

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-66582; File No. SR-ISE-2012-16)

March 13, 2012

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing of Proposed Rule Change to Amend ISE Rule 722 (Complex Orders) to Provide its Members with a Choice in Executing Broker-Dealers for the Stock Leg(s) of Stock-Option Orders

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 February 29, 2012, 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 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 the Substance of the Proposed Rule Change

The Exchange proposes to amend Rule 722 (Complex Orders) to allow Members to execute the stock legs of stock-option orders through a broker-dealer of their choosing.

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 the 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

¹ 15 U.S.C. 78s(b)(1).

² 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 the Statutory Basis for, the Proposed Rule Change

Purpose – Under the ISE's current procedure for executing stock-options orders, ISE Members may elect to have the ISE electronically communicate the stock leg(s) of a stock-option order to a designated broker-dealer for execution. To participate in the automated process, the ISE Member must have entered into a customer agreement with the designated broker-dealer. The ISE Member is responsible for fees and other charges the designated broker-dealer imposes from executing the trades, and the ISE receives no fees related to the stock portion of the stock-option trade.

The Exchange is now proposing to amend its Rule 722 to expand the service offered to ISE Members by accommodating multiple potential execution brokers. Under the proposal, the Exchange will connect to multiple broker-dealers for the execution of the stock component of stock-option orders. The Exchange will route orders to the broker-dealers using routing logic that takes into consideration objective factors, such as execution cost, speed of execution and fill rates, and ISE Members will have the ability to indicate preferred execution venues. The Exchange will have no financial arrangements with the executing broker-dealers with respect to routing the stock leg(s) of stock-option orders.

As is currently required, after the stock leg(s) of the orders are routed to a broker-dealer for execution, that broker-dealer will be responsible for determining whether the order may be executed in accordance with the applicable rules, such as the Regulation NMS trade-through rules. As with the current procedure, the stock-option order will not be executed on the ISE if the broker-dealer cannot execute the equity orders at the designated price.

ISE Members will continue to be required to enter into an agreement with the broker-dealer(s) to which their orders can be routed, and the Exchange's routing logic will only route orders to the broker-dealers with whom they have agreements. In this respect, ISE Members will continue to be required to enter into an agreement with the designated broker-dealer that the Exchange currently routes the stock-leg(s) to so that a [sic] there is at least one common available broker-dealer through which the matched stock-leg(s) may be executed.³

The Exchange also proposes to remove from its rules provisions related to the non-automatic execution of stock-option orders. Members have found the automatic execution of stock-option orders to be preferable and no longer enter stock-option orders for non-automatic execution.

Basis – The Exchange believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,⁴ in general, and with Section 6(b)(5) of the Act,⁵ in particular, in that the proposal is 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. Specifically, providing the ISE Members with multiple broker-dealers through which they may choose to have the stock leg(s) of their stock-option order routed will enable

³ In many cases, stock-option orders that are matched on the ISE have two different Members on the trade. The Exchange is not able to execute the stock legs of such a transaction unless both Members have an agreement with the broker-dealer to which the stock legs are routed.

⁴ 15 U.S.C. 78f.

⁵ 15 U.S.C. 78f(b)(5).

Members to avail themselves of pricing discounts. The Exchange believes that this will encourage members to route stock-option orders to the ISE, thus increasing the liquidity for stock-option orders executed on the ISE. Additionally, the Exchange believes it is fair and reasonable and not discriminatory to remove from the rules the ability for Members to execute stock-option orders in a non-automated manner, as there is no demand from Members for this execution alternative.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

(B) institute proceedings to determine whether the proposed rule change should be 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-2012-16 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-2012-16. 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 such 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-2012-16 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.⁶

Kevin M. O'Neill
Deputy Secretary

⁶ 17 CFR 200.30-3(a)(12).