

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-69365; File No. SR-ISE-2013-14)

April 11, 2013

Self-Regulatory Organizations; International Securities Exchange, LLC; Order Granting Approval of a Proposed Rule Change to List Options on the Dow Jones FXCM Dollar Index

I. Introduction

On February 13, 2013, the International Securities Exchange, LLC (the “Exchange” or the “ISE”) filed with the Securities and Exchange Commission (the “Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to amend certain of its rules to provide for the listing of options on the Dow Jones FXCM Dollar Index. The proposed rule change was published for comment in the Federal Register on February 28, 2013.³ The Commission received no comment letters on the proposed rule change. This order approves the proposed rule change.

II. Description

The Exchange proposes to amend its rules to provide for the listing and trading on the Exchange of options on one foreign currency index - the Dow Jones FXCM Dollar Index (the “Dollar Index”). Options on the Dollar Index will be settled in the same manner as the Exchange’s foreign currency options (“FX Options”)⁴ and will have European-style exercise provisions. In addition to regular options, the Exchange proposes also to list long-term options on the Dollar Index.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 68971 (February 22, 2013), 78 FR 13717 (“Notice”).

⁴ The Commission previously approved the listing of FX Options on nineteen underlying foreign currencies. See Securities Exchange Act Release No. 55575 (April 3, 2007), 72 FR 17963 (April 10, 2007) (SR-ISE-2006-59).

Index Design and Composition

The Dollar Index is calculated and maintained by Dow Jones Indexes, a unit of CME Group. The components that comprise the Dollar Index include a subset of the modified exchange rates⁵ previously approved by the Commission as the basis for FX Options. Specifically, the Dollar Index is based on four currency pairs that reflect U.S. dollar fluctuations against the following currencies: euro, British pound, Japanese yen, and Australian dollar.

Spot currency quotes are derived from Thomson Reuters, the same source that the Exchange currently uses for the underlying values of its existing FX Options. Each input value is based on the mid-point between the bid and ask quotes. The Dollar Index has a base date of January 1, 2011, using closing prices as of December 31, 2010. The base value of the Dollar Index is 10,000. Spot quotes for each currency pair on the base date are as follows:

EUR/USD	1.3370
GBP/USD	1.5601
USD/JPY	81.21
AUD/USD	1.0218

On its base date, the Dollar Index was set to be equally-weighted such that each constituent currency pair has equal influence on the overall index value. This method is similar to equally-weighted stock indexes that calculate the number of shares needed in order for each

⁵ The term “modified exchange rate” means the price, for the sale of one foreign currency for another, quoted by various interbank foreign exchange participants, for immediate delivery (which generally means delivery two business days following the date on which the terms of such a sale are agreed upon), as reflected in the foreign currency price quotations reported by the foreign currency price quotation dissemination vendor selected by the Exchange, which is then modified by the Exchange with a modifier of 1, 10 or 100. See ISE Rule 2201(8).

stock constituent to have an equal position. The Dollar Index is designed to reflect spot positions in each currency with the weighting of each currency set as equal at inception and rebalancing events. Rebalancing events are not scheduled. The Dollar Index would be rebalanced if, for example, the value of any position were to fall below \$1,000 (i.e., loses 90 percent of its original \$10,000 position value), or in response to extraordinary events affecting the global currency market.⁶ At that point, each currency is again set to an equal position. The Exchange has represented that the total number of components in the Dollar Index will not decrease from the number of components in the Dollar Index at the time of its initial listing.⁷

Index Calculation and Maintenance

As noted above, the Dollar Index will be maintained and calculated by Dow Jones. The level of the Dollar Index will reflect the current exchange rates of the four underlying currency pairs. The Dollar Index will be updated on a real-time basis beginning at 6:15 p.m. each day and ending at 5:00 p.m. (New York time) the following day from Sunday through Friday. If the value of a component's exchange rate is not available, the last known exchange rate will be used in the calculation.

