

## OMB APPROVAL

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Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 45	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2014 - * 24 Amendment No. (req. for Amendments *)
Filing by International Securities Exchange Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934		
Initial * <input checked="" type="checkbox"/> Amendment * <input type="checkbox"/> Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/> Section 19(b)(3)(A) * <input type="checkbox"/> Section 19(b)(3)(B) * <input type="checkbox"/>	Rule <input type="checkbox"/> 19b-4(f)(1) <input type="checkbox"/> 19b-4(f)(4) <input type="checkbox"/> 19b-4(f)(2) <input type="checkbox"/> 19b-4(f)(5) <input type="checkbox"/> 19b-4(f)(3) <input type="checkbox"/> 19b-4(f)(6)
Pilot <input type="checkbox"/> Extension of Time Period for Commission Action * <input type="checkbox"/> Date Expires *		
Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010 Section 806(e)(1) * <input type="checkbox"/> Section 806(e)(2) * <input type="checkbox"/>		Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934 Section 3C(b)(2) * <input type="checkbox"/>
Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>	
<b>Description</b> Provide a brief description of the action (limit 250 characters, required when Initial is checked *). <div style="border: 1px solid black; height: 40px; margin-top: 10px;">           Proposed Rule Change to Modify the Opening Process         </div>		
<b>Contact Information</b> Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.		
First Name * Samir Last Name * Patel Title * Assistant General Counsel E-mail * spatel@ise.com Telephone * (212) 897-0352 Fax		
<b>Signature</b> Pursuant to the requirements of the Securities Exchange Act of 1934, has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized. <div style="text-align: right;">(Title *)</div> <div style="display: flex; justify-content: space-between; align-items: flex-start;"> <div style="width: 40%;">         Date 11/19/2014          By Michael Simon          (Name *)       </div> <div style="width: 55%;">         Secretary and General Counsel  <div style="border: 1px solid black; height: 40px; margin-top: 10px;"></div> </div> </div> <div style="margin-top: 10px;">         NOTE: Clicking the button at right will digitally sign and lock          this form. A digital signature is as legally binding as a physical          signature, and once signed, this form cannot be changed.       </div>		

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SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549	
For complete Form 19b-4 instructions please refer to the EFFT website.	
<div>Form 19b-4 Information *</div> <div><div>Add</div><div>Remove</div><div>View</div></div>	The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.
<div>Exhibit 1 - Notice of Proposed Rule Change *</div> <div><div>Add</div><div>Remove</div><div>View</div></div>	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
<div>Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies *</div> <div><div>Add</div><div>Remove</div><div>View</div></div>	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
<div>Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications</div> <div><div>Add</div><div>Remove</div><div>View</div></div> <div>Exhibit Sent As Paper Document <input type="checkbox"/></div>	Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.
<div>Exhibit 3 - Form, Report, or Questionnaire</div> <div><div>Add</div><div>Remove</div><div>View</div></div> <div>Exhibit Sent As Paper Document <input type="checkbox"/></div>	Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.
<div>Exhibit 4 - Marked Copies</div> <div><div>Add</div><div>Remove</div><div>View</div></div>	The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.
<div>Exhibit 5 - Proposed Rule Text</div> <div><div>Add</div><div>Remove</div><div>View</div></div>	The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.
<div>Partial Amendment</div> <div><div>Add</div><div>Remove</div><div>View</div></div>	If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

## **1. Text of the Proposed Rule Change**

(a) The International Securities Exchange, LLC (the “Exchange” or the “ISE”) proposes to amend its rules in order to modify the manner in which the Exchange’s trading system opens trading at the beginning of the day and after trading halts and to codify certain existing functionality within the trading system regarding opening and reopening of options classes traded on the Exchange. The text of the proposed rule change is attached hereto as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

## **2. Procedures of the Self-Regulatory Organization**

The Board of Directors of the Exchange approved the proposed rule change on February 27, 2014. This action constitutes the requisite approval under the Exchange's Certificate of Formation, Operating Agreement and Constitution.

## **3. Self-Regulatory Organization's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change**

(a) Purpose – The purpose of the proposed rule change is to amend ISE rules in order to modify the manner in which the Exchange’s trading system opens trading at the beginning of the day and after trading halts and to codify certain existing functionality within the trading system regarding opening and reopening of option classes traded on the Exchange. Specifically, the Exchange proposes to amend Rule 701 to modify the opening process by providing away market protection at the open and making system changes to limit instances where an options class goes into an imbalance state which prevents the Exchange from determining the opening price in a timely manner for that options class. The Exchange also proposes to amend parts of Rule 701 to more clearly describe the manner in which the trading system functions with regards to the rotation process for regular orders.

Currently, for each class of options that has been approved for trading, the opening rotation is conducted by the Primary Market Maker (“PMM”) appointed to such class of options. The Exchange may direct that one or more trading rotations be employed on any business day to aid in producing a fair and orderly market. For each rotation so employed, except as the Exchange may direct, rotations are conducted in the order and manner the PMM determines to be appropriate under the circumstances. The PMM has the authority to determine the rotation order and manner and may also employ multiple trading rotations simultaneously.<sup>1</sup>

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<sup>1</sup> See ISE Rule 701(a)(1)–(4). The Exchange proposes to delete amend certain parts of Rule 701 and add language to the current rule to describe in greater detail how the PMM

Trading rotations are employed at the opening of the Exchange each business day and during the reopening of the market after a trading halt. The opening rotation in each class of options is held promptly following the opening of the market for the underlying security.<sup>2</sup> The opening rotation for options contracts in an underlying security is delayed until the market for such underlying security has opened unless the Exchange determines that the interests of a fair and orderly market are best served by opening trading in the options contracts.

Currently, the rotation process can be initiated in one of two ways. A PMM can initiate the rotation process by either sending a rotation request through the trading system or by selecting an auto-open setting in the trading system for each class in which it serves as a PMM.

Once the security underlying an options class has opened, the trading system checks to see whether the PMM assigned to that options class has selected to auto-open the options class. If the PMM has not selected to auto-open the options class, the trading system waits for the PMM to send a rotation request to start the rotation process. The PMM can initiate the rotation process by submitting a quote. To initiate the rotation process, a PMM quote must be present. If the PMM quote is not present, the rotation process for that class will not start.

There may be instances where the PMM is unable to initiate the rotation process because, for instance, the PMM is experiencing technical difficulties in sending the rotation request to the Exchange, or the PMM has not set the auto-open setting or because the PMM has not submitted any quotes for an options class. In such instances, the Exchange will initiate the rotation process by using the rapid opening mechanism within a configurable time period<sup>3</sup> after the underlying security has opened. In order for the Exchange to use the rapid opening mechanism in instances where the Primary Market Maker has not initiated the rotation process, the following conditions must be met: (i) at least one market maker quote must be present; (ii) if there are more than one market maker quotes present, the best quoted market maker bid must not be greater than a configurable number of ticks than the best quoted market maker offer;<sup>4</sup> (iii) if a class is

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initiates the rotation process, and in the absence of a PMM, how the trading system initiates the rotation process.

<sup>2</sup> The “market for the underlying security” is either the primary listing market, the primary volume market (defined as the market with the most liquidity in that underlying security for the previous two calendar months), or the first market to open the underlying security, as determined by the Exchange on an issue-by-issue basis. See ISE Rule 701(b)(2).

<sup>3</sup> The time period is currently set to five seconds. Members are advised when there is a change to this configurable time period through the issuance of information circular.

<sup>4</sup> The number of ticks is currently set to five. Members are advised when there is a change to the number of ticks through the issuance of information circular.

traded on an another exchange, at least one other exchange must have opened that class and a NBBO has been published; and (iv) the best quoted market maker bid and best quoted market maker offer must not cross the NBBO by a certain margin. The margin is calculated as a percentage of the mid-point of the NBBO with up to a maximum and a minimum range.<sup>5</sup> In the event any of the conditions described above are not met, the trading system will repeat the process after a configurable time period until all the conditions are met<sup>6</sup> thus allowing the Exchange to use the rapid opening mechanism to initiate the opening rotation process.

After a rotation process has been performed and the option class cannot be opened due to an imbalance condition, an imbalance broadcast is sent to members. The PMM can then re-initiate the rotation process again. If the PMM does not re-initiate the rotation process within a configurable time period,<sup>7</sup> the Exchange will re-initiate the rotation process as described above. The rotation process will repeat until the class is opened. The Exchange may delay the commencement of the opening rotation in any class of options in the interests of a fair and orderly market.

