SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-72740; File No. SR-ISE-2014-31)

August 1, 2014

Self-Regulatory Organizations; International Securities Exchange, LLC; Order Approving Proposed Rule Change on Bid/Offer Differentials for In-The-Money Option Series

I. Introduction

On June 4, 2014, the International Securities Exchange, LLC ("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 amend its rules to require that market makers quoting certain in-the-money options series maintain quotes that are no wider than the spread between the national best bid and offer ("NBBO") in the underlying security. The proposed rule change was published for comment in the Federal Register on June 20, 2014.[3] The Commission received no comment letters on the proposed rule change. This order approves the proposed rule change.

II. Description

ISE Rule 803(b)(4)(i) presently permits market makers to submit quotes with wider bid/offer differentials for in-the-money options series where the market for the underlying security is wider than the market maker's regular quotation requirements. In particular, a market maker quoting an in-the-money options series may submit quotes that are as wide as the quotation on the primary market of the underlying security.

ISE proposes to change this obligation to instead require that market makers quoting

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 See Securities Exchange Act Release No. 72399 (June 16, 2014), 79 FR 35396 (June 20, 2014) ("Notice").

these in-the-money options series maintain quotes that are no wider than the spread between the NBBO in the underlying security. ISE believes that measuring the permissible width of a market maker's quote against the NBBO more accurately reflects the current trading environment where multiple trading venues contribute to the prevailing market price of a security underlying an options series traded on the ISE. Further, ISE explains that a market maker quoting an in-the-money options series can hedge its position by trading in the underlying security at the NBBO, which may be narrower than the quotation on the primary market. In addition, ISE believes that requiring market makers to post tighter quotes will improve market quality.

III. Discussion and Commission Findings

After carefully considering the proposal, 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.[4] In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,[5] which requires, among other things, that the rules of a national securities exchange be designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating 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. The Commission notes that the proposal should improve market quality by narrowing spreads to the benefit of investors.

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

5 15 U.S.C. 78f(b)(5).

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (SR-ISE-2014-31), be, and hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[6]

Kevin M. O'Neill
Deputy Secretary

[6] 17 CFR 200.30-3(a)(12).