

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-67251; File No. SR-ISE-2012-56)

June 25, 2012

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the Exchange's Obvious Error Rule

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on June 14, 2012, 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, II, and III 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 amend ISE Rule 720 regarding Obvious Errors. 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, and at the Commission's Public Reference Room.

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 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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

1. Purpose

The purpose of this proposed rule change is to amend ISE Rule 720 regarding Obvious Errors.³ Under the current rule, buyers of options with a zero bid may request that their execution be busted if at least the two strikes below (for calls) or above (for puts) in the same options class were quoted with a zero bid at the time of the execution.⁴ A zero bid option refers to an option where the bid price is \$0.00. Series of options quoted zero bid are usually deep out-of-the-money series that are perceived as having little if any chance of expiring in-the-money. For this reason, relatively few transactions occur in these series and those that do are usually the result of a momentary pricing error.

This proposed rule change will add additional criteria and clarifying language to the current rule. Specifically, under the revised rule, trades in series quoted no bid on the Exchange would be subject to nullification provided: (i) the bid in that series immediately preceding the execution was, and for five (5) seconds prior to the execution remained, zero and (ii) at least one strike below (for calls) or above (for puts) in the same option class was quoted no bid at the time of execution. Thus, for example, if a trade occurs in the ABC 45 call option series when the series was quoted \$0.00 - \$0.10, the trade may be nullified if (i) the bid was \$0.00 for at least five (5) seconds prior to the execution and (ii) at least one call option series in ABC with a strike

³ The changes proposed to ISE Rule 720 are based on Chicago Board Option Exchange ("CBOE") Rule 6.25.

⁴ See ISE Rule 720, Supplementary Material .05.

below 45 (e.g., the ABC 30, 35 or 40 call option series) had a bid of \$0.00 at the time of execution.

The revised no bid provision would also provide that each group of series in an options class with a non-standard deliverable will be treated as a separate options class. Thus, for example, if due to a reorganization certain of the series in the ABC option class have a deliverable of 150 shares per options contract (as compared to the standard 100 shares per option contract), all ABC option series that are subject to the 150 contract delivery requirements would be considered separately from the ABC option series that are subject to the 100 contract delivery requirements for purposes of applying the no bid provision. The revised rule would also provide that, when determining the Exchange's quotes in the relevant series, bids and offers of the parties to the subject trade that are in any of the series in the same options class and are believed to be erroneous shall not be considered. Thus, for example, if a member had a system error that caused it to quote a \$0.05 bid in all the series of an options class and a trade(s) resulted in some of those series, the erroneous \$0.05 bids would not be considered when determining the quoted market in the strike prices below (for calls) or above (for puts) each of the series for the subject trade(s). Finally, the revised rule would clarify that the no bid provision is intended to apply to series quoted no bid on the Exchange (as opposed to series for which the national best bid is quoted no bid). As is currently required, buyers must notify ISE's market operations group within the designated timeframe to seek relief.

The Exchange believes that the proposed rule change is reasonable and objective, and would serve to better identify instances where the no bid provision is intended to apply. The purpose of this proposed rule change is to align the Exchange's rule with rules currently in place

at other exchanges.⁵ The proposed rule change will provide members with similar opportunities for trade nullification that are available on CBOE which has an identical rule in place to address obvious errors.

2. Basis

The basis under the Securities Exchange Act of 1934 (“Exchange Act”) for this proposed rule change is the requirement under Section 6(b)(5) that an exchange have rules that are designed to promote just and equitable principles of trade, and 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.

The Exchange understands that, in approving proposals of other exchanges related to adjusting and nullifying option trades involving obvious errors, the Commission has focused on the need for specificity and objectivity with respect to exchange determinations and processes for reviewing such determinations.⁶ In this regard, the Exchange believes that the proposed rule change would clarify the application of the Exchange’s obvious error rule, while also simplifying the administration of the rule in order to more efficiently render such determinations. The Exchange further believes that the proposed rule change would benefit investors and be in the public’s interest because it would provide increased clarity and specificity concerning the objective standards used by the Exchange when making trade nullification determinations.

The Exchange also believes that the proposed rule change would benefit investors and market participants that are members of multiple exchanges by more closely aligning the

⁵ See, for example, CBOE Rule 6.25(a)(2).

⁶ See supra note 1. [sic] See also Securities Exchange Act Release No. 63692 (January 11, 2011), 76 FR 2940 (January 18, 2011) (SR-Phlx-2010-163).

Exchange's rules with respect to obvious errors with those of other exchanges. In this respect, the proposed rule change helps foster certainty for market participants trading on multiple exchanges. Accordingly, the Exchange believes that the increased specificity resulting from the proposed rule change, combined with the continued objective nature of the Exchange's process for rendering and reviewing trade nullification determinations, is consistent with prior guidance from the Commission, is consistent with the Exchange Act and is consistent with the maintenance of a fair and orderly market and the protection of investors and the public interest.

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

Because the foregoing proposed rule change does not significantly affect the protection of investors or the public interest, does not impose any significant burden on competition, and, by its terms, does not become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)⁷ of the Act and Rule 19b-4(f)(6)⁸ thereunder. The Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief

⁷ 15 U.S.C. 78s(b)(3)(A).

⁸ 17 C.F.R. 240.19b-4(f)(6).

description and text of the proposed rule change, at least five business days prior to the date of filing the proposed rule change.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend 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. 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-2012-56 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-2012-56. 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 such filing also will be available for inspection and copying at the principal offices 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-2012-56, 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

Kevin M. O'Neill
Deputy Secretary

⁹ 17 CFR 200.30-3(a)(12).