

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-72452; File No. SR-ISE-2014-23)

June 24, 2014

Self-Regulatory Organizations; International Securities Exchange, LLC; Order Granting Approval of Proposed Rule Change, as Modified by Amendment No. 2, Regarding the Short Term Option Series Program

I. Introduction

On April 22, 2014, the International Securities Exchange, LLC (the “Exchange” or “ISE”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 (“Act”),² and Rule 19b-4 thereunder,³ a proposed rule change to amend its rules governing the Short Term Option Series Program to introduce finer strike price intervals for standard expiration contracts in option classes that also have short term options listed on them (“related non-short term options”), and to remove obsolete rule text concerning the listing of new short term option series during the week of expiration. On May 1, 2014, the Exchange filed Amendment No. 2 to the proposal.⁴ The proposed rule change, as modified by Amendment No. 2, was published for comment in the Federal Register on May 12, 2014.⁵ The Commission received no comments on the proposal. This order approves the proposed rule change, as modified by Amendment No. 2.

II. Description of the Proposed Rule Change

On any Thursday or Friday that is a business day, the Exchange currently may list short term options that expire at the close of business on each of the next five Fridays that are business

¹ 15 U.S.C. 78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

⁴ Amendment No. 1 was filed on April 29, 2014 and withdrawn on May 1, 2014.

⁵ See Securities Exchange Act Release No. 72098 (May 6, 2014), 79 FR 27006 (“Notice”).

days and are not Fridays in which monthly or quarterly options expire.⁶ These short term options may be listed in strike price intervals of \$0.50, \$1, or \$2.50.⁷ The Exchange may also list standard expiration contracts, which are listed in accordance with the regular monthly expiration cycle, in wider strike price intervals of \$2.50, \$5, or \$10.⁸ During the week prior to expiration only, the Exchange is permitted to list related non-short term option contracts in the narrower strike price intervals available for short term option series.⁹ Since this exception to the standard strike price intervals is available only during the week prior to expiration, however, standard expiration contracts regularly trade at significantly wider intervals than their weekly counterparts.¹⁰ As a result, the Exchange proposes to amend Supplementary Material .02(e) to Rule 504 and Supplementary Material .01(e) to Rule 2009 to permit the listing of related non-short term options in the same strike price intervals as allowed for short term option series at any time during the month prior to expiration, which begins on the first trading day after the prior month's expiration date, subject to the provisions of Rule 504(f).¹¹

⁶ See Supplementary Material .02 to Rule 504; Supplementary Material .01 to Rule 2009.

⁷ See Supplementary Material .12 to Rule 504; Supplementary Material .05 to Rule 2009. Specifically, the Exchange may list short term options in \$0.50 intervals for strike prices less than \$75, or for option classes that trade in one dollar increments in the related non-short term option, \$1 intervals for strike prices that are between \$75 and \$150, and \$2.50 intervals for strike prices above \$150. See *id.*

⁸ See Rule 504(d). In general, the Exchange must list standard expiration contracts in \$2.50 intervals for strike prices of \$25 or less, \$5 intervals for strike prices greater than \$25, and \$10 intervals for strike prices greater than \$200. See *id.*

⁹ See Supplementary Material .02(e) to Rule 504; Supplementary Material .01(e) to Rule 2009.

¹⁰ See Notice, *supra* note 5, at 27007.

¹¹ For example, since the April 2014 monthly option expired on Saturday, April 19, the proposed rule change would allow the Exchange to list the May 2014 monthly option in short term option intervals starting Monday, April 21. See Notice, *supra* note 5, at 27007.

In addition, the Exchange noted that it recently adopted rule text that states that, notwithstanding any language to the contrary, short term options may be added up to and including on the expiration date.¹² Accordingly, the Exchange proposes to delete rule text that prohibits the opening of additional series listed pursuant to Supplementary Material .12 to Rule 504 and Supplementary Material .05 to Rule 2009 during the week of expiration.¹³

The Exchange also stated that it has analyzed its capacity, and represented that it and the Options Price Reporting Authority (“OPRA”) have the necessary systems capacity to handle any potential additional traffic associated with this proposed rule change.¹⁴ In addition, the Exchange stated that it believes that its members will not have a capacity issue as a result of this proposal.¹⁵ Furthermore, the Exchange stated that it does not believe the proposed rule change will cause fragmentation of liquidity.¹⁶

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.¹⁷ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,¹⁸ which requires, among other things, that the rules of a national securities exchange be designed to promote just and equitable principles of trade, to

¹² See Securities Exchange Act Release No. 71033 (December 11, 2013), 78 FR 76375 (December 17, 2013) (SR-ISE-2013-68).

¹³ See Notice, supra note 5, at 27007.

¹⁴ See Notice, supra note 5, at 27008.

¹⁵ Id.

¹⁶ Id.

¹⁷ In approving the proposed rule change, the Commission has considered its impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

¹⁸ 15 U.S.C. 78f(b)(5).

prevent fraudulent and manipulative acts, 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.

The Commission believes that the proposed change may provide the investing public and other market participants more flexibility to closely tailor their investment and hedging decisions, thus allowing them to better manage their risk exposure. As the Exchange notes, standard expiration contracts currently trade in wider strike price intervals than their weekly counterparts, except during the week prior to expiration.¹⁹ The Exchange further states that this creates a situation where contracts on the same option class that expire both several weeks before and several weeks after the standard expiration are eligible to trade in strike price intervals that the standard expiration contract is not.²⁰ According to the Exchange, the proposed rule change will increase market efficiency by harmonizing strike price intervals for contracts that are close to expiration, whether those contracts are listed pursuant to weekly or monthly expiration cycles.²¹

The Commission believes that the proposed rule change to remove obsolete rule next concerning the listing of new short term option during the week of expiration is consistent with the Act because it protects investors and the public interest by eliminating any confusion about the opening of additional series during the week of expiration.

Finally, in approving this proposal, the Commission notes that the Exchange has represented that it and OPRA have the necessary systems capacity to handle the potential

¹⁹ See Notice, supra note 5, at 27007.

²⁰ See Notice, supra note 5, at 27007-8.

²¹ See Notice, supra note 5, at 27008.

additional traffic associated with this proposed rule change.²² The Exchange further stated that it believes its members will not have a capacity issue as a result of the proposal and that it does not believe this expansion will cause fragmentation of liquidity.²³

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act²⁴ that the proposed rule change (SR-ISE-2014-23), as modified by Amendment No. 2, be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁵

Kevin M. O'Neill
Deputy Secretary

²²

Id.

²³

Id.

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15 U.S.C. 78f(b)(2).

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17 CFR 200.30-3(a)(12).