

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-76505; File No. SR-ISE Gemini-2015-17)

November 23, 2015

Self-Regulatory Organizations; ISE Gemini, LLC; Notice of Filing of Proposed Rule Change to Amend Rule 804(g)

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 November 12, 2015, ISE Gemini, LLC (the “Exchange” or “ISE Gemini”) 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. 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 Rule 804(g) to require Clearing Member approval for market makers to resume trading after a market-wide speed bump is triggered. 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 forth in sections A, B and C below, of the most significant aspects of such statements.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of the proposed rule change is to amend Rule 804(g) on “Automated Quotation Adjustments” to require Clearing Member³ approval for Primary Market Makers (“PMMs”) and Competitive Market Makers (“CMMs”) (collectively, “market makers”) to resume trading after a market-wide speed bump is triggered. The Exchange offers market makers functionality whereby the Exchange will automatically remove a market maker’s quote in all series in an options class if a “curtailment event” occurs based on parameters set by the market maker on a class-by-class basis.⁴ In particular, the Exchange will automatically remove a market maker’s quote in a class when, during a time period established by the market maker, the market maker exceeds: (i) the specified number of total contracts in the class, (ii) the specified percentage of the total size of the market maker’s quotes in the class, (iii) the specified absolute value of the net between contracts bought and contracts sold in the class, or (iv) the specified absolute value of the net between (a) calls purchased plus puts sold in the class, and (b) calls sold plus puts purchased in the class.⁵ In addition, the Exchange provides market-wide functionality whereby a market maker’s quote in all options classes are automatically cancelled if, during a configurable time period, the total number of curtailment events exceeds a market-wide parameter set by the market maker.⁶ This market-wide functionality, which is available for ISE

³ The term “Clearing Member” means a Member that is self-clearing or an Electronic Access Member that clears Exchange Transactions for other Members of the Exchange. See Rule 100(a)(8).

⁴ See Rule 804(g)(i).

⁵ Id.

⁶ See Rule 804(g)(ii). This functionality is known as “market-wide speed bump” and is the subject of this filing.

Gemini only or across both ISE Gemini and ISE Gemini's affiliate, the International Securities Exchange, LLC,⁷ is useful to members as numerous curtailment events triggered across multiple options classes, and if chosen, multiple exchanges, may signify a larger problem being experienced by the market maker that warrants its quotes being removed from the market. Currently, the Exchange only requires that a market maker notify Market Operations of its intention to reenter the market to resume trading after the market-wide speed bump has been activated. Due to the significant nature of events that may trigger this market-wide speed bump functionality, the Exchange now proposes also to require Clearing Member approval prior to allowing the market maker to resume quoting. Pursuant to the proposed rule change, a market maker must notify its Clearing Member(s) when it is ready to resume trading following a market-wide speed bump. Exchange staff may also notify the Clearing Member(s) when the market maker's quotes have been removed, to facilitate a better response time. Each Clearing Member must then contact the Exchange directly to give their authorization for the market maker to resume trading.⁸

Each market maker authorized to trade on the Exchange must obtain from a Clearing Member a "Market Maker Letter of Guarantee" wherein the Clearing Member accepts financial responsibility for all Exchange transactions made by the market maker.⁹ The Exchange believes that it is appropriate to require Clearing Member approval before a market maker can reenter the market after the market-wide speed bump has been triggered as the Clearing Member guarantees the market makers trades, and therefore bears ultimate financial risk associated with those

⁷ Id.

⁸ If a market maker has multiple Clearing Members, it must receive approval from each Clearing Member to resume trading.

⁹ See Rule 808.

transactions. The Exchange notes that while not all market makers are Clearing Members, all market makers 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 the risk for a trade they clear on any market makers behalf, the Exchange believes it is reasonable to require that the Clearing Member authorize the market maker to continue trading after the market-wide speed bump is triggered.

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.¹⁰ In particular, the proposal is consistent with Section 6(b)(5) of the Act,¹¹ 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 requiring that Clearing Members authorize continued trading by a market maker after that market maker triggers a market-wide speed bump. The Exchange believes that the proposed rule change is consistent with the protection of investors and the public interest because it will permit Clearing Members with a financial interest in a market maker's risk management to better monitor and manage the potential risks assumed by that market maker. The Exchange already shares market makers' risk settings with their Clearing Members in order to assist those Clearing Members in monitoring risks at firms on

¹⁰ 15 U.S.C. 78f(b).

¹¹ 15 U.S.C. 78f(b)(5).

whose behalf they clear trades.¹² The proposed rule change would further assist Clearing Members in monitoring risk, and provide these Clearing Members with greater control and flexibility over their risk tolerance and exposure. Because the Clearing Member guarantees all of the market maker's trades it is in a unique position to objectively evaluate the risk of a market maker reentering the market following a serious systems or other issue. While in some cases this may result in a minimal delay for a market maker that wants to reenter the market quickly following a market-wide speed bump, the Exchange believes that Clearing Member approval is appropriate to ensure that the market maker does not prematurely enter the market without adequate safeguards in place.

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

The Exchange believes the proposal is consistent with Section 6(b)(8) of the Act¹³ 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 is rather intended to provide additional safeguards by requiring Clearing Member approval before market makers are allowed to reenter the market following a market-wide speed bump. The Exchange believes that this would allow Clearing Members to better monitor and manage the potential risks assumed by market makers on whose behalf they have executed a Market Maker Letter of Guarantee, and does not impose any unnecessary burden on competition.

¹² See Securities Exchange Act Release No. 74622 (April 1, 2015), 80 FR 18665 (April 7, 2015) (SR-ISE Gemini-2015-08).

¹³ 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

Within 45 days of the publication date of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) 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 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 Gemini-2015-17 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 Gemini-2015-17. 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 Gemini-2015-17 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.¹⁴

Robert W. Errett
Deputy Secretary

¹⁴ 17 CFR 200.30-3(a)(12).