

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-62703; File No. SR-ISE-2010-81)

August 12, 2010

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing of Proposed Rule Change Relating to Trading Options on a Reduced Value of the DAX Index, Including Long-Term Options

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on August 3, 2010, the International Securities Exchange, Inc. (the “Exchange” or the “ISE”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change, replacing the original filing in its entirety, as described in Items I and II, 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 ISE is proposing to amend its rules to trade options on a reduced value DAX Index (“Mini DAX”). The Mini DAX represents 1/10th of the full value of the DAX Index. The Exchange also proposes to list and trade long-term options on the Mini DAX. Options on the Mini DAX will be A.M. cash-settled and will have European-style exercise provisions. The text of the proposed rule change is available on the Exchange’s Web site at <http://www.ise.com>, on the Commission’s Web site at <http://www.sec.gov>, at the Exchange, and at the Commission’s Public Reference Room. A copy of this filing is available on the Exchange’s Web site at <http://www.ise.com>, at the Exchange’s principal office and at the Commission’s Public Reference Room.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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.

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

(a) Purpose

The Exchange proposes to amend its Rules 2001, 2004 and 2009 to provide for the listing and trading of options on the Mini DAX, which represents 1/10th of the full value of the DAX Index. In addition to options on the Mini DAX, the Exchange may list long-term options on the Mini DAX (the “Mini DAX LEAPS”).³ Options on the Mini DAX will A.M. cash-settled and will have European-style exercise provisions.

The DAX Index is an internationally recognized, capitalization-weighted index based on the prices of the 30 most highly capitalized German stocks admitted to the Prime Standard Segment of the FWB Frankfurter Wertpapierbörse (Frankfurt Stock Exchange) and traded on the Xetra trading system operated by Deutsche Börse AG (“DBAG”). DBAG is regulated by the German Federal Financial Supervisory Authority (“BaFin”). DBAG’s Xetra trading system is a fully electronic order book trading service. Xetra is the central price formation and trading service for the securities comprising the DAX Index. DBAG and the SIX Swiss Exchange

³ Under ISE Rule 2009(b), “Long-Term Index Options Series,” the Exchange may list long-term options that expire from 12 to 60 months from the date of issuance.

jointly operate a fully electronic derivatives exchange called Eurex. Eurex lists futures and options on, among other things, equities, equity indexes, interest rates, and commodities.

Currently, DBAG lists equity options and futures on the components of the DAX Index and equity index options and futures on the DAX Index itself. The Exchange notes that the Commission previously provided an exemption under the Investment Company Act of 1940 for the issuance of an exchange traded fund by Northern Trust Global Investments called the NETS DAX Index Fund (“DAX Fund”) that held as its portfolio the components of the DAX Index.⁴ Further, in 1994, the Chicago Board Options Exchange (“CBOE”) had filed a proposed rule change to list options, including long-term options, on a reduced-value of the DAX Index.⁵

Index Design and Composition

The DAX Index was launched on July 1, 1988 by the Frankfurt Stock Exchange, Arbeitsgemeinschaft der Deutschen Wertpapierbörsen (Association of German Stock Exchanges) and Börsen-Zeitung (a German stock exchange newspaper). The DAX Index is administered and maintained by DBAG⁶ on the basis of Xetra prices for the component stocks and calculated in real-time once per second. The DAX Index is a capitalization-weighted index where the weight of any individual component is proportional to its respective share in the total market capitalization of all the components. To qualify for inclusion in the DAX Index, a company must, at a minimum, satisfy the following conditions: (1) it must be admitted to the Prime

⁴ See Investment Company Act Release No. 28166 (February 25, 2008), 73 FR 10828 (February 28, 2008).

⁵ See Securities Exchange Act Release No. 35130 (December 20, 1994), 59 FR 66985 (December 28, 1994) (SR-CBOE-94-47) (Notice of Filing of Proposed Rule Change by the Chicago Board Options Exchange, Inc. Relating to the Listing of Options and Long-Term Options on a Reduced-Value of the DAX).

