



8011-01p
SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-70873; File No. SR-ISE-2013-56)

November 14, 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 November 1, 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 and II 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 Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of this proposed rule change is to amend the Exchange's Schedule of Fees (1) to adopt a definition of "affiliate" for the purpose of aggregating affiliated Member fees for the Firm Fee Cap, (2) to increase the taker fee for Priority Customers³ in symbols that are in the Penny Pilot program ("Select Symbols"), (3) to increase the fee charged to Firm Proprietary⁴ / Broker-Dealer and Professional Customers⁵ when

providing liquidity in Non-Select Symbols and FX Options, (4) to replace the current incremental tier for Priority Customer Complex average daily volume ("ADV") with a new tier that applies retroactively to all Priority Customer complex volume, and (5) to increase the Credit for Responses to Flash Orders for trading against Priority Customers in Select Symbols. Each of these changes is explained below. The fee changes discussed

³ 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).

⁴ A Firm Proprietary order is an order submitted by a Member for its own proprietary account.

⁵ A Professional Customer is a person who is not a broker/dealer and is not a Priority Customer.

apply to both Standard Options and Mini Options⁶ 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.⁷

1. Affiliate Definition for Firm Fee Cap

The Exchange has a Firm Fee Cap of \$75,000 which applies to Firm Proprietary and Non-ISE Market Maker⁸ transactions that are part of the originating or contra side of

a Crossing Order.⁹ In addition to transactions executed in a Member's proprietary account, the fee cap also applies to crossing transactions for the account of entities affiliated with a Member.¹⁰ For example, a Member engaged in trading activity on ISE

⁶ Mini Options are options overlying ten (10) shares of AAPL, AMZN, GLD, GOOG and SPY.

⁷ See Securities Exchange Act Release No. 69270 (April 2, 2013), 78 FR 20988 (April 8, 2013) (SR-ISE-2013-28).

⁸ 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.

⁹ Fees charged by the Exchange for Responses to Crossing Orders, and surcharge fees charged by the Exchange for licensed products, are not included in the calculation of the monthly fee cap. The Exchange charges a service fee to Members that have reached the Firm Fee Cap to defray the Exchange's costs of providing services.

¹⁰ See Securities Exchange Act Release No. 64274 (April 8, 2011), 76 FR 20754 (April 13, 2012) (SR-ISE-2011-13).

may have an affiliate engaged in a market making capacity on another exchange, which may be a separate broker/dealer entity. A crossing transaction by that Member in which a customer order is facilitated against the proprietary trading interest of the Member's affiliate would be eligible for the fee cap. To provide more clarity on what "affiliated" means in this context the Exchange is now proposing a definition for this term. In particular, the Exchange will aggregate the trading fees of separate Members for purposes of the Firm Fee Cap provided there is at least 75% common ownership between the firms as reflected on each firm's Form BD, Schedule A. The Exchange believes that aggregating fees that count towards the fee cap across Members that share at least 75% common ownership will allow Members to continue to execute trades on the Exchange through separate broker-dealer entities for different types of volume, while receiving the benefit of the fee cap based on the aggregate volume being executed across such entities. The requirement that affiliates share at least 75% common ownership is consistent with the definition of "affiliate" adopted on the Topaz Exchange, LLC and other options exchanges.¹¹

2. Priority Customer Taker Fee

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 Select Symbols. For regular orders that remove liquidity in Select Symbols, the Exchange currently charges a taker fee of: (i) \$0.34 per

¹¹ See e.g. Securities Exchange Act Release No. 70670 (October 11, 2013), 78 FR 62815 (October 22, 2013) (SR-Topaz-2013-08).

contract for Market Maker¹² and Market Maker Plus¹³ orders, (ii) \$0.38 per contract for Non-ISE Market Maker orders, (iii) \$0.35 per contract for Firm Proprietary / Broker-Dealer and Professional Customer orders, and (iv) \$0.28 per contract for Priority Customer orders. The Exchange now proposes to increase the taker fee for Priority Customer orders in Select Symbols from \$0.28 per contract to \$0.32 per contract. The Exchange is not proposing any change to this taker fee for any other market participants.

