

PARTIAL AMENDMENT

The International Securities Exchange, LLC (the “Exchange” or “ISE”) submits this Partial Amendment, constituting Amendment No. 1, to rule filing SR-ISE-2013-42, filed on July 17, 2013, in which the Exchange proposes to amend its rules for the listing and trading on the Exchange of options on the Nations VolDex index (“VolDex”). With this Amendment No. 1, the Exchange is not proposing any changes other than to insert the following four paragraphs at the end of the first full paragraph under the section titled Surveillance and Capacity on page 8 of the 19b-4 and page 21 of Exhibit 1 of the original filing.

Per the proposed rule change, VolDex index options will be settled using a calculation based on the midpoint NBBO of the input components, a methodology unlike how other index settlement values are determined, as most of those are calculated based on transaction prices of the individual index components. The Exchange, therefore, believes that manipulating the VolDex settlement value will be difficult based on the dynamics of a quote-based calculation methodology as opposed to a single transaction price and because the option prices themselves would make such an endeavor cost prohibitive.

The vast liquidity of SPY options as well as the underlying SPY shares ensures a multitude of market participants at any given time.¹ Indeed, at least 19 market makers actively traded SPY options on ISE during September 2013 on any given day, and there are now 12 options exchanges that list SPY options. Due to the high level of participation among market makers that can enter quotes in SPY options series, the Exchange believes it would be very difficult for a single participant to alter the NBBO width across multiple series in any significant way without exposing the would-be manipulator to regulatory scrutiny and financial costs. For example, the September 2013² settlement value for the VolDex index would have used the inputs of options series from October and November 2013 expirations that range in price from \$3.44 (lowest National Bid) to \$5.00 (highest National Offer), which demonstrates that the cost of the input options are considerable because they are not out-of-the-money options. Further, the spread in the associated options varied from \$0.05 to \$0.11, which illustrates that the spread at the time that the settlement value would have been calculated would not afford much latitude for potential manipulation.

¹ SPY options volume as of June 20th 2013 was approximately 2.8 million contracts per day. The next actively traded multiply-listed product was the iShares Russell 2000 ETF (ticker: IWM), which traded about 600,000 contracts per day, making SPY over four times as active as the next listing thus illustrating its unique standing in the US options industry.

² Using data from Bloomberg assuming a VolDex index settlement value was calculated on September 18, 2013, which would have been the settlement value calculation date if VolDex index options were listed at that time.

The Exchange reiterates that it is unlikely that the VolDex index settlement value could be manipulated. Nonetheless, the ISE, in its normal course of surveillance, will monitor for any potential manipulation of the VolDex index settlement value both according to the Exchange's current procedures and additionally in the following two ways. First, as noted, since the VolDex index settlement value will be derived based on the midpoint of the SPY NBBO, the Exchange will review the opening ISE BBO ("IBBO") for the input components to determine if the IBBO had an effect on the NBBO for these options series. If it did, the Exchange can determine which member entered the IBBO quote and review the member's position and quoting activity to determine if the quote may have been entered to impact the NBBO. Second, the Exchange will compare the VolDex index settlement value to the subsequent disseminated value. If the difference between these two values is significant, the Exchange will review the opening quotes used in the calculation of the index across all marketplaces to determine which exchange(s) contributed to opening NBBO quote(s). Through an ISG request, ISE will contact the exchange(s) that entered the quote(s).

ISE believes that the Exchange's surveillance procedures currently in place, coupled with the additional measures proposed above, will allow ISE to adequately surveil for any potential manipulation in the trading of VolDex index options.