The trading system currently uses quotes provided by the PMM for the series in question to set a range within which to open the options series (“Boundary Prices”). The Boundary Prices ensure the opening price is close to the reasonable price range for the options class. If the PMM for an options class is not present on the bid or the offer for that options class then the best quote from the Competitive Market Makers (“CMMs”) for that options class is used.

To determine the opening price, the accumulated quantity for each price level is calculated for the buy and sell sides. Only quotes, market orders and displayed quantities of limit orders are used to calculate the accumulated quantity. The opening price is calculated as the price level where a maximum quantity can be traded. If there is no overlap between buy and sell prices the opening price cannot be calculated and the options class is opened without a trade. If there are only market orders on both sides of the quote, an opening price cannot be calculated and the options class goes into an imbalance state, in which case, the options class does not open until the imbalance condition is resolved, as described above. If the calculated opening price is outside the Boundary Prices, the options class goes into an imbalance state and the options class again does not open until the imbalance condition is resolved. If the calculated opening price is at or inside the Boundary Prices then that price is the opening price.

Once the opening price for an options class has been determined, order and quotes on the order book in that options class are matched to trade in the following order: 1) market orders trade first, and can match with other market orders, quotes and limit orders.

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<sup>5</sup> The margin is currently calculated as 10% of mid-point of the NBBO with up to a maximum of \$5.00 and a minimum of \$0.10.

<sup>6</sup> This process is currently repeated every two seconds.

<sup>7</sup> The time period is currently set to one second.

As noted above, if market orders on either or both sides cannot be traded entirely the options class goes into an imbalance state; 2) bid quotes and bid limit orders priced higher than the opening price and ask quotes and ask limit orders priced lower than the opening price trade next; 3) Priority Customer<sup>8</sup> orders with a limit price equal to the opening price trade next in time priority; and 4) any remaining quantity of quotes and limit orders at the opening price trade pro rata. Only the displayed quantity of orders and quotes participate in the opening process.

There are a number of issues with the current opening which has resulted in fewer pre-open orders being sent to ISE by order flow providers. First, while trading through a better away price on the open is permitted under the Options Order Protection and Locked/Crossed Market Plan (the “Linkage Plan”) and ISE Rules,<sup>9</sup> several other exchanges provide away market price protection at the opening<sup>10</sup> resulting in order flow being sent to those exchanges and not to ISE due to the lack of such price protection on ISE. Second, the opening of options series can be delayed by imbalances that prevent ISE from determining an opening price in a timely manner. Such delays exacerbate the problem of not providing price protection at the opening.

The Exchange therefore proposes to modify the opening process by providing away market price protection at the opening by including the away best bid and offer (“ABBO”) when calculating the Boundary Prices. The Exchange also proposes to modify the opening process by moving from a single price opening, which will reduce the imbalance conditions that the opening process currently faces.

As is the case today, the PMM or the Exchange will continue to initiate a rotation in an options class. Once the PMM or the Exchange initiates a rotation, the trading system will automatically process quotes and orders in each series. When there is no executable interest in a particular series, i.e., there are no quotes or orders that lock or cross each other, the trading system will open that series by disseminating the Exchange’s best bid and offer among quotes and orders. Any Public Customer Orders<sup>11</sup> that would lock or cross a bid or offer from another exchange are not included in the Exchange’s disseminated best bid and offer and are simultaneously processed in accordance with

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<sup>8</sup> Pursuant to ISE Rules 100(a)(37A) and 100(a)(37B), a Priority Customer Order is an order for the account of a person or entity that (i) is not a broker or dealer in securities, and (ii) does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s).

<sup>9</sup> See ISE Rule 1901(b).

<sup>10</sup> See NASDAQ OMX PHLX (“PHLX”) Rule 1017(l); Chicago Board Options Exchange (“CBOE”) Rule 6.2B, Interpretation .03.

<sup>11</sup> Pursuant to ISE Rules 100(a)(38) and 100(a)(39), a Public Customer means a person or entity that is not a broker or dealer in securities and a Public Customer Order means an order for the account of a Public Customer.

Supplementary Material .02 to Rule 1901.<sup>12</sup> If there are any Non-Customer Orders<sup>13</sup> that would lock or cross a bid or an offer from another exchange by more than two ticks, such orders are canceled.

If there are non-customer orders that would lock or cross a bid or offer from another exchange by two ticks or less they will be included in the Exchange's disseminated best bid and offer. Any quotes that would lock or cross a bid or an offer from another exchange, will also be included in the Exchange's disseminated best bid and offer.

The proposed opening process is an iterative process. In the first iteration, the trading system attempts to derive the opening price to be at or better than the ISE market maker quotes and ABBO prices. When there is executable interest, i.e., there are quotes or orders on the Exchange that lock or cross each other, the trading system will first calculate the Boundary Prices. As is the case today, the trading system will use quotes provided by the PMM for the series in question to set the Boundary Prices. If the PMM is not present on either side of the market then the best quotes from the CMMs are used on the corresponding side. ISE Market Maker quotes therefore are the PMM's best bid and offer, or in the absence of a PMM quote, best bid and offer of CMMs. If there are no PMM or CMM quotes on the bid side, the lowest minimum trading increment for the option class is used on the bid side. If there are no PMM or CMM quotes on the offer side, the options class will not open because in the absence of an offer there is no limit as to the price at which an opening trade can occur. If the options class is open on another exchange, the Boundary Prices are determined to be the higher of the ISE Market Maker's bid in that options class and the national best bid, and the lower of the ISE Market Maker's offer in that options class and the national best offer.

Once the trading system has determined the Boundary Prices, it then determines the price at which the maximum number of contracts can trade at or within the Boundary Prices (the "execution price"). Once the trading system determines the execution price, orders and quotes are processed as follows. At the execution price, market orders will be given priority before limit orders and quotes, and limit orders and quotes will be given priority by price. For limit orders and quotes with the same price, priority will be

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<sup>12</sup> Under the Options Order Protection and Locked/Crossed Market Plan, the Exchange cannot execute orders at a price that is inferior to the NBBO, nor can the Exchange place an order on its book that would cause the ISE best bid or offer to lock or cross another exchange's quote. In compliance with this requirement, Non-Customer Orders and Public Customer Orders are exposed to all ISE Members for up to one second to give them an opportunity to execute orders at the NBBO price or better before orders are rejected (in the case of Non-Customer Orders) or routed out to other exchanges (in the case of Public Customer Orders). See Supplementary Material .02 to Rule 1901.

<sup>13</sup> Pursuant to ISE Rules 100(a)(27) and (28), a Non-Customer means a person or entity that is a broker or dealer in securities and a Non-Customer Order means an order for the account of a Non-Customer.

accorded first to Priority Customer Orders over Professional Orders<sup>14</sup> and quotes. Priority Customer Orders with the same limit price will be executed in random<sup>15</sup> order while Professional Orders and quotes with the same limit price will be executed pro-rata based on size. If the Boundary Prices are calculated using the national best bid and/or offer, any remaining Public Customer Orders after this iteration that would lock or cross a bid or offer from another exchange are processed in accordance with Supplementary Material .02 to Rule 1901. Any remaining Non-Customer Orders that would lock or cross a bid or offer from another exchange may trade outside the Boundary Prices by up to two trading increments as further described under the third iteration below.

Example 1:

Suppose the following market in option class A:

Away Market BBO: 10 @ 1.00 x 10 @ 1.05  
ISE PMM Quote: 10 @ 1.01 x 10 @ 1.04  
ISE CMM Quote: 10 @ 0.90 x 50 @ 1.03

Suppose further the following buy and sell orders in option class A:

Priority Customer 1: Buy 10 @ 1.00  
Non-Customer 1: Buy 10 @ 0.99  
Non-Customer 2: Buy 5 @ 0.95

Priority Customer 2: Sell 50 @ 0.96  
Non-Customer 3: Sell 50 @ 0.95  
Non-Customer 4: Sell 50 @ 0.95

In example 1 above, since the ISE PMM quote is better than the away market quote, the Boundary Prices are calculated using the ISE PMM quote, or 1.01 x 1.04. The highest bid at ISE is 1.01 and lowest offer is 0.95. To keep the trade within the Boundary Prices, the opening trade would be executed at 1.01 as follows:

- ISE PMM buys 10 contracts
- Non-Customer 3 and Non-Customer 4 sell 5 contracts each using the pro-rata allocation method

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<sup>14</sup> Pursuant to ISE Rule 100(a)(37C), a Professional Order is an order that is for the account of a person or entity that is not a Priority Customer.

