SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-71406; File No. SR-ISE-2014-05)

January 27, 2014

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Regarding System Protections

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 January 17, 2014, 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 its rules to specify in its rules certain system

protections contained in the trading system. The text of the proposed rule change is available on

the Exchange's website 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.

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[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 the proposal is to specify in the Exchange's rules certain existing trading system protections that prevent the entry and/or execution of orders in certain circumstances. These protections are in addition to the system protection currently described in Rule 714 that prevents orders from being automatically executed at prices that are inferior to a protected bid or offer on another exchange ("trade through protection") pursuant to the requirements of the Intermarket Linkage Plan (the "Plan") and ISE Rules adopted to implement the Plan (the "Linkage Rules").[3]

Specifically, ISE Rule 714 provides that incoming orders will not be automatically executed at prices that are inferior to the national best bid or offer ("NBBO"). Thus, the language currently contained in Rule 714 reflects how the trading system assures compliance with the prohibition on trading through the NBBO contained in ISE Rule 1901. Rule 714 also indicates that the prohibition on trade-throughs does not apply with respect to non-firm quotations as provided in ISE Rule 1900(k). The Exchange proposes to make several non-substantive changes to the text and format of ISE Rule 714 with respect to these linkage-related provisions for clarity,[4] and to add a reference to intermarket sweep orders ("ISOs"). Pursuant to ISE Rule 1901, ISOs are eligible to be executed at a price that is inferior to the NBBO. For clarity, the Exchange believes it is appropriate to specify in Rule 714 that the system does not prevent the automatic execution of an ISO at a price that is inferior to the NBBO.

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[3]   ISE Rules 1900 through 1902 (Linkage Rules).

[4]   The current text of ISE Rule 714 references non-firm quotations on the Exchange. This language preceded the adoption of the Linkage Rules and is no longer applicable. Accordingly, the Exchange proposes to delete this language.

The Exchange also is proposing to amend Rule 714 to add additional circumstances in which the trading system does not provide automatic executions as follows:

- Price Level Protection. There is a limit on the number of price levels at which an incoming order to sell (buy) will be executed automatically when there are no bids (offers) from other exchanges at any price for the options series. In such a circumstance, incoming orders are automatically executed at each successive price level until the maximum number of price levels is reached,[5] and any balance is either handled by the primary market maker ("PMM") (in the case of Priority Customer Orders)[6] or canceled (in the case of Professional Orders).[7] The number of price levels, which may be between 1 and 10, is determined by the Exchange from time-to-time on a class-by-class basis. Currently, this limit is set to three price levels.[8]

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[5] For example, assume the parameter is set to three tick levels, the best bid on the ISE in an options series that is traded in penny increments is $1.50, and there are no bids in the series from any other exchanges. If a Priority Customer market order to sell is received, the system will not automatically execute the incoming order at a price below $1.48. Therefore, such an order will execute the full size available at $1.50, $1.49 and $1.48, and any unexecuted balance will be handled by the PMM. In this respect, the PMM has the obligation under existing Exchange rules to engage in dealings for his own account when, among other things, there is a temporary disparity between the supply of and demand for a particular options contract, and to act with due diligence in handling orders. See infra, notes 13 and 14 and accompanying text.

[6] Pursuant to ISE Rule 100(a)(37A) and (37B), a Priority Customer Order is an order for the account of a person or entity that (i) is not a broker or dealer in securities, and (ii) does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s).

[7] Pursuant to ISE Rule 100(a)(37C), a Professional Order is an order that is for the account of a person or entity that is not a Priority Customer.

[8] The Exchange will provide at least a two week notice to members via an exchange circular prior to changing the price level limit to allow members the opportunity to perform any system changes. Any change to the price level limit would be subject to consultations with members.

