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SECURITIES AND EXCHANGE COMMISSION
[Release No. 34-72130; File No. SR-ISE-2014-28]

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to the Quarterly Options Series Program
May 8, 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 May 5, 2014, the International Securities Exchange, LLC (the “Exchange” or the “ISE”) filed with the Securities and Exchange Commission (“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 Supplementary Material .03 to Rule 504 to expand the Quarterly Options Series Program with respect to options on exchange traded funds. The text of the proposed rule change is available on the Exchange’s Internet website at <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 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 is proposing to amend Supplementary Material .03 to Rule 504 related to the Quarterly Option Series (“QOS”)³ Program to eliminate the cap on the number of additional series that may be listed per expiration month for each QOS in exchange traded fund (“ETF”) options, consistent with recent filings by other options exchanges.⁴ As set out in Supplementary Material .03, the Exchange may list QOS for up to five currently listed options classes that are either index options or options on ETFs. The Exchange may also list QOS on any option classes that are selected by other securities exchanges that employ a similar program under their respective rules. Currently, for each QOS in ETF options that has been initially listed on the ISE, the Exchange may list up to 60 additional series per expiration month.

The Exchange is proposing to amend Supplementary Material .03(d) to make the treatment of QOS in ETF options consistent with the treatment of QOS on other options

³ A Quarterly Option Series is a series of an option class that is approved for listing and trading on the Exchange in which the series is opened for trading on any business day, and that expires at the close of business on the last business day of a calendar quarter. The Exchange lists series that expire at the end of the next consecutive four (4) calendar quarters, as well as the fourth quarter of the next calendar year. See ISE Rules 100(a)(41) and Supplementary Material .03(a) to Rule 504.

⁴ See Securities Exchange Act Release Nos. 70855 (November 13, 2013), 78 FR 69493 (November 19, 2013) (SR-NYSEArca-2013-120); 70854 (November 13, 2013), 78 FR 69465 (November 19, 2013) (SR-NYSEMKT-2013-90); 70991 (December 5, 2013), 78 FR 75420 (December 11, 2013) (SR-BOX-2013-57); 71080 (December 16, 2013), 78 FR 77191 (December 20, 2013) (SR-CBOE-2013-125); 71310 (January 15, 2014), 79 FR 3655 (January 22, 2014) (SR-MIAX-2014-01).

exchanges,⁵ and with the treatment of QOS in index options on the ISE.⁶ Options on ETFs are similar to index options because ETFs hold securities based on an index or portfolio of securities. The requirements and conditions of the QOS Program in index options, moreover, parallel those of the QOS Program in ETF options. For example, like the QOS Program in ETF options, the QOS Program in index options permits QOS in up to five currently-listed options classes; requires the listing of series that expire at the end of the next (as of the listing date) consecutive four quarters, as well as the fourth quarter of the next calendar year; requires the strike price of each QOS to be fixed at a price per share; and establishes parameters for the number of strike prices above and below the underlying index. The QOS Program in index options, however, does not place a cap on the number of additional series that the Exchange may list per expiration month for each QOS in index options. Elimination of the cap set out in Supplementary Material .03(d) to Rule 504, therefore, would result in similar regulatory treatment of similar options products.

The Exchange believes that the proposed revision to the QOS Program would provide market participants with the ability to better tailor their trading to meet their investment objectives, including hedging securities positions, by permitting the Exchange to list additional QOS in ETF options that meet such objectives. In addition, elimination of the cap would further allow the Exchange to react to moving markets as it gives the Exchange the ability to add more strike prices closer to the underlying security. Finally, the proposed changes will align the Exchange's QOS rules with the rules of other options exchanges.⁷

⁵ Id.

⁶ See Supplementary Material .02 to ISE Rule 2009 which governs the QOS Program in index options.

⁷ See supra note 4.

In addition, the Exchange believes the elimination of the cap would also help market participants meet their investment objectives by providing expanded opportunities to roll ETF options into later quarters. Because of the current cap the Exchange may not be able to list the appropriate series for market participants to roll their positions in ETF options. Elimination of the cap, however, would allow the Exchange to meet the investment needs of market participants.