<sup>15</sup> Priority Customer orders with the same limit price in the regular order book are currently executed in time priority during the opening. The Exchange believes executing these orders on a random basis is a fairer approach because the current time priority is dependent on when such orders are communicated to the Exchange by a Priority Customer's broker before the market, not the time the Priority Customer expressed interest in doing the trade. Executing these orders in random will provide Priority Customer orders an equal opportunity to participate at the open.



If after the first iteration there remain unexecuted orders and quotes that lock or cross each other, the trading system will initiate a second iteration. In the second iteration, the trading system uses either the ISE market maker quotes or the ABBO prices,<sup>16</sup> whichever was not used in the first iteration. For example, if the ISE market maker quotes were used in the first iteration, the second iteration will use ABBO prices, and vice versa. If there were no ABBO prices for consideration for the first iteration, then this second iteration does not occur and the trading system will initiate the third iteration as described below. The second iteration only occurs if there are both ISE market maker quotes and ABBO prices available in the first iteration to determine the opening price.

The trading system then determines the price at which the maximum number of contracts can trade at or within the widened Boundary Prices. Once the trading system determines the execution price following the second iteration, orders and quotes are processed as follows. At the execution price following the second iteration, market orders are given priority before limit orders and quotes, and limit orders and quotes are given priority by price. For limit orders and quotes with the same price, priority is accorded first to Priority Customer Orders over Professional Orders and quotes. Priority Customer Orders with the same limit price are executed in random order while Professional Orders and quotes with the same limit price are executed pro-rata based on size. If the Boundary Prices in the second iteration are calculated using the national best bid and/or offer, any remaining Public Customer Orders after this iteration that would lock or cross a bid or offer from another exchange are processed in accordance with Supplementary Material .02 to Rule 1901. Any remaining Non-Customer Orders that would lock or cross a bid or offer from another exchange may trade outside the Boundary Prices by up to two trading increments as further described under the third iteration below.

In example 1 above, the following orders and quotes remain on the ISE order book following the first iteration:

ISE PMM Quote: 0 @ 0.00 x 10 @ 1.04  
ISE CMM Quote: 10 @ 0.90 x 50 @ 1.03

Priority Customer 1: Buy 10 @ 1.00  
Non-Customer 1: Buy 10 @ 0.99  
Non-Customer 2: Buy 5 @ 0.95

Priority Customer 2: Sell 50 @ 0.96  
Non-Customer 3: Sell 45 @ 0.95  
Non-Customer 4: Sell 45 @ 0.95

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<sup>16</sup> The ABBO prices considered in the first iteration are also used during the second iteration.

Since in the first iteration the Boundary Prices were calculated using the ISE PMM Quotes, the second iteration will use away market prices that were not used in the first iteration and the Boundary Prices are calculated to be 1.00 x 1.05. The highest bid at ISE is now 1.00 and lowest offer is 0.95. To keep the trade within the Boundary Prices, the second opening trade will be executed at 1.00 as follows:

- Priority Customer 1 buys 10 contracts
- Non-Customer 3 and Non-Customer 4 sell 5 contracts each using the pro-rata allocation method
- Priority Customer 2 is exposed to all ISE Members to give them an opportunity to execute the order at the NBBO price and is routed out if not completely executed on ISE

If after the second iteration there remain unexecuted orders and quotes that lock or cross each other, the trading system will initiate a third iteration. In the third iteration, the Boundary Prices, i.e., the prices used in the second iteration, and in the case where the second iteration does not occur, the prices used in the first iteration, are widened by two trading increments. The trading system then determines the price at which the maximum number of contracts can trade at or within the widened Boundary Prices. Once the trading system determines the execution price following the third iteration, orders and quotes are processed as follows. At the execution price following the third iteration, market orders are given priority before limit orders and quotes, and limit orders and quotes are given priority by price. For limit orders and quotes with the same price, priority is accorded first to Priority Customer Orders over Professional Orders and quotes. Priority Customer Orders with the same limit price are executed in random order while Professional Orders and quotes with the same limit price are executed pro-rata based on size. Thereafter, any unexecuted Priority Customer Orders that lock or cross the Boundary Prices are handled by the PMM<sup>17</sup> and any unexecuted Professional Orders and Non-Customer Orders that lock or cross the Boundary Prices are canceled. While Professional Orders and Non-Customer Orders are canceled in these circumstances, the Exchange seeks to provide a higher level of service for Priority Customer orders by having them handled by the PMM, which has an affirmative obligation to provide liquidity and price continuity. The Exchange believes that providing this service for Priority Customer orders is appropriate and consistent with feedback from members that enter Priority Customer orders on the Exchange, who prefer that Priority Customer orders not be canceled in these circumstances.

In example 1 above, the following orders and quotes remain on the ISE order book following the second iteration:

ISE PMM Quote: 0 @ 0.00 x 10 @ 1.04

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<sup>17</sup> The PMM has the obligation under existing Exchange rules to engage in dealings for his own account when, among other things, there is a temporary disparity between the supply of and demand for a particular options contract, and to act with due diligence in handling orders. See ISE Rule 803(c).

ISE CMM Quote: 10 @ .90 x 50 @ 1.03

Non-Customer 1: Buy 10 @ 0.99

Non-Customer 2: Buy 5 @ .95

Non-Customer 3: Sell 40 @ .95

Non-Customer 4: Sell 40 @ .95

In the third iteration, the Boundary Prices are widened by two trading increments and are calculated to be 0.98 x 1.07 (best bid of 1.00 widened by two trading increments x best offer of 1.05 widened by two trading increments). The highest bid at ISE is now 0.99 and lowest offer remains at 0.95. To keep the trade within the Boundary Prices, the third opening trade will be executed at 0.98 as follows:

- Non-Customer 1 buys 10 contracts
- Non-Customer 3 and Non-Customer 4 sell 5 contracts each using the pro-rata allocation method

Since the remaining quantity of Non-Customer 3 and Non-Customer 4 orders are priced more than two trading increments away from the Boundary Prices, these orders are cancelled.

If after the third iteration there remain unexecuted orders and quotes that lock or cross each other, the trading system will initiate a fourth and final iteration. In the fourth iteration, the trading system does not calculate new Boundary Prices. The trading system will simply trade any remaining interest. Thereafter, the trading system opens the options series by disseminating the Exchange's best bid and offer derived from the remaining orders and quotes.

Continuing with example 1 above, following the third iteration, the following orders and quotes remain on the ISE order book:

ISE PMM Quote: 0 @ 0.00 x 10 @ 1.04

ISE CMM Quote: 10 @ 0.90 x 50 @ 1.03

Non-Customer 2: Buy 5 @ 0.95

Since there are no marketable orders or quotes left on the ISE order book, the trading system opens the class and disseminates the Exchange's best bid and offer as 5 @ 0.95 x 50 @ 1.03.

(b) Basis – The Exchange believes that its proposal is consistent with the requirements of the Securities Exchange Act of 1934 (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>18</sup> Specifically, the proposed

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<sup>18</sup> 15 U.S.C. 78f(b).

rule change is consistent with Section 6(b)(5) of the Act,<sup>19</sup> because it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism for 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 opening process for options listed on the Exchange will help ensure that ISE opens trading in options contracts in a fair and orderly manner and in a greater number of options classes. Specifically, the proposed rule change will provide away market protection at the opening which the Exchange believes will encourage market participants to direct their pre-opening order flow to the Exchange and therefore foster greater competition at the open for the benefit of all market participants.

The Exchange believes the proposed rule change is consistent with the Act because it will also facilitate the price formation process by taking into account away market prices when calculating the Boundary Prices which the Exchange believes will limit instances of an options class going into an imbalance state and therefore not opening for trading on the Exchange in a timely fashion. Additionally, the proposal to move away from a single opening price will permit the Exchange to execute a greater number of contracts at the open and therefore remove impediments to a free and open market and foster competition at the open.

The proposed rule change to codify the rapid opening mechanism into the Exchange's rules will benefit investors and promotes an open market by adding detail to the rules regarding how the trading system facilitates the opening of option classes on the Exchange.

