

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-68240; File No. SR-ISE-2012-88)

November 15, 2012

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the Schedule of Fees

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, 2012, the International Securities Exchange, LLC (the “ISE” or the “Exchange”) 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 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 is proposing to amend its Schedule of Fees. 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 forth in sections A, B and C below, of the most significant aspects of such statements.

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 Exchange currently assesses per contract transaction fees and provides rebates to market participants that add or remove liquidity from the Exchange (“maker/taker fees and rebates”) in 93 options classes (the “Select Symbols”).³ The Exchange’s maker/taker fees and rebates are applicable to regular and complex orders executed in the Select Symbols. The Exchange also currently assesses maker/taker fees and rebates for complex orders in symbols that are in the Penny Pilot program but are not a Select Symbol (“Non-Select Penny Pilot Symbols”)⁴ and in all symbols that are not in the Penny Pilot Program (“Non-Penny Pilot Symbols”).⁵ The Exchange also currently assesses maker/taker fees and rebates for certain regular orders in 62 option classes (“Special Non-Select Penny Pilot Symbols”).⁶

The Exchange currently applies maker and taker fees and rebates to regular orders in the Special Non-Select Penny Pilot Symbols. Specifically, the Exchange applies the following maker fees and rebates for orders that trade against Priority and Non-Priority Customer orders:

³ Options classes subject to maker/taker fees and rebates are identified by their ticker symbol on the Exchange’s Schedule of Fees.

⁴ See Exchange Act Release Nos. 65724 (November 10, 2011), 76 FR 71413 (November 17, 2011) (SR-ISE-2011-72); 66597 (March 14, 2012), 77 FR 16295 (March 20, 2012) (SR-ISE-2012-17); 66961 (May 10, 2012), 77 FR 28914 (May 16, 2012) (SR-ISE-2012-38); and 67628 (August 9, 2012), 77 FR 49049 (August 15, 2012) (SR-ISE-2012-71).

⁵ See Exchange Act Release Nos. 66084 (January 3, 2012), 77 FR 1103 (January 9, 2012) (SR-ISE-2011-84); 66392 (February 14, 2012), 77 FR 10016 (February 21, 2012) (SR-ISE-2012-06); 66962 (May 10, 2012), 77 FR 28917 (May 16, 2012) (SR-ISE-2012-35); 67400 (July 11, 2012), 77 FR 42036 (July 17, 2012) (SR-ISE-2012-63) and 67628 (August 9, 2012), 77 FR 49049 (August 15, 2012) (SR-ISE-2012-71).

⁶ The Special Non-Select Penny Pilot Symbols are identified by their ticker symbol on the Exchange’s Schedule of Fees. See Exchange Act Release Nos. 67201 (June 14, 2012), 77 FR 37082 (June 20, 2012) (SR-ISE-2012-49) and 67627 (August 9, 2012), 77 FR 49046 (August 15, 2012) (SR-ISE-2012-70).

- for Market Maker,⁷ Firm Proprietary / Broker-Dealer and Professional Customer⁸ orders, a maker fee of \$0.35 per contract;
- for Non-ISE Market Maker⁹ orders, a maker fee of \$0.40 per contract;
- for Priority Customer¹⁰ orders, a maker rebate of \$0.25 per contract.

Additionally, the Exchange applies the following taker fees and rebates for orders that trade against Non-Priority Customer orders:

- for Market Maker orders, a taker fee of \$0.20 per contract;
- for Non-ISE Market Maker orders, a taker fee of \$0.35 per contract;
- for Firm Proprietary / Broker-Dealer and Professional Customer orders, a taker fee of \$0.25 per contract;
- for Priority Customer orders, a taker rebate of \$0.32 per contract.

The Exchange also currently applies the following taker fees for orders that trade against Priority Customer orders:

- for Market Maker orders, a taker fee of \$0.32 per contract;
- for Non-ISE Market Maker orders, a taker fee of \$0.40 per contract;
- for Firm Proprietary / Broker-Dealer and Professional Customer orders, a taker fee of \$0.35 per contract;

⁷ The term “Market Makers” refers to “Competitive Market Makers” and “Primary Market Makers” collectively. See ISE Rule 100(a)(25).

