

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-74706; File No. SR-ISE-2015-11)

April 10, 2015

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 March 26, 2015, 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 the Substance of the Proposed Rule Change

The ISE proposes to amend the Schedule of Fees to introduce a Member Order Routing Program. 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-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 purpose of the proposed rule change is to amend the Schedule of Fees to introduce a Member Order Routing Program (“MORP”) that will provide enhanced rebates to order routing firms that select the Exchange as the default routing destination (as described below) for unsolicited Crossing Orders.³ The MORP is intended to compete with similar programs offered by competitor options exchanges. The Exchange designates this filing to become effective on April 1, 2015.⁴

MORP Qualifications

To be eligible to participate in MORP, an Electronic Access Member (“EAM”) must: (1) provide to its clients, systems that enable the electronic routing of option orders to all of the U.S. options exchanges, including ISE; (2) interface with ISE to access the Exchange’s electronic options trading platform; (3) offer to its clients a customized interface and routing functionality such that ISE will be the default destination for all unsolicited Crossing Orders entered by the EAM,⁵ provided that market conditions allow the Crossing Order to be executed on ISE; (4) configure its own option order routing functionality such that ISE will be the default destination for all unsolicited Crossing Orders, provided that market conditions allow the Crossing Order to

³ A “Crossing Order” is an order executed in the Exchange’s Facilitation Mechanism, Solicited Order Mechanism, Price Improvement Mechanism (“PIM”) or submitted as a Qualified Contingent Cross (“QCC”) order. For purposes of the fee schedule, orders executed in the Block Order Mechanism are also considered Crossing Orders.

Solicited Crossing Orders will not qualify for MORP as they are already eligible for the QCC and Solicitation Rebate. See Schedule of Fees, Section IV.A.

⁴ The Exchange notes that members must opt in to MORP by March 31, 2015 to be eligible to participate in the program on April 1, 2015. See note 7 infra.

⁵ An unsolicited Crossing Order is a Crossing Order entered by a member that has not solicited the contra side of the trade.

be executed on ISE, with respect to all option orders as to which the EAM has routing discretion; and (5) ensure that the default routing functionality permits users submitting option orders through such system to manually override the ISE as the default destination on an order-by-order basis.⁶

EAMs that wish to participate in the program must certify that they meet the above MORP requirements, in writing, on a monthly basis and in a form to be determined by the Exchange. The relevant notice must be provided by the last business day of the month for members to be eligible to participate in the MORP effective the first business day of the following month.⁷

Rebate for Unsolicited Crossing Orders

An EAM that is MORP eligible will receive a rebate for all unsolicited Crossing Orders of \$0.05 per originating contract side, provided that the member executes a minimum average daily volume (“ADV”) in unsolicited Crossing Orders of at least 30,000 originating contract sides. This rebate is increased to \$0.07 per originating contract side, provided that the member executes a higher ADV in unsolicited Crossing Orders of 100,000 originating contract sides. The rebate for the highest tier achieved will be applied retroactively to all eligible contracts traded in a given month. As is ISE’s current practice with respect to ADV calculations, any day that the Exchange is not open for the entire trading day may be excluded from such calculation; provided that the Exchange will only remove the day for members that would have a lower ADV with the day included. The Exchange will provide a notice, and post it on the Exchange's Web

⁶ The Exchange notes that these requirements are based, in part, on similar programs offered by other options exchanges. See notes 15 and 19 infra and accompanying text.

⁷ Members must provide this notice by March 31, 2015 to be eligible to participate in MORP when the program becomes effective on April 1, 2015.

site, to inform members of any day that is to be excluded from its ADV calculations in connection with this proposed rule change.