The Exchange's proposal to permit the execution of Priority Customer orders with the same limit price in the regular order book on a random basis is a fairer approach because the current time priority is dependent on when such orders are communicated to the Exchange, not the time the order originator expressed an interest in doing the trade. The Exchange believes that in the interest of promoting just and equitable principles of trade, it is appropriate to execute such orders on a random basis to ensure that all orders are afforded the same opportunity for execution. For example, suppose order 1 originating from a retail customer was sent at 11pm to its broker who is a member of the Exchange (member 1) and order 2, also originating from a retail customer, was sent at 8 am the following day to its broker who too is a member of the Exchange (member 2). If member 2 initiates its connection to the Exchange before member 1 does and therefore sends its retail customer order before member 1 sends its retail customer order, member 2's retail customer order will have time priority over member 1's retail customer order even though member 1's customer had expressed an interest in trading earlier than member 2's customer. The Exchange believes it is in the public interest to execute these orders in random as means to provide them an equal opportunity to participate at the open.

As a participant exchange of the Linkage Plan, the Exchange has adopted rules implementing various requirements specified in the Linkage Plan. The Linkage Plan

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<sup>19</sup> 15 U.S.C. 78f(b)(5).

provides a set of rules and procedures designed to avoid trade-throughs and locked markets. Specifically, Section 5(a) – Order Protection – of the Linkage Plan requires that each participant exchange establish written policies and procedures that are reasonably designed to prevent trade-throughs and to conduct surveillance to ascertain the effectiveness of such policies and procedures. Section 5(b) provides a number of exceptions to the order protection requirements. Section 5(b)(ii), in particular, permits trade-throughs to happen during a trading rotation.

The Exchange notes that each iteration of the proposed iterative process complies with Section 5(a) of the Linkage Plan, or qualifies as an exception under Section 5(b)(ii) of the Linkage Plan. For the purposes of the Linkage Plan, each iteration is a trading rotation to determine Boundary Prices at which the most amount of contracts can be traded.

The Exchange represents that the first iteration complies with the order protection requirements of the Linkage Plan if it utilizes ISE PMM quotes to determine the Boundary Prices because the ISE PMM quotes are better than any away market quotes and therefore would not trade-through better prices at away markets. The first iteration also complies with the order protection requirements of the Linkage Plan if it utilizes away market quotes to determine the Boundary Prices in that any Public Customer orders that remain after this iteration that would lock or cross a bid or offer from another exchange would be processed in accordance with the requirements of the Linkage Plan, as provided in Supplementary Material .02 to Rule 1901.

If the first iteration utilized ISE PMM quotes then the second iteration would utilize away market quotes. If there were no away market quotes for consideration for the first iteration then the second iteration would not occur. The Exchange represents that the second iteration complies with the order protection requirements of the Linkage Plan if it utilizes away market quotes to determine the Boundary Prices in that any Public Customer orders that remain after this iteration that would lock or cross a bid or offer from another exchange would be processed in accordance with the requirements of the Linkage Plan, as provided in Supplementary Material .02 to Rule 1901. If the first iteration utilized the away market quotes then the second iteration would utilize ISE PMM quotes. To the extent the second iteration results in any trade-throughs, the Exchange represents that such trade-throughs are permissible under Section 5(b)(ii) of the Linkage Plan, the Trading Rotation exception, which permits a participant exchange to trade through a Protected Quotation disseminated by an Eligible Exchange during a trading rotation.

In the third iteration, the Boundary Prices are widened by two trading increments to determine the price at which the maximum number of contracts can trade at or within the widened Boundary Prices. To the extent the third iteration results in any trade-throughs, the Exchange represents that such trade-throughs are permissible under Section 5(b)(ii) of the Linkage Plan. Section 5(b)(ii) of the Linkage Plan, the Trading Rotation exception, permits a participant exchange to trade through a Protected Quotation disseminated by an Eligible Exchange during a trading rotation.

In the fourth and final iteration, the Boundary Prices are not calculated and any remaining interest is traded. To the extent the fourth iteration results in any trade-throughs, the Exchange represents that such trade-throughs are permissible under Section 5(b)(ii) of the Linkage Plan. Section 5(b)(ii) of the Linkage Plan, the Trading Rotation exception, permits a participant exchange to trade through a Protected Quotation disseminated by an Eligible Exchange during a trading rotation.

The proposed iterative opening process will provide market makers and other market participants greater opportunity to participate at the open and provide option classes with an increased chance to determine an opening price which removes impediments to a free and open market and benefits all market participants.

**4. Self-Regulatory Organization's Statement on Burden on Competition**

The Exchange does not believe the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, the Exchange's inability to provide away market protection limits competition in that other exchanges currently provide such protection and therefore are able to attract pre-opening order flow. Thus, approval of the proposed rule change will promote intermarket competition because it will allow the Exchange to, among other things, provide away market price protection at the open and thus, compete with other exchanges for order flow that market participants do not currently send to the ISE. The Exchange does not believe the proposed rule change will impose any burden on intramarket competition. The Exchange believes the proposed rule change will encourage ISE Members to send their pre-open order flow to the Exchange rather than to a competing exchange and will therefore increase competition at the open.

**5. 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 written comments from members or other interested parties.

**6. Extension of Time Period for Commission Action**

The Exchange does not consent to an extension of the time period specified in Section 19(b)(2) of the Exchange Act.

**7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)**

Not applicable.

**8. Proposed Rule change Based on Rules of Another Self-Regulatory Organization or of the Commission**

The proposed rule change is not based on the rules of another self-regulatory organization.

**9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act**

Not Applicable.

**10. Advance Notices Filed Pursuant to Section 806(e) of the Payment Clearing and Settlement Supervision Act**

Not Applicable

**11. Exhibits**

Exhibit 1 – Form of Notice of Proposed Rule Change for Publication in the Federal Register.

Exhibit 5 – Text of the Proposed Rule Change

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34- ; File No. SR-ISE-2014-24)

[Date]

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing  
of Proposed Rule Change to Modify the Opening Process

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on November 19, 2014, the International Securities Exchange, LLC (the "Exchange" or the "ISE") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III 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 its rules in order to modify the manner in which the Exchange's trading system opens trading at the beginning of the day and after trading halts and to codify certain existing functionality within the trading system regarding opening and reopening of options classes traded on the Exchange. The text of the

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

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



proposed rule change is available on the Exchange's Web site [www.ise.com](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 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 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 purpose of the proposed rule change is to amend ISE rules in order to modify the manner in which the Exchange's trading system opens trading at the beginning of the day and after trading halts and to codify certain existing functionality within the trading system regarding opening and reopening of option classes traded on the Exchange. Specifically, the Exchange proposes to amend Rule 701 to modify the opening process by providing away market protection at the open and making system changes to limit instances where an options class goes into an imbalance state which prevents the Exchange from determining the opening price in a timely manner for that options class. The Exchange also proposes to amend parts of Rule 701 to more clearly describe the manner in which the trading system functions with regards to the rotation process for regular orders.

Currently, for each class of options that has been approved for trading, the opening rotation is conducted by the Primary Market Maker (“PMM”) appointed to such class of options. The Exchange may direct that one or more trading rotations be employed on any business day to aid in producing a fair and orderly market. For each rotation so employed, except as the Exchange may direct, rotations are conducted in the order and manner the PMM determines to be appropriate under the circumstances. The PMM has the authority to determine the rotation order and manner and may also employ multiple trading rotations simultaneously.<sup>3</sup>

Trading rotations are employed at the opening of the Exchange each business day and during the reopening of the market after a trading halt. The opening rotation in each class of options is held promptly following the opening of the market for the underlying security.<sup>4</sup> The opening rotation for options contracts in an underlying security is delayed until the market for such underlying security has opened unless the Exchange determines that the interests of a fair and orderly market are best served by opening trading in the options contracts.

Currently, the rotation process can be initiated in one of two ways. A PMM can initiate the rotation process by either sending a rotation request through the trading

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<sup>3</sup> See ISE Rule 701(a)(1)–(4). The Exchange proposes to delete amend certain parts of Rule 701 and add language to the current rule to describe in greater detail how the PMM initiates the rotation process, and in the absence of a PMM, how the trading system initiates the rotation process.

<sup>4</sup> The “market for the underlying security” is either the primary listing market, the primary volume market (defined as the market with the most liquidity in that underlying security for the previous two calendar months), or the first market to open the underlying security, as determined by the Exchange on an issue-by-issue basis. See ISE Rule 701(b)(2).

system or by selecting an auto-open setting in the trading system for each class in which it serves as a PMM.

