



SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-83006; File No. SR-ISE-2018-30]

Self-Regulatory Organizations; Nasdaq ISE, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend ISE Rules 700, 2008, and 2009

April 6, 2018.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on March 29, 2018, Nasdaq ISE, LLC (“ISE” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “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 ISE Rules 700, Days and Hours of Business, at Section (c); 2008, Days and Hours of Business; and 2009, Terms of Index Option Contracts, Supplementary Material .07, Nonstandard Expirations Pilot Program.

The text of the proposed rule change is available on the Exchange’s Website at <http://ise.cchwallstreet.com/>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 in Item IV below. The Exchange 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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of this rule filing is to establish that transactions in expiring p.m.-settled broad-based index options, including Weekly Expirations and End of Month (“EOM”) options, may be effected on the Exchange only until 4:00 P.M. (Eastern Time) on the last trading day.³ The terms of p.m.-settled broad-based index options specify that their exercise settlement value is based on the index value derived from the closing prices of component stocks.

Currently, ISE Rule 700(c) provides that broad-based index options may trade until 4:15 p.m. each business day. The Exchange now proposes to add language to Rule 700(c) to establish that on the last trading day transactions in expiring p.m.-settled broad-based index options may be effected on the Exchange between the hours of 9:30 a.m. (Eastern Time) and 4:00 p.m. (Eastern Time). The same new language is proposed to be added to Rules 2008, Trading

³ The listing and trading of p.m.-settled options on broad-based indexes with nonstandard expiration dates, including Weekly Expirations and EOM options, has been approved by the Commission on a pilot basis for an initial period of twelve months expiring on February 1, 2019 (the “Nonstandard Expirations Pilot Program” or “Pilot Program”). See Supplementary Material .07 of Rule 2009 and Securities Exchange Act Release No. 82612 (February 1, 2018), 83 FR 5470 (February 7, 2018) (SR-ISE-2017-111). To date, no Weekly Expirations or EOM options have been listed on the Exchange.

Sessions, and 2009, Terms of Index Option Contracts, at Supplementary Material .07(d), Weekly Expirations and EOM Trading Hours. The proposed new language is substantively identical to language in Rule 24.9(e), Weekly Expirations and EOM Trading Hours on the Last Trading Day, of the Cboe Exchange, Inc. (CBOE). The 4:00 p.m. close of trading would apply only on the last trading day of the expiring p.m.-settled options.

As CBOE explained in the proposed rule change adopting current CBOE Rule 24.9(e), Weekly Expirations and EOM options which are p.m.-settled are priced in the market based on corresponding futures values. On the last day of trading, the closing prices of the component stocks (which are used to derive the exercise settlement value) are known at 4:00 p.m. (Eastern Time) (or soon after) when the equity markets close. Despite the fact that the exercise settlement value is fixed at or soon after 4:00 p.m. (Eastern Time), if trading in expiring Weekly Expirations and EOMs were to continue for an additional fifteen minutes until 4:15 p.m. (Eastern Time) they would not be priced on corresponding futures values, but rather the known cash value. At the same time, the prices of non-expiring Weekly Expiration and EOM series would continue to move and be priced in response to changes in corresponding futures prices. Because of the potential pricing divergence that could occur between 4:00 and 4:15 p.m. on the final trading day in expiring Weekly Expirations and EOMs (e.g., switch from pricing off of futures to cash), the Exchange believes that, in order to mitigate potential investor confusion, it is appropriate to cease trading in expiring Weekly Expirations and EOMs at 4:00 p.m. on the last day of trading.⁴

⁴ See Securities Exchange Act Release No. 64243 (April 7, 2011), 76 FR 20771 (April 13, 2011) (SR-CBOE-2011-038) (Notice of Filing and Immediate Effectiveness of Proposed Rule Change Regarding Close of Trading Hours for Expiring End of Week and End of Month Expirations).

