

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-69394; File No. SR-ISE-2013-33)

April 18, 2013

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the Schedule of Fees

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 April 12, 2013, the International Securities Exchange, LLC (the "Exchange" or the "ISE") filed with the Securities and Exchange Commission the proposed rule change, as described in Items I, II, and III 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 Substance of the Proposed Rule Change

The ISE proposes to amend its Schedule of Fees. The text of the proposed rule change is available on the Exchange's Web site (<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-

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

1. Purpose

The Exchange currently assesses per contract transaction fees and provides rebates to market participants that add or remove liquidity from the Exchange (“maker/taker fees and rebates”) in all symbols that are in the Penny Pilot program (“Select Symbols”). The Exchange’s maker/taker fees and rebates are applicable to regular and complex orders executed in the Select Symbols. The fee changes discussed below apply to both standard options and mini options traded on the Exchange. The Exchange’s Schedule of Fees has separate tables for fees and rebates applicable to standard options and mini options. The Exchange notes that while the discussion below notes the fees and rebates for standard options, the fees and rebates for mini options, which are not discussed below, are and shall continue to be 1/10th of the fees and rebates for standard options.³

For regular orders that remove liquidity in the Select Symbols, the Exchange currently charges a taker fee of: (i) \$0.32 per contract for Market Maker⁴ and Market Maker Plus⁵ orders, (ii) \$0.36 per contract for Non-ISE Market Maker⁶ orders, (iii) \$0.33

³ See Securities Exchange Act Release No. 69270 (April 2, 2013), 78 FR 20988 (April 8, 2013) (SR-ISE-2013-28).

⁴ The term “Market Makers” refers to “Competitive Market Makers” and “Primary Market Makers” collectively. See ISE Rule 100(a)(25).

⁵ In order to promote and encourage liquidity in the Select Symbols, the Exchange currently offers a \$0.10 per contract rebate to Market Makers if the quotes they send to the Exchange qualify the Market Maker to become a Market Maker Plus.

per contract for Firm Proprietary / Broker-Dealer and Professional Customer⁷ orders, and (iv) \$0.25 per contract for Priority Customer⁸ orders. The Exchange now proposes to increase the taker fee for: (i) Market Maker and Market Maker Plus orders in the Select Symbols from \$0.32 per contract to \$0.34 per contract, (ii) Non-ISE Market Maker orders in the Select Symbols from \$0.36 per contract to \$0.38 per contract, (iii) Firm Proprietary / Broker-Dealer and Professional Customer orders in the Select Symbols from \$0.33 per contract to \$0.35 per contract, and (iv) Priority Customer orders in the Select Symbols from \$0.25 per contract to \$0.28 per contract.

A Market Maker Plus is a 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 \$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 for all expiration months in that symbol during the current trading month. A Market Maker's single best and single worst overall quoting days each month, on a per symbol basis, is excluded in calculating whether a Market Maker qualifies for this rebate, if doing so will qualify a Market Maker for the rebate. 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.

⁶ 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 registered in the same options class on another options exchange.

⁷ A Professional Customer is a person who is not a broker/dealer and is not a Priority Customer.

⁸ 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).

For regular orders in Non-Select Symbols,⁹ the Exchange currently charges an execution fee of: i) \$0.18 per contract for Market Maker orders; ii) \$0.20 per contract for Market Maker (for orders sent by Electronic Access Members), Firm Proprietary / Broker-Dealer and Professional Customer orders; iii) \$0.45 per contract for Non-ISE Market Maker orders; and iv) \$0.00 per contract for Priority Customer orders (for Singly Listed Symbols, this fee is \$0.20 per contract). The Exchange now proposes to increase the execution fee for Firm Proprietary / Broker-Dealer and Professional Customer orders, from \$0.20 per contract to \$0.30 per contract. The Exchange is not proposing any change to the execution fee for other market participants.

For Responses to Crossing Orders in Non-Select Symbols, the Exchange currently charges a fee of: i) \$0.18 per contract for Market Maker orders; ii) \$0.20 per contract for Market Maker (for orders sent by Electronic Access Members), Firm Proprietary / Broker-Dealer and Professional Customer orders; iii) \$0.45 per contract for Non-ISE Market Maker orders; and iv) \$0.20 per contract for Priority Customer and Priority Customer (Singly Listed Symbols) orders. The Exchange now proposes to increase the Fee for Responses to Crossing Orders for Firm Proprietary / Broker-Dealer and Professional Customer orders, from \$0.20 per contract to \$0.30 per contract. The Exchange is not proposing any change to the Fee for Responses to Crossing Orders for other market participants.

For FX Options, the Exchange currently charges an execution fee of: i) \$0.18 per contract for Market Maker and Priority Customer orders; ii) \$0.20 per contract for Market Maker (for orders sent by Electronic Access Members), Firm Proprietary / Broker-Dealer

⁹ “Non-Select Symbols” are options overlying all symbols excluding Select Symbols.

and Professional Customer orders; iii) \$0.45 per contract for Non-ISE Market Maker orders; iv) \$0.40 per contract for Priority Customer orders in Early Adopter FX Option Symbols; and v) \$0.00 per contract for Early Adopter Market Maker orders. The Exchange now proposes to increase the execution fee for Firm Proprietary / Broker-Dealer and Professional Customer orders, from \$0.20 per contract to \$0.30 per contract. The Exchange is not proposing any change to the execution fee for other market participants.