Once the security underlying an options class has opened, the trading system checks to see whether the PMM assigned to that options class has selected to auto-open the options class. If the PMM has not selected to auto-open the options class, the trading system waits for the PMM to send a rotation request to start the rotation process. The PMM can initiate the rotation process by submitting a quote. To initiate the rotation process, a PMM quote must be present. If the PMM quote is not present, the rotation process for that class will not start.

There may be instances where the PMM is unable to initiate the rotation process because, for instance, the PMM is experiencing technical difficulties in sending the rotation request to the Exchange, or the PMM has not set the auto-open setting or because the PMM has not submitted any quotes for an options class. In such instances, the Exchange will initiate the rotation process by using the rapid opening mechanism within a configurable time period<sup>5</sup> after the underlying security has opened. In order for the Exchange to use the rapid opening mechanism in instances where the Primary Market Maker has not initiated the rotation process, the following conditions must be met: (i) at least one market maker quote must be present; (ii) if there are more than one market maker quotes present, the best quoted market maker bid must not be greater than a

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<sup>5</sup> The time period is currently set to five seconds. Members are advised when there is a change to this configurable time period through the issuance of information circular.

configurable number of ticks than the best quoted market maker offer;<sup>6</sup> (iii) if a class is traded on an another exchange, at least one other exchange must have opened that class and a NBBO has been published; and (iv) the best quoted market maker bid and best quoted market maker offer must not cross the NBBO by a certain margin. The margin is calculated as a percentage of the mid-point of the NBBO with up to a maximum and a minimum range.<sup>7</sup> In the event any of the conditions described above are not met, the trading system will repeat the process after a configurable time period until all the conditions are met<sup>8</sup> thus allowing the Exchange to use the rapid opening mechanism to initiate the opening rotation process.

After a rotation process has been performed and the option class cannot be opened due to an imbalance condition, an imbalance broadcast is sent to members. The PMM can then re-initiate the rotation process again. If the PMM does not re-initiate the rotation process within a configurable time period,<sup>9</sup> the Exchange will re-initiate the rotation process as described above. The rotation process will repeat until the class is opened. The Exchange may delay the commencement of the opening rotation in any class of options in the interests of a fair and orderly market.

The trading system currently uses quotes provided by the PMM for the series in question to set a range within which to open the options series (“Boundary Prices”). The

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<sup>6</sup> The number of ticks is currently set to five. Members are advised when there is a change to the number of ticks through the issuance of information circular.

<sup>7</sup> The margin is currently calculated as 10% of mid-point of the NBBO with up to a maximum of \$5.00 and a minimum of \$0.10.

<sup>8</sup> This process is currently repeated every two seconds.

Boundary Prices ensure the opening price is close to the reasonable price range for the options class. If the PMM for an options class is not present on the bid or the offer for that options class then the best quote from the Competitive Market Makers (“CMMs”) for that options class is used.

To determine the opening price, the accumulated quantity for each price level is calculated for the buy and sell sides. Only quotes, market orders and displayed quantities of limit orders are used to calculate the accumulated quantity. The opening price is calculated as the price level where a maximum quantity can be traded. If there is no overlap between buy and sell prices the opening price cannot be calculated and the options class is opened without a trade. If there are only market orders on both sides of the quote, an opening price cannot be calculated and the options class goes into an imbalance state, in which case, the options class does not open until the imbalance condition is resolved, as described above. If the calculated opening price is outside the Boundary Prices, the options class goes into an imbalance state and the options class again does not open until the imbalance condition is resolved. If the calculated opening price is at or inside the Boundary Prices then that price is the opening price.

Once the opening price for an options class has been determined, order and quotes on the order book in that options class are matched to trade in the following order: 1) market orders trade first, and can match with other market orders, quotes and limit orders. As noted above, if market orders on either or both sides cannot be traded entirely the options class goes into an imbalance state; 2) bid quotes and bid limit orders priced

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<sup>9</sup> The time period is currently set to one second.

higher than the opening price and ask quotes and ask limit orders priced lower than the opening price trade next; 3) Priority Customer<sup>10</sup> orders with a limit price equal to the opening price trade next in time priority; and 4) any remaining quantity of quotes and limit orders at the opening price trade pro rata. Only the displayed quantity of orders and quotes participate in the opening process.

There are a number of issues with the current opening which has resulted in fewer pre-open orders being sent to ISE by order flow providers. First, while trading through a better away price on the open is permitted under the Options Order Protection and Locked/Crossed Market Plan (the “Linkage Plan”) and ISE Rules,<sup>11</sup> several other exchanges provide away market price protection at the opening<sup>12</sup> resulting in order flow being sent to those exchanges and not to ISE due to the lack of such price protection on ISE. Second, the opening of options series can be delayed by imbalances that prevent ISE from determining an opening price in a timely manner. Such delays exacerbate the problem of not providing price protection at the opening.

The Exchange therefore proposes to modify the opening process by providing away market price protection at the opening by including the away best bid and offer (“ABBO”) when calculating the Boundary Prices. The Exchange also proposes to

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<sup>10</sup> Pursuant to ISE Rules 100(a)(37A) and 100(a)(37B), a Priority Customer Order is an order for the account of a person or entity that (i) is not a broker or dealer in securities, and (ii) does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s).

<sup>11</sup> See ISE Rule 1901(b).

<sup>12</sup> See NASDAQ OMX PHLX (“PHLX”) Rule 1017(l); Chicago Board Options Exchange (“CBOE”) Rule 6.2B, Interpretation .03.

modify the opening process by moving from a single price opening, which will reduce the imbalance conditions that the opening process currently faces.

As is the case today, the PMM or the Exchange will continue to initiate a rotation in an options class. Once the PMM or the Exchange initiates a rotation, the trading system will automatically process quotes and orders in each series. When there is no executable interest in a particular series, i.e., there are no quotes or orders that lock or cross each other, the trading system will open that series by disseminating the Exchange's best bid and offer among quotes and orders. Any Public Customer Orders<sup>13</sup> that would lock or cross a bid or offer from another exchange are not included in the Exchange's disseminated best bid and offer and are simultaneously processed in accordance with Supplementary Material .02 to Rule 1901.<sup>14</sup> If there are any Non-Customer Orders<sup>15</sup> that would lock or cross a bid or an offer from another exchange by more than two ticks, such orders are canceled.

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<sup>13</sup> Pursuant to ISE Rules 100(a)(38) and 100(a)(39), a Public Customer means a person or entity that is not a broker or dealer in securities and a Public Customer Order means an order for the account of a Public Customer.

<sup>14</sup> Under the Options Order Protection and Locked/Crossed Market Plan, the Exchange cannot execute orders at a price that is inferior to the NBBO, nor can the Exchange place an order on its book that would cause the ISE best bid or offer to lock or cross another exchange's quote. In compliance with this requirement, Non-Customer Orders and Public Customer Orders are exposed to all ISE Members for up to one second to give them an opportunity to execute orders at the NBBO price or better before orders are rejected (in the case of Non-Customer Orders) or routed out to other exchanges (in the case of Public Customer Orders). See Supplementary Material .02 to Rule 1901.

<sup>15</sup> Pursuant to ISE Rules 100(a)(27) and (28), a Non-Customer means a person or entity that is a broker or dealer in securities and a Non-Customer Order means an order for the account of a Non-Customer.

If there are non-customer orders that would lock or cross a bid or offer from another exchange by two ticks or less they will be included in the Exchange's disseminated best bid and offer. Any quotes that would lock or cross a bid or an offer from another exchange, will also be included in the Exchange's disseminated best bid and offer.

The proposed opening process is an iterative process. In the first iteration, the trading system attempts to derive the opening price to be at or better than the ISE market maker quotes and ABBO prices. When there is executable interest, i.e., there are quotes or orders on the Exchange that lock or cross each other, the trading system will first calculate the Boundary Prices. As is the case today, the trading system will use quotes provided by the PMM for the series in question to set the Boundary Prices. If the PMM is not present on either side of the market then the best quotes from the CMMs are used on the corresponding side. ISE Market Maker quotes therefore are the PMM's best bid and offer, or in the absence of a PMM quote, best bid and offer of CMMs. If there are no PMM or CMM quotes on the bid side, the lowest minimum trading increment for the option class is used on the bid side. If there are no PMM or CMM quotes on the offer side, the options class will not open because in the absence of an offer there is no limit as to the price at which an opening trade can occur. If the options class is open on another exchange, the Boundary Prices are determined to be the higher of the ISE Market Maker's bid in that options class and the national best bid, and the lower of the ISE Market Maker's offer in that options class and the national best offer.

