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Page 1 of * 29

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2017 - * 12
Amendment No. (req. for Amendments *)

Filing by International Securities Exchange

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * ☑ Amendment * ☐ Withdrawal ☐

Section 19(b)(2) * ☐ Section 19(b)(3)(A) * ☑ Section 19(b)(3)(B) * ☐

Pilot ☐

Extension of Time Period for Commission Action * ☐

Date Expires *

Rule

☐ 19b-4(f)(1) ☐ 19b-4(f)(4)
☐ 19b-4(f)(2) ☐ 19b-4(f)(5)
☐ 19b-4(f)(3) ☑ 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) * ☐ Section 806(e)(2) * ☐

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934

Section 3C(b)(2) * ☐

Exhibit 2 Sent As Paper Document ☐ Exhibit 3 Sent As Paper Document ☐

Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

A proposal to amend Rule 715 (Types of Orders) and Rule 721 (Crossing Orders) to codify its Qualified Contingent Cross with Stock Order functionality.

Contact Information

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 * Adrian Last Name * Griffiths

Title * Associate General Counsel

E-mail * agriffiths@ise.com

Telephone * (212) 897-8176 Fax

Signature

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.

Date 02/13/2017

By Edward S. Knight

(Name *)

(Title *)

Executive Vice President and General Counsel

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.

edward.knight@nasdaq.com

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information * Add Remove View	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.
Exhibit 1 - Notice of Proposed Rule Change * Add Remove View	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)
Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies * Add Remove View	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)
Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications Add Remove View Exhibit Sent As Paper Document ☐	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.
Exhibit 3 - Form, Report, or Questionnaire Add Remove View Exhibit Sent As Paper Document ☐	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.
Exhibit 4 - Marked Copies Add Remove View	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.
Exhibit 5 - Proposed Rule Text Add Remove View	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.
Partial Amendment Add Remove View	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 ("ISE" or "Exchange"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] is filing with the Securities and Exchange Commission ("SEC" or "Commission") a proposal to amend Rule 715 (Types of Orders) and Rule 721 (Crossing Orders) to codify its Qualified Contingent Cross ("QCC") with Stock Order functionality.

A notice of the proposed rule change for publication in the Federal Register is attached as Exhibit 1. The text of the proposed rule change is attached as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors of the Exchange (the "Board") on August 15, 2016. Exchange staff will advise the Board of any action taken pursuant to delegated authority. No other action is necessary for the filing of the rule change.

Questions and comments on the proposed rule change may be directed to:

Adrian Griffiths
Associate General Counsel
Nasdaq, Inc.
212-897-8176

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

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

a. Purpose

The purpose of the proposed rule change is to codify functionality currently offered to members – i.e., QCC with Stock Orders. The QCC with Stock Order is a piece of functionality that facilitates the execution of stock component of qualified contingent trades. In particular, a QCC with Stock Order is a QCC Order entered with a stock component to be communicated to a designated broker-dealer for execution.[3] QCC with Stock Orders assist members in maintaining compliance with Exchange rules regarding the execution of the stock component of qualified contingent trades, and help maintain an audit trail for surveillance of members for compliance with such rules.

Currently, although the Exchange has rules on QCC Orders, those rules do not specify how the stock component of such transactions is to be executed. In particular, those rules do not describe how this process may be facilitated by the Exchange electronically communicating the stock component to a designated broker-dealer for execution on the behalf of the member. The proposed rule change will increase the transparency of this process to the benefit of members and other market participants that execute QCC Orders on the Exchange, including those that use the QCC with Stock Order functionality described in this filing.

A QCC Order is comprised of an originating order to buy or sell at least 1000 contracts that is identified as being part of a qualified contingent trade, [4] coupled with a

3 See Proposed Rule 715(t).

4 See Rule 715(j). A "qualified contingent trade" is a transaction consisting of two or more component orders, executed as agent or principal, where: (a) At least one component is an NMS Stock, as defined in Rule 600 of Regulation NMS under

contra-side order or orders totaling an equal number of contracts. QCC Orders are automatically executed upon entry provided that the execution (i) is not at the same price as a Priority Customer Order on the Exchange's limit order book and (ii) is at or between the national best bid or offer ("NBBO").[5] QCC Orders are automatically canceled if they cannot be executed, and may only be entered in the regular trading increments applicable to the options class.[6]