The Exchange represents that values of the Dollar Index will be disseminated every 15 seconds during the Exchange's regular trading hours to market information vendors such as Bloomberg and Thomson Reuters.⁸ In the event the Dollar Index ceases to be maintained or calculated, or its values are not disseminated every 15 seconds by a widely available source, the Exchange would not list any additional series for trading and would limit all transactions in such

⁶ See http://www.djindexes.com/mdsidx/downloads/fact_info/Dow_Jones_FXCM_Dollar_Index_Fact_Sheet.pdf

⁷ See Notice, supra note 3, 78 FR at 13718.

⁸ See id.

options to closing transactions only for the purpose of maintaining a fair and orderly market and protecting investors.⁹

As part of this proposal, the Exchange also is making a clarifying change to ISE Rule 2003(b) by replacing the word “stocks” with “components” because index options listed by the Exchange are no longer limited to having stocks as their underlying components; with this proposed rule change, the Exchange also will list options on indexes that have currencies as their underlying components.

Exercise and Settlement Value

Options on the Dollar Index will expire on the Saturday following the third Friday of the expiration month. Trading in expiring options on the Dollar Index will normally cease at 12:00 p.m. (New York time) on the Friday preceding an expiration Saturday. The exercise and settlement value will be calculated using the WM Intra-day Spot rate corresponding to 12:00 p.m. New York time. The exercise-settlement amount is equal to the difference between the settlement value and the exercise price of the option, multiplied by \$1. Exercise will result in the delivery of cash on the business day following expiration.

Contract Specifications

The Dollar Index is a foreign currency index, as defined in proposed Rule 2001(h). Options on the Dollar Index are European-style and cash-settled.¹⁰ The Exchange’s standard trading hours for FX Options (7:30 a.m. to 4:15 p.m., New York time) will also apply to the Dollar Index. The Exchange proposes to apply margin requirements for the purchase and sale of options on the Dollar Index that are identical to those applied for individual FX Options.

⁹ See id.

¹⁰ The Exchange will calculate a settlement value for the Dollar Index using the settlement values for the individual component currencies. The settlement value for each individual component currency is determined using the WM Intra-day Spot rate.

Accordingly, per proposed ISE Rule 1202(e), the margin level required for trading options on the Dollar Index will be identical to the highest margin required for a component foreign currency as determined in accordance with ISE Rule 1202(d).

The trading of options on the Dollar Index will be subject to the trading halt procedures applicable to index options traded on the Exchange.¹¹ Options on the Dollar Index will be quoted and traded in U.S. dollars.¹² Accordingly, all Exchange and Options Clearing Corporation members will be able to accommodate trading, clearance, and settlement of the Dollar Index.

The Exchange proposes to list options on the Dollar Index that may expire at three-month intervals or in consecutive months. The Exchange also may list up to six expiration months at any one time. The Exchange proposes to set strike price intervals for options on the Dollar Index at minimum intervals of 2½ points, if the strike price is less than two hundred dollars (\$200), in accordance with ISE Rule 2009(c)(1). Further, when new series of options on the Dollar Index with a new expiration date are opened for trading, or when additional series of options on the Dollar Index in an existing expiration date are opened for trading, as the current value of the Dollar Index moves substantially from the exercise prices of series already opened, the exercise prices of such new or additional series will be reasonably related to the current value of the underlying index at the time such series are first opened for trading.¹³

The Exchange may open for trading additional series of the same class of options on the Dollar Index as the current value of the underlying index moves substantially from the exercise

¹¹ See ISE Rule 2008(c).

¹² See ISE Rule 2009(a)(1).