- Limit Order Price Protection. There is a limit on the amount by which incoming limit orders to buy may be priced above the Exchange's best offer and by which incoming limit orders to sell may be priced below the Exchange's best bid. Limit orders that exceed the pricing limit are rejected upon entry. The limit is established by the Exchange from time-to-time, on a class-by-class basis, as the greater of: (i) an absolute amount not to exceed $2.00, or (ii) a percentage of the Exchange's best bid/offer not to exceed 10 percent.[9] The Exchange currently has these limits set to $1.00 and 1 percent respectively.[10]

- Size Limitation. There is a limit on the number of contracts an incoming order may specify. Orders or quotes that exceed the maximum number of contracts are rejected upon entry.[11] The maximum number of contracts, which shall not be less than 10,000, is established by the Exchange from time-to-time on a class-by-class basis. Currently, this limit is set to 999,999 contracts.[12]

The Exchange further proposes that, in the event of unusual market conditions and in the interest of a fair and orderly market, the Exchange may temporarily establish the levels at which the order protections are triggered as necessary and appropriate.

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[9] For example, if the ISE best bid is $3.00 and the limits are set to the greater of $1.00 or 1% (which equals $0.03 in this example), a limit order to sell that is entered with a limit price below $2.00 will be rejected.

[10] The Exchange will provide at least a two week notice to members via an exchange circular prior to changing the limit order price check to allow members the opportunity to perform any system changes. Any change to the limit order price check would be subject to consultations with members.

[11] For example, if the limit is set to 800,000 contracts, an order with a size of 800,001 or greater would be rejected by the system.

[12] The Exchange will provide at least a two week notice to members via an exchange circular prior to changing the size limit to allow members the opportunity to perform any system changes. Any change to the size limit would be subject to consultations with members.

When the PMM handles Priority Customer orders that are not automatically executed or canceled pursuant to the price level protection described above, they must do so pursuant to their obligations under ISE Rule 803 and consistent with Rule 400 (Just and Equitable Principles of Trade). Rule 803 states, among other things, that market makers have a continuous obligation to engage, to a reasonable degree under the existing circumstances, in dealings for his own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of and demand for a particular options contract, or a temporary distortion of the price relationships between options contracts of the same class.[13] The Rule also specifies that a PMM must act with due diligence in handling orders and must accord priority to such orders over the PMM's principal orders.[14] In addition to these existing provisions, the Exchange proposes to specify in Rule 803(c) that PMMs are required to address orders they handle as soon as practical by either (i) executing all or a portion of the orders at a price that at least matches the NBBO and that improves upon the Exchange's best bid (in the case of a sell order) or the Exchange's best offer (in the case of a buy order);[15] or (ii) releasing all or a portion of the order for execution against bids and offers on the Exchange.

The Exchange also proposes to specify in Rule 722 (Complex Orders) the following

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[13] Rule 803(b).

[14] Rule 803, Supplementary Material .01. The Exchange currently conducts surveillance of PMMs to assure that orders are handled timely, that such orders are executed at appropriate prices, and that such orders are afforded priority over the PMM's principal orders. This surveillance includes all orders handled by the PMM regardless of whether they are handling them via operation of the NBBO trade through protection or price level protection.

[15] A PMM cannot provide an execution at the same price as the Exchange's best bid or offer (as applicable) because that would allow the PMM to by-pass the execution priority rules contained in Rule 713. The Exchange conducts surveillance to detect instances when the PMM executes an order it is handling at the same price as the ISE best bid or offer (as applicable). It is not a violation for the PMM to execute an order at the same price as the ISE best bid or offer when the PMM is the only market participant at that price.

pricing limits for complex orders and quotes:

- Trade-through limit: Rule 722 permits the legs of a complex order to be executed at prices that are inferior to the prices available on other exchanges trading the same options series.[16] Notwithstanding, the system will not permit the legs of a complex order to trade through the best bids and offers from other exchanges by more than a configurable amount calculated as the lessor of: (i) an absolute amount not to exceed $0.10; and (ii) a percentage of the NBBO not to exceed 500 percent, as determined by the Exchange on a class or series basis. Effectively, the limit currently is an absolute amount of $0.05,[17] as the parameters are set to $0.05 and 500 percent respectively.[18] A member can also include an instruction on a complex order entered on the complex order book that the legs of the order are to be executed only at prices that are equal to or better than the national

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[16] ISE Rule 722(b)(3). Under ISE Rule 722, the legs of a complex order may not be executed at worse prices than are available on the Exchange for the individual series, but may be executed at the same price as bids and offers on the Exchange for the individual series so long as there are no Priority Customer orders on the Exchange at those prices (provided however that for complex order with multiple options legs, if one of the options legs improves upon the best price available on the Exchange then the other leg is permitted to trade at the same price as a Priority Customer).

