

underlying closes at or above \$20 on expiration Friday, the Exchange would not list any additional months with \$1 strike prices until the stock subsequently closed below \$20. If the underlying does not subsequently close below \$20, thereby precluding the listing of additional strike prices and months, the existing \$1 series will eventually expire. When the near-term month is the only series available for trading, the Exchange may submit a cessation notice to OCC. Upon submission of that notice, the underlying stock would no longer count towards the five stock Pilot Program, thereby allowing the Exchange to list classes on an additional stock. Once the Exchange submits the cessation notice, it would not list any additional months for trading with \$1 strikes below \$20 (unless the underlying once again closed below \$20).⁸

OPRA Capacity: The ISE believes that OPRA has the capacity to accommodate the increase in the number of series added pursuant to the Pilot Program. The Pilot Program is limited to only five underlying securities, and the Pilot Program will result in an increase of between seven and 14 additional strikes for each underlying (depending on the number of existing \$2.50 strikes listed). Thus, the Pilot Program will result in a maximum of 70 additional series, which is a small increase in the approximately 47,000 thousand series currently traded on the ISE. Currently, OPRA's one-minute peak has been less than one-third of its total capacity.

2. Basis

The Exchange believes that the addition of \$1 strike prices would stimulate customer interest in options overlying lower-priced stocks by creating greater trading opportunities and flexibility. The Exchange further believes that \$1 strike prices would provide customers with the ability to more closely tailor investment strategies to the precise movement of the underlying security. For these reasons, the Exchange believes the proposed rule change is consistent with the Act and the rules and regulations thereunder and, in particular, the requirements of

section 6(b) of the Act.⁹ Specifically, the Exchange believes the proposed rule change is consistent with section 6(b)(5)¹⁰ requirements that the rules of an 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 for a free and open market and a national market system, and, in general, to protect investors and the public interest.

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

The ISE believes that this proposed rule change does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

The ISE has not solicited, and does not intend to solicit, comments on this proposed rule change. The ISE has not received any unsolicited written comments from members or other interested persons.

III. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change, as amended, 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 Room. Copies of such filings will also be available for inspection and copying at the principal office of the Exchange. All submissions should refer to File No. SR-ISE-2003-17 and should be submitted by July 11, 2003.

IV. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Change

After careful review, 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.¹¹ In particular, the Commission finds that the proposed rule change is consistent with section 6(b)(5) of the Act,¹² which requires, among other things, that the rules of a national securities exchange be designed 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. Specifically, the Commission believes that the proposed listing of one point strike price intervals in selected equity options on a pilot basis should provide investors with more flexibility in the trading of equity options overlying stocks trading at more than \$3 but less than \$20, thereby furthering the public interest by allowing investors to establish equity options positions that are better tailored to meet their investment objectives. The Commission also believes that the Exchange's limited Pilot Program strikes a reasonable balance between the Exchange's desire to accommodate market participants by offering a wide array of investment opportunities and the need to avoid unnecessary proliferation of options series. The Commission expects the Exchange to monitor the applicable equity options activity closely to detect any proliferation of illiquid options series resulting from the narrower strike price intervals and to act promptly to remedy this situation should it occur. In addition, the Commission requests that the ISE monitor the trading volume associated with the additional options series listed as a result of the Pilot Program and the effect of these additional series on market fragmentation and on the capacity of the Exchange's, OPRA's, and vendors' automated systems.

As noted above, the Commission is approving the ISE's proposal on a pilot basis. In the event that ISE proposes to extend the Pilot Program beyond June 5, 2004, expand the number of options eligible for inclusion in the Pilot Program, or seek permanent approval of the Pilot Program, it should submit a Pilot Program report to the Commission

the underlying stock price remains at or above \$20), series proliferation concerns, and delisting because of low price, merger, takeover or other events. In any event, with prior notice to the membership and customers, ISE would continue to have the ability to cease trading series that become inactive and have no open interest.

⁸ If the underlying stock trades below \$20 after submission of the cessation notice by the Exchange, the ISE could list \$1 strike prices again provided it included the class as one of the five classes permitted under the Pilot Program.

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

¹¹ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹² 15 U.S.C. 78f(b)(5).