⁸ A Professional Customer is a person who is not a broker/dealer and is not a Priority Customer.

⁹ A Non-ISE Market Maker, or Far Away Market Maker (“FARMM”), is a market maker as defined in Section 3(a)(38) of the Securities Exchange Act of 1934 registered in the same options class on another options exchange.

¹⁰ 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).

- for Priority Customer orders, a taker fee of \$0.00 per contract.

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 in the Special Non- Select Penny Pilot Symbols. The Exchange also currently charges a fee of \$0.20 per contract to all market participants [sic] for Crossing Orders in the Special Non-Select Penny Pilot Symbols, and a fee of \$0.40 per contract to all market participants for Responses to Crossing Orders in the Special Non-Select Penny Pilot Symbols. Finally, the Exchange also currently provides a rebate of \$0.25 per contract for contracts that are submitted to the Price Improvement Mechanism that do not trade with their contra order, and a rebate of \$0.15 per contract for contracts that are submitted to the Facilitation and Solicited Order Mechanisms that do not trade with their contra order except when those contracts trade against pre-existing orders and quotes on the Exchange's orderbooks.

The purpose of this proposed rule change is to remove the Special Non-Select Penny Pilot Symbols category from the Schedule of Fees in its entirety and to move the Special Non-Select Penny Pilot Symbols into the Select Symbols category, such that the fees applicable to the Select Symbols will now be applied to the 62 options classes that had been categorized as Special Non-Select Penny Pilot Symbols. The Exchange is proposing this change in order to attract additional order flow to the Exchange.

Specifically, the Exchange proposes to remove the following sixty-five (65) symbols from the list of Special Non-Select Penny Pilot Symbols and add sixty-two (62) of them to the list of Select Symbols:¹¹ ACI, AGNC, AMLN, AMZN, ANR, APA, ARNA, ATPG, AUY, BAX, BTU, CLF, COP, CRM, CVX, DAL, DD, DE, DIS, DOW, EBAY, FDX, GLW, GM,

¹¹ Due to corporate actions, AMLN, ATPG and HGSI are no longer traded and thus are being removed from the Schedule of Fees.

GMCR, GS, HD, HGSI, JCP, JOY, KBH, KGC, LULU, MA, MBI, MCP, MDT, MMR, MOS, MRK, NKE, PEP, QQQ, S, SD, SDS, SHLD, SINA, SIRI, SLW, SSO, TZA, UNP, UPS, USB, UTX, VLO, WAG, WDC, WLT, WYNN, XHB, XLK, XLU and ZNGA.¹² Additionally, the Exchange is proposing to delete all references to Special Non-Select Penny Pilot Symbols and its accompanying notes as this category will no longer exist.

With this proposed rule change, the 62 symbols noted above will now be subject to the fees and rebates for Select Symbols. The Exchange currently charges the following maker fees and rebates for Select Symbols: for Market Maker, Non-ISE Market Maker, Firm Proprietary / Broker-Dealer and Professional Customer orders, \$0.10 per contract; for Priority Customer orders, \$0.00 per contract and for Market Maker Plus orders, a rebate of \$0.10 per contract. The Exchange also currently charges the following taker fees for Select Symbols: for Market Maker and Market Maker Plus¹³ orders, \$0.32 per contract; for Non-ISE Market Maker orders, \$0.36 per contract; for Firm Proprietary / Broker-Dealer and Professional Customer orders, \$0.33 per contract; and for Priority Customer orders, \$0.25 per contract.

¹² [sic]

¹³ In order to promote and encourage liquidity in the Select Symbols, the Exchange currently offers a \$0.10 per contract rebate to Market Makers if the quotes they sent to the Exchange qualify the Market Maker to become a Market Maker Plus. A Market Maker Plus is a 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 for all expiration months in that symbol during the current trading month. A Market Maker's single best and single worst overall quoting days each month, on a per symbol basis, is excluded in calculating whether a Market Maker qualifies for this rebate, if doing so will qualify a Market Maker for the rebate.