For Responses to Crossing Orders in FX Options, the Exchange currently charges a fee of: i) \$0.18 per contract for Market Maker orders; ii) \$0.20 per contract for Market Maker (for orders sent by Electronic Access Members), Firm Proprietary / Broker-Dealer, Professional Customer and Priority Customer orders; iii) \$0.45 per contract for Non-ISE Market Maker orders; iv) \$0.40 per contract for Priority Customer in Early Adopter FX Option Symbols; and v) \$0.00 per contract for Early Adopter Market Maker orders. The Exchange now proposes to increase the Fee for Responses to Crossing Orders for Firm Proprietary / Broker-Dealer and Professional Customer orders, from \$0.20 per contract to \$0.30 per contract. The Exchange is not proposing any change to the Fee for Responses to Crossing Orders for other market participants.

Since the rate changes to the Schedule of Fees pursuant to this proposal will be effective upon filing, for the transactions occurring in April 2013 prior to the effective date of this filing members will be assessed the rates in effect immediately prior to those proposed by this filing. For transactions occurring in April 2013 on and after the effective date of this filing, members will be assessed the rates proposed by this filing.

2. Statutory Basis

The Exchange believes that its proposal to amend its Schedule of Fees is consistent with Section 6(b) of the Securities and Exchange Act of 1934 (the “Act”)¹⁰ in general, and furthers the objectives of Section 6(b)(4) of the Act¹¹ 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 Exchange has determined to charge fees and provide rebates for regular orders in mini options at a rate that is 1/10th the rate of fees and rebates the Exchange currently provides for trading in standard options. The Exchange believes it is reasonable and equitable and not unfairly discriminatory to assess lower fees and rebates to provide market participants an incentive to trade mini options on the Exchange. The Exchange believes the proposed fees and rebates are reasonable and equitable in light of the fact that mini options have a smaller exercise and assignment value, specifically 1/10th that of a standard option contract, and, as such, levying fees that are 1/10th of what market participants pay today.

The Exchange believes that its proposal to assess a \$0.34 per contract taker fee for regular Market Maker and Market Maker Plus orders in the Select Symbols is reasonable and equitably allocated because the fee is within the range of fees assessed by other exchanges employing similar pricing schemes. For example, NASDAQ Options Market (“NOM”) currently charges a taker fee of \$0.48 per contract to NOM Market Maker

¹⁰ 15 U.S.C. 78f(b).

¹¹ 15 U.S.C. 78f(b)(4).

orders in Penny Pilot options in its regular order book.¹² The Exchange also notes that with this proposed rule change, the fee charged to regular Market Maker and Market Maker Plus orders in the Select Symbols will remain lower than the fee currently charged by the Exchange to certain other market participants.

The Exchange also believes that its proposal to assess a \$0.35 per contract taker fee for regular Firm Proprietary / Broker-Dealer and Professional Customer orders and \$0.38 per contract taker fee for regular Non-ISE Market Maker orders in the Select Symbols is reasonable and equitably allocated because the fee is also within the range of fees assessed by other exchanges employing similar pricing schemes. By comparison, the proposed fees assessed to regular Firm Proprietary / Broker-Dealer and Professional Customer orders and to regular Non-ISE Market Maker orders are lower than the rates assessed by NOM for similar orders. NOM currently charges a taker fee of \$0.48 per contract for equivalent orders in its regular order book.¹³

The Exchange also believes that its proposal to assess a \$0.28 per contract taker fee for all regular Priority Customer orders in the Select Symbols is reasonable and equitably allocated because the fee is within the range of fees assessed by other exchanges employing similar pricing schemes. The proposed fee is substantially lower than the \$0.45 per contract taker fee currently charged by NOM for Customer orders in its regular order book.¹⁴ Therefore, while ISE is proposing a fee increase, the resulting fee remains lower than the fee currently charged by NOM. The Exchange also notes that

¹² See NOM fee schedule at http://nasdaq.cchwallstreet.com/NASDAQTools/PlatformViewer.asp?selectednode=chp_1_1_15&manual=%2Fnasdaq%2Fmain%2Fnasdaq-optionsrules%2F.

¹³ Id.

¹⁴ Id.

with this proposed rule change, the fee charged to regular Priority Customer orders will remain lower (as it historically has always been) than the fee currently charged by the Exchange to other market participants.

