

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-64805; File No. SR-ISE-2011-30)

July 5, 2011

Self-Regulatory Organizations; International Securities Exchange, LLC; Order Approving a Proposed Rule Change Relating to Complex Orders

I. Introduction

On May 23, 2011, the International Securities Exchange, LLC (the “Exchange” or “ISE”), filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to allow complex orders in options classes traded on the ISE’s Optimise trading platform to be entered into the Price Improvement Mechanism (“PIM”). The proposed rule change was published for comment in the Federal Register on May 31, 2011.³ The Commission received no comment letters regarding the proposal. This order approves the proposed rule change.

II. Description

The ISE proposes to amend ISE Rule 723, “Price Improvement Mechanism for Crossing Transactions” to allow complex orders in options classes traded on the ISE’s Optimise trading platform to be entered into the PIM.⁴ Under ISE Rule 723, an ISE member may enter an agency

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 64538 (May 24, 2011); 76 FR 31385 (“Notice”).

⁴ The Optimise platform is the ISE’s enhanced technology trading platform. See Securities Exchange Act Release No. 63117 (October 15, 2010), 75 FR 65042 (October 21, 2010) (notice of filing and immediate effectiveness of File No. SR-ISE-2010-101); and Securities Exchange Act Release No. 64275 (April 8, 2011), 76 FR 21087 (April 14, 2011) (notice of filing and immediate effectiveness of File No. SR-ISE-2011-24). The Exchange is in the process of migrating options classes from its current trading platform

order (the “Agency Order”) in the PIM, together with a counter-side order (the “Counter-Side Order”) for the full size of the Agency Order, at a price that is better than the ISE best bid or offer (“ISE BBO”) and equal to or better than the national best bid or offer (“NBBO”).⁵ The Agency Order and the Counter-Side Order (together, the “Crossing Transaction”) are exposed to all ISE members for a one-second exposure period.⁶ During the exposure period, all ISE members may submit Improvement Orders for their own account or for the account of a Public Customer at the same price as the Crossing Transaction or at an improved price.⁷ At the end of the exposure period, the Agency Order is executed in full at the best prices available, taking into consideration orders and quotes in the Exchange market, Improvement Orders, Customer Participation Orders, and the Counter-Side Order.⁸

Under the proposal, a complex order submitted to the PIM must be entered at a net price that is better than the best net price (i) available on the complex order book; and (ii) achievable from the ISE best bids and offers for the individual legs of the order (an “improved net price”), and complex orders that are not entered at an improved net price will be rejected.⁹ If an improved net price for a complex order being executed in the PIM can be achieved from bids and

to the Optimise platform. The same options cannot trade on both platforms simultaneously.

⁵ See ISE Rule 723(b) and (b)(1).

⁶ See ISE Rule 723(c).

⁷ See ISE Rule 723(c)(2). Members also may enter Improvement Orders with respect to Customer Participation Orders, as defined in ISE Rule 715(f). See ISE Rule 723, Supplementary Material .06.

⁸ See ISE Rule 723(d).

⁹ See ISE Rule 723, Supplementary Material .10.

offers for the individual legs of the complex order in the ISE's auction market, the complex order being executed will receive an execution at the better net price.¹⁰

The priority provisions in ISE Rule 722(b)(2) will continue to apply to complex orders executed in the PIM.¹¹

References to the NBBO in ISE Rule 723 and the Supplementary Material are inapplicable.¹² In addition, ISE Rule 723, Supplementary Material .08, is not applicable to complex orders.¹³ The provisions of ISE Rule 723(c)(5) will apply with respect to the receipt of orders for the same complex order, rather than to the receipt of orders for the individual legs of the complex order.¹⁴

Under ISE Rule 723, Supplementary Material .03 and Supplementary Material .05, the Exchange provides the Commission with monthly statistics related to PIM order executions. The ISE represents that these statistics will include complex orders executed through the PIM.¹⁵

¹⁰ Id.