3. Discount for Adding Liquidity in Non-Select Symbols and FX Options

In June 2013, as an incentive to route liquidity-adding order flow to ISE, the Exchange adopted a discounted fee of \$0.20 per contract for Firm Proprietary / Broker-Dealer and Professional Customers when providing liquidity in Non-Select

Symbols and FX Options.¹⁴ For removing liquidity, these market participants are charged a fee of \$0.30 per contract. The Exchange has determined to no longer provide this incentive for adding liquidity in Non-Select Symbols and FX Options, and is therefore proposing to charge the same \$0.30 per contract fee to these market participants for

¹² The term “Market Makers” refers to “Competitive Market Makers” and “Primary Market Makers” collectively. See ISE Rule 100(a)(25).

¹³ In order to promote liquidity in Select Symbols, the Exchange offers a rebate for adding liquidity to certain Market Makers (“Market Maker Plus”) if the quotes they send to the Exchange qualify the Market Maker to become a Market Maker Plus.

¹⁴ See Securities Exchange Act Release No. 69757 (June 13, 2013), 78 FR 36812 (June 19, 2013) (SR-ISE-2013-36).

adding liquidity as it charges for removing liquidity. Charging the same fee for adding and removing liquidity is consistent with the Exchange's past practice, and with the Exchange's general pricing structure for Non-Select Symbols and FX Options, which does not differentiate between making and taking liquidity.

4. Priority Customer Complex Order Tiers

The Exchange currently provides volume-based tiered rebates for Priority Customer complex orders when these orders trade with non-Priority Customer orders in the complex order book,¹⁵ or trade with quotes and orders on the regular order book.¹⁶ These complex order rebates are provided to Members based on the Member's ADV in Priority Customer complex contracts. For example, a Member that executes an ADV of at least 225,000 Priority Customer complex contracts will be entitled to a rebate of \$0.40 per contract for Select Symbols (excluding SPY), \$0.41 per contract for SPY, and \$0.78 per contract for non-Select Symbols, in each case when trading with non-Priority Customer orders in the complex order book. When trading against quotes and orders on the regular order book this rebate is \$0.18 per contract (excluding SPY) and \$0.19 per contract for SPY. In March 2013 the Exchange introduced a new incremental tier to incentivize Members to increase the amount of Priority Customer complex orders that they send to the Exchange. Members that execute Priority Customer Complex ADV above 225,000 contracts are entitled to an additional rebate of \$0.01 per contract when

¹⁵ The Exchange offers a rebate in Standard and Mini Options for Priority Customer complex orders in (i) Select Symbols (excluding SPY), (ii) SPY, and (iii) Non-Select Symbols, when these orders trade with non-Priority Customer orders in the complex order book.

¹⁶ The Exchange offers a rebate in Standard and Mini Options for Priority Customer complex orders that trade with quotes and orders on the regular order book in (i) SPY, and (ii) other symbols excluding SPY.

trading with non-Priority Customers in the complex order book.¹⁷ Unlike the other five volume tiers, the incremental volume tier is not retroactive and is payable only for incremental Priority Customer complex order volume above the highest tier. The Exchange is proposing to eliminate the incremental volume tier, and instead adopt a new volume tier that applies to Members that execute a Priority Customer Complex ADV of at least 300,000 contracts. Like the other existing volume tiers, this new volume tier will apply retroactively to all Priority Customer complex order volume once the threshold has been reached. And, similar to the incremental tier that it replaces, Members that achieve the new tier will be entitled to a rebate that is \$0.01 per contract greater than the rebate for Members that achieve the next highest tier. The new tier will, however, apply to both orders that trade with non-Priority Customer orders in the complex order book and orders that trade with quotes and orders on the regular order book. Specifically, the proposed rebate amounts for this volume tier will be as follows: the rebate for Select Symbols (excluding SPY) will be \$0.41 per contract, the rebate for SPY will be \$0.42 per contract, and the rebate for Non-Select Symbols will be \$0.79 per contract, in each case when trading with non-Priority Customer orders in the complex order book. When trading with quotes and orders on the regular order book the proposed rebate will be \$0.19 per contract (excluding SPY) and \$0.20 per contract for SPY. With this proposed change the Exchange expects to attract additional Priority Customer complex order volume to the ISE.