Once the trading system has determined the Boundary Prices, it then determines the price at which the maximum number of contracts can trade at or within the Boundary



Prices (the “execution price”). Once the trading system determines the execution price, orders and quotes are processed as follows. At the execution price, market orders will be given priority before limit orders and quotes, and limit orders and quotes will be given priority by price. For limit orders and quotes with the same price, priority will be accorded first to Priority Customer Orders over Professional Orders<sup>16</sup> and quotes. Priority Customer Orders with the same limit price will be executed in random<sup>17</sup> order while Professional Orders and quotes with the same limit price will be executed pro-rata based on size. If the Boundary Prices are calculated using the national best bid and/or offer, any remaining Public Customer Orders after this iteration that would lock or cross a bid or offer from another exchange are processed in accordance with Supplementary Material .02 to Rule 1901. Any remaining Non-Customer Orders that would lock or cross a bid or offer from another exchange may trade outside the Boundary Prices by up to two trading increments as further described under the third iteration below.

Example 1:

Suppose the following market in option class A:

Away Market BBO: 10 @ 1.00 x 10 @ 1.05

ISE PMM Quote: 10 @ 1.01 x 10 @ 1.04

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<sup>16</sup> Pursuant to ISE Rule 100(a)(37C), a Professional Order is an order that is for the account of a person or entity that is not a Priority Customer.

<sup>17</sup> Priority Customer orders with the same limit price in the regular order book are currently executed in time priority during the opening. The Exchange believes executing these orders on a random basis is a fairer approach because the current time priority is dependent on when such orders are communicated to the Exchange by a Priority Customer’s broker before the market, not the time the Priority Customer expressed interest in doing the trade. Executing these orders in random will provide Priority Customer orders an equal opportunity to participate at the open.

ISE CMM Quote: 10 @ 0.90 x 50 @ 1.03

Suppose further the following buy and sell orders in option class A:

Priority Customer 1: Buy 10 @ 1.00

Non-Customer 1: Buy 10 @ 0.99

Non-Customer 2: Buy 5 @ 0.95

Priority Customer 2: Sell 50 @ 0.96

Non-Customer 3: Sell 50 @ 0.95

Non-Customer 4: Sell 50 @ 0.95

In example 1 above, since the ISE PMM quote is better than the away market quote, the Boundary Prices are calculated using the ISE PMM quote, or 1.01 x 1.04. The highest bid at ISE is 1.01 and lowest offer is 0.95. To keep the trade within the Boundary Prices, the opening trade would be executed at 1.01 as follows:

- ISE PMM buys 10 contracts
- Non-Customer 3 and Non-Customer 4 sell 5 contracts each using the pro-rata allocation method

If after the first iteration there remain unexecuted orders and quotes that lock or cross each other, the trading system will initiate a second iteration. In the second iteration, the trading system uses either the ISE market maker quotes or the ABBO prices,<sup>18</sup> whichever was not used in the first iteration. For example, if the ISE market maker quotes were used in the first iteration, the second iteration will use ABBO prices,

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<sup>18</sup> The ABBO prices considered in the first iteration are also used during the second iteration.

and vice versa. If there were no ABBO prices for consideration for the first iteration, then this second iteration does not occur and the trading system will initiate the third iteration as described below. The second iteration only occurs if there are both ISE market maker quotes and ABBO prices available in the first iteration to determine the opening price.

The trading system then determines the price at which the maximum number of contracts can trade at or within the widened Boundary Prices. Once the trading system determines the execution price following the second iteration, orders and quotes are processed as follows. At the execution price following the second iteration, market orders are given priority before limit orders and quotes, and limit orders and quotes are given priority by price. For limit orders and quotes with the same price, priority is accorded first to Priority Customer Orders over Professional Orders and quotes. Priority Customer Orders with the same limit price are executed in random order while Professional Orders and quotes with the same limit price are executed pro-rata based on size. If the Boundary Prices in the second iteration are calculated using the national best bid and/or offer, any remaining Public Customer Orders after this iteration that would lock or cross a bid or offer from another exchange are processed in accordance with Supplementary Material .02 to Rule 1901. Any remaining Non-Customer Orders that would lock or cross a bid or offer from another exchange may trade outside the Boundary Prices by up to two trading increments as further described under the third iteration below.

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In example 1 above, the following orders and quotes remain on the ISE order book following the first iteration:

ISE PMM Quote: 0 @ 0.00 x 10 @ 1.04

ISE CMM Quote: 10 @ 0.90 x 50 @ 1.03

Priority Customer 1: Buy 10 @ 1.00

Non-Customer 1: Buy 10 @ 0.99

Non-Customer 2: Buy 5 @ 0.95

Priority Customer 2: Sell 50 @ 0.96

Non-Customer 3: Sell 45 @ 0.95

Non-Customer 4: Sell 45 @ 0.95

Since in the first iteration the Boundary Prices were calculated using the ISE PMM Quotes, the second iteration will use away market prices that were not used in the first iteration and the Boundary Prices are calculated to be 1.00 x 1.05. The highest bid at ISE is now 1.00 and lowest offer is 0.95. To keep the trade within the Boundary Prices, the second opening trade will be executed at 1.00 as follows:

- Priority Customer 1 buys 10 contracts
- Non-Customer 3 and Non-Customer 4 sell 5 contracts each using the pro-rata allocation method
- Priority Customer 2 is exposed to all ISE Members to give them an opportunity to execute the order at the NBBO price and is routed out if not completely executed on ISE

If after the second iteration there remain unexecuted orders and quotes that lock or cross each other, the trading system will initiate a third iteration. In the third iteration, the Boundary Prices, i.e., the prices used in the second iteration, and in the case where the second iteration does not occur, the prices used in the first iteration, are widened by two trading increments. The trading system then determines the price at which the maximum number of contracts can trade at or within the widened Boundary Prices. Once the trading system determines the execution price following the third iteration, orders and quotes are processed as follows. At the execution price following the third iteration, market orders are given priority before limit orders and quotes, and limit orders and quotes are given priority by price. For limit orders and quotes with the same price, priority is accorded first to Priority Customer Orders over Professional Orders and quotes. Priority Customer Orders with the same limit price are executed in random order while Professional Orders and quotes with the same limit price are executed pro-rata based on size. Thereafter, any unexecuted Priority Customer Orders that lock or cross the Boundary Prices are handled by the PMM<sup>19</sup> and any unexecuted Professional Orders and Non-Customer Orders that lock or cross the Boundary Prices are canceled. While Professional Orders and Non-Customer Orders are canceled in these circumstances, the Exchange seeks to provide a higher level of service for Priority Customer orders by having them handled by the PMM, which has an affirmative obligation to provide liquidity and price continuity. The Exchange believes that providing this service for Priority Customer orders is appropriate and consistent with feedback from members that

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<sup>19</sup> The PMM has the obligation under existing Exchange rules to engage in dealings for his own account when, among other things, there is a temporary disparity between the supply of and demand for a particular options contract, and to act with due diligence in handling orders. See ISE Rule 803(c).

enter Priority Customer orders on the Exchange, who prefer that Priority Customer orders not be canceled in these circumstances.

In example 1 above, the following orders and quotes remain on the ISE order book following the second iteration:

ISE PMM Quote: 0 @ 0.00 x 10 @ 1.04

ISE CMM Quote: 10 @ .90 x 50 @ 1.03

Non-Customer 1: Buy 10 @ 0.99

Non-Customer 2: Buy 5 @ .95

Non-Customer 3: Sell 40 @ .95

Non-Customer 4: Sell 40 @ .95

In the third iteration, the Boundary Prices are widened by two trading increments and are calculated to be 0.98 x 1.07 (best bid of 1.00 widened by two trading increments x best offer of 1.05 widened by two trading increments). The highest bid at ISE is now 0.99 and lowest offer remains at 0.95. To keep the trade within the Boundary Prices, the third opening trade will be executed at 0.98 as follows:

- Non-Customer 1 buys 10 contracts
  - Non-Customer 3 and Non-Customer 4 sell 5 contracts each using the pro-rata allocation method
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Since the remaining quantity of Non-Customer 3 and Non-Customer 4 orders are priced more than two trading increments away from the Boundary Prices, these orders are cancelled.

If after the third iteration there remain unexecuted orders and quotes that lock or cross each other, the trading system will initiate a fourth and final iteration. In the fourth iteration, the trading system does not calculate new Boundary Prices. The trading system will simply trade any remaining interest. Thereafter, the trading system opens the options series by disseminating the Exchange's best bid and offer derived from the remaining orders and quotes.

