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SECURITIES AND EXCHANGE COMMISSION
[Release No. 34-72098; File No. SR-ISE-2014-23]

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 2, Regarding the Short Term Option Series Program

May 6, 2014.

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 22, 2014, 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. On May 1, 2014, the Exchange filed Amendment No. 2 to the proposal.[3] The Commission is publishing this notice to solicit comments on the proposed rule change, as modified by Amendment No. 2, 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 rules governing the Short Term Option Series Program to introduce finer strike price intervals for standard expiration contracts in option classes that also have short term options listed on them ("related non-short term options"), and to remove obsolete rule text concerning the listing of new series during the week of expiration. The text of

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 Amendment No. 1 was filed on April 29, 2014 and withdrawn on May 1, 2014. In Amendment No. 2, the Exchange modified Exhibit 1 to add an additional sentence to Section II.A.1 to clarify when the Exchange may add additional series pursuant to the proposed rule change.

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.

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 its rules governing the Short Term Option Series Program to introduce finer strike price intervals for related non-short term options. In particular, the Exchange proposes to amend its rules to permit the listing of related non-short term options during the month prior to expiration in the same strike price intervals as allowed for short term option series. The Exchange also proposes to remove obsolete rule text concerning the listing of new short term option series, including related non-short term option series, during the week of expiration.

Under the ISE's current rules, the Exchange may list short term options in up to fifty option classes,[4] including up to thirty index option classes,[5] in addition to option classes that are selected by other securities exchanges that employ a similar program under their respective rules. For each of these option classes, the Exchange may list five short term option expiration dates at

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4 See Supplementary Material .02(a) to Rule 504.

5 See Supplementary Material .01(a) to Rule 2009.

any given time, not counting monthly or quarterly expirations.[6] Specifically, on any Thursday or Friday that is a business day, the Exchange may list short term option series in designated option classes that expire at the close of business on each of the next five Fridays that are business days and are not Fridays in which monthly or quarterly options expire.[7] These short term option series, which can be several weeks or more from expiration, may be listed in strike price intervals of $0.50, $1, or $2.50, with the finer strike price intervals being offered for lower priced securities, and for options that trade in the Exchange's dollar strike program.[8] More specifically, the ISE may list short term options in $0.50 intervals for strike prices less than $75, or for option classes that trade in one dollar increments in the related non-short term option, $1 intervals for strike prices that are between $75 and $150, and $2.50 intervals for strike prices above $150.[9]

The Exchange may also list standard expiration contracts, which are listed in accordance with the regular monthly expiration cycle. These standard expiration contracts must be listed in wider strike price intervals of $2.50, $5, or $10,[10] though the ISE also operates strike price programs, such as the dollar strike program mentioned above,[11] that allow the Exchange to list a limited number of option classes in finer strike price intervals. In general, the ISE must list standard expiration contracts in $2.50 intervals for strike prices of $25 or less, $5 intervals for

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6 See Supplementary Material .02 to Rule 504; Supplementary Material .01 to Rule 2009.

7 Id.

8 See Supplementary Material .12 to Rule 504; Supplementary Material .05 to Rule 2009.

9 Id. Strike price intervals of $2.50 are only available for non-index options. Short term index option contracts are subject to the same strike price intervals as non-short term options for strike prices above $150. See Securities Exchange Act Release No. 71034 (December 11, 2013), 78 FR 76363 (December 17, 2013) (SR-ISE-2013-69).

10 See Rule 504(d).

11 See Supplementary Material .01 to Rule 504, which allows the ISE to designate up to 150 option classes on individual stocks to be traded in $1 strike price intervals where the strike price is between $50 and $1. See also Rule 504(g) ($2.50 Strike Program) and Supplementary .05 to Rule 504 ($0.50 Strike Program).

strike prices greater than $25, and $10 intervals for strike prices greater than $200.[12] During the week prior to expiration only, the Exchange is permitted to list related non-short term option contracts in the narrower strike price intervals available for short term option series.[13] Since this exception to the standard strike price intervals is available only during the week prior to expiration, however, standard expiration contracts regularly trade at significantly wider intervals than their weekly counterparts, as illustrated below.

For example, assume ABC is trading at $56.54 and the monthly expiration contract is three weeks to expiration. Assume also that the ISE has listed all available short term option expirations and thus has short term option series listed on ABC for weeks one, two, four, five, and six. Each of the five weekly ABC expiration dates can be listed with strike prices in $0.50 intervals, including, for example, the $56.50 at-the-money strike. Because the monthly expiration contract has three weeks to expiration, however, the near-the-money strikes must be listed in $5 intervals unless those options are eligible for one of the ISE's other strike price programs. In this instance, that would mean that investors would be limited to choosing, for example, between the $55 and $60 strike prices instead of the $56.50 at-the-money strike available for short term options. This is the case even though contracts on the same option class that expire both several weeks before and several weeks after the monthly expiration are eligible for finer strike price intervals. Under the proposed rule change, the Exchange would be permitted to list the related non-short term option on ABC, which is less than a month to expiration, in the same strike price intervals as allowed for short term option series. Thus, the

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12 See Rule 504(d).

13 See Supplementary Material .02(e) to Rule 504; Supplementary Material .01(e) to Rule 2009.

Exchange would be able to list, and investors would be able to trade, all expirations described above with the same uniform $0.50 strike price interval.

As proposed, the ISE would be permitted to begin listing the monthly expiration contract in these narrower intervals at any time during the month prior to expiration, which begins on the first trading day after the prior month's expiration date, subject to the provisions of Rule 504(f). For example, since the April 2014 monthly option expired on Saturday, April 19, the proposed rule change would allow the Exchange to list the May 2014 monthly option in short term option intervals starting Monday, April 21.

