

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-67403; File No. SR-ISE-2012-64)

July 11, 2012

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Fees for Certain Complex Orders Executed on the Exchange

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on July 2, 2012, the International Securities Exchange, LLC (the “Exchange” or the “ISE”) filed with the Securities and Exchange Commission (the “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 ISE proposes to amend fees for certain complex orders executed on the Exchange. 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

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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 currently assesses per contract transaction fees and rebates to market participants that add or remove liquidity in the complex order book (“maker/taker fees and rebates”) in all symbols traded on the Exchange. The maker/taker fees and rebates apply to Market Maker,<sup>3</sup> Market Maker Plus,<sup>4</sup> Non-ISE Market Maker,<sup>5</sup> Firm Proprietary, Customer (Professional)<sup>6</sup> and Priority Customer<sup>7</sup> orders.

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<sup>3</sup> The term “Market Makers” refers to “Competitive Market Makers” and “Primary Market Makers” collectively. See ISE Rule 100(a)(25).

<sup>4</sup> A Market Maker Plus is an ISE Market Maker who is on the National Best Bid or National Best Offer 80% of the time for series trading between \$0.03 and \$5.00 (for options whose underlying stock's previous trading day's last sale price was less than or equal to \$100) and between \$0.10 and \$5.00 (for options whose underlying stock's previous trading day's last sale price was greater than \$100) in premium in each of the front two expiration months and 80% of the time for series trading between \$0.03 and \$5.00 (for options whose underlying stock's previous trading day's last sale price was less than or equal to \$100) and between \$0.10 and \$5.00 (for options whose underlying stock's previous trading day's last sale price was greater than \$100) in premium across all expiration months in order to receive the rebate. The Exchange determines whether a Market Maker qualifies as a Market Maker Plus at the end of each month by looking back at each Market Maker's quoting statistics during that month. If at the end of the month, a Market Maker meets the Exchange's stated criteria, the Exchange rebates \$0.10 per contract for transactions executed by that Market Maker during that month. The Exchange provides Market Makers a report on a daily basis with quoting statistics so that Market Makers can determine whether or not they are meeting the Exchange's stated criteria.

<sup>5</sup> The term “Non-ISE Market Maker” means a market maker as defined in Section 3(a)(38) of the Securities Exchange Act of 1934 (the “Act”) registered in the same options class on another options exchange. See Schedule of Fees, page 4.

<sup>6</sup> A Customer (Professional) is a person who is not a broker/dealer and is not a Priority Customer.

Pursuant to Securities and Exchange Commission (“SEC”) approval, the Exchange currently allows Market Makers to enter quotations for complex order strategies in the complex order book.<sup>8</sup> Given this enhancement to the complex order functionality, and in order to maintain a competitive fee and rebate structure for Priority Customer orders, the Exchange has adopted maker fees that apply to transactions in the complex order book when they interact with Priority Customer orders in options overlying XOP, GLD, VXX, XLB, EFA, AA, ABX, MSFT, MU, NVDA, VZ, and WFC (“Complex Quoting Symbols”).<sup>9</sup> Specifically, the Exchange currently charges a “maker” fee of \$0.30 per contract in XOP and \$0.32 per contract in GLD, VXX, XLB, EFA, AA, ABX, MSFT, MU, NVDA, VZ and WFC) for Market Maker, Market Maker Plus, Non-ISE Market Maker, Firm Proprietary and Customer (Professional) orders when these orders interact with Priority Customer orders. Priority Customer orders in the Complex Quoting Symbols that trade in the complex order book are not charged a fee and do not receive a rebate when interacting with other Priority Customer orders.

The Exchange now proposes to increase the maker fee for the Complex Quoting Symbols to \$0.35 per contract when these orders interact with Priority Customer orders in the complex order book. Specifically, with this proposed rule change, the Exchange proposes to increase the “maker” fee from \$0.32 per contract to \$0.35 per contract in GLD, VXX, XLB, EFA, AA, ABX,

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<sup>7</sup> A Priority Customer is defined in ISE Rule 100(a)(37A) as a person or entity that is not a broker/dealer in securities, and does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s).

<sup>8</sup> See Securities Exchange Act Release No. 65548 (October 13, 2011), 76 FR 64980 (October 19, 2011) (SR-ISE-2011-39).

<sup>9</sup> See Securities Exchange Act Release Nos. 65958 (December 15, 2011), 76 FR 79236 (December 21, 2011) (SR-ISE-2011-81); 66406 (February 16, 2012), 77 FR 10579 (February 22, 2012) (SR-ISE-2012-07); and SR-ISE-2012-59 filed June 20, 2012. The Exchange notes that XOP is currently in the Penny Pilot program and GLD, VXX, XLB, AA, ABX, MSFT, MU, NVDA, VZ, and WFC are currently Select Symbols.