5. Credit for Responses to Flash Orders

¹⁷ The incremental rebate does not apply to Priority Customer Complex orders that trade with quotes or orders on the regular order book.

Currently, when 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 in Select and Non-Select Symbols when trading against Priority and Professional Customers.¹⁸ For Select Symbols, this credit is \$0.10 per contract when trading against each of Priority and Professional Customers. When an ISE Market Maker trades against a Preferred Priority Customer, i.e., a Priority Customer order that is preferred to that Market Maker, the credit is \$0.12 per contract. In non-Select Symbols the credit is \$0.20 per contract when trading against Professional Customers only. The Exchange now proposes to increase the Credit for Responses to Flash Orders in Select Symbols from \$0.10 per contract to \$0.15 per contract when trading against Priority Customers, and from \$0.12 per contract to \$0.17 per contract when trading against Preferred Priority Customers.¹⁹ The respective credits for trading against a Professional Customer in Select and Non-Select Symbols will remain at their current rates.

¹⁸ No fee is charged or credit provided when trading against a non-Customer.

¹⁹ The Exchange notes that it does not apply a special credit for trading against a Preferred Priority Customer in Mini Options. The credit for trading against a Priority Customer in Mini Options will be \$0.015 per contract when trading against Priority Customers in Select Symbols regardless of whether the order has been preferred to a Market Maker.

2. Basis

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,²⁰ in general, and Section 6(b)(4) of the Act,²¹ 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.

1. Affiliate Definition for Firm Fee Cap

The language permitting aggregation of corporate affiliates for purposes of the Firm Fee Cap is intended to avoid disparate treatment of firms that have divided their various business activities between separate corporate entities as compared to firms that operate those business activities within a single corporate entity. By way of example, many firms that are Members of the Exchange operate several different business lines within the same corporate entity. In contrast, other firms may be part of a corporate structure that separates those business lines into different corporate affiliates, either for business, compliance or historical reasons. Those corporate affiliates, in turn, are required to maintain separate memberships with the Exchange in order to access the Exchange. The Exchange believes that the trading activity of corporate affiliates should continue to be aggregated for purposes of the Firm Fee Cap, and is adopting a definition of affiliate to clarify when Members will be considered affiliated. The Exchange notes that the proposed definition of “affiliate” is consistent with definitions used by other options exchanges, including the Topaz Exchange, LLC, the Chicago Board Options Exchange,

²⁰ 15 U.S.C. 78f.

²¹ 15 U.S.C. 78f(b)(4).

Inc., and the MIAX Options Exchange.²² The Exchange is not proposing any substantive changes to the Firm Fee Cap.

2. Priority Customer Taker Fee

The Exchange believes that its proposal to assess a \$0.32 per contract taker fee for all regular Priority Customer orders in Select Symbols is reasonable and equitable because the fee is within the range of fees assessed by other exchanges employing similar pricing schemes. While the Exchange is proposing a fee increase, the proposed fee is substantially lower, for example, than the \$0.45 per contract taker fee currently charged by the NASDAQ Options Market (“NOM”) for Customer orders in penny pilot symbols.²³ The Exchange also notes that with this proposed fee change, the fee charged to 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 that it is equitable and not unfairly discriminatory to increase the Priority Customer taker fee, as Priority Customers will continue to be assessed lower fees than other market participants.

3. Discount for Adding Liquidity in Non-Select Symbols and FX Options

The Exchange believes that it is reasonable, equitable, and not unfairly discriminatory to no longer provide a discounted fee for providing liquidity in Non-Select Symbols and FX Options as it has determined it is no longer necessary provide this

²² See ISE Gemini Schedule of Fees, Section I, Regular Order Fees and Rebates for Standard Options, and Section II, Regular Order Fees and Rebates for Mini Options; CBOE Fee Schedule, Volume Incentive Program (VIP); MIAX Fee Schedule, Transaction Fees, Exchange Fees, Priority Customer Rebate Program.