Since QCC Orders represent one component of a qualified contingent trade, each QCC Order must be paired with a stock transaction. When a member enters a QCC Order, the member is responsible for executing the associated stock component of the qualified contingent trade within a reasonable period of time after the QCC Order is executed. The Exchange conducts surveillance of members to ensure that members execute the stock component of a qualified contingent trade at or near the same time as the options component. While the Exchange does not specify how the member should go about executing the stock component of the trade, this process is often manual and is

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the Exchange Act; (b) all components are effected with a product or price contingency that either has been agreed to by all the respective counterparties or arranged for by a broker-dealer as principal or agent; (c) the execution of one component is contingent upon the execution of all other components at or near the same time; (d) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) is determined by the time the contingent order is placed; (e) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or cancelled; and (f) the transaction is fully hedged (without regard to any prior existing position) as a result of other components of the contingent trade. See Supplementary Material .01 to Rule 715.

5 See Rule 721(b).

6 See Rule 721(b)(1), (2).

therefore a compliance risk for members if they do not execute the stock component within a reasonable time period.

Thus, the Exchange also offers QCC with Stock Orders that communicate the stock component of a qualified contingent trade to a broker-dealer for execution in connection with the execution of a QCC Order on the Exchange. This functionality reduces the compliance burden on members by providing an automated means of executing the stock component of a qualified contingent trade, and also provides benefits for the Exchange's surveillance by providing an audit trail for the execution of the stock component. QCC with Stock Orders can be entered by members through the Exchange's front-end order and execution management system ("PrecISE"), or through the member's Financial Information eXchange ("FIX") connection to the Exchange.

QCC with Stock Orders are available to members on a voluntary basis. Members that enter QCC with Stock Orders must enter into a brokerage agreement with one or more broker-dealers designated by the Exchange.[7] Currently, three broker-dealers have established connectivity for executing the stock component of QCC with Stock Orders. The member must designate a specific broker-dealer on each order if the member has entered into an agreement with more than one.[8] The Exchange does not have any financial arrangement with the designated broker-dealers with respect to communicating

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7 See Proposed Supplementary Material .02 to Rule 721.

8 Id. The Exchange does not have any role with respect to determining where to route the stock component of a QCC with Stock Order if the member has entered into an agreement with more than one broker-dealer.

stock orders to them.[9] While the Exchange does not charge members a fee for the execution of the stock component of a QCC with Stock Order,[10] each member would be responsible for whatever fees or other charges are imposed by their designated broker-dealer.[11]

Members can enter QCC with Stock Orders with separate prices for the stock and options components, or with a net price for both.[12] QCC Orders may not be executable on entry if priced at the same price as a Priority Customer Order, or at a price that is outside of the NBBO. The stock component of a qualified contingent trade, however, is permitted to trade through the stock NBBO pursuant to an exemption granted by the Commission from the order protection requirements of Rule 611(a) of Regulation NMS.[13] Net priced QCC with Stock Orders reduce the chance that members miss the market since the Exchange will calculate a price for the stock and options components that honors the net price of the package and current market prices, if possible. At the same time, the

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9 Id. The Exchange also represents that the designated broker-dealers that execute the stock component of QCC with Stock Orders do not receive other special benefits related to trading on the Exchange.

10 Members that enter their QCC with Stock Orders through PrecISE are charged a fee for the use of the front end terminal but are not charged transaction fees for the execution of the stock component of the trade.

11 These fees are billed directly by the member’s designated broker-dealer.

12 See Proposed Supplementary Material .01 Rule 721.

13 See Securities Exchange Act Release Nos. 54389 (August 31, 2006), 71 FR 52829 (September 7, 2006) (Order Granting an Exemption for Qualified Contingent Trades From Rule 611(a) of Regulation NMS Under the Securities Exchange Act of 1934); 57620 (April 4, 2008), 73 FR 19271 (April 9, 2008) (Order Modifying the Exemption for Qualified Contingent Trades from Rule 611(a) of Regulation NMS Under the Securities Exchange Act of 1934).

Exchange permits members to submit QCC with Stock Orders with separate stock and options prices for members that want specific prices for each individual component.