With regard to the impact of this proposal on system capacity, the Exchange represents that it and the Options Price Reporting Authority (“OPRA”) have the necessary systems capacity to handle any potential additional traffic associated with this amendment to the QOS Program. 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 to liquidity.

To help ensure that only active options series are listed, the Exchange has in place procedures to delist inactive series. Supplementary Material .03(g)(i) to Rule 504 requires the Exchange to review, on a monthly basis, the series that are outside of a range of five (5) strikes above and five (5) strikes below the current price of the underlying ETF, and delist series with no open interest in both the put and the call series having a: (i) Strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (ii) strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month.⁸ The Exchange believes this provision helps to maintain capacity to handle quote traffic.

⁸ See Supplementary Material .03(g)(i) to Rule 504.

Finally, the Exchange is proposing to delete Supplementary Material .03(h) to Rule 504. That rule temporarily increased the number of additional QOS in ETF options that could be added by the Exchange from 60 to 100. Now that the pilot program has expired, there is no need for the continued inclusion of this paragraph.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6 of the Securities Exchange Act of 1934 (the “Act”),⁹ in general, and with Section 6(b)(5) of the Act,¹⁰ in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, 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.

In particular, the Exchange believes that the proposed rule change is designed to remove impediments to and perfect the mechanism of a free and open market because it will expand the investment options available to investors and will allow for more efficient risk management. The Exchange believes that removing the cap on the number of QOS in ETF options permitted to be listed on the Exchange will result in a continuing benefit to investors by giving them more flexibility to closely tailor their investment and hedging decisions to their needs, and therefore, the proposal is designed to protect investors and the public interest. In addition, the elimination of the cap will make the treatment of QOS in ETF options consistent with the treatment of QOS in index options, thus resulting in similar regulatory treatment for similar option products.

⁹ 15 U.S.C. 78f.

¹⁰ 15 U.S.C. 78f(b)(5).

Furthermore, the Exchange believes it is appropriate to eliminate obsolete or out-of-date rule text from the rule book. Specifically, the elimination of Supplementary Material .03(h) to Rule 504 is appropriate as this will reduce investor confusion by deleting rules that no longer are applicable.

As the Exchange has already stated, with regard to the impact of this proposal on system capacity, the Exchange represents that it and OPRA have the necessary systems capacity to handle any potential additional traffic associated with this amendment to the QOS Program. 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 to 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 the proposal is pro-competitive. The proposed rule change is a competitive response to recent filings by other options exchanges,¹¹ which the ISE believes is necessary to permit fair competition among the options exchanges with respect to QOS Programs. Moreover, the Exchange believes that the elimination of the cap on series in the QOS Program will benefit investors by providing more flexibility to more closely tailor their investment and hedging decisions.

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

¹¹ See supra note 4.

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

Because the proposed rule change does not (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act¹² and Rule 19b-4(f)(6) thereunder.¹³

The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Exchange stated that waiver of this requirement will ensure fair competition among exchanges by allowing the ISE to treat QOS in ETF options consistent with the treatment of QOS in index options in the same manner as other exchanges. The Exchange also stated that the proposal would allow the Exchange to meet investor demand for an expanded number of QOS in ETF options, allowing investors to meet investment objectives, including hedging securities positions, currently unavailable because of the limited number of QOS in ETF options available. For these reasons, the Commission believes that the proposed rule change presents no novel issues and that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest; and will

¹² 15 U.S.C. 78s(b)(3)(A).

¹³ 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

allow the Exchange to remain competitive with other exchanges. Therefore, the Commission designates the proposed rule change to be operative upon filing.¹⁴

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. 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
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-ISE-2014-28 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-2014-28. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your

¹⁴ For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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-2014-28 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.¹⁵

Kevin M. O'Neill,
Deputy Secretary.

¹⁵ 17 CFR 200.30-3(a)(12).

[FR Doc. 2014-11034 Filed 05/13/2014 at 8:45 am; Publication Date: 05/14/2014]