The Exchange currently charges Market Maker, Non-ISE Market Maker, Firm Proprietary / Broker-Dealer and Professional Customers a fee of \$0.20 per contract (\$0.00 per contract for Priority Customers) for Crossing Orders in the Select Symbols, and a fee of \$0.40 per contract to all market participants for Responses to Crossing Orders in the Select Symbols. Finally, the Exchange also currently provides a rebate of \$0.25 per contract for contracts that are submitted to the Price Improvement Mechanism that do not trade with their contra order, and a rebate of \$0.15 per contract for contracts that are submitted to the Facilitation and Solicited Order Mechanisms that do not trade with their contra order except when those contracts trade against pre-existing orders and quotes on the Exchange's orderbooks.

With this proposed rule change, non-Priority Customer market participants will generally pay lower taker fees as the taker fees charged for Special Non-Select Penny Pilot Symbols were marginally higher than the taker fees charged by the Exchange for Select Symbols. Specifically, the taker fee for Select Symbols is lower in most cases than the taker fee the Exchange charged market participants when trading against Priority Customers in the Special Non-Select Penny Pilot Symbols. The Exchange notes, however, that the taker fees for Select Symbols are nominally higher than the taker fees charged by the Exchange to market participants when trading against Non-Priority Customers. Further, with this proposed rule change, the taker fee charged to Priority Customer orders will also increase as the taker fee for Priority Customer orders in the Select Symbols is \$0.25 per contract while Priority Customer orders in the Special Non-Penny Pilot Symbols received a rebate for both making and taking liquidity. Priority Customer orders that add liquidity will not pay a fee or receive a rebate consistent with the fees and rebates applicable to Select Symbols.

With this proposed rule change, non-Priority Customers will also pay a lower maker fee as the maker fee charged for Special Non-Select Penny Pilot Symbols were higher than the maker fees charged by the Exchange for Select Symbols. The Exchange notes, however, that while Priority Customer orders in the Special Non-Select Penny Pilot Symbols received a rebate when trading against other Priority Customer orders and Non-Priority Customers, this rebate will no longer be payable. With this proposed rule change, Priority Customer orders in the symbols that are subject to this proposed rule change will not be charged a maker fee.

Also, with this proposed rule change, the fee for Crossing Orders and Responses to Crossing Orders will remain at \$0.20 per contract (\$0.00 per contract for Priority Customers) and \$0.40 per contract, respectively. Further, the rebate for contracts that are submitted to the Price Improvement Mechanism that do not trade with their contra order will also remain at \$0.25 per contract as will the rebate for contracts that are submitted to the Facilitation and Solicited Order Mechanisms that do not trade with their contra order except when those contracts trade against pre-existing orders and quotes on the Exchange's orderbooks. That rebate will also remain at \$0.15 per contract.

Further, the Exchange currently provides a \$0.20 per contract fee credit to Primary Market Makers (PMM) for execution of Priority Customer orders in the Special Non-Select Penny Pilot Symbols – for classes in which it serves as a PMM – that send an Intermarket Sweep Order to other exchanges. This credit is applied regardless of the transaction fee charged by a destination market. For Select Symbols, this credit is equal to the fee charged by a destination market and the symbols that are subject to this proposed rule change will now be provided with a credit that is equal to the fee charged by a destination market.

The Exchange also currently provides a \$0.20 per contract credit for responses to flash orders in the Special Non-Select Penny Pilot Symbols when trading against Professional Customers. For Select Symbols, the per contract fee credit for responses to flash orders is \$0.10 per contract when trading Priority Customers, \$0.12 per contract when trading against Preferred Priority Customers and \$0.10 per contract when trading against Professional Customers. The symbols that are subject to this proposed rule change will now be provided the rebate at levels that are currently in place for Select Symbols, as described above.

Since the rate changes to the Schedule of Fees pursuant to this proposal will be effective upon filing, for the transactions occurring in November 2012 prior to the effective date of this filing members will be assessed the rates in effect immediately prior to those proposed by this filing. For transactions occurring in November 2012 on and after the effective date of this filing, members will be assessed the rates proposed by this filing.