Facilitation and Solicitation Break-Up Rebate

In addition, any EAM that qualifies for the MORP rebate by executing an ADV of 30,000 originating contract sides or more will also be eligible for increased Facilitation and Solicitation break-up rebates. Currently, the Exchange provides a Facilitation and Solicitation break-up rebate of \$0.15 per contract for regular and complex orders in Select Symbols. This rebate applies to all Non-ISE Market Maker,⁸ Firm Proprietary⁹ / Broker-Dealer,¹⁰ Professional Customer,¹¹ and Priority Customer¹² orders submitted to the Facilitation and Solicited Order Mechanisms that do not trade with their contra order, except when those orders trade against pre-existing orders and quotes on the Exchange's order books. For MORP eligible members that execute a qualifying ADV in unsolicited Crossing Orders of at least 30,000 originating contract sides, the Exchange now proposes to increase this Facilitation and Solicitation break-up rebate to \$0.35 per contract for regular and complex orders in Select Symbols. In addition, the Exchange proposes to adopt a Facilitation and Solicitation break-up rebate in Non-Select Symbols and FX option classes specifically for members that meet the MORP qualifications described above. The

⁸ A "Non-ISE Market Maker" is a market maker as defined in Section 3(a)(38) of the Securities Exchange Act of 1934, as amended, registered in the same options class on another options exchange.

⁹ A "Firm Proprietary" order is an order submitted by a member for its own proprietary account.

¹⁰ A "Broker-Dealer" order is an order submitted by a member for a broker-dealer account that is not its own proprietary account.

¹¹ A "Professional Customer" is a person or entity that is not a broker/dealer and is not a Priority Customer.

¹² A "Priority Customer" is 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), as defined in Rule 100(a)(37A).

rebate in Non-Select Symbols will be \$0.15 per contract for regular orders and \$0.80 per contract for complex orders. For FX option classes, the rebate will be \$0.15 per contract for both regular and complex orders. With this proposed change, the Exchange notes that eligible members will receive the same break-up rebates for their Facilitation and Solicitation orders as they currently do for orders submitted to the PIM.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,¹³ in general, and Section 6(b)(4) of the Act,¹⁴ 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.

The Exchange proposes to provide the MORP rebate and higher break-up rebates to EAMs that connect directly to the Exchange and provide their clients with order routing functionality that includes all U.S. options exchanges, including ISE. Order routing firms are already provided enhanced rebates by some of the Exchange's competitors, including, for example, NYSE Amex Options ("Amex"), which provides volume based rebates to members that provide access and connectivity to their market.¹⁵ The Exchange believes that it is appropriate at this time to offer a similar rebate to order routing firms on ISE in order to compete with these programs on other options markets.

The Exchange believes the proposed fee program is reasonable and equitable because it is designed to encourage order routing firms to execute additional unsolicited Crossing Order

¹³ 15 U.S.C. 78f.

¹⁴ 15 U.S.C. 78f(b)(4).

¹⁵ See Securities Exchange Act Release No. 71532 (February 12, 2014), 79 FR 9563 (February 19, 2014) (SR-NYSEMKT-2014-12).

volume on the ISE. The Exchange notes that it currently offers other incentive programs to promote and encourage growth in specific business areas, including, for example, rebates for Market Makers that routinely quote at the national best bid or offer,¹⁶ and volume-based Priority Customer complex order rebates.¹⁷ The proposed rule change is targeted towards Crossing Orders, and, in particular, unsolicited Crossing Orders, which is yet another segment of order flow that the Exchange seeks to encourage members to execute on ISE. The Exchange believes that it is reasonable and equitable to tailor the proposed rule change to unsolicited Crossing Orders. ISE already charges fees and provides rebates for non-Crossing Orders that are effective in attracting that order flow to the Exchange. In addition, solicited Crossing Orders already benefit from the QCC and Solicitation Rebate, which applies to all QCC and/or other solicited Crossing Orders, including solicited orders executed in the Solicitation, Facilitation or Price Improvement Mechanisms. The Exchange believes that the QCC and Solicitation Rebate has proven to be an effective incentive for members to send solicited crosses to the ISE. The proposed rule change would supplement this incentive by encouraging eligible firms to send unsolicited Crossing Orders to the Exchange as well, which will benefit all market participants on ISE by creating additional liquidity and increased opportunity to trade on the Exchange.

