SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-67754; File No. SR-ISE-2012-33)

August 29, 2012

Self-Regulatory Organizations; International Securities Exchange, LLC; Order Granting Approval of Proposed Rule Change, as Modified by Amendment No. 1, Regarding Strike Price Intervals for Certain Option Classes

I. Introduction

On May 21, 2012, the International Securities Exchange, LLC ("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 modify its Short Term Option Series Program ("STOS Program") to permit, during the expiration week of an option class that is selected for the STOS Program ("STOS Option"), the strike price intervals for the related non-STOS option that is in the same class as a STOS Option ("Related non-STOS Option") to be the same as the strike price interval for the STOS Option. The Exchange also proposed to adopt a rule to open for trading Short Term Option Series at $0.50 strike price intervals for option classes that trade in one dollar increments and are in the STOS Program ("Eligible Option Classes"). The proposed rule change was published for comment in the Federal Register on June 6, 2012.[3] The Commission received one comment letter on the proposal.[4] On July 26, 2012, ISE filed Amendment No.1 to

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 Securities Exchange Act Release No. 67083 (June 6, 2012), 76 FR 33543 ("Notice").

4 See letter from Jenny L. Klebes, Senior Attorney, Legal Division, Chicago Board Options Exchange, Incorporated ("CBOE"), to Elizabeth M. Murphy, Secretary, Commission, dated June 27, 2012 ("CBOE Letter"). CBOE sought further clarification on how the proposed rule change would be implemented and suggested that the proposed rule change be revised to indicate which, if any, day(s) during the week of expiration for standard options the related non-STOS options could be added. See CBOE Letter at 2.

the proposed rule change.[5] This order approves the proposed rule change, as modified by Amendment No. 1.

II. Description of the Proposal

The Exchange proposed to amend ISE Rules 504 (Series of Options Contracts Open for Trading) and 2009 (Terms of Index Options Contracts) to indicate that, during the expiration week, the strike price intervals for the Related non-STOS Option shall be the same as the strike price interval for the STOS Option. The Exchange also proposed to adopt a rule that would permit ISE to list Short Term Option Series at $0.50 strike price intervals for Eligible Option Classes.

In the Notice, the Exchange stated that the principal reason for the proposed expansion is in response to market and customer demand to list actively traded products in more granular strike price intervals and to provide Exchange members and their customers increased trading opportunities in the STOS Program.[6] ISE also represented that there are substantial benefits to market participants in the ability to trade the Eligible Option Classes at more granular strike price intervals and that the instant proposal has the support of several of its market makers and was developed in consultations with one such market-making firm.[7] Furthermore, the Exchange also argued that allowing it to open Related non-STOS Options at the more granular strike price intervals the week before expiration would ensure conformity between STOS options and Related non-STOS Options.

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5 Amendment No. 1 clarified the timing of when additional series of non-STOS, or standard options, may be opened. Because Amendment No. 1 is technical in nature, the Commission is not required to publish it for public comment.

6 See Notice, supra note 3 at 33544.

7 Id. at 33545.

The Exchange stated that it has analyzed its capacity, and represented that it and the Options Price Reporting Authority ("OPRA") have the necessary systems capacity to handle the potential additional traffic associated with trading the Eligible Option Classes in narrower strike price intervals.[8] The Exchange also represented that the proposal, if approved, would not increase the number of listed short-term series.[9]

III. Discussion and Commission Findings

After careful review of the proposed rule change and the CBOE Letter, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.[10] Specifically, the Commission finds that the proposal is consistent with Section 6(b)(5) of the Act,[11] which requires, among other things, that the rules of a national securities exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, 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 believes that the proposal strikes a reasonable balance between the Exchange's desire to offer a wider array of investment opportunities and the need to avoid unnecessary proliferation of options series.

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8 Id. The Exchange also stated that, while liquidity levels at each individual option series could decrease as a result of listing short term options series at more granular strike price intervals, it did not expect that the proposed rule change would result in a significant change in liquidity or otherwise cause liquidity in the Eligible Options Classes products to decline.

9 See Notice, supra note 3 at 33545

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

11 15 U.S.C. 78f(b)(5).

In approving this proposal, the Commission notes that the Exchange has represented that it and OPRA have the necessary systems capacity to handle the potential additional traffic associated with trading the expanded number of strike price intervals available to the Eligible Option Classes and Related non-STO Options. The Commission expects the Exchange to monitor the trading volume associated with the additional options series listed as a result of this proposal and the effect of these additional series on market fragmentation and on the capacity of the Exchange's, OPRA's, and vendors' automated systems.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[12] that the proposed rule change (SR-ISE-2012-33) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[13]

Kevin M. O'Neill
Deputy Secretary

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12 15 U.S.C. 78s(b)(2).

13 17 CFR 200.30-3(a)(12).