Mini Options are consistent with the terms of the Options Disclosure Document.

With regard to the impact of this proposal on system capacity, ISE has analyzed its capacity and represents that it and the Options Price Reporting Authority have the necessary systems capacity to handle the potential additional traffic associated with the listing and trading of Mini Options. The Exchange has further discussed the proposed listing and trading of Mini Options with the OCC, which has represented that it is able to accommodate the proposal.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6 of the Securities and Exchange Act of 1934 ("Exchange Act"),⁴ in general, and with Section 6(b)(5) of the Exchange Act,⁵ in particular, in that the proposal 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

⁴ 15 U.S.C. 78f.

⁵ 15 U.S.C. 78f(b)(5).

market system and, in general, to protect investors and the public interest. Specifically, the Exchange believes that investors would benefit from the introduction and availability of Mini Options by making options on high priced securities more readily available and as an investing tool at more affordable prices, particularly for average retail investors, who otherwise may not be able to participate in trading options on high priced securities. As noted above, the proposed rule change intends to adopt a different trading symbol to distinguish Mini Options from regular option contracts and therefore, ease any investor confusion as to the product they are trading. Moreover, the proposed rule change is designed to protect investors and the public interest by providing investors with an enhanced tool to reduce risk in high priced securities. In particular, Mini Options will provide retail customers who invest in high priced issues in lots of less than 100 shares with a means of protecting their investments that is currently only available to those who have positions of 100 shares or more. Further, the proposed rule change is limited to those securities that meet the Exchange's proposed listing criteria to ensure that only those securities that have significant options liquidity and therefore, customer demand, are selected to have Mini Options listed on them.

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.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove the proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

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. In particular, the Commission seeks comment on the following:

1. NYSE Arca, Inc. recently proposed to allow the listing and trading of a “mini” option product.⁶ The Exchange’s proposal would allow the listing and trading of Mini Options contracts with contract specifications that differ from the similar product proposed by NYSE Arca. Due to the differences in contract specifications, these two similar products, even if on the same underlying security, would not necessarily be fungible. The Commission requests comment on whether the listing and trading of two distinct and non-fungible “mini” options products, particularly if on the same underlying security, would create investor confusion or raise any other issues or concerns for market participants.

2. As discussed above, the Exchange’s proposal would provide for contract specifications for Mini Options that include: (i) the strike prices would be set at the same level

⁶ See Securities Exchange Act Release No. 66725 (April 3, 2012), 77 FR 21120 (April 9, 2012) (SR-NYSEArca-2012-26).

for Mini Options as for corresponding standard contracts; (ii) the premium multiplier would be 10 for Mini Options (rather than 100 as for the standard contract) and the premium would be expressed in terms of dollars per 1/10th part of the total value of the contract; and (iii) the Exchange would designate Mini Options with different trading symbols than the standard contract. The Commission requests comment regarding the Exchange's proposed contract methodology.⁷

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-2012-26 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-ISE-2012-26. This file number should be

⁷ For a description of the proposed contract methodology for the mini option product proposed by NYSE Arca, see id.

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 website (<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 website 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 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-2012-26 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.⁸

Kevin M. O'Neill
Deputy Secretary

⁸ 17 CFR 200.30-3(a)(12).