[17] Since the lowest possible price is $0.01, and 500% of $0.01 equals $0.05, the lessor of the two limits will always equal $0.05 under the current settings (e.g., if the price were $0.02, it would be the lessor of $0.05 or $0.10, which is $0.05).

[18] For example, assume that the national best offer for series A is $1.00 (ISE offer $1.15) and the national best offer for series B is $0.95 (ISE offer $1.10). Under ISE Rule 722, away market prices are not considered, and the highest net price at which a complex order to buy series A and to buy series B could be executed would be $2.25 ($1.15 + $1.10) (assuming there are no Priority Customer orders at the ISE best offer for series A or series B). However, when the trade through limit is applied, the highest price at which series A could be executed is $1.05 ($1.00 + $0.05) and the highest price at which series B could be executed would be $1.00 ($0.95 + $0.05). As a result, the maximum net price that a complex order to buy series A and to buy series B can be executed is $2.05 ($1.05 + $1.00). The Exchange will provide at least a two week notice to members via an exchange circular prior to changing the trade-through limit for complex orders to allow members the opportunity to perform any system changes. Any change to the trade-through limit for complex orders would be subject to consultations with members.

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best bid or offer for the options series and any stock component.[19]

- Minimum net price: The system will reject any complex order strategy where all legs are to buy if it is entered at a price that is less than the minimum price, which is calculated as the sum of the ratio times $0.01 per leg.[20]

- Vertical spread price: The system will reject a vertical spread order (i.e., an order to buy a call (put) option and to sell another call (put) option in the same security with the same expiration but a higher (lower) strike price) when entered with a net price of less than zero, and will prevent the execution of a vertical spread order at a price that is less than zero when entered as a market order to sell.[21]

- Complex Limit Order Price Protection: There is a limit on the amount by which the net price of an incoming complex limit order to buy may exceed the net price available from the individual options series on the Exchange and by which the net price of an incoming

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[19] For example, assume that the national best offer for series A is $1.00 (ISE offer $1.15) and the national best offer for series B is $0.95 (ISE offer $1.10). If a complex order to buy series A and to buy series B contains an instruction not to trade through the NBBO, the highest price at which series A could be executed is $1.00 and the highest price at which series B could be executed would be $0.95. As a result, the maximum net price at which the complex order can be executed is $1.95 ($1.00 + $0.95). It is anticipated that this functionality will be available early next year. The Exchange will notify members via an exchange circular prior to implementing this optional functionality.

[20] For example, an order to buy 2 calls and buy 1 put would have a minimum price of $0.03. If such an option were entered at a price of $0.02, it would not be executable, as a price of zero would have to be assigned to one of the legs of the order.

[21] For example, a market order to sell a complex strategy buy a Dec 50 call and Sell a Dec 55 call will not leg into the market if the best bid for the December 50 call is less than the offer for the Dec 55 call, as the seller would be paying to execute the sell transaction: the investor who sells a Dec 50 call @ $1.00 and buys a Dec 55 call @ $1.20, would pay $0.20 to sell the strategy. The vertical spread price check does not apply to complex orders executed in the Facilitation Mechanism, Solicited Order Mechanism and Price Improvement Mechanism. Complex orders executed in these mechanisms are two-sided orders where the contra-side order is willing to trade with the agency order at an agreed upon price thus removing the risk that the order was executed erroneously or at an erroneous price.

complex limit order to sell may be below the net price available from the individual

options series on the Exchange.[22] Limit orders that exceed the pricing limit are rejected.

The limit is established by the Exchange from time-to-time, on a class-by-class basis, as

the greater of: (i) an absolute amount not to exceed $2.00, or (ii) a percentage of the

Exchange's best bid/offer not to exceed 10%. The Exchange currently has these limits

set to $1.00 and 1 percent respectively.[23] This limit order price protection applies only to

orders and does not apply to quotes.