⁶ All decisions regarding the composition of and possible modifications to the DAX Index

Standard Segment of the Frankfurt Stock Exchange; (2) it must be traded continuously on Xetra; (3) it must have a free float of at least 10%; (4) it must be headquartered in Germany, or if headquartered elsewhere in the European Union then 33% of its aggregate volume for each of the past three months must have been executed on the Frankfurt Stock Exchange; and (5) it must be sufficiently liquid to be traded.⁷

The DAX Index consists of the 30 most highly liquid and capitalized German stocks ranked by float-adjusted market capitalization.⁸ The Management Board of DBAG decides whether changes are to be made to the composition of the index on an annual basis in September but also performs quarterly reviews of the components' free float.

As set forth in Exhibit 3-1, as of February 16, 2010, following are the characteristics of the DAX Index: (i) the total capitalization of all of the components in the Index is €41.49 billion; (ii) regarding component capitalization, (a) the highest capitalization of a component is €8.78 billion (Salzgitter AG), (b) the lowest capitalization of a component is €0.91 billion (K+S AG), (c) the mean capitalization of the components is €1.38 billion, and (d) the median capitalization of the components is €4.31 billion; (iii) regarding component price per share, (a) the highest price per share of a component is €109.85 (Muenchener Rueckversicherungs AG), (b) the lowest price per share of a component is €4.09 (Infineon Technologies AG), (c) the mean price per share of a component is €3.50, and (d) the median price per share of a component is

are exclusively made by the Management Board of DBAG, and are published in a press release and on www.deutsche-boerse.com in the evening after the Committee has concluded its meeting.

⁷ See “Guide to the Equity Indices of Deutsche Börse,” at www.deutsche-boerse.com for complete eligibility criteria.

⁸ Float-adjusted market capitalization (as opposed to an unadjusted methodology) refers to the number of free-float shares available multiplied by the share price. A “free-float” index methodology usually excludes shares held by strategic investors by way of cross ownership, government ownership, private ownership and restricted share ownership.

€42.29; (iv) regarding component weightings, (a) the highest weighting of a component is 10.65% (Siemens AG), (b) the lowest weighting of a component is 0.49% (Salzgitter AG), (c) the mean weighting of the components is 3.33%, (d) the median weighting of the components is 1.70%, and (e) the total weighting of the top five highest weighted components is 43.55% (Siemens AG, E.ON AG, Bayer A, BASF SE, Allianz SE); (v) regarding component available shares, (a) the most available shares of a component is 4.36 billion (Deutsche Telekom AG), (b) the least available shares of a component is 60.01 million (Salzgitter AG), (c) the mean available shares of the components is 680.74 million, and (d) the median available shares of the components is 455.92 million; (vi) regarding the six month average daily volumes of the components, (a) the highest six month average daily volume of a component is 293.27 million (Deutsche Bank AG), (b) the lowest six month average daily volume of a component is 20.84 million (Fresenius SE) (c) the mean six month average daily volume of the components is 105.21 million, (d) the median six month average daily volume of the components is 78.44 million, (e) the average of six month average daily volumes of the five most heavily traded components is 1.18 billion (Deutsche Bank AG, Siemens AG, E.ON AG, Allianz SE, Daimler AG), and (f) 100% of the components had a six month average daily volume of at least 50,000.

Index Calculation and Index Maintenance

The base index value of the DAX Index was 1000, as of December 31, 1987. On February 16, 2010, the index value of the DAX Index was 5592.12. The Exchange believes that this level may be too high for successful options trading because the premium for options on the full value of the DAX Index are also likely to be high, which may deter retail investors. As a result, the Exchange proposes to base trading in options on a reduced value DAX Index. Specifically, the Exchange proposes to list options on the Mini DAX that are based on one-tenth of the value of the DAX. The Exchange believes that listing options on reduced values will

attract a greater source of customer business. The Exchange further believes that listing options on a reduced value will provide an opportunity for investors to hedge, or speculate on, the market risk associated with the stocks comprising the DAX Index. Additionally, by reducing the value of the DAX Index, investors will be able to use this trading vehicle while extending a smaller outlay of capital. The Exchange believes that this should attract additional investors, and, in turn, create a more active and liquid trading environment.⁹