¹³ See ISE Rule 2009(c)(3). The term “reasonably related to the current index value of the underlying index” means that the exercise price is within thirty percent (30%) of the current index value, as defined in ISE Rule 2009(c)(4).

price of those options on the Dollar Index that already have been opened for trading on the Exchange. The Exchange also may open for trading additional series of options on the Dollar Index that are more than thirty percent (30%) away from the current index value, provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate, or individual customers or their brokers. The Exchange will not consider Market makers trading for their own account when determining customer interest under this provision.¹⁴

The Exchange proposes to adopt the minimum tick size of \$0.01 for options on the Dollar Index. Accordingly, the Exchange proposes to amend Supplementary Material .02 to ISE Rule 710 to permit options on the Dollar Index to be quoted and traded in one-cent increments. The Exchange believes that this trading increment will result in narrower spreads for options on the Dollar Index than if traditional trading increments are used because options on the individual foreign currency pairs that make up the Dollar Index are quoted in \$0.01 increments.¹⁵ The Exchange further believes that permitting the Dollar Index to be quoted and traded in one-cent increments will promote the adoption of trading FX-linked products on a listed and regulated market.¹⁶

For options on the Dollar Index, the Exchange proposes to establish aggregate position limits at 600,000 contracts on the same side of the market, provided no more than 300,000 of such contracts are in the nearest expiration month series. The Exchange notes that the proposed positions limits for the Dollar Index are equal to or lower than the position limits for individual

¹⁴ See ISE Rule 2009(c)(4).

¹⁵ See Notice, supra note 3, 78 FR at 13719. See also Securities Exchange Act Release No. 57019 (December 20, 2007), 72 FR 73937 (December 28, 2007) (SR-ISE-2007-120).

¹⁶ See Notice, supra note 3, 78 FR at 13719.

FX options on the four currency pairs comprising the Dollar Index.¹⁷ The same limits that apply to position limits will apply equally to exercise limits for options on the Dollar Index.¹⁸

The Exchange proposes to list options on the Dollar Index in the three consecutive near-term expiration months plus up to three successive expiration months in the March cycle. For example, consecutive expirations of January, February, March, plus June, September, and December expirations would be listed.¹⁹

The trading of options on the Dollar Index will be subject to the same rules that presently govern the trading of Exchange index options, including sales practice rules, margin requirements, trading rules, and position and exercise limits. In addition, long-term option series having up to sixty months to expiration may be traded.²⁰ The trading of long-term options on the Dollar Index will be subject to the same rules that govern the trading of all the Exchange's index options, including sales practice rules, margin requirements, and trading rules. Further, pursuant to Supplementary Material .01 and .02 to ISE Rule 2009, the Exchange also may list Short Term Option Series and Quarterly Options Series, respectively, on the Dollar Index. Chapter 6 of the Exchange's rules (Doing Business with the Public) applies to trading in options on the Dollar Index.²¹ Finally, a trading license issued by the Exchange will be required for all market makers to effect transactions as a market maker in the Dollar Index in accordance with ISE Rule 2013.

¹⁷ See id. See also ISE Rule 2208.

¹⁸ See ISE Rule 2007.

¹⁹ See Rule 2009(a)(3).

²⁰ See Rule 2009(b)(1).

²¹ Specifically, ISE Rules 608(a) and (b) prohibit Members from accepting a customer order to purchase or write an option, including options on the Dollar Index, unless such customer's account has been approved in writing by a designated Options Principal of the Member. Additionally, ISE's Rule 610 regarding suitability is designed to ensure that options, including options on the Dollar Index, are only sold to customers capable of evaluating and bearing the risks associated with trading in this instrument. Further, ISE

Surveillance and Capacity

The Exchange represents that it has an adequate surveillance program in place for options traded on the Dollar Index, and intends to apply those same program procedures that it applies to the Exchange's other options products.²² Further, options on the Dollar Index will be covered by the Exchange's existing surveillance system architecture and processes. Additionally, the Exchange will have access to information sharing resources in its capacity as a member of the Intermarket Surveillance Group. The Exchange represents that it has the necessary system capacity to support additional quotations and messages that will result from the listing and trading of options on the Dollar Index.²³

III. Discussion and Commission Findings

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.²⁴ Specifically, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,²⁵ which requires, among other things, that the rules of a national securities

Rule 611 permits members to exercise discretionary power with respect to trading options, including options on the Dollar Index, in a customer's account only if the Member has received prior written authorization from the customer and the account had been accepted in writing by a designated Options Principal. ISE Rule 611 also requires designated Options Principals or Representatives of a Member to approve and initial each discretionary order, including discretionary orders for options on the Dollar Index, on the day the discretionary order is entered. Finally, ISE Rule 609, Supervision of Accounts, Rule 612, Confirmation to Customers, and Rule 616, Delivery of Current Options Disclosure Documents and Prospectus, will also apply to trading in options on the Dollar Index.