The Exchange believes it is reasonable and equitable to charge a fee of \$0.30 per contract for regular Firm Proprietary / Broker-Dealer orders and regular Professional Customer orders in Non-Select Symbols and in FX Options and also when such members are responding to crossing orders because the fee is also within the range of fees assessed by other exchanges employing similar pricing schemes. By comparison, the proposed fees assessed to regular Firm Proprietary / Broker-Dealer and Professional Customer orders are lower than the rates assessed by NOM for similar orders. NOM currently charges a taker fee of \$0.89 per contract in Non-Penny Pilot options in its regular order book.¹⁵ The Exchange notes that an execution resulting from a response to a crossing order is akin to an execution and therefore its proposal to establish execution fees and fees for responses to crossing orders that are identical is reasonable and equitable. The Exchange believes its proposal to increase the execution fee and fee for responses to crossing orders for regular orders in Non-Select Symbols and FX Options is not unfairly discriminatory because the proposed fees would apply uniformly to all regular Firm Proprietary / Broker-Dealer and Professional Customer orders in the same manner.

The Exchange believes that the price differentiation between the various market participants is justified. As for Priority Customers, for the most part, the Exchange does not charge Priority Customers a fee (Priority Customers have traditionally traded options on the Exchange without a fee) and to the extent they pay a transaction fee, those fees are

¹⁵ Id.

lower than fees charged to other market participants. The Exchange believes charging lower fees, or no fees, to Priority Customer orders attracts that order flow to the Exchange and thereby creates liquidity to the benefit of all market participants who trade on the Exchange. With respect to fees to Non-ISE Market Maker orders, the Exchange believes that charging Non-ISE Market Maker orders a higher rate than the fee charged to Market Maker, Firm Proprietary / Broker-Dealer and Professional Customer regular orders is appropriate and not unfairly discriminatory because Non-ISE Market Makers are not subject to many of the non-transaction based fees that these other categories of membership are subject to, e.g., membership fees, access fees, API/Session fees, market data fees, etc. Therefore, the Exchange believes it is appropriate and not unfairly discriminatory to assess a higher transaction fee to Non-ISE Market Makers because the Exchange incurs costs associated with these types of orders that are not recovered by non-transaction based fees paid by members. With respect to fees for Market Maker orders, the Exchange believes that the price differentiation between the various market participants is appropriate and not unfairly discriminatory because Market Makers have different requirements and obligations to the Exchange that the other market participants do not (such as quoting requirements and paying membership-related non-transaction fees). The Exchange believes that it is equitable and not unfairly discriminatory to assess a higher fee to market participants that do not have such requirements and obligations that Exchange Market Makers do.

Moreover, the Exchange believes that the proposed fees are fair, equitable and not unfairly discriminatory because the proposed fees are consistent with price differentiation that exists today at other options exchanges. Additionally, the Exchange believes it

remains an attractive venue for market participants to direct their order flow in the symbols that are subject to this proposed rule change as its fees are competitive with those charged by other exchanges for similar trading strategies. 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. For the reasons noted above, the Exchange believes that the proposed fees are fair, equitable and not unfairly discriminatory.

B. Self-Regulatory Organization's Statement on Burden on Competition

ISE 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. The Exchange believes the proposed fee change does not impose a burden on competition because the proposed taker fee increase for regular orders in Select Symbols is consistent with fees charged by other exchanges. The Exchange believes the proposed new taker fees for regular orders in Select Symbols does not impose a burden on competition because the rate increase applies to all market participants on the Exchange. Further, by raising the proposed taker fee for regular orders in Select Symbols by similar amounts (with the exception for Priority Customers, who have historically paid lower or no fees and will continue to pay lower fees with this proposed rule change), the proposed new taker fees for regular orders in Select Symbols does not impose a burden on competition because all participants are affected to the same extent.

Similarly, the proposed increase to the execution fee and the fee for responses to crossing orders is not a burden on competition because it will uniformly apply to all Firm Proprietary / Broker-Dealer and Professional Customer orders that transact in regular

orders in Non-Select Symbols and in FX Options. The Exchange believes the proposed execution fee and the proposed new fee for responses to crossing orders for regular orders in Non-Select Symbols and FX Options does not impose a burden on competition because it sets the same rate for all Firm Proprietary / Broker Dealer and Professional Customer orders. Further, by raising the proposed execution fee and the proposed fee for responses to crossing orders for regular orders in Non-Select Symbols and FX Options by similar amounts, the proposed execution fee and the proposed fee for responses to crossing orders for regular orders in Non-Select Symbols and FX Options does not impose a burden on competition because all Firm Proprietary / Broker-Dealer and Professional Customer orders are affected to the same extent.

The Exchange notes that it operates in a highly competitive market in which market participants can readily direct their order flow to competing venues. In such an environment, the Exchange must continually review, and consider adjusting, its fees and rebates to remain competitive with other exchanges. For the reasons described above, the Exchange believes that the proposed fee change reflects this competitive environment.

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 Act¹⁶ and subparagraph (f)(2) of Rule 19b-4 thereunder,¹⁷ because it establishes a due, fee, or other charge imposed by ISE.

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 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-2013-33 on the subject line.

¹⁶ 15 U.S.C. 78s(b)(3)(A)(ii).

¹⁷ 17 CFR 240.19b-4(f)(2).

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-2013-33. 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-2013-33, 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.¹⁸

Kevin M. O'Neill
Deputy Secretary

¹⁸ 17 CFR 200.30-3(a)(12).