- Complex Order Size Limitation: There is a limit on the number of contracts (and shares

  in the case of a stock-option order) any single leg of an incoming complex order may

  specify. Orders that exceed the maximum number of contracts (or shares as applicable)

  are rejected.[24] The maximum number of contracts (or shares), which shall not be less

  than 10,000 contracts (or 100,000 shares), is established by the Exchange from time-to-

  time on a class-by-class basis. Currently, this limit is set to the maximum value of

  999,999 contracts and 9,999,999 shares.[25]

        2.   Statutory Basis

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[22]   For example, assume the ISE best offer for series A is $2.00 and the ISE best offer for series B is $0.50, and that the limits are set to the greater of $1.00 or 1%. A complex limit order to buy series A and buy series B that is entered with a net limit price above $3.50 will be rejected (i.e., $2.00 for series A + $0.50 for series B = net price of $2.50; $2.50 + $1.00 = $3.50).

[23]   The Exchange will provide at least a two week notice to members via an exchange circular prior to changing the complex limit order price check to allow members the opportunity to perform any system changes. Any change to the complex limit order price check would be subject to consultations with members.

[24]   For example, if the limit is set to 800,000 contracts, a complex order with a size of 800,001 or greater for any single options leg would be rejected by the system.

[25]   The Exchange will provide at least a two week notice to members via an exchange circular prior to changing the complex order size limit to allow members the opportunity to perform any system changes. Any change to the complex order size limit would be subject to consultations with members.

The Exchange believes that its proposal is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the "Act")[26] in general, and furthers the objectives of Section 6(b)(5) of the Act[27] in particular, in that it is designed to promote just and equitable principles of trade, 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 system protections described above were implemented in the interest of protecting investors and to assure fair and orderly markets on the Exchange.

Specifically, the Exchange operates an electronic marketplace in which orders are processed and executed in less than one second. Without any safeguards, orders that outsize the liquidity available at the displayed best bid or offer on the Exchange could potentially trade at prices far below the best bid and far above the best offer, creating extreme volatility in the marketplace and poor executions for investors. The primary safeguard in the national market system that protects against such occurrences is the prohibition against trading through protected bids and offers on other options exchanges, as this links the liquidity available across markets and in most circumstances, provides a stop-gap on each individual exchange. However, not all products are multiply traded, and even in multiply-traded options series, it is possible that ISE could be the only exchange disseminating a protected bid and/or offer in a particular options series at any given sub-second during the trading day.

Accordingly, the Exchange designed its system to provide the price level protection described above when there are no other protected bids and offers in the national market system. The Exchange believes that limiting the number of price levels at which an incoming order will execute in these circumstances appropriately balances the interests of investors seeking

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[26]   15 U.S.C. 78f(b).

[27]   15 U.S.C. 78f(b)(5).

execution of their orders and the Exchange's obligations to provide a fair and orderly market. While Professional Orders are canceled in these circumstances, the Exchange seeks to provide a higher level of service for Priority Customer orders by having them handled by the PMM, which has an affirmative obligation to provide liquidity and price continuity. This procedure also provides an opportunity for liquidity to refresh in the market, further providing better execution potential for Priority Customer orders. The Exchange believes that providing this service for Priority Customer orders is appropriate and consistent with feedback from members that enter Priority Customer orders on the Exchange, who prefer that Priority Customer orders not be canceled in this circumstance.

Similarly, the Exchange's experience and member feedback indicates that the current limit of three price levels has worked well to balance the interests of investors receiving execution of their orders while protecting them from being executed at unreasonable prices. Nevertheless, the Exchange believes it is appropriate to maintain some flexibility to adjust the number of price level so that it can continually evaluate market conditions and investor needs. In this respect, under the proposal, the Exchange has the flexibility to adjust the number of price levels up to ten. The Exchange believes this limit is sufficient to give it the ability to make appropriate adjustments as necessary and appropriate to maintain fair and orderly markets.

