



SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-74623; File No. SR-ISE-2015-12)

April 1, 2015

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Share Member-Designated Risk Settings in the Trading System with Clearing Members

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 March 19, 2015 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, II, and III 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 the Substance of the Proposed Rule Change

The ISE proposes to amend Rule 706 to authorize the Exchange to share any Member-designated risk settings in the trading system with the Clearing Member that clears transactions on behalf of the Member. The text of 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 Rule 706 to authorize the Exchange to share any Member-designated risk settings in the trading system with the Clearing Member that clears transactions on behalf of the Member. Rule 706 states that “[u]nless otherwise provided in the Rules, no one but a Member or a person associated with a Member shall effect any Exchange Transactions.”³ The Exchange proposes to amend the current rule by adding the following sentence: “The Exchange may share any Member-designated risk settings in the trading system with the Clearing Member that clears transactions on behalf of the Member.”

Each Member that transacts through a Clearing Member on the Exchange executes a Letter of Clearing Authorization, in the case of Electronic Access Members, or a Market Maker Letter of Guarantee, in the case of Primary Market Makers and Competitive Market Makers, wherein the Clearing Member “accepts financial responsibility for all Exchange Transactions made by the” Member on whose behalf the Clearing Member submits the letter of guarantee. The Exchange believes that because Clearing Members guarantee all transactions on behalf of a Member, and therefore, bear the risk associated with those transactions, it is appropriate for Clearing Members to have knowledge of what risk settings a Member may utilize within the trading system.

³ See Rule 706(a).

The Exchange notes that while not all Members are Clearing Members, all Members require a Clearing Member's consent to clear transactions on their behalf in order to conduct business on the Exchange. As the Clearing Member ultimately bears all the risk for a trade they clear on any Member's behalf, the Exchange believes it is reasonable to provide Clearing Members with information relating to the risk settings used by each Member whose transactions they are clearing. To the extent that a Clearing Member might reasonably require a Member to provide access to its risk settings as a prerequisite to continue to clear trades on the Member's behalf, the Exchange's proposal to share those risk settings directly reduces the administrative burden on Members and ensures that Clearing Members are receiving information that is up-to-date and conforms to the settings active in the trading system.

The Exchange further notes that any broker-dealer is free to become a Clearing Member of the Options Clearing Corporation (the "OCC"), which would enable that Member to avoid sharing risk settings with any third party, if they so choose. For these reasons, the Exchange believes that the proposal is consistent with the Act as it provides Clearing Members with additional risk-related information that may aid them in complying with the Act, notably Rule 15c3-5 and, as noted, Members that do not wish to share such settings with a Clearing Member can do so by become clearing members of the OCC.

The risk settings that would be shared pursuant to the proposed rule are currently codified in Rule 804 (for regulars orders) and Rule 722 (for complex orders). The risk settings are designed to mitigate the potential risks of multiple executions against a Member's trading interest that, in today's highly automated and electronic trading environment, can occur simultaneously across multiple series and multiple option classes. The proposed rule will allow the Exchange to share a Member's risk settings with the Clearing Member that guarantees the

Member's transactions, and therefore has a financial interest [sic] in understanding the risk tolerance of a Member.

Because the Letter of Clearing Authorization and the Market Maker Letter of Guarantee codifies relationships between a Member and the Clearing Member, the Exchange is on notice of which Clearing Members have relationships with which Members. The proposed rule change would simply provide the Exchange with authority to directly provide Clearing Members with information that may otherwise be available to such Clearing Members by virtue of their relationship with the respective Member.

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.⁴ In particular, the proposal is consistent with Section 6(b)(5) of the Act,⁵ because it is designed to promote just and equitable principles of trade, to 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.

The Exchange believes that the proposed rule change removes impediments to and perfects the mechanism of a free and open market by codifying that the Exchange can directly provide to Clearing Members that guarantee that Member's transactions on the Exchange the Member-designated risk settings in the trading system, which are designed to mitigate the potential risk of multiple executions against a Member's trading interest that, in today's highly automated and electronic trading environment, can occur simultaneously across multiple series

⁴ 15 U.S.C. 78f(b).

⁵ 15 U.S.C. 78f(b)(5).

and multiple option classes. The Exchange believes that the proposed rule change is consistent with the protection of investors and the public interests because it will permit Clearing Members with a financial interest in a Member's risk settings to better monitor and manage the potential risks assumed by Members with whom the Clearing Member has entered into a letter of guarantee, thereby providing Clearing Members with greater control and flexibility over setting their own risk tolerance and exposure.

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

The Exchange believes the proposal is consistent with Section 6(b)(8) of the Act⁶ in that it does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is not designed to address any aspect of competition, but would provide authority for the Exchange to directly share risk settings with Clearing Members regarding the Members with whom the Clearing Member has executed a letter of guarantee so the Clearing Member can better monitor and manage the potential risks assumed by the Members, thereby providing them with greater control and flexibility over setting their own risk tolerance and exposure. The proposed rule change does not pose an undue burden on non-Clearing Members because, unlike Clearing Members, non-Clearing Members do not guarantee the execution of the Member transactions on the Exchange. The proposed rule change is structured to offer the same enhancement to all Clearing Members, regardless of size, and would not impose a competitive burden on any participant.

⁶ 15 U.S.C. 78f(b)(8).

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 Exchange believes that the foregoing proposed rule change may take effect upon filing with the Commission pursuant to Section 19(b)(3)(A)⁷ of the Act and Rule 19b-4(f)(6) thereunder⁸ 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 after its filing date, or such shorter time as the Commission may designate.

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: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) 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:

⁷ 15 U.S.C. 78s(b)(3)(A).

⁸ 17 CFR 240.19b-4(f)(6).

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-2015-12 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-2015-12. 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 such filing also will be available for inspection and copying at the principal offices 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-2015-12, and should be submitted on or before [INSERT DATE 21 DAYS FROM DATE OF PUBLICATION IN THE FEDERAL REGISTER].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁹

Brent J. Fields,
Secretary.

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⁹ 17 CFR 200.30-3(a)(12).