When a member enters a QCC with Stock Order, a QCC Order is entered on the Exchange.[14] That QCC Order is automatically executed upon entry provided that the conditions of Rule 721(b) are met. If the QCC Order is executed, the Exchange will automatically communicate the stock component to the member's designated broker-dealer for execution.[15] Although QCC Orders are eligible for automatic execution, it is possible that the QCC Order may not be executable based on market prices at the time the order is entered. If the QCC Order is not capable of being executed, the entire QCC with Stock Order, including both the stock and options components, is cancelled.[16] This prevents members from executing the stock component of a qualified contingent trade where the options component has not been successfully executed.

Furthermore, it is possible that the member will receive an execution for the QCC Order but not the stock component communicated to the broker-dealer. Once the stock component is communicated to the member's designated broker-dealer for execution, the broker-dealer is responsible for determining whether the stock component may be executed in accordance with all of the rules applicable to execution of such orders. Members that execute the options component of a qualified contingent trade entered as a QCC with Stock Order remain responsible for the execution of the stock component if

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[14] See Proposed Rule 721(c)(1).

[15] See Proposed Rule 721(c)(2).

[16] See Proposed Rule 721(c)(3).

they do not receive an execution from their designated broker-dealer.[17] In such cases, the Exchange will inform the member that the stock component of the trade has not been executed, and that they must find an alternative means of executing the stock component. The Exchange conducts surveillance to ensure that members execute the stock component of their qualified contingent trades; this surveillance also extends to QCC with Stock Orders where the options component is successfully executed but the stock component is not.

Example 1:

Stock NBBO: $100 x $101

Option NBBO: $1 x $2

Member submits a QCC with Stock Order buying 1,000 puts and 100,000 shares of stock with a net price of $101.50.

QCC Order is entered on the Exchange and executed at a price of $1.50.

Stock component is routed to member's designed broker-dealer at a price of $100.

The stock component is executed successfully, or the member remains responsible for executing the stock component elsewhere.

Example 2:

Stock NBBO: $100 x $101

Option NBBO: $1 x $2

Member submits a QCC with Stock Order buying 1,000 puts at $1.99 and 100,000 shares of stock at $100.

QCC Order is entered on the Exchange and executed at a price of $1.99.

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[17] See Proposed Supplementary Material .03 to Rule 721.

Stock component is routed to the member's designed broker-dealer at a price of $100. The stock component is executed successfully, or the member remains responsible for executing the stock component elsewhere.

Example 3:

Stock NBBO: $100 x $101

ABBO: $1.00 x $1.05

Exchange BBO: $1.00 (Priority Customer) x 1.01 (Priority Customer)

Member submits a QCC with Stock Order buying 1,000 puts at $1.01 and 100,000 shares of stock at $100.

QCC Order is entered on the Exchange at a price of $1.01 and is cancelled due to being at the same price as a Priority Customer order on the Exchange.

Because the QCC Order is not successfully executed the entire QCC with Stock Order is cancelled.

b. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.[18] In particular, the proposal is consistent with Section 6(b)(5) of the Act,[19] because is designed to promote just and equitable principles of trade, remove impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, to protect investors and the public interest.

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[18] 15 U.S.C. 78f(b).

[19] 15 U.S.C. 78f(b)(5).

The Exchange believes that the proposed rule change is designed to promote just and equitable principles of trade because it will increase transparency for members and other market participants with respect to how the Exchange facilitates the execution of the stock component of qualified contingent trades. The QCC with Stock Order is an optional piece of functionality offered to members to communicate the stock component of a qualified contingent trade to a designated broker-dealer for execution. Members that do not wish to use QCC with Stock functionality can enter QCC Orders on the Exchange and separately execute the stock component of their trades on another venue. Members can also build their own technology to electronically communicate the stock component of a qualified contingent trade to a broker-dealer for execution. QCC with Stock Orders reduce members' compliance burden because it allows for the automatic submission of the stock component of a qualified contingent trade in connection with the execution of the options component(s) as a QCC Order on the Exchange. It also provides benefits to the Exchange by establishing an audit trail for the execution of the stock component of such trades within a reasonable period of time after the execution of the QCC Order. Members remain responsible for ensuring the execution of the stock component of a qualified contingent trade. Nevertheless, the Exchange believes that members have found the QCC with Stock Order functionality useful for ensuring compliance with the requirement that they execute the stock component of a qualified contingent trade within a reasonable period of time after executing the option component(s) on the Exchange as a QCC Order. The Exchange therefore believes that QCC with Stock Orders are designed to remove impediments to and perfect the mechanisms of a free and open market and a national market system, and in general, to protect investors and the public interest.

