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SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-72816; File No. SR-ISE-2014-37)

August 12, 2014

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change on Non-Customer Linkage and Sweep Orders

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on July 31, 2014, the International Securities Exchange, LLC (“Exchange” or “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 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 rules to introduce away market routing for Non-Customer Orders, and to implement a new order type: the “Sweep Order.” 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

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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

Under the Options Order Protection and Locked/Crossed Market Plan (the “Plan”), the ISE cannot execute orders at a price that is inferior to the best price available at other options exchanges (i.e., “Protected Bids” and “Protected Offers”).<sup>3</sup> In compliance with this requirement, marketable orders that cannot be executed at the national best bid or offer (“NBBO”) or better, are instead exposed to all Members for up to one second before, if necessary, being routed to away markets by an unaffiliated Linkage Handler,<sup>4</sup> in the case of Public Customer Orders,<sup>5</sup> or cancelled, in the case of Non-Customer Orders.<sup>6</sup> The Exchange now proposes to supplement its away market routing capabilities by expanding this service to include Non-Customer Orders.

Under current Supplementary Material .02 to Rule 1901, if after a Non-Customer Order is exposed, the order cannot be executed in full on the Exchange at the then-current NBBO or better (i) the balance of the order will be placed on the ISE book if it is not marketable against the then-current NBBO, or (ii) the balance of the order will be canceled.<sup>7</sup> With the proposed changes to this rule, any unexecuted balance of a Non-Customer Order will now be eligible for

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<sup>3</sup> See Rule 1900(o); ISE Rule 1901.

<sup>4</sup> A Linkage Handler is an unaffiliated broker dealer with which the Exchange has contracted to provide routing services in connection with the Plan. See Supplementary Material .03 to Rule 1901.

<sup>5</sup> A Public Customer Order is an order for the account of a person or entity that is not a broker or dealer in securities. See ISE Rules 100(a)(38)-(39).

<sup>6</sup> A Non-Customer Order is an order for the account of a person or entity that is a broker or dealer in securities. See ISE Rules 100(a)(27)-(28).

<sup>7</sup> See Supplementary Material .02(e) to Rule 1901. Both Public Customer Orders and Non-Customer Orders that are marked “do-not-route” under this section will continue to be handled in this manner.

away market routing instead of being cancelled after the order is exposed. As with Public Customer Orders today,<sup>8</sup> if after a Non-Customer Order is exposed, the order is marketable but cannot be executed in full on the ISE at the then-current NBBO or better, the balance of the order will be sent to the Linkage Handler for routing, up to the full displayed size of the Protected Bids or Protected Offers that are priced better than ISE's quote. Any balance of the order will be executed on the ISE if it is marketable, and any additional balance that is not marketable against the then-current NBBO will be placed on the ISE book.

Members that do not wish to have their Non-Customer Orders exposed prior to being routed to away markets by the Linkage Handler will also have that option. In particular, new Supplementary Material .04 to Rule 1901 provides that Members can choose to have their marketable Non-Customer Orders sent immediately to the Linkage Handler for routing if the automatic execution of the order would trade through another exchange's quote. In such cases, the order will not be exposed on the ISE and the Linkage Handler will immediately route the balance of the order to away markets, up to the full displayed size of any better priced Protected Bids and Protected Offers. Any balance of the order will be executed on the ISE if it is marketable, and any additional balance that is not marketable against the then-current NBBO will be placed on the ISE book. If an order marked "do-not-route" under this section cannot be executed in full on the ISE at the NBBO or better, the balance of the order will be placed on the ISE book if it is not marketable, or the balance of the order will be cancelled.

Example:

1. ISE has 3 offers in ABC option: \$1.20 for 5 contracts, \$1.21 for 15 contracts, and \$1.22 for 25 contracts

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<sup>8</sup> See Supplementary Material .02(d) to Rule 1901.

2. PHLX has a best offer of \$1.19 for 10 contracts
3. CBOE has a best offer of \$1.21 for 15 contracts
4. Amex has a best offer of \$1.22 for 10 contracts

Non-Customer Order to Buy 85 contracts with a limit price of \$1.21; Opted out of Flash Auction

1. No Flash Auction; Linkage Handler routes 10 contracts to PHLX at \$1.19
2. ISE executes 5 contracts at \$1.20 and 15 contracts at \$1.21
3. Linkage Handler routes 15 contracts to CBOE at \$1.21
4. Remaining 40 contracts placed on the ISE book with limit price of \$1.21

In addition, the Exchange proposes to adopt new Supplementary Material .05 to Rule 1901 which introduces a new order type intended to facilitate routing of Public Customer and Non-Customer Orders to away markets. A “Sweep Order” is a limit order that is executed against any available interest in the ISE order book at the NBBO or better and immediately sent to the Linkage Handler for away market routing. Sweep orders will not be exposed to Members prior to being routed to away markets, and will instead be handled in a manner similar to Non-Customer Orders that have opted out of being exposed under new Supplementary Material .04 to Rule 1901, described above. In particular, when the automatic execution of a marketable Sweep Order would trade through another exchange’s quote, the balance of the order, up to the full displayed size of any better priced Protected Bids and Protected Offers, will be sent to the Linkage Handler for routing, with any additional balance being executed on the ISE if the order is marketable. Unlike Non-Customer Orders executed pursuant to Supplementary Material .04 to Rule 1901, however, any portion of a Sweep Order that is not executed will be cancelled rather than placed on the ISE book. Similarly, if the Sweep Order is not marketable when it is

submitted to the Exchange it will be cancelled on receipt. In conjunction with the introduction of Sweep Orders the Exchange also proposes to amend Rule 805(a) to allow market makers to submit Sweep Orders in their appointed options classes.<sup>9</sup>

