

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-71033; File No. SR-ISE-2013-68)

December 11, 2013

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to 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 December 6, 2013, the International Securities Exchange, LLC (the “Exchange” or the “ISE”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II 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 Exchange proposes to amend Supplementary Material .02 to Rule 504 and Supplementary Material .01 to Rule 2009 to allow the Exchange to list five Short Term Option Series at one time, and to specify that new series of Short Term Option Series may be listed up to, and including on, the expiration date. The text of the proposed rule change is available on the Exchange’s Internet website at <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 Exchange included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange is proposing to amend Supplementary Material .02 to Rule 504 and Supplementary Material .01 to Rule 2009 consistent with a recently approved filing by the Chicago Board Options Exchange, Inc. ("CBOE").³

Currently the Exchange's Rules allow ISE to list options in the Short Term Option ("STO" or "weekly") Program "on each of the next five consecutive Fridays that are business days."⁴ The filing which gave the Exchange authority to list five STO expirations specifically states that "the total number of consecutive expirations will be five, including any existing monthly or quarterly expirations."⁵ The Exchange is now proposing to amend its rules so that the next five STOs may be listed at one time, not including the monthly or quarterly options. The Exchange is also proposing to codify an existing practice by adding language stating that strikes may be listed up until and on the day of expiration.

As proposed, the Exchange will have the ability to list a total of five STO expirations and that count of five would not include monthly or quarterly option expirations. The Exchange notes

³ See Securities Exchange Act Release No. 70685 (October 15, 2013) 78 FR 62858 (October 22, 2013) (SR-CBOE-2013-096) (notice of filing; approval citation pending publication by the Commission).

⁴ See Supplementary Material .02 to Rule 504 and Supplementary Material .01 to Rule 2009.

⁵ See Securities Exchange Act Release No. 68318 (November 29, 2013 [sic]), 77 FR 72426 (December 5, 2012) (SR-ISE-2012-90).

that this proposal would restrict the five listed STOs to those closest to the STO opening date. For example, if a class of options has five STOs listed with expiration dates in July, the other two listed expiration dates may not be in December. The Exchange believes that allowing otherwise would undermine the purpose of the STO Program.

As examples of how this would work in practice, consider a situation in which a quarterly option expires week 1 and a monthly option expires week 3 from now, the proposal would allow the following expirations: week 1 quarterly option, week 2 weekly option, week 3 monthly option, week 4 weekly option, week 5 weekly option, week 6 weekly option, and week 7 weekly option.⁶ As another example, if a quarterly option expires week 3 and a monthly option expires week 5, the following expirations would be allowed: week 1 weekly option, week 2 weekly option, week 3 quarterly option, week 4 weekly option, week 5 monthly option, week 6 weekly option, week 7 weekly option.

Next, the Exchange is proposing to add language to Supplementary Material .02(d) to Rule 504 and Supplementary Material .01(d) to Rule 2009 to state that additional STO series may be added up to, and including on, the expiration date of the series.⁷ Currently, Exchange rules state that the Exchange may open up to 20 initial series, and up to 10 additional series, for each option class that participates in the STO Program.⁸ The Exchange's rules, however, are

⁶ The proposal would not allow, for example, for nothing to be listed week 7 but week 8 a weekly option.

⁷ The Exchange is also proposing to add language stating that the proposed provisions in Supplementary Material .02 to Rule 504 and Supplementary Material .01 to Rule 2009 will not contradict current provisions in ISE Rules. More specifically, the proposed provisions would not contradict Rules 504(f) and 2009(c)(2) respectively. The Exchange believes this addition will eliminate any confusion about when additional series may be added in the STO Program in comparison to other Exchange listing programs.

⁸ See Supplementary Material .02(c) and (d) to Rule 504, and Supplementary Material .01(c) and (d) to Rule 2009.

silent on when series may be added. In practice, however, the Exchange, along with the other exchanges, list additional series until the expiration day.⁹ The Exchange believes that codifying this practice will clarify authority that is not currently explicitly stated in its rules to add series up until the day of expiration. Given the short lifespan of STOs, the Exchange believes that the ability to list new series of options intraday is appropriate.

The Exchange notes that the STO Program has been very well-received by market participants, in particular by retail investors. The Exchange believes that the current proposed revision to the STO Program will permit the Exchange to meet increased customer demand and provide market participants with the ability to hedge in a greater number of option classes and series. In addition, the proposed changes will codify an existing practice in the Exchange's rules.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act and the rules and regulations thereunder, including the requirements of Section 6(b) of the Act.¹⁰ In particular, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹¹ requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, 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.

⁹ The Exchange notes that the Options Clearing Corporation (“OCC”) has the ability to accommodate series in the STO Program added intraday.

¹⁰ 15 U.S.C. 78f(b).

¹¹ 15 U.S.C. 78f(b)(5).

Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹² requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers. In particular, the Exchange believes that expanding the STO Program will result in a continuing benefit to investors by giving them more flexibility to closely tailor their investment decisions. The Exchange also believes that expanding the STO Program will provide the investing public and other market participants with additional opportunities to hedge their investments, thus allowing these investors to better manage their risk exposure.

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 current amendment to the STO Program. 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 the proposal is pro-competitive. The proposed rule change is a competitive response to a recently approved filing by the CBOE,¹³ which the Exchange believes is necessary to permit fair competition among the options exchanges with respect to STO Programs. Moreover, the Exchange believes this proposed rule change will benefit investors by providing additional methods to trade options on liquid securities, and by providing greater

¹² Id.

¹³ See supra note 3.

ability to mitigate risk in managing large portfolios. Specifically, the Exchange believes that investors would benefit from the introduction and availability of additional series for investment, and as an additional tool for hedging risk in highly liquid securities. For all the reasons stated, the Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act, and believes the proposed change will enhance competition.

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

Because the proposed rule change does not (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act¹⁴ and Rule 19b-4(f)(6) thereunder.¹⁵

The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Exchange stated that waiver of this requirement will promote fair competition among the exchanges by allowing the Exchange

¹⁴ 15 U.S.C. 78s(b)(3)(A).

¹⁵ 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

to list additional STO expirations in the same manner as the CBOE, and by clarifying that, like the CBOE, the Exchange may list new STO series up to, and including on, the expiration date. The Exchange also stated that it would be at a competitive disadvantage if it were not allowed to adopt the proposed rule changes contemporaneously with other exchanges. For these reasons, the Commission believes that the proposed rule change presents no novel issues, and waiver will allow the Exchange to remain competitive with other exchanges. Therefore, the Commission designates the proposed rule change to be operative upon filing.¹⁶

At any time within 60 days of the filing of the 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
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-ISE-2013-68 on the subject line.

¹⁶ For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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-2013-68. 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-2013-68 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).