

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-71554; File No. SR-ISE-2014-08)

February 14, 2014

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”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that, on February 4, 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 the Schedule of Fees. 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.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 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 proposes to amend the Schedule of Fees to (1) decrease the Credit for Responses to Flash Orders for trading against Priority Customer orders in Select Symbols,<sup>3</sup> and (2) to remove obsolete references to Primary Market Maker (“PMM”) linkage handling. Each of these changes is explained below. The fee changes discussed apply to both Standard Options and Mini Options traded on ISE. The Exchange’s Schedule of Fees has separate tables for fees applicable to Standard Options and Mini Options. The Exchange notes that while the discussion below relates to fees for Standard Options, the fees for Mini Options, which are not discussed below, are and shall continue to be 1/10th of the fees for Standard Options.

Credit for Responses to Flash Orders

Currently, when the ISE is not at the National Best Bid or Offer (“NBBO”), Public Customer and Non-Customer orders are exposed to all ISE members to give them an opportunity to match the NBBO (“Flash Orders”) before the order is routed to another exchange for execution or cancelled. As an incentive to attract Public Customer orders to the ISE, the Exchange offers a Credit for Responses to Flash Orders when trading against Priority and Professional Customer orders.<sup>4</sup> In Select Symbols, this credit is \$0.15 per contract when trading against Priority Customer orders (or \$0.17 per contract when trading against Preferred Priority Customer orders),<sup>5</sup> and \$0.10 per contract when trading against Professional Customer orders. In

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<sup>3</sup> “Select Symbols” are options overlying all symbols listed on the ISE that are in the Penny Pilot Program.

<sup>4</sup> No fee is charged or credit provided when trading against a non-Customer.

<sup>5</sup> The credit for responses to Preferred Priority Customer orders applies to an ISE Market Maker when trading against a Priority Customer order that is preferred to that Market Maker.

non-Select Symbols the credit is \$0.20 per contract when trading against Professional Customer orders only. These fees reflect a recent fee change filed by the ISE on November 1, 2013 which, among other things, increased the Credit for Responses to Flash Orders in Select Symbols by \$0.05 per contract when trading against Priority Customer orders.<sup>6</sup> The Exchange now proposes to return these credits to their previous levels. In particular, the Exchange proposes to decrease the Credit for Responses to Flash Orders in Select Symbols from \$0.15 per contract to \$0.10 per contract when trading against Priority Customer orders, and from \$0.17 per contract to \$0.12 per contract when trading against Preferred Priority Customer orders.<sup>7</sup> The respective credits for trading against Professional Customer orders will remain at their current rates.

#### PMM Linkage Handling

On April 18, 2013 the Commission approved a proposed rule change that modified the ISE's linkage handling procedures under the Options Order Protection and Locked/Crossed Market Plan.<sup>8</sup> Prior to this rule change Primary Market Makers ("PMMs") were responsible for routing orders to away markets when necessary to comply with the linkage handling rules, and would receive credits for performing this function. Under the newly approved rules, however, the ISE has contracted with unaffiliated broker dealers to route orders to other exchanges when necessary to comply with the linkage rules ("Linkage Handlers"). Since PMMs no longer perform linkage handling, which is now performed by the Linkage Handlers, the Exchange

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<sup>6</sup> See Securities Exchange Act Release No. 70873 (November 14, 2013), 78 FR 69714 (November 20, 2013) (SR-ISE-2013-56).

<sup>7</sup> The Exchange does not offer a higher Credit for Responses to Flash Orders that trade against Preferred Priority Customer orders in Mini Options. In Mini Options the credit will be \$0.010 per contract when trading against Priority Customer orders in Select Symbols regardless of whether the order has been preferenced to a Market Maker.

<sup>8</sup> See Securities Exchange Act Release No. 69396 (April 18, 2013), 78 FR 24273 (April 24, 2013) (SR-ISE-2013-18).

proposes to remove obsolete text in its Schedule of Fees related to PMM credits for providing that service. In particular, the Exchange proposes to remove the Subsection E of Section VI titled “PMM Linkage Credit,” which details the credits that were previously provided to PMMs in their assigned classes for orders routed to one or more exchanges in connection with their linkage handling function. The Exchange also proposes to remove related footnotes that indicate that PMMs do not receive a maker rebate nor pay a taker fee when trade reporting a Priority Customer or Professional Customer order in accordance with their obligation to provide away market price protection pursuant to ISE Rule 803(c)(2).<sup>9</sup> As stated above, PMMs no longer perform this function.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,<sup>10</sup> in general, and Section 6(b)(4) of the Act,<sup>11</sup> in particular, in that it is designed to provide for the equitable allocation of reasonable dues, fees, and other charges among its members and other persons using its facilities.

As explained above, the proposed credits to be provided to Members who respond to Flash Orders are set at the same level as was applicable on the ISE prior to November 1, 2013. The Exchange believes that it is reasonable and equitable to return these credits to their previous levels as the increased credit was unsuccessful in encouraging market participants to respond to Flash Orders. Furthermore, the Exchange notes that the proposed credits for responding to Priority Customer orders are in line with the credits currently provided by the ISE for responding

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<sup>9</sup> ISE Rule 803(c)(2) was removed in connection with the introduction of Linkage Handlers. See id.

<sup>10</sup> 15 U.S.C. 78f.

<sup>11</sup> 15 U.S.C. 78f(b)(4).

to Professional Customer orders. The Exchange does not believe that the proposed change is unfairly discriminatory as the credit provided for responses to Priority Customer orders will once again be consistent with the credit provided for responses to Professional Customer orders. In addition, the Exchange believes that it is reasonable, equitable, and not unfairly discriminatory to remove obsolete text related to PMM linkage handling credits and away market price protection as PMMs are no longer responsible for performing this function.

The Exchange notes that it has determined to charge fees and provide rebates in Mini Options at a rate that is 1/10th the rate of fees and rebates the Exchange 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 credits 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, is providing credits for Mini Options that are 1/10th of those applicable to Standard Options.

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

In accordance with Section 6(b)(8) of the Act,<sup>12</sup> the Exchange does not believe that the proposed rule change will impose any burden on intermarket or intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed change to Credits for Responses to Flash Orders will not have any significant impact on competition as the credit for trading against Priority Customer orders will once again be on par with the credit for trading against Professional Customer orders. In addition, removing obsolete text related to PMM linkage handling credits and away market price protection will have no competitive impact

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<sup>12</sup> 15 U.S.C. 78f(b)(8).

as PMMs no longer perform this function since the ISE now utilizes Linkage Handlers to route orders to other exchanges as required.

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 Act<sup>13</sup> and subparagraph (f)(2) of Rule 19b-4 thereunder,<sup>14</sup> 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:

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<sup>13</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>14</sup> 17 CFR 240.19b-4(f)(2).

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-ISE-2014-08 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-2014-08. 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-2014-08 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.<sup>15</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>15</sup> 17 CFR 200.30-3(a)(12).