

ISE Position Paper:

ISE very much appreciates Amex/Arca's leadership in proposing a plan to make the Penny Pilot permanent. To date, no alternative for consideration has been put forward by an exchange though there has been considerable debate within the industry regarding various aspects of the proposal as well as additional possibilities for consideration.

ISE would like to offer an alternative that slightly amends the concepts of the Amex/Arca filing. We do this not with the intention of forcing multiple choices for the industry or SEC to consider, but to continue the dialog with all the exchanges and SEC. We strongly support one plan for all the exchanges.

ISE's recommendation:

Areas where we believe there is common consensus:

- Plan should be permanent without need for bi-annual rule filings to extend a "pilot" and exchange reports
- Plan should be easy for customers to understand
- Plan should include a well-defined mechanism for moving options onto and off the list for trading in pennies (the Amex/Arca barrier approach will work well with ISE's recommendation)

Areas where we differ from the Amex/Arca proposal

- Options should trade in pennies for premiums below \$3 and nickels above \$3 for all options that make up 90% of average daily equity and ETF options volume (not including dividend trade activity). Depending on what period of time is used to measure average daily volume, this would result in penny trading for approximately 600 classes.
 - The 80% target as currently proposed is too low. By trading more names in pennies, there will be less customer confusion and a more consistent "feel" to trading with greater transparency of market pricing.
 - A larger group of classes in pennies will also allow for more classes with weekly options, an area of the business that continues to grow.
- SPY, QQQ and IWM should not trade in pennies above \$3, the same as the other options that trade in pennies.
 - Quote traffic in premiums above \$3 in SPY represents 62% of the total SPY quote traffic yet those options are only 12% of total SPY volume. The quote to trade ratio of SPY options above \$3 is 4000, a multiple higher than the 500 figure mentioned in the Amex/Arca filing for non-penny options. As a group, volume under \$3 in SPY, QQQ and IWM comprises 90% of their total average daily volume. The Pilot program has proven that there is little benefit to trading in pennies above \$3. We also found that quote traffic in these three names alone makes up 8% of total industry traffic and reducing quote traffic here will help offset increases elsewhere.
- Newly listed options should immediately trade in pennies below \$3 and nickels above.
 - When a company like Facebook lists, it should immediately be traded in pennies under \$3. This will eliminate customer confusion on day one and prevent actively traded options from having to wait for months for a rebalancing of penny options products. We look forward to working with the other options exchanges to determine what the best mechanism is for determining which products this should apply to (for

example, should it be for companies whose market capitalization is of a certain size and higher).