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

In accordance with Section 6(b)(8) of the Act,[20] the Exchange does not believe that the proposed rule change will impose any burden on intermarket or intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. QCC with Stock Orders facilitate member compliance with the requirements associated with executing QCC Orders on the Exchange, and are not designed to impose any unnecessary burden on competition. Members are not required to use QCC with Stock Orders, and can either create similar functionality, or manually communicate the stock component of their qualified contingent trades to a broker-dealer for execution. In addition, QCC with Stock Orders are available to all members either through the Exchange's PrecISE front end or the member's FIX connection.

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 unsolicited written comments from members or other interested parties.

6. Extension of Time Period for Commission Action

Not Applicable.

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

Pursuant to Section 19(b)(3)(A) of the Act,[21] and Rule 19b-4(f)(6)[22] thereunder,

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[20] 15 U.S.C. 78f(b)(8).

[21] 15 U.S.C. 78s(b)(3)(A).

[22] 17 CFR 240.19b-4(f)(6).

the Exchange has designated this proposal as one that effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

The Exchange believes that the proposed rule change is consistent with the public interest and the protection of investors, and will not impose any significant burden on competition, as QCC with Stock Orders are designed to assist members with their compliance with rules regarding the execution of the stock component of qualified contingent trades. Members that trade QCC Orders have an obligation to execute the related stock component of the qualified contingent transaction within a reasonable period of time after the QCC Order is executed on the Exchange. QCC with Stock Orders reduce members' compliance burdens as this functionality provides an automated means for satisfying this obligation. In addition, QCC with Stock Orders benefit the Exchange's surveillance by providing an audit trail for the execution of the stock component of these qualified contingent trades. Use of QCC with Stock Orders is purely optional, and members that do not wish to use this functionality can continue to execute the stock component of a qualified contingent trade manually or through alternative electronic means. Finally, codifying the QCC with Stock Order functionality will increase transparency of the operation of the Exchange to the benefit of members and other market participants. The Exchange therefore believes that the proposed rule change qualifies for immediate effectiveness as a “non-controversial” rule change.

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. Rule 19b-4(f)(6)(iii), however, permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange requests that the Commission waive the operative delay. As explained above, the Exchange currently offers QCC with Stock Order functionality to aid members in their compliance with qualified contingent trade obligations, and for the surveillance benefits that this functionality provides. Waiving the operative delay will allow the Exchange to update its rules immediately to reflect this functionality, to the benefit of members and other market participants.

Furthermore, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

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

1. Notice of Proposed Rule Change for publication in the Federal Register.

5. Text of the proposed rule change.

EXHIBIT 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. ; File No. SR-ISE-2017-12)

February __, 2017

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend Rule 715 and Rule 721

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on February 13, 2017, the International Securities Exchange, LLC ("ISE" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "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 Rule 715 (Types of Orders) and Rule 721 (Crossing Orders) to codify its Qualified Contingent Cross ("QCC") with Stock Order functionality.

The text of the proposed rule change is available on the Exchange's Website at www.ise.com, at the principal office of the Exchange, and at the Commission's Public Reference Room.

1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The purpose of the proposed rule change is to codify functionality currently offered to members – i.e., QCC with Stock Orders. The QCC with Stock Order is a piece of functionality that facilitates the execution of stock component of qualified contingent trades. In particular, a QCC with Stock Order is a QCC Order entered with a stock component to be communicated to a designated broker-dealer for execution.[3] QCC with Stock Orders assist members in maintaining compliance with Exchange rules regarding the execution of the stock component of qualified contingent trades, and help maintain an audit trail for surveillance of members for compliance with such rules.

Currently, although the Exchange has rules on QCC Orders, those rules do not specify how the stock component of such transactions is to be executed. In particular, those rules do not describe how this process may be facilitated by the Exchange electronically communicating the stock component to a designated broker-dealer for execution on the behalf of the member. The proposed rule change will increase the

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3 See Proposed Rule 715(t).

transparency of this process to the benefit of members and other market participants that execute QCC Orders on the Exchange, including those that use the QCC with Stock Order functionality described in this filing.