¹¹ Id. ISE Rule 722(b)(2) states that a complex order may be executed at a total credit or debit price with one other member without giving priority to bids or offers established in the marketplace that are no better than the bids or offers comprising such total credit or debit; provided, however, that if any of the bids or offers established in the marketplace consist of a Priority Customer Order, the price of at least one leg of the complex order must trade at a price that is better than the corresponding bid or offer in the marketplace by at least one minimum trading increment as defined in ISE Rule 710.

¹² See ISE Rule 723, Supplementary Material .10.

¹³ Id. ISE Rule 723, Supplementary Material .08 provides that, when the ISE BBO is equal to the NBBO, a Crossing Transaction may be entered at a price equal to the ISE BBO if the Agency Order is on the opposite side of the market from the ISE BBO.

¹⁴ See ISE Rule 723, Supplementary Material .10. Under ISE Rule 723(c)(5)(ii) and (iii), the exposure period will terminate automatically upon the receipt of a market or marketable limit order on the Exchange in the same series, or upon the receipt of a non-marketable limit order in the same series on the same side of the market as the Agency Order that would cause the price of the Crossing Transaction to be outside of the best bid or offer on the Exchange.

¹⁵ See Notice, supra note 3, at note 7.

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.¹⁶ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,¹⁷ which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, 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.

By allowing ISE members to enter complex orders in the PIM, the Commission believes that the proposal could provide an opportunity for complex orders to receive price improvement. Under the proposal, a complex order must be entered in the PIM at a net price that is better than the best net price (i) available on the complex order book; and (ii) achievable from the ISE best bids and offers for the individual legs of the order (an “improved net price”), and complex orders that are not entered at an improved net price will be rejected.¹⁸ As noted above, an ISE member enters an Agency Order in the PIM with a Counter-Side Order for the full size of the Agency Order.¹⁹ At the conclusion of the PIM exposure period, the Agency Order is executed in full at the best prices available, taking into consideration orders and quotes in the ISE market, Improvement Orders, Customer Participation Orders, and the Counter-Side Order.²⁰ Thus, a complex order entered in

¹⁶ In approving this proposal, the Commission has considered the proposed rule’s impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

¹⁷ 15 U.S.C. 78f(b)(5).

¹⁸ See ISE Rule 723, Supplementary Material .10.

¹⁹ See ISE Rule 723(b).

²⁰ See ISE Rule 723(d).

the PIM would receive an execution at the best price available at the conclusion of the PIM and, at a minimum, would be executed in full at the improved net price. In addition, if an improved net price for a complex order entered in the PIM could be achieved from bids and offers for the individual legs of the complex order in the ISE's auction market, the complex order would be executed at the better net price.²¹

ISE Rule 723, Supplementary Material .08, which allows a Crossing Transaction to be entered at the ISE BBO when the ISE BBO is equal to the NBBO and the Agency Order is on the opposite side of the market from the ISE BBO, will not apply to complex orders entered into the PIM because complex orders entered into the PIM must be entered at a price that is better than the best net price (i) available on the complex order book; and (ii) achievable from the best ISE bids and offers for the individual legs.²² In addition, for complex orders entered into the PIM, the provisions in ISE Rule 723(c)(5)(ii) and (iii), which provide for the automatic termination of the PIM exposure period following the receipt of certain orders in the same series as the order being exposed for price improvement, will apply only upon the receipt of a complex order that satisfies the conditions in ISE Rule 723(c)(5)(ii) or (iii), rather than upon the receipt of an order for one of the individual legs of the complex order.²³

The Commission notes that the priority rules in ISE Rule 722(b)(2) relating to complex orders will continue to apply to complex orders entered into the PIM.²⁴ In addition, the monthly statistics relating to PIM order executions that ISE provides to the Commission pursuant to ISE Rule 723, Supplementary Material .03 and Supplementary Material .05 will include complex

²¹ See ISE Rule 723, Supplementary Material .10.

²² See ISE Rule 723, Supplementary Material .10.

²³ Id.

²⁴ Id.

orders executed through the PIM.²⁵

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,²⁶ that the proposed rule change (SR-ISE-2011-30) is approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁷

Cathy H. Ahn
Deputy Secretary

²⁵ See Notice, supra note 3, at note 7.

²⁶ 15 U.S.C. 78s(b)(2).

²⁷ 17 CFR 200.30-3(a)(12).