

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-66596; File No. SR-ISE-2012-18)

March 14, 2012

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Increase Certain Rebates for Certain Complex Orders

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Exchange Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on March 1, 2012, the International Securities Exchange, LLC (the “Exchange” or the “ISE”) filed with the Securities and Exchange Commission (the “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 ISE is proposing to increase certain rebate amounts for certain complex orders. 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 charges and credits to market participants that add or remove liquidity from the Exchange (“maker/taker fees”) in a number of options classes (the “Select Symbols”).³ The Exchange’s maker/taker fees are applicable to regular and complex orders executed in the Select Symbols. The maker/taker fees for complex orders in the Select Symbols also apply to all symbols that are in the Penny Pilot program.⁴ The Exchange also currently assesses maker/taker fees for complex orders in symbols that are in the Penny Pilot program but are not a Select Symbol (“Non-Select Penny Pilot Symbols”)⁵ and for complex orders in all symbols that are not in the Penny Pilot Program (“Non-Penny Pilot Symbols”).⁶ Maker/taker fees (and rebates) for complex orders are assessed on the following order-type categories: ISE Market Maker,⁷ Market Maker Plus,⁸ Firm Proprietary, Customer

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

⁴ See Exchange Act Release Nos. 65021 (August 3, 2011), 76 FR 48933 (August 9, 2011) (SR-ISE-2011-45); and 65550 (October 13, 2011), 76 FR 64984 (October 19, 2011) (SR-ISE-2011-65).

⁵ See Exchange Act Release No. 65724 (November 10, 2011), 76 FR 71413 (November 17, 2011) (SR-ISE-2011-72).

⁶ See Exchange Act Release Nos. 66084 (January 3, 2012), 77 FR 1103 (January 9, 2012) (SR-ISE-2011-84); and 66392 (February 14, 2012), 77 FR 10016 (February 21, 2012) (SR-ISE-2012-06).

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

⁸ A Market Maker Plus is an ISE 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

(Professional)⁹, Non-ISE Market Maker¹⁰, and Priority Customer.¹¹ The Exchange is proposing to increase certain rebates for certain complex orders, as follows.

In the Select Symbols, the Exchange currently provides a rebate of \$0.30 per contract, per leg, for Priority Customer complex orders when these orders trade with non-Priority Customer complex orders in the complex orderbook. In order to enhance the Exchange's competitive position and to incentivize Members to increase the amount of Priority Customer complex orders that they send to the Exchange, the Exchange is proposing to increase the base amount of that rebate to \$0.32 per contract. Additionally, the Exchange is proposing to increase the amount of that rebate even further, on a month-by-month and Member-by-Member basis, if such Member achieves a certain average daily volume (ADV) of Priority Customer complex order contracts executed during the calendar month, as follows: if the Member achieves an ADV of 75,000 Priority Customer complex order contracts, the rebate amount shall be \$0.33 per contract per leg; if the Member achieves an ADV of 125,000 Priority Customer complex order contracts, the

\$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 across all expiration months in order to receive the rebate. The Exchange determines whether a Market Maker qualifies as a Market Maker Plus at the end of each month by looking back at each Market Maker's quoting statistics during that month. If at the end of the month, a Market Maker meets the Exchange's stated criteria, the Exchange rebates \$0.10 per contract for transactions executed by that Market Maker during that month. The Exchange provides Market Makers a report on a daily basis with quoting statistics so that Market Makers can determine whether or not they are meeting the Exchange's stated criteria.

⁹ A Customer (Professional) is a person who is not a broker/dealer and is not a Priority Customer.

¹⁰ 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, as amended ("Exchange Act"), registered in the same options class on another options exchange.

¹¹ 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).

rebate amount shall be \$0.34 per contract per leg. The highest rebate amount achieved by the Member for the current calendar month shall apply retroactively to all Priority Customer complex order contracts that trade with non-Priority Customer complex orders in the complex orderbook executed by the Member during such calendar month.

In the Non-Select Penny Pilot Symbols, the Exchange currently provides a rebate of \$0.25 per contract, per leg, for Priority Customer complex orders when these orders trade with non-Priority Customer complex orders in the complex orderbook. In order to enhance the Exchange's competitive position and to incentivize Members to increase the amount of Priority Customer complex orders that they send to the Exchange, the Exchange is proposing to increase the base amount of that rebate to \$0.26 per contract. Additionally, the Exchange is proposing increase [sic] the amount of that rebate even further, on a month-by-month and Member-by-Member basis, if such Member achieves a certain average daily volume (ADV) of Priority Customer complex order contracts executed during the calendar month, as follows: if the Member achieves an ADV of 75,000 Priority Customer complex order contracts, the rebate amount shall be \$0.28 per contract per leg; if the Member achieves an ADV of 125,000 Priority Customer complex order contracts, the rebate amount shall be \$0.30 per contract per leg. The highest rebate amount achieved by the Member for the current calendar month shall apply retroactively to all Priority Customer complex order contracts that trade with non-Priority Customer complex orders in the complex orderbook executed by the Member during such calendar month.

