

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-53248; File No. SR-ISE-2005-58)

February 7, 2006

Self-Regulatory Organizations; International Securities Exchange, Inc.; Order Granting Accelerated Approval of a Proposed Rule Change and Amendment No. 1 Thereto to Amend ISE Rule 700 Governing the Hours of Trading in Equity Options and Narrow-Based Index Options

I. Introduction

On December 27, 2005, the International Securities Exchange, Inc. ("ISE" or "Exchange") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² a proposed rule change to amend its rules governing the hours of trading in equity options and narrow-based index options. The proposed rule change was published for comment in the Federal Register on January 13, 2006.³ The Commission received no comments on the proposed rule change. On January 30, 2006, the Exchange filed Amendment No. 1 to the proposed rule change.⁴ The Commission is approving the amended proposal on an accelerated basis.

II. Description

The ISE proposes to amend ISE Rule 700 governing the hours of trading in equity options and narrow-based index options. Specifically, the ISE proposes to amend ISE

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 53055 (January 5, 2006), 71 FR 2279.

⁴ In Amendment No. 1, the Exchange requested that the implementation date for the new closing time be changed from February 1, 2006, as was originally proposed, to February 13, 2006.

Rule 700 to change the close of the normal trading hours in options on individual stocks and narrow-based indexes from 4:02 p.m. to 4:00 p.m. (New York time). After the change, the time of the close of trading in these ISE options will correspond to the normal time set for the close of trading on the primary exchanges listing the stocks underlying the ISE options. The primary exchanges generally close at 4:00 p.m. (New York time).

The Exchange represents that improvements in the processing and reporting of transactions have largely eliminated significant delays in the reporting of closing prices; and therefore, a two minute session is no longer needed to trade options after the underlying securities close trading. Additionally, the Exchange believes that pricing aberrations can occur if an option is traded when the underlying stock is no longer trading, since there is a close relationship in the price of the underlying stock and the overlying option. As a result, the ISE believes that it is difficult for the market to price options accurately when the underlying security is not trading. Furthermore, as noted above, the Exchange proposes to change the closing time for options on narrow-based indexes, as defined in ISE Rule 2001, because these indexes are subject to the same pricing problems as options on individual stocks. According to the ISE, a significant news announcement on one component of a narrow-based index could have a significant effect on that index. However, the Exchange is not at this time proposing to change the closing time of 4:15 p.m. (New York time) for options on a broad-based index, as defined in ISE Rule 2001, because the ISE believes it is unlikely that a significant news announcement by the issuer of one component stock of a broad-based index is likely to

have a significant effect on the price of that broad-based index. The Exchange proposes to implement the proposed rule change on February 13, 2006.⁵

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change, as amended, is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.⁶ In particular, the Commission finds that the proposal is consistent with Section 6(b)(5) of the Act,⁷ which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, 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.

The Commission notes that the Exchange believes that the need to continue trading options for some period of time after the close of trading in the underlying securities markets is no longer necessary because improvements in the processing and reporting of transactions have obviated the need to respond to late reports of closing prices over the consolidated tape in order to bring options quotes in line with the closing price of the underlying security. Moreover, the Exchange believes that allowing two additional minutes of options trading after trading on the underlying primary exchanges

⁵ Id.

⁶ In approving this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

⁷ 15 U.S.C. 78f(b)(5).

has ended may actually result in pricing aberrations. Because the two minute delay between the close of normal trading in equity options and narrow-based index options and the corresponding underlying equity markets is no longer necessary, the Commission believes that eliminating the delay is in the public interest and appropriate for the protection of investors and the maintenance of fair and orderly markets. Therefore, the Commission finds that it is consistent with the Act for the Exchange to amend its rules to change the close of normal trading hours in equity and narrow-based index options from 4:02 p.m. to 4:00 p.m. (New York time).

The Commission finds good cause for approving this proposed rule change, as amended, before the thirtieth day after publication of notice thereof in the Federal Register. The Commission notes that all of the options exchanges have filed substantially similar proposals and seek to implement these industry-wide changes simultaneously on February 13, 2006.⁸ For example, on December 20, 2005, the Commission published for comment in the Federal Register a similar proposed rule change submitted by the Chicago Board Options Exchange, Incorporated (“CBOE”).⁹ The Commission received no comments on the CBOE’s proposed rule change. The Commission believes that the ISE’s proposed rule change, as amended, raises no new issues or novel regulatory questions. Accordingly, the Commission finds good cause, pursuant to Section 19(b)(2) of the Act,¹⁰ for approving the proposed rule change, as amended, prior to the thirtieth day after publication in the Federal Register. In addition, because the existence of

⁸ See note 11, infra.

⁹ See Securities Exchange Act Release No. 52949 (December 13, 2005), 70 FR 75513 (December 20, 2005) (SR-CBOE-2005-104).

¹⁰ 15 U.S.C. 78s(b)(2).

dissimilar closing times among the options exchanges could lead to confusion for options investors and broker-dealers, the Commission finds good cause to accelerate approval of the proposed rule change to enable the six options exchanges to simultaneously amend their hours of trading on an industry-wide basis in a uniform manner.¹¹

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹² that the proposed rule change and Amendment No. 1 thereto (SR-ISE-2005-58) be, and hereby are, approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹³

Nancy M. Morris
Secretary

¹¹ The Commission notes that it is simultaneously approving similar proposals from the other options exchanges. See Securities Exchange Act Release Nos. 53244 (SR-Amex-2006-003); 53245 (SR-BSE-2006-02); 53246 (SR-CBOE-2005-104); 53249 (SR-PCX-2005-138); and 53247 (SR-Phlx-2006-01) (February 7, 2006).

¹² 15 U.S.C. 78s(b)(2).

¹³ 17 CFR 200.30-3(a)(12).