

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-79686; File No. SR-ISE-2016-31)

December 23, 2016

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing of Proposed Rule Change to Amend the Supplementary Material to ISE Rule 1901

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on December 22, 2016, the International Securities Exchange, LLC (“ISE” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “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 Exchange proposes to amend the Supplementary Material to ISE Rule 1901, titled “Order Protection” in connection with a system migration to Nasdaq INET technology.

The text of the proposed rule change is available on the Exchange’s website at 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 Exchange 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Item IV below. The Exchange 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 Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of this rule change is to amend the Supplementary Material to ISE Rule 1901, titled “Order Protection” to reflect the ISE, ISE Gemini, LLC and ISE Mercury, LLC technology migration to a Nasdaq, Inc. (“Nasdaq”) supported architecture. INET is the proprietary core technology utilized across Nasdaq’s global markets and utilized on The NASDAQ Options Market LLC (“NOM”), NASDAQ PHLX LLC (“Phlx”) and NASDAQ BX, Inc. (“BX”) (collectively, “Nasdaq Exchanges”). The migration of ISE to the Nasdaq INET architecture would result in higher performance, scalability, and more robust architecture. With this system migration, the Exchange intends to adopt certain trading functionality currently utilized at Nasdaq Exchanges. The functionality being adopted is described in this filing.

Generally

With the re-platform, the Exchange will now be built on the Nasdaq INET architecture, which allows certain trading system functionality to be performed in parallel. The Exchange believes that this architecture change will improve the member experience by reducing overall latency compared to the current ISE, ISE Gemini, LLC and ISE Mercury, LLC system because of the manner in which the system is segregated into component parts to handle processing.

Trading Halts

Pursuant to Supplementary Material .02 to Rule 1901, when the automatic execution of an incoming order would result in an impermissible trade-through, such order is exposed at the current national best bid or offer to all members for a time period established by the Exchange

not to exceed one (1) second.³ The Exchange proposes to amend Supplementary Material .02 to Rule 1901 to provide that if a trading halt is initiated during this exposure period, the exposure period will be terminated without execution. Today, when a trading halt is triggered during the auction process described above, ISE terminates the exposure period and executes eligible interest. The proposed treatment of trading halts is based on Phlx Rule 1047(c), which provides that in the event the exchange halts trading, all trading in the affected option shall be halted. This is interpreted to restrict executions after a halt unless there is a specific rule specifying that such trades should take place. Halting the exposure period without execution is a change from current ISE behavior. However, the Exchange believes participants prefer certainty in regard to how their interest will be handled in the event of a trading halt and prefer consistency of behavior across market centers.

Implementation

The Exchange intends to begin implementation of the proposed rule change in tandem with a technology migration to Nasdaq INET architecture. The migration will be on a symbol by symbol basis, and the Exchange will issue a notice to provide Members with notification of the symbols that will migrate and the relevant dates. With respect to the amendment to Supplementary Material .02 to Rule 1901, the rule change impact not only ISE, but also ISE Gemini, LLC and ISE Mercury, LLC because Chapter 19 is incorporated by reference into those rulebooks. The Exchange proposes that the implementation of this rule change into each rulebook occur as specified herein. ISE rule changes will be implemented in Q2 2017 on a symbol by symbol basis, as noted above. ISE Gemini, LLC rule changes will be implemented in Q1 2017 on a symbol by symbol basis. ISE Mercury, LLC rule changes will be implemented in

³ During the exposure period, Exchange Members may enter responses up to the size of the order being exposed in the regular trading increment applicable to the option.

Q3 2017 on a symbol by symbol basis. The Exchange will add the following rule text to make clear the implementation date in each rulebook: “The amended rule text will be implemented on a symbol by symbol basis for ISE Gemini, LLC in Q1 2017, for ISE in Q2 2017 and for ISE Mercury, LLC in Q3 2017, the specific dates will be announced in a separate notice.”

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁴ in general, and furthers the objectives of Section 6(b)(5) of the Act,⁵ in particular, in that it is designed to promote just and equitable principles of trade, 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 for the reasons stated below.

Trading Halts

The Exchange’s proposal to amend Supplementary Material .02 to Rule 1901 to add a new provision to memorialize the impact of a trading halt on the exposure period is consistent with the Act because halting the exposure period without execution provides certainty to market participants with respect to how their interest will be handled in the event of a trading halt. This method will also provide consistency of behavior across market centers. Memorializing this behavior will increase transparency of the operation of the Exchange for the benefit of Members and investors.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. As explained above, the Exchange is re-platforming its trading system onto the Nasdaq INET architecture,

⁴ 15 U.S.C. 78f(b).

⁵ 15 U.S.C. 78f(b)(5).

and is making certain other changes to its trading functionality in connection with this migration. Amending the Supplementary Material .02 to Rule 1901 will not impact the intense competition that exists in the options market. In fact, the Exchange believes that this proposal will provide clarity as to the manner in which a trading halt impacts exposure periods, thereby providing certainty to all market participants.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were either solicited or received.

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 up to 90 days (i) as the Commission may designate 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-2016-31 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-2016-31. 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-2016-31 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

Robert W. Errett
Deputy Secretary

⁶ 17 CFR 200.30-3(a)(12).