Continuing with example 1 above, following the third iteration, the following orders and quotes remain on the ISE order book:

ISE PMM Quote: 0 @ 0.00 x 10 @ 1.04

ISE CMM Quote: 10 @ 0.90 x 50 @ 1.03

Non-Customer 2: Buy 5 @ 0.95

Since there are no marketable orders or quotes left on the ISE order book, the trading system opens the class and disseminates the Exchange's best bid and offer as 5 @ 0.95 x 50 @ 1.03.

## 2. Basis

The Exchange believes that its proposal is consistent with the requirements of the Securities Exchange Act of 1934 (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>20</sup> Specifically, the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>21</sup> because it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism for 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 opening process for options listed on the Exchange will help ensure that ISE opens trading in options contracts in a fair and orderly manner and in a greater number of options classes. Specifically, the proposed rule change will provide away market protection at the opening which the Exchange believes will encourage market participants to direct their pre-opening order flow to the Exchange and therefore foster greater competition at the open for the benefit of all market participants.

The Exchange believes the proposed rule change is consistent with the Act because it will also facilitate the price formation process by taking into account away market prices when calculating the Boundary Prices which the Exchange believes will limit instances of an options class going into an imbalance state and therefore not opening for trading on the Exchange in a timely fashion. Additionally, the proposal to move away from a single opening price will permit the Exchange to execute a greater number of contracts at the open and therefore remove impediments to a free and open market and foster competition at the open.

The proposed rule change to codify the rapid opening mechanism into the Exchange's rules will benefit investors and promotes an open market by adding detail to

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<sup>20</sup> 15 U.S.C. 78f(b).



the rules regarding how the trading system facilitates the opening of option classes on the Exchange.

The Exchange's proposal to permit the execution of Priority Customer orders with the same limit price in the regular order book on a random basis is a fairer approach because the current time priority is dependent on when such orders are communicated to the Exchange, not the time the order originator expressed an interest in doing the trade. The Exchange believes that in the interest of promoting just and equitable principles of trade, it is appropriate to execute such orders on a random basis to ensure that all orders are afforded the same opportunity for execution. For example, suppose order 1 originating from a retail customer was sent at 11pm to its broker who is a member of the Exchange (member 1) and order 2, also originating from a retail customer, was sent at 8 am the following day to its broker who too is a member of the Exchange (member 2). If member 2 initiates its connection to the Exchange before member 1 does and therefore sends its retail customer order before member 1 sends its retail customer order, member 2's retail customer order will have time priority over member 1's retail customer order even though member 1's customer had expressed an interest in trading earlier than member 2's customer. The Exchange believes it is in the public interest to execute these orders in random as means to provide them an equal opportunity to participate at the open.

As a participant exchange of the Linkage Plan, the Exchange has adopted rules implementing various requirements specified in the Linkage Plan. The Linkage Plan provides a set of rules and procedures designed to avoid trade-throughs and locked

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<sup>21</sup> 15 U.S.C. 78f(b)(5).

markets. Specifically, Section 5(a) – Order Protection – of the Linkage Plan requires that each participant exchange establish written policies and procedures that are reasonably designed to prevent trade-throughs and to conduct surveillance to ascertain the effectiveness of such policies and procedures. Section 5(b) provides a number of exceptions to the order protection requirements. Section 5(b)(ii), in particular, permits trade-throughs to happen during a trading rotation.

The Exchange notes that each iteration of the proposed iterative process complies with Section 5(a) of the Linkage Plan, or qualifies as an exception under Section 5(b)(ii) of the Linkage Plan. For the purposes of the Linkage Plan, each iteration is a trading rotation to determine Boundary Prices at which the most amount of contracts can be traded.

The Exchange represents that the first iteration complies with the order protection requirements of the Linkage Plan if it utilizes ISE PMM quotes to determine the Boundary Prices because the ISE PMM quotes are better than any away market quotes and therefore would not trade-through better prices at away markets. The first iteration also complies with the order protection requirements of the Linkage Plan if it utilizes away market quotes to determine the Boundary Prices in that any Public Customer orders that remain after this iteration that would lock or cross a bid or offer from another exchange would be processed in accordance with the requirements of the Linkage Plan, as provided in Supplementary Material .02 to Rule 1901.

If the first iteration utilized ISE PMM quotes then the second iteration would utilize away market quotes. If there were no away market quotes for consideration for

the first iteration then the second iteration would not occur. The Exchange represents that the second iteration complies with the order protection requirements of the Linkage Plan if it utilizes away market quotes to determine the Boundary Prices in that any Public Customer orders that remain after this iteration that would lock or cross a bid or offer from another exchange would be processed in accordance with the requirements of the Linkage Plan, as provided in Supplementary Material .02 to Rule 1901. If the first iteration utilized the away market quotes then the second iteration would utilize ISE PMM quotes. To the extent the second iteration results in any trade-throughs, the Exchange represents that such trade-throughs are permissible under Section 5(b)(ii) of the Linkage Plan, the Trading Rotation exception, which permits a participant exchange to trade through a Protected Quotation disseminated by an Eligible Exchange during a trading rotation.

In the third iteration, the Boundary Prices are widened by two trading increments to determine the price at which the maximum number of contracts can trade at or within the widened Boundary Prices. To the extent the third iteration results in any trade-throughs, the Exchange represents that such trade-throughs are permissible under Section 5(b)(ii) of the Linkage Plan. Section 5(b)(ii) of the Linkage Plan, the Trading Rotation exception, permits a participant exchange to trade through a Protected Quotation disseminated by an Eligible Exchange during a trading rotation.

In the fourth and final iteration, the Boundary Prices are not calculated and any remaining interest is traded. To the extent the fourth iteration results in any trade-throughs, the Exchange represents that such trade-throughs are permissible under Section 5(b)(ii) of the Linkage Plan. Section 5(b)(ii) of the Linkage Plan, the Trading Rotation

exception, permits a participant exchange to trade through a Protected Quotation disseminated by an Eligible Exchange during a trading rotation.

The proposed iterative opening process will provide market makers and other market participants greater opportunity to participate at the open and provide option classes with an increased chance to determine an opening price which removes impediments to a free and open market and benefits all market participants.

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

The Exchange does not believe the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. To the contrary, the Exchange's inability to provide away market protection limits competition in that other exchanges currently provide such protection and therefore are able to attract pre-opening order flow. Thus, approval of the proposed rule change will promote intermarket competition because it will allow the Exchange to, among other things, provide away market price protection at the open and thus, compete with other exchanges for order flow that market participants do not currently send to the ISE. The Exchange does not believe the proposed rule change will impose any burden on intramarket competition. The Exchange believes the proposed rule change will encourage ISE Members to send their pre-open order flow to the Exchange rather to an competing exchange and will therefore increase competition at the open.

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 or within such longer period (1) as the Commission may designate up to 45 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (2) as to which the self-regulatory organization consents, the Commission will:

- (a) by order approve 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 Exchange 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 No. SR-ISE-2014-24 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-2014-24. 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 Commissions Internet Web site (<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 inspection and copying in the Commission's Public Reference Room. Copies of such 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-2014-24 and should be submitted by [insert date 21 days from the date of publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>22</sup>

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<sup>22</sup> 17 CFR 200.30-3(a)(12).

Secretary

Exhibit 5

Text of Proposed Rule Change

Underlining indicates additions; [brackets] indicate deletions.

**Rule 701. Trading Rotations**

(a) *General Rules.* A “trading rotation” is a process by which the Primary Market Maker initiates trading in a specified options class pursuant to the process contained in Supplementary Material .01 hereto.

(1) The Exchange may direct that one or more trading rotations be employed on any business day to aid in producing a fair and orderly market.

(2) For each rotation so employed, except as the Exchange may direct, rotations shall be conducted in the order [and manner] the Primary Market Maker determines to be appropriate under the circumstances.

[(3) The Primary Market Maker, with the approval of the Exchange, shall have the authority to determine the rotation order and manner or deviate from the rotation procedures. Such authority may be exercised before and during a trading rotation.]

(4) Two (2) or more trading rotations may be employed simultaneously, if the Primary Market Maker, with the approval of the Exchange, so determines.]

(b) *Opening Rotations.* Trading rotations shall be employed at the opening of the Exchange each business day and during the reopening of the market after a trading halt.

[(1) For each class of options contracts that has been approved for trading, the opening rotation shall be conducted by the Primary Market Maker appointed to such class of options.]

