

and, therefore, has become effective immediately pursuant to Section 19(b)(3)(A)(ii) of the Act⁸ and Rule 19b-4(f)(2) thereunder.⁹ At any time within 60 days of the filing of such proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. 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 inspection and copying in the Commission's Public Reference Section. Copies of such filing will also be available for inspection and copying at the principal office of the ISE. All submissions should refer File No. SR-ISE-2003-12 and should be submitted by April 16, 2003.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁰

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-47532; File No. SR-ISE-2001-15]

Self-Regulatory Organizations; Order Approving Proposed Rule Change by the International Securities Exchange LLC Relating to a Pilot Program for Quotation Spreads

March 19, 2003.

I. Introduction

On May 25, 2001, the International Securities Exchange LLC ("ISE" or "Exchange"), filed with the Securities and Exchange Commission ("SEC" or "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 Supplementary Material .01 to ISE Rule 803, "Obligations of Market Makers," to establish a six-month pilot program in which the allowable quotation spread for options on up to 50 underlying securities (the "Pilot Options") will be \$5, regardless of the price of the bid.³

The proposed rule change was published for comment in the **Federal Register** on November 27, 2002.⁴ No comments were received regarding the proposal. This order approves the proposed rule change.

II. Description

Currently, the ISE's rules contain maximum quotation spread requirements that generally vary from \$.25 to \$1, depending on the price of the option. Specifically, ISE Rule 803(b)(4) requires options market makers to bid and offer so as to create differences of no more than \$.25 between the bid and offer for each options contract for which the bid is less than \$2; no more than \$.40 where the bid is at least \$2 but does not exceed \$5; no more than \$.50 where the bid is more than \$5 but does not exceed \$10; no more than \$.80 where the bid is more than \$10 but does not exceed \$20; and no more than \$1 where the bid is \$20 or greater. The bid/offer differentials do not apply to in-the-money options series when the spread in the underlying securities market is wider than the differentials set forth

above. For such series, ISE Rule 803(b)(4) permits the bid/ask differential to be as wide as the quotation on the primary market of the underlying security.

The ISE proposes to expand the allowable spread to \$5 in up to 50 Pilot Options (up to five per each of the ISE's ten options bins). The ISE represents that it will monitor the quotation quality of the Pilot Options for a six-month pilot period and, based on the results, recommend either relaxing the spread requirements for all options, ending the pilot, or adjusting the spread requirements.

III. Discussion

The Commission finds that, due to the ISE's market structure, discussed in greater detail below, the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.⁵ Specifically, the Commission finds that the proposal, which will allow ISE market makers to widen their quotations for Pilot Options when they believe that market conditions require wider spreads, is consistent with section 6(b)(5) of the Act⁶ in that it 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 market system and, in general, to protect investors and the public interest.

The Commission believes generally that maximum quotation spread parameters in the options market are important safeguards to ensure that market maker quotes in options are not unnecessarily wide. The Commission nevertheless believes that the ISE provides sufficiently strong incentives for market makers to disseminate competitive quotes without maximum quotation spread parameters. Specifically, each ISE market maker uses an automatic quotation system to quote independently, customers and professional traders can enter limit orders on the ISE's book, and market makers are only allocated trades when they are quoting at the best price. Moreover, the larger the size of a market maker's quote, the larger portion of a trade it is allocated. The Commission believes that these attributes and rules of the ISE provide strong market incentives for market makers to

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ The ISE's pilot program will include only equity options and not index options. Telephone conversation between Mike Simon, Senior Vice President and General Counsel, ISE, and Yvonne Fraticelli, Special Counsel, Division of Market Regulation ("Division"), Commission, on February 25, 2003.

⁴ See Securities Exchange Act Release No. 46860 (November 20, 2002), 67 FR 70988.

⁵ 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).

⁶ 15 U.S.C. 78f(b)(5).

⁸ 15 U.S.C. 78s(b)(3)(A)(ii).

⁹ 17 CFR 19b-4(f)(2).

¹⁰ 17 CFR 200.30-3(a)(12).