²³ See NOM Rules, Chapter XV Options Pricing, Sec. 2 NASDAQ Options Market—Fees and Rebates.

incentive. Firm Proprietary / Broker-Dealer and Professional Customers will once again

pay the same fee regardless of whether they are adding or removing liquidity, as was the case prior to the June 2013 rule change. This is consistent with the Exchange's general pricing structure for Non-Select Symbols and FX Options, which does not differentiate between making and taking liquidity.

4. Priority Customer Complex Order Tiers

The Exchange believes that it is reasonable, equitable, and not unfairly discriminatory to provide rebates for Priority Customer complex orders when these orders trade with non-Priority Customer orders in the complex order book, or trade with quotes and orders on the regular order book, because paying a rebate will continue to attract additional order flow to the ISE and create liquidity which will ultimately benefit all market participants who trade on the Exchange. The Exchange has already established a volume-based incentive program, and is now merely proposing to replace its incremental volume tier with a new tier that applies retroactively to all Priority Customer complex order volume. The Exchange believes that the proposal will encourage Members to route additional Priority Customer complex orders to the Exchange in order to qualify for the new rebates, which would be applicable to all of a Member's Priority Customer complex order volume. The Exchange believes that the retroactive rebates being

proposed for Members that achieve the new sixth tier will help it remain competitive with other options exchanges in attracting this order flow.

5. Credit for Responses to Flash Orders

The Exchange believes that it is reasonable and equitable to increase the credit for responding to Priority Customer orders flashed on the Exchange to encourage market participants to respond to these Flash Orders, and thereby attract Priority Customer order flow to the Exchange. The Exchange believes that the increased rebate will also result in fewer orders being subject to linkage handling, which will reduce costs for the Exchange and market participants. Furthermore, the Exchange believes that it is equitable and not unfairly discriminatory to provide a larger credit to market participants that trade against Priority Customer orders than those that trade against Professional Customer orders in Select Symbols. A Priority Customer is by definition not a broker or 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). This limitation does not apply to participants on the Exchange whose behavior is substantially similar to that of market professionals, including Professional Customers, who will generally submit a higher number of orders (many of which do not result in executions) than Priority Customers. The Exchange believes that attracting more liquidity from Priority Customers will benefit all market participants that trade on the ISE.

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 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, is providing fees and rebates 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,²⁴ 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 Exchange notes that other exchanges have substantially similar requirements for aggregating affiliated Member ADV. As provided in the initial Firm Fee Cap filing, the Exchange currently aggregates affiliated Member fees, and this proposed rule change merely explains the how affiliate status is determined for that purpose, which will have no competitive impact. With respect to the other proposed fee changes, the Exchange believes that the proposed changes will promote competition, as they are designed to allow ISE to better compete for order flow and improve the Exchange's competitive position, for example, by offering higher rebates to market participants that execute a large volume of Priority Customer complex orders, or respond to Priority Customer Flash Orders. While the Exchange is increasing certain fees, the Exchange believes that this does not impose a burden on competition because the new fees are consistent with those charged by other options exchanges. The Exchange operates in a highly competitive market in which market participants can readily direct their order flow to competing

²⁴ 15 U.S.C. 78f(b)(8).

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.

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) of the Act²⁵ and paragraph (f) of Rule 19b-4 thereunder.²⁶ At any time within 60 days of the filing of the 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.

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:

²⁵ 15 U.S.C. 78s(b)(3)(A).

²⁶ 17 CFR 240.19b-4(f).

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 No. SR-ISE-2013-56 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-ISE-2013-56. 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 Commissions 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 ISE. 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-2013-56 and should be submitted by [insert date 21 days from the date of publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁷

Kevin M. O'Neill
Deputy Secretary

[FR Doc. 2013-27753 Filed 11/19/2013 at 8:45 am; Publication Date:
11/20/2013]

²⁷ 17 CFR 200.30-3(a)(12).