

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-73633; File No. SR-ISE-2014-52)

November 18, 2014

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing of Proposed Rule Change Regarding the Short Term Option Series Program

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 6, 2014 the International Securities Exchange, LLC (the “Exchange” or the “ISE”) filed with the Securities and Exchange Commission the proposed rule change, as described in Items I, II, and III below, which items have been prepared by the self-regulatory organization. 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 ISE proposes to amend its rules governing the Short Term Option Series Program to extend current \$0.50 strike price intervals in non-index options to short term options with strike prices less than \$100. The text of the proposed rule change is available on the Exchange’s website (<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 self-regulatory organization 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 proposes to amend its rules governing the Short Term Option Series Program to introduce finer strike price intervals for certain short term options. In particular, the Exchange proposes to amend Supplementary Material .12 to Rule 504 to extend \$0.50 strike price intervals in non-index options to short term options with strike prices less than \$100 instead of the current \$75. This proposed change is intended to eliminate gapped strikes between \$75 and \$100 that result from conflicting strike price parameters under the Short Term Option Series and \$2.50 Strike Price Programs as described in more detail below.

Under the ISE's rules, the Exchange may list short term options in up to fifty option classes in addition to option classes that are selected by other securities exchanges that employ a similar program under their respective rules.³ On any Thursday or Friday that is a business day, the Exchange may list short term option series in designated option classes that expire at the close of business on each of the next five Fridays that are business days and are not Fridays in which monthly or quarterly options expire.⁴ These short term option series trade in \$0.50, \$1, or \$2.50 strike price intervals depending on the strike price and whether the option trades in dollar increments in the related monthly expiration.⁵ Specifically, short term options in non-index option classes admitted to the Short Term Options Series Program currently trade in: (1) \$0.50 intervals [sic] for strike prices less than \$75, or for option classes that trade in one dollar

³ See Supplementary Material .02(a) to Rule 504.

⁴ See Supplementary Material .02 to Rule 504.

⁵ See Supplementary Material .12 to Rule 504.

increments in the related monthly expiration option; (2) \$1 intervals [sic] for strike prices that are between \$75 and \$150; and (3) \$2.50 intervals [sic] for strike prices above \$150.⁶

The ISE also operates a \$2.50 Strike Price Program that permits the Exchange to select up to sixty options classes on individual stocks to trade in \$2.50 strike price intervals, in addition to option classes selected by other securities exchanges that employ a similar program under their respective rules.⁷ Monthly expiration options in classes admitted to the \$2.50 Strike Price Program trade in \$2.50 intervals where the strike price is (1) greater than \$25 but less than \$50; or (2) between \$50 and \$100 if the strikes are no more than \$10 from the closing price of the underlying stock in its primary market on the preceding day.⁸ These strike price parameters conflict with strike prices allowed for short term options as dollar strikes between \$75 and \$100 otherwise allowed under the Short Term Option Series Program may be within \$0.50 of strikes listed pursuant to the \$2.50 Strike Price Program. In order to remedy this conflict, the Exchange proposes to extend the \$0.50 strike price intervals currently allowed for short term options with strike prices less than \$75 to short term options with strike prices less than \$100. With this proposed change, short term options in non-index option classes will trade in: (1) \$0.50 intervals [sic] for strike prices less than \$100, or for option classes that trade in one dollar increments in the related monthly expiration option; (2) \$1 intervals [sic] for strike prices that are between \$100 and \$150; and (3) \$2.50 intervals [sic] for strike prices above \$150.

2. Statutory Basis

⁶ Id.

⁷ See Rule 504(g).

⁸ Id. The term “primary market” is defined in ISE Rule 100(a)(37) as the principal market in which an underlying security is traded.

The Exchange believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.⁹ In particular, the proposal is consistent with Section 6(b)(5) of the Act,¹⁰ because is designed to promote just and equitable principles of trade, 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.

During the month prior to expiration, the Exchange is permitted to list related monthly option contracts in the narrower strike price intervals available for short term option series.¹¹ After transitioning to short term strike price intervals, however, monthly options that trade in \$2.50 intervals between \$50 and \$100 under the \$2.50 Strike Price Program, trade with dollar strikes between \$75 and \$150. Due the overlap of \$1 and \$2.50 intervals, the Exchange cannot list certain dollar strikes between \$75 and \$100 that conflict with the prior \$2.50 strikes. For example, if the Exchange initially listed monthly options on ABC with \$75, \$77.50, and \$80 strikes, the Exchange could list the \$76 and \$79 strikes when these transition to short term intervals. The Exchange would not be permitted to list the \$77 and \$78 strikes, however, as these are \$0.50 away from the \$77.50 strike already listed on the Exchange. This creates gapped strikes between \$75 and \$100, where investors are not able to trade otherwise allowable dollar strikes on the Exchange. Similarly, these conflicting strike price parameters create issues for investors who want to roll their positions from monthly to weekly expirations. In the example above, for instance, an investor that purchased a monthly ABC option with a \$77.50 strike price

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

¹¹ See Supplementary Material .02(e) to Rule 504.

would not be able to roll that position into a later short term expiration with the same strike price as that strike is unavailable under current Short Term Option Series Program rules. Permitting \$0.50 intervals for short term options up to \$100 would remedy both of these issues as strikes allowed under the \$2.50 Strike Price Program would not conflict with the finer \$0.50 strike price interval.

The Short Term Option Series Program has been well-received by market participants and the Exchange believes that introducing finer strike price intervals for short term options with strike prices between \$75 and \$100, and thereby eliminating the gapped strikes described above, will benefit these market participants by giving them more flexibility to closely tailor their investment and hedging decisions.

With regard to the impact of this proposal on system capacity, the Exchange has analyzed its capacity and represents 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. The Exchange believes that its members will not have a capacity issue as a result of this proposal. The Exchange also represents that it does not believe this expansion will cause fragmentation of liquidity.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, the Exchange believes that the proposed rule change will result in additional investment options and opportunities to achieve the investment objectives of market participants seeking efficient trading and hedging vehicles, to the benefit of investors, market participants, and the marketplace in general.

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 such 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-2014-52 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-ISE-2014-52. 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-2014-52 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.¹²

Kevin M. O'Neill
Deputy Secretary

¹² 17 CFR 200.30-3(a)(12).