Index levels for options on the Mini DAX shall be calculated by DBAG or its agent, and shall be disseminated by ISE every 15 seconds during the Exchange's regular trading hours to market information vendors via the Options Price Reporting Authority ("OPRA").¹⁰ The methodology used to calculate the value of the DAX Index is similar to the methodology used to calculate the value of other well-known market-capitalization weighted indexes. The level of the DAX Index reflects the float-adjusted market value of the component stocks relative to a particular base period and is computed by dividing the total market value of the companies in each index by its respective index divisor.¹¹

The DAX Index is currently updated on a real-time basis from 9 a.m. to 5:45 p.m. (Frankfurt time), which generally corresponds to 3 a.m. to 11:45 a.m. (New York time). The

⁹ The concept of listing reduced value options on an index is not a novel one. For example, the Commission has previously approved the listing of reduced value options on the S&P 500 Index [See Exchange Act Release No. 34-32893 (September 14, 1993)], the Nasdaq 100 Index [See Exchange Act Release No. 34-43000 (July 10, 2000)], and the NYSE Composite Index [See Exchange Act Release No. 34-48681 (November 3, 2003)].

¹⁰ The Exchange shall also disseminate these values to its members. The DAX Index will be published daily through major quotation vendors, such as ThomsonReuters.

¹¹ A divisor is an arbitrary number chosen at the starting date of an index to fix the index starting value. The divisor is adjusted periodically when capitalization amendments are made to the constituents of the index in order to allow the index value to remain comparable over time. Without a divisor the index value would change when corporate actions took place and would not reflect the true value of an underlying portfolio based upon the index.

Exchange, or its agent, shall disseminate Mini DAX Index values via OPRA or major market data vendors between 3 a.m. and 11:45 a.m. (New York time). After 11:45 a.m. (New York time), the Exchange, or its agent, shall disseminate a static value of the Mini DAX until the close of trading each day. The DAX Index is calculated using the last traded price of the component securities. If a component security does not open for trading, the price of that security at the close or the index on the previous day is used in the calculation.¹²

The DAX Index will be monitored and maintained by DBAG. DBAG will be responsible for making all necessary adjustments to the indexes to reflect component deletions, share changes, stock splits, stock dividends (other than an ordinary cash dividend), and stock price adjustments due to restructuring, mergers, or spin-offs involving the underlying components. Some corporate actions, such as stock splits and stock dividends, require simple changes to the available shares outstanding and the stock prices of the underlying components. Other corporate actions, such as share issuances, change the market value and would require changing the index divisor to effect adjustments.

The DAX Index is subject to a full review and, if necessary, ordinary adjustments are made once a year in September, where all components are screened for eligibility and ranked based on liquidity and market capitalization. Quarterly reviews are also performed in March, June, September and December, where components' free float levels are reviewed and extraordinary adjustments may be made. Specifically, any component with a weight greater than 10% will have its free float share count adjusted such that its weight will be reduced back down to 10%. Further, a component is generally replaced if its ranking among all eligible companies is lower than (worse than) 45. Similarly, an eligible candidate company is generally added if it's

¹² The DAX Index is published daily and is available real-time on ThomsonReuters,

ranking among all eligible stocks is higher than (better than) or equal to 25. If a component company is deleted from the DAX Index between reviews as a result of a merger, takeover or other corporate action, the highest ranking company will replace it in the index.

Although the Exchange is not involved in the maintenance of the DAX Index, the Exchange represents that it will monitor the DAX Index on a quarterly basis, at which point the Exchange will notify the staff of the Division of Trading and Markets of the Commission by filing a proposed rule change pursuant to Rule 19b-4 and cease to list any additional series for trading, if, with respect to the DAX Index: (i) the number of securities in the DAX Index drops by 1/3rd or more; (ii) 10% or more of the weight of the DAX Index is represented by component securities having a market value of less than €50 million; (iii) 10% or more of the weight of the DAX Index is represented by component securities trading less than 20,000 shares per day; or (iv) the largest component security accounts for more than 15% of the weight of the DAX Index or the largest five components in the aggregate account for more than 50% of the weight of the DAX Index.