The Exchange also represents that the proposal merely clarifies the existing PMM obligations by specifying that the PMM must address orders it handles by either providing an execution or releasing orders for execution against bids and offers on the Exchange. The proposal further specifies that the price at which a PMM may execute an order must be at least equal to the NBBO and improve upon the best bid (offer) on the Exchange.[28] While this was not

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[28] See supra, note 15.

previously stated explicitly in the Rules for this specific circumstance, the Exchange has always

applied the obligations contained in ISE Rule 803(b) and Supplementary Material .01 thereto, as

well as Rule 400 and Rule 713, consistent with the additional proposed language and has

enforced compliance accordingly.[29] Moreover, the Exchange believes the specified order

handling provisions are appropriate to assure compliance with all applicable Exchange Rules

with respect to the handling of orders by the PMM.[30]

With respect to the trade through limit for complex orders, the Exchange believes it is

consistent with the protection of investors to limit the amount by which the legs of a complex

order are allowed to trade through the NBBO for the series. Pursuant to ISE Rule 722(b), the

legs of a complex order are not permitted to trade at prices that are inferior to the ISE best bid or

offer.[31] It is possible, however, that the ISE best bid and/or offer are not at or near the NBBO for

the options series.[32] Investors understand that there is a benefit to executing certain trading

strategies using complex orders, which assures that all parts of the strategy are executed and if

applicable, at a specified net price. They also understand that the benefit of using a complex

order may come at a "cost" because complex orders may be executed at prices that are inferior to

the net price that might have been achieved if the individual legs of the complex order were

executed at the NBBO.[33] However, the Exchange believes it is necessary to protect investors

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[29]   See supra, notes 14 and 15.

[30]   Id.

[31]   See supra, note 16.

[32]   See example supra, note 18 (demonstrating that a net price of $2.25 would be
       unreasonable given that the national best offers for series A and series B indicate a net
       price closer to $1.95 ($1.00 + $0.95)).

[33]   Executing strategies through separate, non-contingent transactions, carries the risk that an
       investor will not be able to execute all of the components at the desired prices and/or
       sizes.

from executing complex orders when such "cost" becomes economically irrational. Indeed, such pricing discrepancies indicate that there likely is an error, such as the wrong symbol, series or price was entered on the order.

The Exchange believes that providing the trade-through limit protection to complex orders is appropriate and consistent with feedback from members that enter complex orders on the Exchange, who prefer that their complex orders not be executed in this circumstance. In this respect, the Exchange's experience and member feedback indicates that the current limit of $0.05 is appropriate to balance the interests of investors receiving execution of their complex orders while protecting them from being executed at unreasonable prices.[34] Nevertheless, the Exchange believes it is appropriate to maintain some flexibility to adjust the amount by which a complex order may trade through the NBBO, so that it can continually evaluate market conditions and investor needs. In this respect, under the proposal, the Exchange has the flexibility to adjust the absolute value up to $0.10 and the percentage up to 500 percent.[35] The Exchange believes this will be sufficient to give it the ability to make appropriate adjustments should market conditions so require.

As discussed, the complex order trade-through limit is designed to prevent investors from erroneously executing complex orders at unreasonable prices while not unreasonably restricting the ability for investors to price complex orders. In some instances, however, investors may prefer that the Exchange further restrict the execution of complex orders by not allowing them to trade through the NBBO at all. Accordingly, the Exchange proposes to offer the optional ability for investors to instruct the Exchange not to execute the legs of a complex orders through the NBBO for the individual series. While the Exchange does not believe it would be appropriate to

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[34]   See supra, note 18 and accompanying text.

[35]   Id.

impose such a restriction on all investors, it believes that offering this optional limitation on complex orders is reasonable and appropriate for investors that prefer only to execute complex orders at net prices that equal or better the NBBO for the component series.

The limit order price protection and size limitation for both regular and complex orders were designed to reject orders upon entry that were likely submitted in error. Limit orders that are entered with prices that cross the market by a large amount are likely to have been entered in the wrong options series, on the wrong side of the market, or with an erroneous price (e.g., a bid of $15 rather than $1.50). Similarly, orders entered with an unreasonably large size (e.g., 1 million contracts or more) are likely to have been entered in error. The Exchange believes that it is in the interest of fair and orderly markets and the protection of investors to reject these orders upon entry, and thereby prevent erroneous transactions from occurring.

