

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 Room. Copies of such filing will also be available for inspection and copying at the principal office of the CBOE. All submissions should refer to File No. SR-CBOE-2002-20 and should be submitted by May 23, 2002.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁹

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-45823; File No. SR-ISE-2001-32]

Self-Regulatory Organizations; International Securities Exchange LLC; Order Granting Approval to Proposed Rule Change and Amendment Nos. 1 and 2 Thereto Relating to a Pilot Program To Increase the Minimum Quote Size for Certain Option Classes

April 25, 2002.

On November 16, 2001, 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 adopt a three-month pilot program establishing greater size requirements

for certain quotations in specified options. The ISE amended its proposal on February 13, 2002³ and on March 13, 2002.⁴ The proposed rule change, as amended, was published for comment in the **Federal Register** on March 22, 2002.⁵ The Commission received no comments on the proposal, as amended.

The Commission finds that the proposed rule change and Amendment Nos. 1 and 2 are consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange,⁶ and in particular, the requirements of Section 6 of the Act⁷ and the rules and regulations thereunder. Specifically, the Commission finds that the proposal to adopt a three-month pilot program in which ISE market makers would be required to establish and maintain quotations of a larger minimum size in a limited number of option classes is consistent with section 6(b)(5) of the Act⁸ because it is designed to promote just and equitable principals of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, 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 notes that the increased minimum size for quotes for PMMs would be 100 contracts for customers and 50 contracts for broker-dealers.⁹ For Competitive Market

Makers, the size requirements would be half of the PMM requirement: 50 contracts for customers and 25 contracts for broker-dealers. However, the enhanced broker-dealer size would not apply to executions against other market makers, where the minimum size would continue to be one contract.

Furthermore, these enhanced size requirements would apply only to the options series in the three months closest to expiration, and the pilot would not apply to "deep-in-the-money" options¹⁰ or an option in the last three days of that option's trading.

The Commission believes that the larger size requirements may help the Exchange attract more order flow. In addition, the Commission believes that limiting the pilot program to the specified options should permit the Exchange to monitor the effects of the proposal on the quality of the ISE's market before implementing the proposal across the Exchange. In this regard, the Commission notes that the included options represent 19 of the 22 options with the highest trading volume in the industry, and thus, may be the most liquid options. The Commission also believes that limiting the program to the specified options on a three-month pilot basis should minimize any potential adverse effects of the proposal. The Commission expects the ISE, and the Exchange represents that it intends, to monitor the effects of the pilot program closely.

For the foregoing reasons, the Commission finds that the proposed rule change, as amended, is consistent with the requirements of the Act and rules and regulations thereunder.

It is therefore ordered, pursuant to section 19(b)(2) of the Act¹¹, that the proposed rule change and Amendment Nos. 1 and 2 (File No. SR-ISE-2001-32) be, and it hereby is, approved, as a pilot program, to expire on July 25, 2002.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹²

Margaret H. McFarland,

Deputy Secretary.

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contracts when the quotation consists, in part, of a customer order for less than ten contracts.

¹⁰ The proposed rule change defined "deep-in-the-money" as all options with strike prices that are in the money by four or more pricing intervals in relation to the at-the-money strike price.

¹¹ 15 U.S.C. 78s(b)(2).

¹² 17 CFR 200.30-3(a)(12).

⁹ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See letter from Michael Simon, Senior Vice President and General Counsel, ISE, to Nancy Sanow, Assistant Director, Division of Market Regulation ("Division"), Commission, dated February 12, 2002 ("Amendment No. 1"). In Amendment No. 1, the ISE proposed to replace the original rule filing in its entirety and specified the options to be included in the pilot program rather than allowing Primary Market Makers ("PMMs") to choose the options to be included in the pilot.

⁴ See letter from Michael Simon, Senior Vice President and General Counsel, ISE, to Nancy Sanow, Assistant Director, Division, Commission, dated March 12, 2002 ("Amendment No. 2"). In Amendment No. 2, the ISE proposed to clarify that, in the pilot program, new enhanced size levels would apply to customer and broker-dealer orders, but not to the orders of market makers on either the ISE or other exchanges.

⁵ See Securities Exchange Act Release No. 45568 (March 15, 2002), 67 FR 13388.

⁶ In approving this proposed rule change, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

⁷ 15 U.S.C. 78f.

⁸ 15 U.S.C. 78f(b)(5).

⁹ This enhanced quotation size requirement will not affect the PMM's obligation under ISE Rule 803(c)(1) to disseminate a quotation of at least ten