

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-70900; File No. SR-ISE-2013-58)

November 19, 2013

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Change the Expiration Date for Most Options Contracts to the Third Friday of the Expiration Month Instead of the Saturday Following the Third Friday

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 November 7, 2013, 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 is proposing to amend its rules to change the expiration date for most option contracts to the third Friday of the expiration month instead of the Saturday following the third Friday, and to make other amendments to its rules consistent with the industry-wide change to Friday expiration. The text of the proposed rule change is available on the Exchange’s Internet website at <http://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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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.

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

1. Purpose

The Exchange is proposing to amend its rules to change the expiration date for most option contracts to the third Friday of the expiration month instead of the Saturday following the third Friday. More specifically, the Exchange is proposing to amend rule text referencing Saturday expirations. The Exchange notes, however, that this change will apply to all standard expiration contracts including those in which the rules are silent on the expiration date.³ The Exchange is making this filing to harmonize its rules in connection with a recently approved rule filing made by The Options Clearing Corporation (“OCC”) which made substantially similar changes.⁴ The Exchange believes that the industry must remain consistent in expiration dates, and, thus, is proposing to update its rules to remain consistent with those of OCC. In addition, the Exchange understands that other exchanges have or will be filing similar rules to effect this industry-wide initiative.⁵

Most option contracts (“standard expiration contracts”) currently expire at the “expiration time” (11:59 pm Eastern Time) on the Saturday following the third Friday of the specified

³ Mini Options expirations are the same as those for Standard Options and would be amended as specified in this proposal.

⁴ See Securities Exchange Act Release No. 69772 (June 17, 2013), 78 FR 37645 (June 21, 2013) (order approving SR-OCC-2013-004 [sic]).

⁵ See e.g. Securities Exchange Act Release Nos. 70372 (September 11, 2013) 78 FR 57186 (September 17, 2013) (SR-NYSEARCA-2013-88); 70259 (August 26, 2013), 78 FR 53809 (August 30, 2013) (SR-PHLX-2013-89); 70091 (August 1, 2013), 78 FR 48212 (August 7, 2013) (SR-CBOE-2013-073).

expiration month (the “expiration date”). As a result of this proposed rule change, the expiration date for standard expiration contracts would be changed to the third Friday of the expiration month. The expiration time would continue to be 11:59 p.m. Eastern Time on the expiration date. This change would apply only to standard expiration contracts expiring after February 1, 2015, and the Exchange, similar to OCC, does not propose to change the expiration date for any outstanding option contracts already listed with a Saturday expiration date. Option contracts having non-standard expiration dates (“non-standard expiration contracts”) will be unaffected by this proposed rule change.⁶

In order to provide a smooth transition to Friday expiration OCC has moved the expiration exercise procedures to Friday for all standard expiration contracts even though the contracts would continue to expire on Saturday.⁷ After February 1, 2015, virtually all standard expiration contracts will actually expire on Friday. The only standard expiration contracts that will expire on a Saturday after February 1, 2015 are certain options that had been listed prior to the effectiveness of the OCC rule change and the completion of systems changes to support Friday expiration. The Exchange will not list any additional options with Saturday expiration dates falling after February 1, 2015.

Certain option contracts have already been listed with Saturday expiration dates as distant as December 2016. For these contracts, transitioning to Friday expiration for newly listed option contracts expiring after February 1, 2015 would create a situation under which certain options with open interest would expire on a Saturday while other options with open interest would

⁶ Options with non-standard expiration contracts include Quarterly Option Series (Supplementary Material .03 to Rule 504, and Supplementary Material .02 to Rule 2009), and Short Term Option Series (Supplementary Material .02 to Rule 504, and Supplementary Material .01 to Rule 2009).

⁷ See SR-OCC-2013-04.

expire on a Friday in the same expiration month. Clearing members have expressed a clear preference to not have a mix of options with open interest that expire on different days in a single month.⁸ Accordingly, OCC represented in its recently approved filing that it will not issue and clear any new option contract with a Friday expiration if existing option contracts of the same options class expire on the Saturday following the third Friday of the same month. However, Friday expiration processing will be in effect for these Saturday expiration contracts. As with standard expiration options during the transition period, exercise requests received after Friday expiration processing is complete but before the Saturday contract expiration time will continue to be processed without fines or penalties.