The Exchange further believes that the Exchange's experience and member feedback indicates that the current limits of $1.00 and 1 percent for the limit order price protection, and 999,999 contracts (and 9,999,999 shares in the case of a stock-option order) for the size limitation, has worked well to provide the protection of rejecting orders that have been entered in error while assuring that valid orders are not rejected. In this respect, the Exchange notes that orders below the established limits may well have been entered in error, but that it is highly unlikely that orders entered above the current limits were not entered in error. The Exchange believes it is appropriate to maintain some flexibility to adjust the limits so that it can continually evaluate the extent to which such limits could be reduced to prevent the entry of additional erroneous orders without rejecting legitimate orders. In this respect, under the proposal, the Exchange has specified that the limit order price protection limits shall not exceed $2.00 and 10 percent respectively. The Exchange believes that these limits provide sufficient flexibility for

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the Exchange to make appropriate adjustments in the interest of maintaining fair and orderly

markets. The Exchange also notes that it has specified that the order size limitation shall not be

less than 10,000 contracts (and 100,000 shares in the case of a stock-option order). The

Exchange notes in this respect that a block-size options order is defined as an order of at least 50

contracts,[36] and that an order of 500 contracts is considered a very large institutional-size order (a

block-size order in the equities market is an order of at least 10,000 shares).[37] Accordingly, the

Exchange believes that it would not be unreasonable to set a size limit as low as 10,000 contracts

(and 100,000 shares in the case of a stock-option order) should the Exchange determine that it

was necessary to maintain fair and orderly markets and to protect investors from executing

orders entered with an erroneously large size.

As discussed above, a complex order strategy where all legs are to buy will be rejected if

it is entered at a price that is less than the minimum price. The Exchange believes it is

reasonable to reject such orders upon entry as they are not executable.[38] Allowing such orders to

be entered would create investor confusion; as such orders would not receive an execution and

would remain pending until canceled. Similarly, the Exchange believes that rejecting vertical

spread orders that are entered at a negative price protects investors from executing orders that

were entered in error, and that preventing the execution of single-sided vertical spread orders at

negative prices when they are entered as a sell market order, protects investors from paying to

sell a strategy when they expected to receive payment for selling the strategy. These restrictions

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[36]   ISE Rule 716(a).

[37]   See, e.g., ISE Rule 716(e) (providing that the minimum size of an order entered into the
         Solicited Order Mechanism is 500 contracts); and ISE Rule 715(j) (providing that a
         qualified Contingent Cross Order must be for at least 1,000 contracts).

[38]   See supra, note 20.

help the Exchange to maintain a fair and orderly market, and provide a valuable service to investors.

Finally, the Exchange notes that it will give members at least a two week notice prior to changing the level at which the system protections are triggered to allow members to perform any system changes, and that the Exchange provides these protections for the benefit of, and in consultation with, its members. Notwithstanding, the Exchange also recognizes that the applicable protections may not be appropriate in unusual market conditions. In this respect, the Exchange has included in the proposal a provision providing that, in the event of unusual market conditions and in the interest of a fair and orderly market, the Exchange may temporarily establish the levels at which the system protections are triggered that are beyond those specified in the rule. The Exchange believes this is consistent with its obligation to assure a fair and orderly market, and that the need for such flexibility is recognized in other Exchange rules, such as those related to position limits, quote-width differentials and market maker risk parameters.[39] In the event that the Exchange temporarily revises the levels at which the protections are triggered, it will immediately notify all members.

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

The proposed rule change specifies circumstances in which the trading system does not provide an automatic execution in the interest of protecting investors against the execution of erroneous orders or the execution of orders at erroneous prices. As such, the proposal does not impose any burden on competition.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

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[39] See ISE Rule 412 (regarding position limits), ISE Rule 803 (regarding maximum quotation spreads), ISE Rule 804 (regarding market maker risk parameters) and ISE Rule 722 (regarding market maker risk parameters for complex orders).

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)[40] of the Act and Rule 19b-4(f)(6)[41] thereunder. The Exchange provided the Commission with written notice of its 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 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:

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[40]   15 U.S.C. 78s(b)(3)(A).

[41]   17 C.F.R. 240.19b-4(f)(6).

- 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-2014-05 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-2014-05. 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-2014-05 and should be submitted on or before [insert date 21 days from publication in the <u>Federal</u> <u>Register</u>].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[42]

Kevin M. O'Neill
Deputy Secretary

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[42]   17 CFR 200.30-3(a)(12).