In the Non-Penny Pilot Symbols, the Exchange currently provides a rebate of \$0.50 per contract, per leg, for Priority Customer complex orders when these orders trade with non-Priority Customer complex orders in the complex orderbook. In order to enhance the Exchange's

competitive position and to incentivize Members to increase the amount of Priority Customer complex orders that they send to the Exchange, the Exchange is proposing to increase the base amount of that rebate to \$0.52 per contract. Additionally, the Exchange is proposing increase [sic] the amount of that rebate even further, on a month-by-month and Member-by-Member basis, if such Member achieves a certain average daily volume (ADV) of Priority Customer complex order contracts executed during the calendar month, as follows: if the Member achieves an ADV of 75,000 Priority Customer complex order contracts, the rebate amount shall be \$0.54 per contract per leg; if the Member achieves an ADV of 125,000 Priority Customer complex order contracts, the rebate amount shall be \$0.56 per contract per leg. The highest rebate amount achieved by the Member for the current calendar month shall apply retroactively to all Priority Customer complex order contracts that trade with non-Priority Customer complex orders in the complex orderbook executed by the Member during such calendar month.

Finally, the Exchange does not currently provide a rebate for Priority Customer complex orders when these orders trade against quotes or orders in the regular orderbook. In order to enhance the Exchange's competitive position and to incentivize Members to increase the amount of Priority Customer complex orders that they send to the Exchange, the Exchange is proposing to provide a rebate of \$0.06 per contract, per leg, for Priority Customer complex orders, regardless of size, when these orders trade against quotes or orders in the regular orderbook. This rebate shall apply in the Select Symbols, Non-Select Penny Pilot Symbols, and Non-Penny Pilot Symbols. For the avoidance of doubt, this rebate is not included in the ADV incentive program described above for Priority Customer complex orders executed in the complex orderbook.

2. Statutory Basis

The Exchange believes that its proposal to amend its Schedule of Fees is consistent with Section 6(b) of the Exchange Act¹² in general, and furthers the objectives of Section 6(b)(4) of the Exchange Act¹³ in particular, in that it is an equitable allocation of reasonable dues, fees and other charges among Exchange members and other persons using its facilities. The impact of the proposal upon the net fees paid by a particular market participant will depend on a number of variables, most important of which will be its propensity to interact with and respond to certain types of orders.

The Exchange believes that it is reasonable and equitable to provide rebates for Priority Customer complex orders when these orders trade with Non-Priority Customer complex orders in the complex order book because paying a rebate would continue to attract additional order flow to the Exchange and create liquidity in the symbols that are subject to the rebate, which the Exchange believes ultimately will benefit all market participants who trade on ISE. The Exchange already provides these types of rebates, and is now merely proposing to increase those rebate amounts. The Exchange believes that the proposed rebates are competitive with rebates provided by other exchanges and are therefore reasonable and equitably allocated to those members that direct orders to the Exchange rather than to a competing exchange.

The Exchange is also establishing a volume-based incentive program, designed to encourage Members to send their Priority Customer complex orders to the Exchange. The concept of a volume-based incentive program is not novel. The Exchange notes that it currently has other incentive programs to promote and encourage growth in specific business areas. For

¹² 15 U.S.C. 78f(b).

¹³ 15 U.S.C. 78f(b)(4).

example, the Exchange has lower fees (or no fees) for customer orders;¹⁴ and tiered pricing that reduces rates for ISE Market Makers based on the level of business they bring to the Exchange.¹⁵ This proposed rule change targets a particular segment in which the Exchange seeks to attract greater order flow. The Exchange also has a volume-based rebate program in place for Qualified Contingent Cross (“QCC”) and Solicitation orders, which gives Members who trade a minimum of 200,000 qualifying contracts in QCC and Solicitation orders on the Exchange a benefit by way of a rebate. This program is similar to the proposed program in that once a Member reaches an established volume threshold, all of the trading activity in the specified order type by that Member will be subject to the corresponding rebate.

The Exchange also believes that it is reasonable and equitable to provide rebates for Priority Customer complex orders when these orders trade against quotes or orders in the regular orderbook because paying a rebate, in those instances, would also attract additional order flow to the Exchange. The Exchange notes that the rebate amount is the same for all symbols, including Select Symbols, Non-Select Penny Pilot Symbols, and Non-Penny Pilot Symbols.

The complex order pricing employed by the Exchange has proven to be an effective pricing mechanism and attractive to Exchange participants and their customers. The Exchange believes that increasing its complex order rebates will attract additional complex order business.

The Exchange further believes that the Exchange’s complex order rebates are not unfairly discriminatory because the fee structure is consistent with fee structures that exist today at other

¹⁴ For example, the customer fee is \$0.00 per contract for products other than Singly Listed Indexes, Singly Listed ETFs and FX Options. For Singly Listed Options, Singly Listed ETFs and FX Options, the customer fee is \$0.18 per contract. The Exchange also currently has an incentive plan in place for certain specific FX Options which has its own pricing. See ISE Schedule of Fees.

¹⁵ The Exchange currently has a sliding scale fee structure that ranges from \$0.01 per contract to \$0.18 per contract depending on the level of volume a Member trades on the Exchange in a month.

options exchanges. Additionally, the Exchange believes that the proposed rebates are fair, equitable and not unfairly discriminatory because the proposed rebates are consistent with price differentiation that exists today at other option exchanges. 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 rebate change, the Exchange believes it remains an attractive venue for market participants to trade complex orders.

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 Exchange 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 Exchange 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 Exchange Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

¹⁶ 15 U.S.C. 78s(b)(3)(A)(ii).

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 Exchange 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-2012-18 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-2012-18. 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-2012-18 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).