Consistent with the OCC filing, the Exchange is proposing to adopt a definition of expiration date and add language to its rules that reflects a Saturday expiration date for series expiring prior to February 1, 2015 and a Friday expiration date for series expiring on or after February 1, 2015.⁹ In particular, the Exchange proposes to amend its rules as described in the paragraphs below.

The Exchange proposes to amend Rule 100 (Definitions) to adopt a definition of expiration date, as described above, and to modify the definition of the term “outstanding” to mean an option contract which has been issued by the Clearing Corporation and has neither been the subject of a closing writing transaction nor has expired.

The Exchange proposes to amend Rule 418 (Other Restrictions on Option Transactions and Exercises) with respect to certain timing for restrictions on the exercise of option contracts. Specifically, the Exchange proposes to specify that the 10-business day period referenced in Rule

⁸ Id.

⁹ With the exception of expirations that were listed prior to the effective date of the OCC filing and have open interest.

418(a)(2) includes the expiration date for an option contract that expires on a business day. The Exchange also proposes to specify that, with respect to index options, restrictions on exercise may be in effect until the opening of business on the business day of their expiration (i.e., for Friday expirations), or, in the case of an option contract expiring on a day that is not a business day, and as is currently the case for Saturday expirations, on the last business day before the expiration date. Finally, the Exchange proposes to specify in Rule 418(a)(3)(ii) that exercises of expiring American-style, cash-settled index options are not prohibited on the business day of their expiration (i.e., for Friday expirations), or, in the case of an option contract expiring on a day that is not a business day, and as is currently the case for Saturday expirations, on the last business day prior to their expiration.

The Exchange proposes to amend Rule 504 (Series of Options Contracts Open for Trading) to differentiate between Friday and Saturday expirations. Specifically, the Exchange proposes to specify that additional series of individual stock options may be added in unusual market conditions until the close of trading on the business day prior to expiration in the case of an option contract expiring on a business day (i.e., Thursday for Friday expirations), or, in the case of an option contract expiring on a day that is not a business day, and as is currently the case for Saturday expirations, until the close of trading on the second business day prior to expiration (i.e., Thursday for Saturday expirations). In addition, the Exchange proposes to make a related technical correction to Rule 504. Currently Rule 504 states, in part, that new series of FLEX Equity Options may be added on any business day prior to the expiration date. As the ISE does not list FLEX Equity Options, the Exchange proposes to remove this reference.

The Exchange proposes to amend Rule 720 (Obvious and Catastrophic Errors) to add greater specificity regarding the timing surrounding notifying the Exchange of a “Catastrophic

Error.” Specifically, the Exchange proposes to specify that, for such transactions in an expiring options series that take place on an expiration date that is a business day (i.e., for Friday expirations), a member must notify the Exchange by 5:00 p.m. Eastern Time that same day. For such transactions in an options series that take place on the business day immediately prior to an expiration date that is not a business day (i.e., for Saturday expirations), a member must notify the Exchange by 5:00 p.m. Eastern Time on such business day (i.e., on Friday).

The Exchange proposes to amend Rule 1100 (Exercise of Options Contracts) in several areas, each of which is designed to differentiate between Friday and Saturday expirations. First, the Exchange proposes to specify in Rule 1100(b) that special procedures apply to the exercise of equity options on the business day of their expiration (i.e., for Friday expirations), or, in the case of an option contract expiring on a day that is not a business day, and as is currently the case for Saturday expirations, on the last business day before their expiration. Second, the Exchange proposes to specify in Rule 1100(c) that, regarding exercise cut-off times, option holders have until 5:30 p.m. Eastern Time on the business day of their expiration (i.e., for Friday expirations), or, in the case of an option contract expiring on a day that is not a business day, and as is currently the case for Saturday expirations, on the business day immediately prior to the expiration date. Third, the Exchange proposes to specify in Rule 1100(h) that the advance notice described therein is applicable if provided by the Exchange on or before 5:30 p.m. Eastern Time on the business day immediately prior to the business day of expiration (i.e., Thursday for Friday expirations), or, in the case of an option contract expiring on a day that is not a business day, and as is currently the case for Saturday expirations, the business day immediately prior to the last business day before the expiration date (i.e., Thursday for Saturday expirations). Fourth, the Exchange proposes to specify in Rule 1100(i)(2) that the reference therein to “unusual