MSFT, MU, NVDA, VZ and WFC, and from \$0.30 per contract to \$0.35 per contract in XOP, for Market Maker, Market Maker Plus, Non-ISE Market Maker, Firm Proprietary and Customer (Professional) orders when these orders interact with Priority Customer orders. The Exchange does not propose any change to fees for Priority Customer orders in the Complex Quoting Symbols that trade in the complex order book. With this proposed fee change, the Exchange seeks to standardize the “maker” fee charged for complex orders in the Complex Quoting Symbols when trading against Priority Customer orders and, as a result, proposes to remove the table identifying the Complex Order Maker Fee for option symbol XOP from its Schedule of Fees as it is no longer necessary to separately identify the “maker” fee for XOP from the “maker” fee for GLD, VXX, XLB, EFA, AA, ABX, MSFT, MU, NVDA, VZ and WFC because all Complex Quoting Symbols will now be charged the same rate of \$0.35 per contract when trading against Priority Customer orders.

Additionally, the Exchange provides Market Makers with a two cent discount when trading against Priority Customer orders that are preferenced to them. This discount is applicable when Market Makers add or remove liquidity from the complex order book in the Complex Quoting Symbols. Specifically, Market Makers that add or remove [sic] liquidity in GLD, VXX, XLB, EFA, AA, ABX, MSFT, MU, NVDA, VZ and WFC from the complex order book are currently charged \$0.30 per contract (\$0.28 per contract in XOP) when trading against Priority Customer orders that are preferenced to them. With the proposed increase of the “maker” fee to \$0.35 per contract for all Complex Quoting Symbols, Market Makers that add liquidity from the complex order book in the Complex Quoting Symbols will now be charged \$0.33 per contract when trading against Priority Customer orders that are preferenced to them.

## 2. Statutory Basis

The Exchange believes that its proposal to amend its Schedule of Fees is consistent with Section 6(b) of the Act<sup>10</sup> in general, and furthers the objectives of Section 6(b)(4) of the Act<sup>11</sup> in particular, in that it is an equitable allocation of reasonable dues, fees and other charges among Exchange members and other persons using its facilities. The impact of the proposal upon the net fees paid by a particular market participant will depend on a number of variables, most important of which will be its propensity to add or remove liquidity in options overlying the Complex Quoting Symbols in the complex order book.

The Exchange believes that increasing the fees applicable to orders executed in the complex order book when trading against Priority Customer orders in the Complex Quoting Symbols is appropriate given the new functionality developed by the Exchange that allows market makers to quote in the complex order book. Additionally, the Exchange's fees remain competitive with fees charged by other exchanges and are therefore reasonable and equitably allocated to those members that opt to direct orders to the Exchange rather than to a competing exchange. Specifically, the Exchange believes that its proposal to assess a "maker" fee of \$0.35 per contract for the Complex Quoting Symbols when orders in these symbols interact with Priority Customer orders is reasonable and equitable because the fee is within the range of fees assessed by other exchanges employing similar pricing schemes. For example, the "maker" fee for a broker/dealer complex order in MSFT at NASDAQ OMX PHLX ("PHLX") is \$0.20 per contract<sup>12</sup> while the same order that is electronically delivered at the Chicago Board Options

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<sup>10</sup> 15 U.S.C. 78f(b).

<sup>11</sup> 15 U.S.C. 78f(b)(4).

<sup>12</sup> See PHLX Fee Schedule, Section I, Part B., at <http://www.nasdaqtrader.com/content/marketregulation/membership/phlx/feesched.pdf>.

Exchange (“CBOE”) is \$0.45 per contract.<sup>13</sup> Furthermore, with this proposed fee change, the Exchange seeks to standardize the fee charged for complex orders in the Complex Quoting Symbols when these orders interact with Priority Customers in the complex order book. Additionally, one of the primary goals of this fee change is to maintain the attractive and competitive economics for Priority Customer complex orders, in light of the enhanced manner in which complex orders now trade on the Exchange.

The Exchange believes that it is reasonable and equitable to provide a two cent discount to Market Makers on preferenced orders as an incentive for them to quote in the complex order book. Accordingly, Market Makers who add or remove liquidity in the Complex Quoting Symbols from the complex order book will be charged \$0.33 per contract when trading with Priority Customer orders that are preferenced to them. ISE notes that with this proposed fee change, the Exchange will continue to maintain a two cent differential that was previously in place.

Moreover, the Exchange believes that the proposed fees are fair, equitable and not unfairly discriminatory because the proposed fees are consistent with price differentiation that exists today at other options exchanges. The Exchange believes it remains an attractive venue for market participants to trade complex orders despite its proposed fee change as its fees remain competitive with those charged by other exchanges for similar trading strategies. The Exchange operates in a highly competitive market in which market participants can readily direct order flow to another exchange if they deem fee levels at a particular exchange to be excessive. For the reasons noted above, the Exchange believes that the proposed fees are fair, equitable and not unfairly discriminatory.

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<sup>13</sup> See CBOE Fees Schedule, Section 1.VI. at <http://www.cboe.com/publish/feeschedule/CBOEFeeSchedule.pdf>.

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

The proposed rule change does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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 foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act.<sup>14</sup> At any time within 60 days of the filing of such 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. If the Commission takes such action, the Commission shall institute proceedings 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:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or

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<sup>14</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-ISE-2012-64 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-2012-64. 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-2012-64 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.<sup>15</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>15</sup> 17 CFR 200.30-3(a)(12).