[(2)] (1) The opening rotation in each class of options shall be held promptly following the opening of the market for the underlying security. For purposes of this Rule, “market for the underlying security” shall be either the primary listing market, the primary volume market (defined as the market with the most liquidity in that underlying security for the previous two calendar months), or the first market to open the underlying security, as determined by the Exchange on an issue-by-issue basis and announced to the membership on the Exchange’s web site.



[(3)] (2) [In the event the underlying security has not opened within a reasonable time after 9:30 a.m. Eastern time, the Primary Market Maker shall report the delay to the Exchange and an inquiry shall be made to determine the cause of the delay.] The opening rotation for options contracts in an underlying [such] security shall be delayed until the market for the underlying security has opened unless the Exchange determines that the interests of a fair and orderly market are best served by opening trading in the options contracts. The rotation process can be initiated in the following two ways:

(i) A Primary Market Maker can initiate the rotation process by either sending a rotation request through the trading system or by selecting an auto-open setting in the trading system for each class.

(A) A Primary Market Maker can initiate the rotation process by sending a rotation request after the underlying market has opened. A Primary Market Maker can also authorize the exchange to auto-open a class by selecting the auto-open setting in the trading system. Once an underlying security has opened, the trading system checks to see whether a Primary Market Maker has selected to auto-open the related options class. If the class is set to auto-open, the trading system starts the rotation process.

(B) To initiate the rotation process, a Primary Market Maker must have a quote present. If a Primary Market Maker quote is not present, the rotation process for that class will not start.

(ii) If a Primary Market Maker does not initiate the rotation process, the Exchange will initiate the rotation process using the rapid opening mechanism after the underlying security has opened. In order for the Exchange to use the rapid opening mechanism for an options class, the following conditions must be met:

(A) At least one market maker quote must be present;

(B) If there is more than one market maker quote present, the best quoted market maker bid must not be greater than the best quoted market maker offer;

(C) If a class is traded on an another exchange, at least one other exchange must have opened that class and a NBBO is published.

(D) The best quoted market maker bid and best quoted market maker offer must not cross the NBBO by an established margin.

(iii) In the event any of the conditions described in sub-paragraph (ii) above are not met, the trading system will repeat the rapid opening mechanism until all the conditions are met.

(iv) After a rotation process has been performed and the option class cannot be opened due to an imbalance condition, an imbalance broadcast is sent to members. The Primary Market Maker in that option class can re-initiate the rotation process as described in subparagraph (i) above. If the Primary Market Maker in that option class does not re-initiate the rotation process, the Exchange will re-initiate the rotation process using the rapid opening mechanism as described in sub-paragraph (ii)(A) – (D) above. This rotation process will repeat until the class is opened.

[(4)] (3) The Exchange may delay the commencement of the opening rotation in any class of options in the interests of a fair and orderly market.

(c) no change.

### **Supplementary Material to Rule 701**

.01 Opening Rotation Process. Once the Primary Market Maker initiates a rotation in an options class or the Exchange initiates the rotation process using the rapid opening mechanism, the trading system automatically processes quotes and orders in each series as follows:

(a) No Executable Interest: If there are no quotes or orders that lock or cross each other, the trading system opens a series by disseminating the Exchange's best bid and offer among quotes and orders. Any Public Customer Orders that would lock or cross a bid or an offer from another exchange are not included in the Exchange's disseminated best bid and offer and are processed in accordance with Supplementary Material .02 to Rule 1901. If there are any Non-Customer Orders that would lock or cross a bid or an offer from another exchange by more than two ticks, such orders are canceled. If there are any Non-Customer Orders that would lock or cross a bid or offer from another exchange by two ticks or less, such orders will be included in the Exchange's disseminated best bid and offer. Any quote that would lock or cross a bid or an offer

from another exchange will also be included in the Exchange's disseminated best bid and offer.

(b) Executable Interest. If there are quotes or orders that lock or cross each other, the trading system will initiate a first iteration as follows:

(i) The trading system calculates the highest bid price and the lowest offer price on ISE at or within which orders and quotes may be executed (the "Boundary Prices"). The Boundary Prices are the Primary Market Maker's best bid and offer. If the Primary Market Maker is not present on either side then the best bid and offer from Competitive Market Makers in that options class is used on the corresponding side. If there is no Primary Market Maker or Competitive Market Maker quote on the bid side, the lowest minimum trading increment for the option class is used on the bid side. If there is no Primary Market Maker or Competitive Market Maker quote on the offer side, the option class will not open.

(ii) If the option is open on another exchange, the Boundary Prices are: (1) the higher of the ISE Market Maker's bid (as calculated in subparagraph (b)(i)) and the national best bid; and (2) the lower of the ISE Market Maker's offer (as calculated in subparagraph (b)(i)) and the national best offer.

(iii) The trading system then determines the price at which the maximum number of contracts can trade at or within the Boundary Prices (the "execution price").

(A) At the execution price, market orders are given priority before limit orders and quotes, and limit orders and quotes are given priority by price.

(B) With respect to limit orders and quotes with the same price, Priority Customer Orders are given priority over Professional Orders and quotes.

(C) Priority Customer Orders with the same limit price are executed in random order. Professional Orders and quotes with the same limit price are executed pro-rata based on size.

(iv) If the Boundary Prices in subparagraph (b)(ii) are calculated using the national best bid and/or offer, any remaining Public Customer Orders after this iteration that would lock or cross a bid or offer from another exchange are processed in accordance with Supplementary Material .02 to Rule 1901. Any remaining Non-Customer Orders that

would lock or cross a bid or offer from another exchange may trade outside the Boundary Prices as described in subparagraph (d).

(c) If after the first iteration, there remain unexecuted quotes and orders that lock or cross each other, the trading system will initiate a second iteration as follows:

(i) The trading system calculates the Boundary Prices using either the ISE Market Maker's quotes or the national best bid and offer, whichever was not used to calculate the Boundary Prices in the first iteration. For example, if the ISE Market Maker quotes were used in the first iteration, the second iteration will use national best bid and offer prices, and vice versa. If there was no national best bid and offer for consideration for the first iteration then the second iteration does not occur and the trading system will initiate the third iteration, as described in subparagraph (d).

(ii) The trading system then determines the price at which the maximum number of contracts can trade at or within the widened Boundary Prices.

(A) At the execution price following the second iteration, market orders are given priority before limit orders and quotes, and limit orders and quotes are given priority by price.

(B) With respect to limit orders and quotes with the same price, Priority Customer Orders are given priority over Professional Orders and quotes.

(C) Priority Customer Orders with the same limit price are executed in random order. Professional Orders and quotes with the same limit price are executed pro-rata based on size.

(iii) If the Boundary Prices in subparagraph (c)(i) are calculated using the national best bid and/or offer, any remaining Public Customer Orders after this iteration that would lock or cross a bid or offer from another exchange are processed in accordance with Supplementary Material .02 to Rule 1901. Any remaining Non-Customer Orders that would lock or cross a bid or offer from another exchange may trade outside the Boundary Prices as described in subparagraph (d).

(d) If after the second iteration, there remain unexecuted quotes and orders that lock or cross each other, the trading system will initiate a third iteration as follows:

(i) The trading system calculates the Boundary Prices, i.e., the price used in the second iteration, and in the case where the second iteration does not occur, the price used in the first iteration, by widening it by two trading increments.

(ii) The trading system then determines the price at which the maximum number of contracts can trade at or within the widened Boundary Prices.

(A) At the execution price following the third iteration, market orders are given priority before limit orders and quotes, and limit orders and quotes are given priority by price.

(B) With respect to limit orders and quotes with the same price, Priority Customer Orders are given priority over Professional Orders and quotes.

(C) Priority Customer Orders with the same limit price are executed in random order. Professional Orders and quotes with the same limit price are executed pro-rata based on size.

(iii) Any unexecuted Priority Customer Orders that lock or cross the Boundary Prices are handled by the Primary Market Maker pursuant to Rule 803(c) and any unexecuted Professional Orders and Non-Customer Orders that lock or cross the Boundary Prices are cancelled.

(e) If after the third iteration, there remain unexecuted orders and quotes that lock or cross each other, the trading system will initiate a fourth and final iteration as follows:

(i) The trading system does not calculate new Boundary Prices and will trade any remaining interest.

(f) At the end of the iterative process, the trading system opens the options series by disseminating the Exchange's best bid and offer derived from the remaining orders and quotes.

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