circumstances” includes, but is not limited to, a significant news announcement concerning the underlying security of an option contract that is scheduled to be released just after the close on the business day the option contract expires (i.e., for Friday expirations), or, in the case of an option contract expiring on a day that is not a business day, and as is currently the case for Saturday expirations, the business day immediately prior to expiration. Fifth, the Exchange proposes to specify in Rule 1100(h)(8)(ii) that exercises of expiring American-style, cash-settled index options are not prohibited on the business day of their expiration (i.e., for Friday expirations), or, in the case of an option contract expiring on a day that is not a business day, and as is currently the case for Saturday expirations, on the last business day prior to their expiration. The Exchange notes that due to an error in its rulebook it currently has two rules labeled as Rule 1100(h), the Exchange therefore also proposes to move one of these subsections, which deals with procedures for exercise of American-style cash-settled index options contracts, to Rule 1100(l).¹⁰

The Exchange proposes to amend Rule 2001 (Definitions) to clarify the definition of the term “American-style index option” to mean an option on an industry or market index that can be exercised on any business day prior to expiration, including the business day of expiration in the case of an option contract expiring on a business day (i.e., for Friday expirations), and the term “European-style index option” to mean an option on an industry or market index that can be exercised only on the business day of its expiration (i.e., for Friday expirations), or, in the case of

¹⁰ New Rule 1100(l), previously Rule 1100(h), has been mistakenly referenced in the Exchange’s rulebook as Rule 1102(h). With this filing the Exchange will move the rule back to Rule 1100 as approved in SR-ISE-2003-05 but will move it to subsection (l) to avoid conflicting with another rule currently labeled as Rule 1100(h). See Securities Exchange Act Release No. 48405 (August 25, 2003), 68 FR 52257 (September 2, 2003) (SR-ISE-2003-05).

an option contract expiring on a day that is not a business day, and as is currently the case for Saturday expirations, on the last business day prior to the day it expires.

The Exchange proposes to amend Rule 2009 (Terms of Index Option Contracts) with respect to the permitted timing for adding new series of index option contracts so as to differentiate between Friday and Saturday expirations. First, the Exchange proposes to specify in Rule 2009(a)(5) that the last day of trading for A.M.-settled index options is the business day preceding the business day of expiration (i.e., for Friday expirations), or, in the case of an option contract expiring on a day that is not a business day, and as is currently the case for Saturday expirations, the business day preceding the last day of trading in the underlying securities prior to the expiration date. Second, the Exchange proposes to specify in Rule 2009(c)(2) that new series of index option contracts may be added up to, but not on or after, the fourth business day prior to expiration for an option contract expiring on a business day (i.e., up to, but not on or after, the opening of trading on Monday morning for Friday expirations), or, in the case of an option contract expiring on a day that is not a business day, and as is currently the case for Saturday expirations, the fifth business day prior to expiration. Third, the Exchange proposes to specify in Rule 2009(d) that the reported level of the underlying index that is calculated by the reporting authority on the business day of expiration (i.e., for Friday expirations), or, in the case of an option contract expiring on a day that is not a business day, and as is currently the case for Saturday expirations, the last day of trading in the underlying securities prior to the expiration date for purposes of determining the current index value at the expiration of an A.M.-settled index option may differ from the level of the index that is separately calculated and reported by the reporting authority and that reflects trading activity subsequent to the opening of trading in any of the underlying securities.

Finally, the Exchange proposes to amend Rule 2206 (Terms of Foreign Currency Options Contracts) to specify that foreign currency options shall be European-style, which means that they may be exercised only on the business day of expiration (i.e., for Friday expirations), or, in the case of an option contract expiring on a day that is not a business day, and as is currently the case for Saturday expirations, the last business day prior to the expiration date (normally a Friday).

