

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-66880; File No. SR-ISE-2012-16)

April 30, 2012

Self-Regulatory Organizations; International Securities Exchange, LLC; Order Approving a Proposed Rule Change Relating to Procedures for Executing the Stock Leg(s) of Stock-Option Orders

I. Introduction

On February 29, 2012, the International Securities Exchange, LLC (“Exchange” or “ISE”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to amend ISE Rule 722, “Complex Orders,” to modify its procedures for executing the stock leg(s) of stock-option orders. The proposed rule change was published for comment in the Federal Register on March 19, 2012.³ The Commission received no comment letters regarding the proposed rule change. This order approves the proposed rule change.

II. Description of the Proposal

Currently, ISE Rule 722, Supplementary Material .02 allows ISE members to elect to have ISE electronically transmit the stock leg(s) of a stock-option transaction to a designated broker-dealer for execution. To participate in this automated process, ISE members must enter into a brokerage agreement with the designated broker-dealer.⁴ Members must enter into a brokerage agreement with ISE’s designated broker-dealer to ensure that there is at least one

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 66582 (March 13, 2012), 77 FR 16106 (“Notice”).

⁴ ISE members also may choose to execute the stock leg(s) of a stock-option trade manually, by transmitting the stock leg(s) to a non-ISE market for execution.

common available broker-dealer through which the matched stock leg(s) of a stock-option transaction may be executed.⁵

The proposal would allow ISE members to enter into brokerage agreements with one or more additional broker-dealers to which ISE will be able to route stock orders.⁶ ISE will automatically transmit the stock leg(s) of a stock-option trade on behalf of a member to one or more broker-dealer(s) with which the member has an agreement for execution, using routing logic that considers objective factors such as execution cost, speed of execution, and fill rates.⁷ Members may indicate preferred execution brokers, and these preferences will determine order routing priority whenever possible.⁸ ISE will have no financial arrangements with the brokers with respect to routing stock orders to them,⁹ and ISE receives no fees related to the stock portion of a stock-option trade.¹⁰

As is the case currently, after ISE routes the stock leg(s) of a stock-option trade to a broker-dealer for execution, the broker-dealer will be responsible for determining whether the orders may be executed in accordance with applicable rules, including the Regulation NMS trade-through rules.¹¹

⁵ See Notice, 77 FR at 16107. ISE is not able to execute the stock leg(s) of a stock-option transaction unless both members on the trade have a brokerage agreement with the broker-dealer to which the stock leg(s) are routed. See Notice, 77 FR at footnote 3.

⁶ See ISE Rule 722, Supplementary Material .02.

⁷ See id. ISE's routing logic will route the stock leg(s) only to a broker-dealer with which a member has a brokerage agreement. See Notice, 77 FR at 16107.

⁸ See ISE Rule 722, Supplementary Material .02.

⁹ See id.

¹⁰ See Notice, 77 FR at 16107.

¹¹ See Notice, 77 FR at 16107. See also Securities Exchange Act Release No. 49251 (February 13, 2004), 69 FR 8252 (February 23, 2004) (File No. SR-ISE-2003-37) (stating that the designated broker-dealer will be responsible for determining whether the stock leg(s) of a stock-option transaction may be executed in accordance with all of the rules

The proposal eliminates the manual process for executing the stock leg(s) of stock-option orders. ISE believes that it is fair, reasonable, and not discriminatory to eliminate the manual procedure for executing the stock leg(s) of stock option orders because, according to ISE, there is no demand from ISE members for the manual execution alternative.¹²

III. Discussion and Commission's Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.¹³ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,¹⁴ which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, 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.

The Commission believes that the proposal should enhance the processing of stock-option orders by facilitating the automated processing of the stock component of a stock-option transaction. In addition, the Commission notes that other options exchanges have adopted similar requirements in connection with the processing of stock-option orders.¹⁵

applicable to the execution of equity orders, including compliance with applicable short sale, trade-through, and trade reporting rules).

¹² See Notice, 77 FR at 16107.

¹³ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

¹⁴ 15 U.S.C. 78f(b)(5).

¹⁵ See C2 Rule 6.13, Interpretation and Policy .06(a) (requiring Permit Holders to enter into a brokerage agreement with one or more designated broker-dealers to participate in stock-option order automated processing). See also CBOE Rule 6.53C, Interpretation and Policy .06(a) (requiring Trading Permit Holders to enter into a brokerage agreement with

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹⁶ that the proposed rule change (SR-ISE-2012-16) is approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁷

Kevin M. O'Neill
Deputy Secretary

one or more designated dealers to participate in stock-option order automated processing); and Phlx Rule 1080, Commentary .08(a)(i) (to trade Complex Orders with a stock/ETF component, members of FINRA or Nasdaq must have a Uniform Service Bureau/Executing Broker Agreement with Nasdaq Options Services LLC (“NOS”), the exchange’s designated broker-dealer; firms that are not members of FINRA or Nasdaq must have a Qualified Special Representative arrangement with NOS).

¹⁶ 15 U.S.C. 78s(b)(2).

¹⁷ 17 CFR 200.30-3(a)(12).