The Exchange will also notify the staff of the Division of Trading and Markets of the Commission immediately in the event DBAG ceases to maintain and calculate the DAX Index, or in the event values of the DAX Index are not disseminated every 15 seconds by a widely available source. In the event the DAX Index ceases to be maintained or calculated, or its values are not disseminated every 15 seconds by a widely available source, the Exchange will not list any additional series for trading and will limit all transactions in such options to closing transactions only for the purpose of maintaining a fair and orderly market and protecting investors.

Bloomberg, and other market information systems which disseminate information on a real-time basis.

Exercise and Settlement Value

Options on the Mini DAX will expire on the Saturday following the third Friday of the expiration month. Trading in options on the Mini DAX will normally cease at 4:15 p.m. (New York time) on the Thursday preceding an expiration Saturday. The index value for exercise of the Mini DAX options will be calculated by DBAG based on the Xetra intra-day auction prices for each of the component companies. That value is also used as the basis for settlement of DAX Index futures and options contracts traded on Eurex. The intra-day auction occurs between 1:00 p.m. and 1:05 p.m. (German time) on the third Friday of the expiration month, which generally corresponds to 7 a.m. to 7:05 a.m. (New York time). Therefore, because trading in the expiring contract months will normally cease on a Thursday at 4:15 p.m. (New York time), the index value for exercise will be determined the day after trading has ceased, i.e., during the Friday afternoon Xetra trading session, or generally by 7:05 a.m. (New York time). If no price is established for a component company during the Xetra intraday auction, then the next available price is used. If no price is available by the end of the Xetra trading session then the last price available is used for calculation. When the auction is finished, the index values are disseminated as the settlement values. The settlement values are widely disseminated through major market data vendors including ThomsonReuters and Bloomberg.

If the Frankfurt Stock Exchange is closed on the Friday before expiration, but the ISE remains open, then the last trading day for expiring Mini DAX options will be moved earlier to Wednesday as if the ISE had had a Friday holiday. The settlement index value used for exercise will be calculated during Xetra's intra-day auction on Thursday morning.

Contract Specifications

The contract specifications for options on the Mini DAX are set forth in Exhibits 3-2. The Mini DAX is a broad-based index, as defined in Exchange Rule 2001(j). Options on the

Mini DAX are European-style and A.M. cash-settled. The Exchange's standard trading hours for broad-based index options (9:30 a.m. to 4:15 p.m., New York time), as set forth in Rule 2008(a), will apply to the trading of options on the Mini DAX. Exchange rules that are applicable to the trading of options on broad-based indexes will also apply to the trading of Mini DAX options.¹³ Specifically, the trading of Mini DAX options will be subject to, among others, Exchange rules governing margin requirements and trading halt procedures for index options. Further, Mini DAX options shall be quoted and traded in U.S. dollars.

For options on the Mini DAX, the Exchange proposes to establish aggregate position limits at 250,000 contracts on the same side of the market, provided no more than 150,000 of such contracts are in the nearest expiration month series. These limits are identical to the limits that were approved for options on the FTSE Indexes previously approved by the Commission.¹⁴ Additionally, under ISE Rule 2006, an index option hedge exemption for public customers may be available which may expand the position limit up to an additional 750,000 contracts.¹⁵ Furthermore, proprietary accounts of members may receive an exemption of up to 500,000 contracts for the purpose of facilitating public customer orders.¹⁶

The Exchange proposes to apply broad-based index margin requirements for the purchase and sale of options on the Mini DAX. Accordingly, purchases of put or call options with 9 months or less until expiration must be paid for in full. Writers of uncovered put or call options

¹³ See ISE Rules 2000 through 2012.

¹⁴ See Securities Exchange Act Release No. 53484 (March 14, 2006), 71 FR 14268 (March 21, 2006) (Notice of Filing and Order Granting Accelerated Approval to a Proposed Rule Change and Amendment No. 1 Thereto Relating to Trading Options on Full and Reduced Values of the FTSE 100 Index and the FTSE 250 Index, Including Long-Term Options).

¹⁵ The same limits that apply to position limits shall apply to exercise limits for these products.