Because the potential pricing divergence issue applies to all ISE-listed p.m.-settled options, including but not limited to the Weekly Expiration and EOM series listed on ISE, the Exchange proposes to add the exception providing for a 4:00 close of trading on the last trading day before expiration to ISE's Rule 700(c) which sets forth the trading hours for all broad-based index options, and Rule 2008, Trading Sessions, in addition to Rule 2009, Supplementary Material .07(d).

Thus, as revised, Rule 700(c) would provide that options on a broad-based index, as defined in ISE Rule 2001, may be traded on the Exchange until 4:15 p.m. each business day, except that that on the last trading day, transactions in expiring p.m.-settled broad-based index options may be effected on the Exchange between the hours of 9:30 a.m. (Eastern Time) and 4:00 p.m. (Eastern Time). The exception would also be added to Rule 2008(a) which currently provides, in relevant part, that except as otherwise provided in Rule 2008 or under unusual conditions as may be determined by the President or his designee, transactions in index options may be effected on the Exchange between the hours of 9:30 a.m. (Eastern Time) and 4:15 p.m. (Eastern Time). Finally, the same change would be made to Supplementary Material .07(d) of Rule 2009, which currently provides that transactions in Weekly Expirations and EOMs may be effected on the Exchange between the hours of 9:30 a.m. (Eastern Time) and 4:15 p.m. (Eastern Time).

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁵ in general, and furthers the objectives of Section 6(b)(5) of the Act,⁶ in particular, in that it is

⁵ 15 U.S.C. 78f(b).

⁶ 15 U.S.C. 78f(b)(5).

designed to promote just and equitable principles of trade, 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, by conforming the trading hours on the last trading day of Weekly Expiration and EOM options to the trading hours on CBOE. The existence of dissimilar closing times applicable to different options exchanges would likely lead to confusion for options investors and broker-dealers. Additionally, preventing continued trading on a p.m.-settled broad-based index option after the exercise settlement value has been fixed eliminates potential confusion and thereby protects investors and the public interest. The Exchange notes that P.M.-settled options on the S&P 500 index and on P.M.-settled XSP [sic] options cease trading at 4:00 PM Eastern Time on the last day of trading pursuant to CBOE Rule 24.6, Days and Hours of Business, Interpretations and Policies .04.

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 not necessary or appropriate in furtherance of the purposes of the Act. Specifically, the Exchange does not believe the proposal will impose any burden on intramarket competition as all market participants will be treated in the same manner with respect to trading hours of expiring p.m.-settled broad-based index options.

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

No written comments were either solicited or received.

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 if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act⁷ and Rule 19b-4(f)(6) thereunder.⁸

A proposed rule change filed under Rule 19b-4(f)(6)⁹ normally does not become operative for 30 days after the date of filing. However, pursuant to Rule 19b-4(f)(6)(iii),¹⁰ the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest as it will allow the Exchange to immediately conform the trading hours on the final trading day in expiring p.m.-settled broad-based index options to those of another exchange, eliminate a potential source of confusion on the part of the investing public, as well as avoid potential pricing divergence difficulties that could occur between 4:00 and 4:15 p.m. (Eastern Time). The Exchange's proposal does not raise new issues. Accordingly, the Commission hereby waives the 30-day operative delay requirement and designates the proposed rule change as operative upon filing.¹¹

⁷ 15 U.S.C. 78s(b)(3)(A).

⁸ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) 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.

⁹ 17 CFR 240.19b-4(f)(6).

¹⁰ 17 CFR 240.19b-4(f)(6)(iii).

¹¹ 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.

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-2018-30 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-2018-30. 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

See 15 U.S.C. 78c(f).

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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-ISE-2018-30, 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.¹²

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Assistant Secretary.

¹² 17 CFR 200.30-3(a)(12).

[FR Doc. 2018-07526 Filed: 4/11/2018 8:45 am; Publication Date: 4/12/2018]