

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-64538; File No. SR-ISE-2011-30)

May 24, 2011

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing of Proposed Rule Change Relating to Complex Orders

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on May 23, 2011, the International Securities Exchange, LLC (the "Exchange" or the "ISE") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to specify in its rules that complex orders may be entered into the Price Improvement Mechanism for options classes traded on its Optimise platform. The text of the proposed rule change is available on the Exchange's Web site www.ise.com, at the principal office of the Exchange, at the Commission's Public Reference Room, and on the Commission's website at www.sec.gov.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

in Item IV below. The self-regulatory organization has prepared summaries, set forth in Sections A, B and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange has developed an enhanced technology trading platform (the "Optimise platform"). To assure a smooth transition, the Exchange is in the process of migrating option classes from its current trading system to the Optimise platform.³ The Optimise platform offers members the same trading functionality as the current trading system with some enhancements, several of which were previously added to the ISE's rules.⁴ The purpose of this rule filing is to specify in the Exchange's rules that complex orders may be entered into the Price Improvement Mechanism for options classes traded on the Optimise platform.

The Exchange's Facilitation Mechanism has been available for the execution of complex orders since 2005⁵ and the Solicited Order Mechanism has been available for the execution of complex orders since 2006.⁶ Both of the mechanisms expose orders to all exchange members for one second to provide an opportunity for price improvement. Supplementary Material .08 to Rule 716 specifies that members may use the Facilitation Mechanism and the Solicited Order Mechanism to execute complex orders at a net price. The complex orders are processed in the

³ Options classes are being transferred from the current trading platform to the Optimise trading platform. The same options cannot trade on both systems at the same time.

⁴ See Securities Exchange Act Release No. 63117 (October 15, 2010), 75 FR 65042 (October 21, 2010) (SR-ISE-2010-101); and Securities Exchange Act Release No. 64275 (April 8, 2011), 76 FR 21087 (April 14, 2011) (File No. SR-ISE-2011-24).

⁵ Securities Exchange Act Release No. 52327 (August 24, 2005), 70 FR 51854 (August 31, 2005) (File No. SR-ISE-2004-33).

⁶ Securities Exchange Act Release No. 53729 (April 26, 2006), 71 FR 26154 (May 3, 2006) (File No. SR-ISE-2006-14).

mechanisms at the net price in the same manner as single-legged orders. With respect to the bids and offers for the individual legs of a complex order entered into the mechanisms, the priority rules for complex orders contained in Rule 722(b)(2) continue to apply. If an improved net price for the complex order being executed can be achieved from bids and offers for the individual legs of the complex order in the Exchange's auction market, the order being executed will receive an execution at the better net price.

The Price Improvement Mechanism works in the same basic manner as the Facilitation Mechanism and the Solicited Order Mechanism, exposing orders to all members for one second to provide an opportunity for price improvement. The Exchange proposes to make the Price Improvement Mechanism available for the execution of complex orders on the Optimise platform by adding Supplementary Material .10 to Rule 723. Proposed Supplementary Material .10 to Rule 723 specifies that members may use the Price Improvement Mechanism to execute complex orders at a net price. The complex orders are processed in the mechanisms at the net price in the same manner as single-legged orders. With respect to the bids and offers for the individual legs of a complex order entered into the mechanisms, the priority rules for complex orders contained in Rule 722(b)(2) continue to apply. If an improved net price for the complex order being executed can be achieved from bids and offers for the individual legs of the complex order in the Exchange's auction market, the order being executed will receive an execution at the better net price.⁷

Rule 723(b)(1) requires that orders entered into the Price Improvement Mechanism be entered at a price that is better than the ISE best bid or offer and equal to or better than the

⁷ The Exchange provides the Commission with monthly statistics related to PIM order execution. These statistics will include Complex Orders executed through the PIM.

national best bid or offer, and Supplementary Material .08 to Rule 723 provides an exception to this requirement. Proposed Supplementary Material .10 to Rule 723 specifies that Complex orders must be entered at a price that is better than the best net price (i) available on the complex order book; and (ii) achievable from the best ISE bids and offers for the individual legs (an “improved net price”). It also specifies that Supplementary Material .08 is not applicable to the entry of complex orders; complex orders will be rejected unless they are entered at an improved net price. Proposed Supplementary Material .10 further specifies that all references to the national best bid and offer in Rule 723 and the Supplementary Material thereto are inapplicable. Finally, Rule 723(c)(5) specifies that the exposure period will automatically terminate upon the receipt of certain orders. Proposed Supplementary Material .10 specifies that the provisions of Rule 723(c)(5) shall apply with respect to the receipt of complex orders during the exposure period, and not to the receipt of orders for the individual legs of the complex order. Accordingly, the exposure period will not automatically terminate due to the receipt of orders for the individual legs of the complex order during the exposure period. As mentioned previously, if at the end of the exposure period an improved net price for the complex order can be achieved from bids and offers for the individual legs of the complex order, the order will be executed against such bids and offers.

2. Statutory Basis

The basis under the Act for this proposed rule change is found in Section 6(b)(5),⁸ in that the proposed change will serve to remove impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, to protect investors and the public interest. The proposed rule change will make an existing service available to an additional order

⁸ 15 U.S.C. 78f(b)(5).

type. By making the Price Improvement Mechanism available for complex orders, members will be given an additional way in which they can seek price improvement for their customers when executing complex orders on the Exchange. Moreover, the Proposal assures that the existing priority rules applicable to the execution of complex orders is maintained and automatically enforced by the system.

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

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

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove the proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

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. Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-ISE-2011-30 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-ISE-2011-30. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). 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 website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the

principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-ISE-2011-30 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁹

Cathy H. Ahn
Deputy Secretary

⁹ 17 CFR 200.30-3(a)(12).