2. Statutory Basis

The Exchange believes that its proposal to amend its Schedule of Fees is consistent with Section 6(b) of the Act¹⁴ in general, and furthers the objectives of Section 6(b)(4) of the Act¹⁵ in particular, in that it is an equitable allocation of reasonable fees and other charges among Exchange members and other persons using its facilities.

The Exchange believes that it is reasonable to remove the Special Non-Select Penny Pilot Symbols from its Schedule of Fees and add those symbols to the list of Select Symbols to increase order flow to the Exchange. Select Symbol pricing has proven beneficial for the Exchange and its participants and the Exchange believes that moving these symbols to Select Symbols pricing would enhance liquidity and participation in the 62 symbols. Additionally,

¹⁴ 15 U.S.C. 78f(b).

¹⁵ 15 U.S.C. 78f(b)(4).

removing the Special Non-Select Penny Pilot Symbols and adding those names to Select Symbols would standardize ISE fees.

With this proposed rule change, non-Priority Customer market participants will generally pay lower taker fees as the taker fees charged for Special Non-Select Penny Pilot Symbols were marginally higher than the taker fees charged by the Exchange for Select Symbols. Specifically, the taker fee for Select Symbols is lower in most cases than the taker fee the Exchange charged market participants when trading against Priority Customers in the Special Non-Select Penny Pilot Symbols. The Exchange notes, however, that the taker fees for Select Symbols are nominally higher than the taker fees charged by the Exchange to market participants when trading against Non-Priority Customers. Further, with this proposed rule change, the taker fee charged to Priority Customer orders will also increase as the taker fee for Priority Customer orders in the Select Symbols is \$0.25 per contract while Priority Customer orders in the Special Non-Penny Pilot Symbols received a rebate for both making and taking liquidity. Priority Customer orders that add liquidity will not pay a fee or receive a rebate consistent with the fees and rebates applicable to Select Symbols.

With this proposed rule change, non-Priority Customers will also pay a lower maker fee as the maker fee charged for Special Non-Select Penny Pilot Symbols were higher than the maker fees charged by the Exchange for Select Symbols. The Exchange notes, however, that while Priority Customer orders in the Special Non-Select Penny Pilot Symbols received a rebate when trading against other Priority Customer orders and Non-Priority Customers, this rebate will no longer be payable. With this proposed rule change, Priority Customer orders in the symbols that are subject to this proposed rule change will not be charged a maker fee.

With this proposed rule change, market participants will generally pay lower taker fees and lower maker fees while the fees for Crossing Orders and Responses to Crossing Orders will remain the same. Further, with this proposed rule change, the break-up rebates for contracts submitted to the Facilitation Mechanism, Solicited Order Mechanism and Price Improvement Mechanism will also remain unchanged. With this proposed rule change, the Exchange will no longer pay certain rebates that were previously applicable as the Exchange believes incenting market participants with rebates is no longer necessary to attract order flow in the symbols that are subject to this proposed rule change.

The Exchange believes that the proposed changes are non-discriminatory because the proposal simply collapses a category of fees into an existing category thereby applying fees currently in effect to these additional symbols. Further, the Exchange believes that it is equitable and not unfairly discriminatory to amend its list of Select Symbols to add the Special Non-Select Penny Pilot Symbols to the Select Symbols because the fees applicable to the Select Symbols would apply uniformly to all categories of participants in the same manner. All market participants who trade the Select Symbols would be uniformly subject to the fees and rebates applicable to those symbols.

The Exchange believes it remains an attractive venue for market participants to trade 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. With this proposed fee change, the Exchange believes it remains an attractive venue for market participants to trade at favorable prices.

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.¹⁶ 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

¹⁶ 15 U.S.C. 78s(b)(3)(A)(ii).

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-ISE-2012-88 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-2012-88. 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-2012-88 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.¹⁷

Kevin M. O'Neill
Deputy Secretary

¹⁷ 17 CFR 200.30-3(a)(12).