Example:

1. ISE has 3 offers in ABC option: \$1.20 for 5 contracts, \$1.21 for 15 contracts, and \$1.22 for 25 contracts
2. PHLX has a best offer of \$1.19 for 10 contracts
3. CBOE has a best offer of \$1.21 for 15 contracts
4. Amex has a best offer of \$1.22 for 10 contracts

Sweep Order to Buy 85 contracts with a limit price of \$1.21

1. No Flash Auction; Linkage Handler routes 10 contracts to PHLX at \$1.19
2. ISE executes 5 contracts at \$1.20 and 15 contracts at \$1.21
3. Linkage Handler routes 15 contracts to CBOE at \$1.21
4. Remaining 40 contracts cancelled

2. 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.<sup>10</sup> In particular, the proposal is consistent with Section 6(b)(5) of the Act,<sup>11</sup> because it is designed to promote just

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<sup>9</sup> Market makers are currently permitted to submit the following order types in their appointed options classes: opening only orders, immediate-or-cancel (“IOC”) orders, market orders, fill-or-kill orders, complex orders, and certain block orders and non-displayed penny orders. See ISE Rule 805(a).

<sup>10</sup> 15 U.S.C. 78f(b).

<sup>11</sup> 15 U.S.C. 78f(b)(5).

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.

Currently, the Exchange only routes Public Customer orders to away markets, and cancels any marketable Non-Customer orders that cannot be executed on the ISE in compliance with the Options Order Protection and Locked/Crossed Market Plan. The proposed rule change removes impediments to and perfects the mechanism of a free and open market and a national market system by enabling Non-Customer Orders entered on the ISE to access liquidity on other exchanges for the first time. Comparable functionality is available to both Public Customer and Non-Customer Orders on other options exchanges, including, for example, NYSE Arca Options (“Arca”).<sup>12</sup> The Exchange believes that it is in the public interest to similarly allow ISE Members to access better-priced liquidity on other markets regardless of whether their orders are for the account of a Public Customer. In addition, the Exchange notes that Non-Customer routing will be purely voluntary, and Members that do not want their Non-Customer Orders routed to other options exchanges, or exposed on the ISE, will be able to opt out of those services. Giving Members the additional choice of having their Non-Customer Orders executed against available interest on other markets displaying better prices will improve firms’ quality of execution.

The introduction of Sweep Orders on the ISE also removes impediments to and perfects the mechanism of a free and open market and a national market system because this new order type will further facilitate routing of Public Customer and Non-Customer Orders to other options exchanges. By forgoing exposure on the ISE prior to routing and cancelling any unexecuted

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<sup>12</sup> See Arca Rule 6.76A(c).

balance of a Sweep Order, this new order type is designed to allow Members to quickly access available liquidity on the ISE and away markets. Other options exchanges also have order types similar to the proposed Sweep Order. For example, Arca offers a “NOW Order” that checks for available interest on the Arca order book before being routed away, with any unexecuted portion of the order being immediately cancelled.<sup>13</sup> The ISE believes that its proposed Sweep Order offering is competitive with order types already in place on other markets, and will allow Members to receive fast executions against interest available across all options exchanges.

Finally, the ISE believes that it is in the public interest to allow market makers to enter Sweep Orders in their appointed options classes so that they can use this order type to access liquidity on the ISE and other options exchanges. Under ISE Rules, Market Makers are permitted to provide resting liquidity in their appointed classes through the use of quotes entered in compliance with Rule 804. In order to access liquidity provided by other firms, however, Market Makers use IOC and other order types that do not rest on the regular order book.<sup>14</sup> Because any portion of a Sweep Order that is not executed is cancelled, the proposed addition of Sweep Orders to the list of order types that market makers may use in their appointed classes is generally consistent with Rule 805(a), which was intended to prevent market makers from having both standing limit orders and quotes in the same options class.

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 is pro-competitive because it expands away market routing functionality that is currently limited to Public Customer Orders.

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<sup>13</sup> See Arca Rule 6.62(o).

<sup>14</sup> See supra note 9.

With the proposed change, both Public Customer and Non-Customer Orders will be able to access better-priced liquidity on other competing markets when the ISE is not at the NBBO. Similar functionality is currently available at other options exchanges.<sup>15</sup>

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

Because the foregoing 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, it has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act<sup>16</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>17</sup>

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

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<sup>15</sup> See supra notes 12 and 13.

<sup>16</sup> 15 U.S.C. 78s(b)(3)(A)(ii).

<sup>17</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires the Exchange to give the Commission written notice of the Exchange's intent to file the proposed rule change along with a brief description and 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. The Exchange has satisfied this requirement.

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](mailto:rule-comments@sec.gov). Please include File Number SR-ISE-2014-37 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-2014-37. 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 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-2014-37 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.<sup>18</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>18</sup> 17 CFR 200.30-3(a)(12).