To the extent applicable to the timeframes herein, the Exchange is also proposing, with this filing, to replace any reference in the purpose section of any past Exchange rule filings or notices to any expiration date other than Friday for a standard options contract with the new Friday standard. Essentially, the Exchange is now proposing to replace any relevant historic references to expiration dates to be replaced with the proposed Friday expiration. As stated above, the Exchange believes the proposed change will keep the Exchange consistent with the processing at OCC and will enable the Exchange to give effect to the industry-wide initiative. In addition, the Exchange understands that other exchanges have filed or will be filing similar rules, thus creating a uniform expiration date for standard options on listed classes.¹¹

The Exchange notes that OCC, industry groups, clearing members and the other exchanges have been active participants in planning for the transition to the Friday expiration.¹² In March 2012, OCC began to discuss moving standard contract expirations to Friday expiration dates with industry groups, including two Securities Industry and Financial Markets Association (“SIFMA”) committees, the Operations and Technology Steering Committee and the Options Committee, and at two major industry conferences, the SIFMA Operations Conference and the

¹¹ See supra note 5.

¹² Id.

Options Industry Conference.¹³ OCC also discussed the project with the Intermarket Surveillance Group and at an OCC Operations Roundtable. In each case, there was broad support for the initiative.¹⁴

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the “Act”) and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.¹⁵ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁶ requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles 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. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁷ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes that keeping its rules consistent with those of the industry will protect all participants in the market by eliminating confusion. The proposed changes thus allow for a more orderly market by allowing all options markets, including the

¹³ Id.

¹⁴ Id.

¹⁵ 15 U.S.C. 78f (b).

¹⁶ 15 U.S.C. 78f(b)(5).

¹⁷ 15 U.S.C. 78f(b)(5).

clearing agencies, to have the same expiration date for standard options. In addition, the proposed changes will foster cooperation and coordination with persons engaged in regulating clearing, settling, processing information with respect to, and facilitating transactions in securities by aligning a pivotal part of the options processing to be consistent industry-wide. If the industry were to differ, investors would suffer from confusion and be more vulnerable to violate different exchange rules. The proposed changes do not permit unfair discrimination between any members because they are applied to all members equally. Moreover, the Exchange believes that it helps all members by keeping the Exchange consistent with OCC practices and those of other exchanges.

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

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act, as amended. Specifically, the Exchange does not believe the proposed rule change will impose a burden on intramarket competition because it will be applied to all members equally. In addition, the Exchange does not believe the proposed rule change will impose any burden to intermarket competition because it will be applied industry-wide and apply to all market participants. The proposed rule change is structured to enhance competition because the shift from an expiration date of the Saturday following the third Friday to the third Friday is anticipated to be adopted industry-wide and will apply to all option classes listed on the Exchange. This in turn will allow the Exchange to compete more effectively with other exchanges making similar rule changes.

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

The Exchange has filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act¹⁸ and Rule 19b-4(f)(6) thereunder.¹⁹ Because the proposed rule change does not (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder.²⁰

A proposed rule change filed under Rule 19b-4(f)(6)²¹ normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),²² the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Exchange stated that waiver of this requirement will allow the Exchange to more

¹⁸ 15 U.S.C. 78s(b)(3)(A)(iii).

¹⁹ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires the Exchange to give the Commission written notice of the Exchange's intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

²⁰ 17 CFR 240.19b-4(f)(6)(iii).

²¹ 17 CFR 240.19b-4(f)(6).

²² 17 CFR 240.19b-4(f)(6)(iii).

quickly align its rules with an industry-wide initiative. The Exchange noted that the transition to Friday expiration has already begun, and that certain option series expiring after February 1, 2015 have already been listed with a Friday expiration date. The Exchange also stated that the proposal will provide greater clarity to members and investors regarding how ISE rules will apply to the expiration of those contracts. Finally, the Exchange noted that none of the options contracts expiring within the next 30-days would be affected by the proposed changes. Based on the Exchange representations above, and since the proposal is based, in part, on a proposal submitted by the OCC and approved by the Commission,²³ the Commission waives the 30-day operative delay requirement and designates the proposed rule change as operative upon filing.²⁴

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: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings under Section 19(b)(2)(B)²⁵ of the Act to determine whether the proposed rule should be approved or 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:

²³ See supra note 4.

²⁴ For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

²⁵ 15 U.S.C. 78s(b)(2)(B).

- 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-2013-58 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-2013-58. 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-2013-58 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.²⁶

Kevin M. O'Neill
Deputy Secretary

²⁶ 17 CFR 200.30-3(a)(12).