The ISE believes that introducing consistent strike price intervals for short term options and related non-short term options during the month prior to expiration will benefit investors by giving them more flexibility to closely tailor their investment decisions. The Exchange also believes that the proposed rule change will provide the investing public and other market participants with additional opportunities to hedge their investments, thus allowing these investors to better manage their risk exposure.

In addition, the Exchange notes that it recently adopted rule text that states that, notwithstanding any language to the contrary, short term options may be added up to and including on the expiration date.[14] Other exchanges that have adopted similar rule text have, correspondingly, deleted related language that restricts the opening of additional short term option series, including additional series of the related non-short term option, during the week of expiration.[15] Consistent with the rules proposed by other options exchanges, the ISE proposes to delete rule text that prohibits the opening of additional series listed pursuant to Supplementary

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14 See Securities Exchange Act Release No. 71033 (December 11, 2013), 78 FR 76375 (December 17, 2013) (SR-ISE-2013-68).

15 See SR-BATS-2014-13 (citation pending publication by the Commission).

Material .12 to Rule 504 and Supplementary Material .05 to Rule 2009 during the week of expiration.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.[16] In particular, the proposal is consistent with Section 6(b)(5) of the Act,[17] because is designed to promote just and equitable principles of trade, remove impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, to protect investors and the public interest.

As noted above, standard expiration options currently trade in wider intervals than their weekly counterparts, except during the week prior to expiration. This creates a situation where contracts on the same option class that expire both several weeks before and several weeks after the standard expiration are eligible to trade in strike price intervals that the standard expiration contract is not. When the ISE originally filed to list related non-short term options in the same intervals as short term options in the same option class during the week prior to expiration,[18] the Exchange was limited to listing one short term option expiration date at a time. Thus, there was no inconsistency between standard expiration contracts, which traded in finer intervals in the week prior to expiration, and short term options, which were only listed on the week prior to expiration. The Short Term Option Series Program has since grown in response to customer

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16 15 U.S.C. 78f(b).

17 15 U.S.C. 78f(b)(5).

18 See Securities Exchange Act Release No. 67754 (August 29, 2012), 77 FR 54629 (September 5, 2012) (SR-ISE-2012-33) (Approval); 67083 (May 31, 2012), 77 FR 33543 (June 6, 2012) (SR-ISE-2012-33) (Notice).

demand, and the ISE is now permitted to list up to five short term option expiration dates in addition to standard expiration options.[19] There is continuing strong customer demand to have the ability to execute hedging and trading strategies in the finer strike price intervals available in short term options, and the Exchange believes that the proposed rule change will increase market efficiency by harmonizing strike price intervals for contracts that are close to expiration, whether those contracts happen to be listed pursuant to weekly or monthly expiration cycles.

The Exchange notes that, in addition to listing standard expiration contracts in short term option intervals during the expiration week, it already operates several programs that allow for strike price intervals for standard expiration contracts that range from $0.50 to $2.50.[20] The Exchange believes that each of these programs has been successful but notes that limitations on the number of option classes that may be selected for each of these programs means that many standard expiration contracts must still be listed in wider intervals than their short term option counterparts. For example, the $0.50 strike price program, which offers the narrowest strike price interval, only permits the ISE to designate up to 20 option classes to trade in $0.50 intervals in addition to option classes selected by other exchanges that employ a similar program.[21] Thus, the proposed rules are necessary to fill the gap between strike price intervals allowed for short term options and related non-short term options. The Exchange believes that the proposed rule change, like the other strike price programs currently offered by the ISE, will benefit investors by giving them more flexibility to closely tailor their investment and hedging decisions.

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19 See Securities Exchange Act Release No. 68318 (November 29, 2013), 77 FR 72426 (December 5, 2012) (SR-ISE-2012-90); 71033 (December 11, 2013), 78 FR 76375 (December 17, 2013 (SR-ISE-2013-68).

20 See supra note 11.

21 See Supplementary .05 to Rule 504.

Furthermore, the Exchange continues to believe that the ability to list new series during the week of expiration is appropriate given the short lifespan of short term options. The proposed change clarifies that the Exchange may open additional series listed pursuant to Supplementary Material .12 to Rule 504 and Supplementary Material .05 to Rule 2009 during the week of expiration, consistent with changes proposed by other exchanges.

With regard to the impact of this proposal on system capacity, the Exchange has analyzed its capacity and represents that it and the Options Price Reporting Authority ("OPRA") have the necessary systems capacity to handle any potential additional traffic associated with this proposed rule change. The Exchange believes that its members will not have a capacity issue as a result of this proposal. The Exchange also represents that it does not believe this expansion will cause fragmentation of liquidity.

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 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 will result in additional investment options and opportunities to achieve the investment objectives of market participants seeking efficient trading and hedging vehicles, to the benefit of investors, market participants, and the marketplace in general. Specifically, the Exchange believes that investors will benefit from the availability of strike price intervals in standard expiration contracts that match the intervals currently permitted for short term options with a similar time to expiration, and from the clarification regarding the listing of additional series during the week of expiration.

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

Within 45 days of the publication date of this notice or within such longer period (1) as the Commission may designate up to 45 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (2) 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, as modified by Amendment No. 2, 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-2014-23 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-2014-23. 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-2014-23 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.[22]

Kevin M. O'Neil,l
Deputy Secretary.

[22] 17 CFR 200.30-3(a)(12).

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