¹⁶ See ISE Rule 413(c).

must deposit / maintain 100% of the option proceeds, plus 15% of the aggregate contract value (current index level x \$100), less any out-of-the-money amount, subject to a minimum of the option proceeds plus 10% of the aggregate contract value for call options and a minimum of the option proceeds plus 10% of the aggregate exercise price amount for put options.

The Exchange proposes to set minimum strike price intervals for Mini DAX options at 1 point intervals. The minimum tick size for series trading below \$3 shall be \$0.05, and for series trading at or above \$3 shall be \$0.10.

The Exchange proposes to list options on the Mini DAX in the three consecutive near-term expiration months plus up to three successive expiration months in the March cycle. For example, consecutive expirations of January, February, March, plus June, September, and December expirations would be listed.¹⁷ The trading of options on the Mini DAX shall be subject to the same rules that presently govern the trading of Exchange index options, including sales practice rules, margin requirements, trading rules, and position and exercise limits. In addition, long-term option series having up to sixty months to expiration may be traded.¹⁸ The trading of long-term Mini DAX options shall also be subject to the same rules that govern the trading of all the Exchange's index options, including sales practice rules, margin requirements, and trading rules.

Chapter 6 of the Exchange's rules is designed to protect public customer trading and shall apply to the trading of options on the Mini DAX. Specifically, ISE Rules 608(a) and (b) prohibit Members from accepting a customer order to purchase or write an option unless such customer's

¹⁷ See Rule 2009(a)(3).

¹⁸ See Rule 2009(b)(1). The Exchange is not listing reduced value LEAPS on the Mini DAX pursuant to Rule 2009(b)(2).

account has been approved in writing by a designated Options Principal of the Member.¹⁹ Additionally, ISE's Rule 610 regarding suitability is designed to ensure that options are only sold to customers capable of evaluating and bearing the risks associated with trading in this instrument. Further, ISE Rule 611 permits members to exercise discretionary power with respect to trading options in a customer's account only if the Member has received prior written authorization from the customer and the account had been accepted in writing by a designated Options Principal. ISE Rule 611 also requires designated Options Principals or Representatives of a Member to approve and initial each discretionary order on the day the discretionary order is entered. Finally, ISE Rule 609, Supervision of Accounts, Rule 612, Confirmation to Customers, and Rule 616, Delivery of Current Options Disclosure Documents and Prospectus, will also apply to trading in of options on the Mini DAX.

Surveillance and Capacity

The Exchange represents that it has an adequate surveillance program in place for options traded on the Mini DAX. The ISE Market Surveillance Department conducts routine surveillance in approximately 30 discrete areas. Index products and their respective symbols are integrated into the Exchange's existing surveillance system architecture and are thus subject to the relevant surveillance processes. This is true for both surveillance system processing and manual processes that support the ISE's surveillance program. Further, both ISE and the Frankfurt Stock Exchange, operated by DBAG, are members of the Intermarket Surveillance Group ("ISG"), created under the Intermarket Surveillance Group Agreement, dated June 20, 1994. Through its membership in the ISG, ISE may obtain trading information via the ISG from other exchanges who are members or affiliates of the ISG. The members of the ISG include all

¹⁹ Pursuant to ISE Rule 602, Representatives of a Member may solicit or accept customer orders for FCOs.

of the U.S. registered stock and options markets. The ISG members work together to coordinate surveillance and investigative information sharing in the stock and options markets.

Finally, the Exchange has the necessary systems capacity to support new options series that will result from the introduction of options on the Mini DAX, including LEAPS.

(b) Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the “Act”) in general, and furthers the objectives of Section 6(b)(5) in particular in that it will permit options trading in the Mini DAX pursuant to rules designed to prevent fraudulent and manipulative acts and practices and promote just and equitable principles of trade.

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

The proposed rule change does not impose any burden on competition.

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 up to 90 days (i) as the Commission may designate 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. 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-2010-81 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 No. SR-ISE-2010-81. 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 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 No. SR-ISE-2010-81 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.²⁰

Florence E. Harmon
Deputy Secretary

²⁰ 17 CFR 200.30-3(a)(12).