²² See Notice, supra note 3, 78 FR at 13720.

²³ See id.

²⁴ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation.

²⁵ 15 U.S.C. 78f(b)(5).

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.

The Commission believes that the listing and trading of options on the Dollar Index will provide additional trading opportunities for investors in an index that reflects U.S. Dollar fluctuations against a basket of four highly liquid currencies (the euro, British pound, Japanese yen, and the Australian dollar). Investors will be able to trade this product through their existing broker-dealer on the Exchange and will be able to benefit from any investor safeguards incorporated into the Exchange's rules.

In addition, the Commission believes that allowing options on the Dollar Index to trade in penny (\$0.01) increments is appropriate and consistent with the Act.²⁶ First, the spot currencies on which the Dollar Index is based are quoted in small increments, often less than a penny. Furthermore, there is a considerable amount of liquidity in the spot foreign currency markets for the individual currency pairs, and those markets generally exhibit low volatility both for the individual currency pairs as well as the Dollar Index. These factors support allowing options on the Dollar Index to be quoted and traded in penny increments. Quoting in penny increments may allow market makers to quote more competitively and with narrower spreads than they otherwise might be able to do with an artificially larger minimum increment, which could benefit investors.

The Exchange has represented that it has an adequate surveillance program in place for options on the Dollar Index and intends to apply the same procedures for surveillance that it

²⁶ Though options on the Dollar Index fall under the Exchange's index options rules and not its FX Options rules, the Commission notes that options on the Exchange's FX Options are quoted in penny increments on the Exchange.

applies to its other index options.²⁷ The options also will be subject to the trading halt procedures applicable to index options traded on the Exchange.²⁸ The Commission notes the Exchange's representations that it has the necessary systems capacity to support the trading of options on the Dollar Index.²⁹

The proposed listing standards require the current value of the Dollar Index to be widely disseminated at least once every 15 seconds by one or more major market data vendors during the time options on the index are traded on the Exchange. The Exchange, moreover, has represented that the total number of components in the Dollar Index will not decrease from the number of components in the Dollar Index at the time of its initial listing.³⁰

The Commission notes that the Exchange proposes to apply its existing index rules regarding the listing of new series and additional series to options on the Dollar Index. Specifically, exercise prices will be required to be reasonably related to the value of the underlying index and generally must be within 30% of the current index value.³¹

In addition, the Exchange has stated that options on the Dollar Index would be subject to the same rules that govern all Exchange index options, including rules that are designed to protect public customer trading.³²

The Commission believes that the Exchange's proposed position and exercise limits, strike price intervals, margin, and other aspects of the proposed rule change are appropriate and consistent with the Act. The Commission notes that the proposed position limits for the Dollar

²⁷ See supra note 22.

²⁸ See supra note 11.

²⁹ See supra note 23.

³⁰ See supra note 7.

³¹ See ISE Rule 2009(c)(3) and (4).

³² See supra note 21.

Index are equal to or lower than the position limits for individual foreign currency options on the four currency pairs comprising the Dollar Index.³³ In addition, the margin level required for trading options on the Dollar Index is identical to the highest margin required for a component foreign currency as determined in accordance with ISE Rule 1202(d).³⁴

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,³⁵ that the proposed rule change (SR-ISE-2013-14), be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.³⁶

Kevin M. O’Neill
Deputy Secretary

³³ See supra note 17. The same limits that apply to positions limits apply equally to exercise limits for options on the Dollar Index. See supra note 18.

³⁴ See ISE Rule 1202(e).

³⁵ 15 U.S.C. 78s(b)(2).

³⁶ 17 CFR 200.30-3(a)(12).