The Exchange notes that the proposed MORP rebate levels are within the range of rebates currently offered by Amex, whose market access and connectivity subsidy ranges from \$0.04 per contract to \$0.08 per contract based on a member's volume tier.¹⁸ In addition, the Exchange notes that the proposed Facilitation and Solicitation break-up rebates are equivalent to break-up rebates already provided for PIM orders traded on ISE.

¹⁶ See Schedule of Fees, Section I, Regular Order Fees and Rebates, Market Maker Plus.

¹⁷ See Schedule of Fees, Section II, Complex Order Fees and Rebates.

¹⁸ See supra note 15.

As a condition for participating in MORP, an EAM must configure its option order routing functionality so that ISE will be the default destination for all unsolicited Crossing Orders, and must offer to its clients a customized interface and routing functionality that similarly defaults such orders to ISE. Defaulting to ISE will not be required if market conditions do not allow the Crossing Order to be executed on the Exchange. In addition, MORP eligible firms must allow users to manually override ISE as the default order routing destination on an order-by-order basis. The Exchange believes that these proposed requirements are reasonable and equitable as they protect investors, while allowing member firms to qualify for enhanced rebates that reduce their trading costs on ISE. Furthermore, the Exchange notes that members that set ISE as their default routing destination will not be relieved of complying with their best execution obligations. If, based on its regular best execution analysis, a MORP eligible member determines that the routing functionality described above would conflict with its duty of best execution, such member may discontinue participation in the program. The Exchange believes that the safeguards described above will ensure that client orders are appropriately protected under MORP. In this regard, the Exchange notes that the proposed protections mirror protections previously adopted by NASDAQ OMX PHLX, LLC (“Phlx”), where a similar program was introduced in 2007.¹⁹

Finally, the Exchange believes that the proposed program is both equitable and not unfairly discriminatory because any qualifying EAM that offers market access and connectivity to the Exchange will be able to participate in the program on an equal and non-discriminatory basis. While there will be two tiers of MORP rebates, the sole basis for differentiation among

¹⁹ See Securities Exchange Act Release No. 56274 (August 16, 2007), 72 FR 48720 (August 24, 2007) (SR-Phlx-2007-54).

the tiers will be participant volume in unsolicited Crossing Orders.²⁰ The Exchange believes that it is equitable and not unfairly discriminatory to provide higher rebates to members that execute a higher volume of order flow on ISE. With respect to break-up rebates, the Exchange notes that all members that qualify for a MORP rebate will also receive enhanced break-up rebates.

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

In accordance with Section 6(b)(8) of the Act,²¹ 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. To the contrary, the Exchange believes that the proposed rule change evidences the strength of competition in the options industry. Specifically, the Exchange believes that the proposed fee change will enhance the competitiveness of the ISE relative to other options exchanges, such as Amex, that offer similar programs under their respective fee schedules. In doing so, eligible order routing firms will benefit from an innovative program that reduces trading costs by providing a valuable rebate for their unsolicited Crossing Orders. The Exchange 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 changes reflect this competitive environment.

²⁰ As explained above, the proposed rule change is targeted towards unsolicited Crossing Orders as this is the segment of order flow that the Exchange is seeking to encourage members to execute on ISE. The Exchange does not believe that this is unfairly discriminatory as all MORP eligible members can achieve the applicable rebates by executing unsolicited Crossing Orders on the ISE.

²¹ 15 U.S.C. 78f(b)(8).

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 Act²² and subparagraph (f)(2) of Rule 19b-4 thereunder,²³ 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

²² 15 U.S.C. 78s(b)(3)(A)(ii).

²³ 17 CFR 240.19b-4(f)(2).

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-ISE-2015-11 on the subject line.

Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-ISE-2015-11. 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-2015-11, 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.²⁴

Brent J. Fields
Secretary

²⁴ 17 CFR 200.30-3(a)(12).