A QCC Order is comprised of an originating order to buy or sell at least 1000 contracts that is identified as being part of a qualified contingent trade, [4] coupled with a contra-side order or orders totaling an equal number of contracts. QCC Orders are automatically executed upon entry provided that the execution (i) is not at the same price as a Priority Customer Order on the Exchange's limit order book and (ii) is at or between the national best bid or offer ("NBBO").[5] QCC Orders are automatically canceled if they cannot be executed, and may only be entered in the regular trading increments applicable to the options class.[6]

Since QCC Orders represent one component of a qualified contingent trade, each QCC Order must be paired with a stock transaction. When a member enters a QCC

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[4] See Rule 715(j). A "qualified contingent trade" is a transaction consisting of two or more component orders, executed as agent or principal, where: (a) At least one component is an NMS Stock, as defined in Rule 600 of Regulation NMS under the Exchange Act; (b) all components are effected with a product or price contingency that either has been agreed to by all the respective counterparties or arranged for by a broker-dealer as principal or agent; (c) the execution of one component is contingent upon the execution of all other components at or near the same time; (d) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) is determined by the time the contingent order is placed; (e) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or cancelled; and (f) the transaction is fully hedged (without regard to any prior existing position) as a result of other components of the contingent trade. See Supplementary Material .01 to Rule 715.

[5] See Rule 721(b).

[6] See Rule 721(b)(1), (2).

Order, the member is responsible for executing the associated stock component of the qualified contingent trade within a reasonable period of time after the QCC Order is executed. The Exchange conducts surveillance of members to ensure that members execute the stock component of a qualified contingent trade at or near the same time as the options component. While the Exchange does not specify how the member should go about executing the stock component of the trade, this process is often manual and is therefore a compliance risk for members if they do not execute the stock component within a reasonable time period.

Thus, the Exchange also offers QCC with Stock Orders that communicate the stock component of a qualified contingent trade to a broker-dealer for execution in connection with the execution of a QCC Order on the Exchange. This functionality reduces the compliance burden on members by providing an automated means of executing the stock component of a qualified contingent trade, and also provides benefits for the Exchange's surveillance by providing an audit trail for the execution of the stock component. QCC with Stock Orders can be entered by members through the Exchange's front-end order and execution management system ("PrecISE"), or through the member's Financial Information eXchange ("FIX") connection to the Exchange.

QCC with Stock Orders are available to members on a voluntary basis. Members that enter QCC with Stock Orders must enter into a brokerage agreement with one or more broker-dealers designated by the Exchange.[7] Currently, three broker-dealers have established connectivity for executing the stock component of QCC with Stock Orders. The member must designate a specific broker-dealer on each order if the member has

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7 See Proposed Supplementary Material .02 to Rule 721.

entered into an agreement with more than one.[8] The Exchange does not have any financial arrangement with the designated broker-dealers with respect to communicating stock orders to them.[9] While the Exchange does not charge members a fee for the execution of the stock component of a QCC with Stock Order,[10] each member would be responsible for whatever fees or other charges are imposed by their designated broker-dealer.[11]

Members can enter QCC with Stock Orders with separate prices for the stock and options components, or with a net price for both.[12] QCC Orders may not be executable on entry if priced at the same price as a Priority Customer Order, or at a price that is outside of the NBBO. The stock component of a qualified contingent trade, however, is permitted to trade through the stock NBBO pursuant to an exemption granted by the Commission from the order protection requirements of Rule 611(a) of Regulation NMS.[13] Net priced

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8 Id. The Exchange does not have any role with respect to determining where to route the stock component of a QCC with Stock Order if the member has entered into an agreement with more than one broker-dealer.

9 Id. The Exchange also represents that the designated broker-dealers that execute the stock component of QCC with Stock Orders do not receive other special benefits related to trading on the Exchange.

10 Members that enter their QCC with Stock Orders through PrecISE are charged a fee for the use of the front end terminal but are not charged transaction fees for the execution of the stock component of the trade.

11 These fees are billed directly by the member's designated broker-dealer.

12 See Proposed Supplementary Material .01 Rule 721.

13 See Securities Exchange Act Release Nos. 54389 (August 31, 2006), 71 FR 52829 (September 7, 2006) (Order Granting an Exemption for Qualified Contingent Trades From Rule 611(a) of Regulation NMS Under the Securities Exchange Act of 1934); 57620 (April 4, 2008), 73 FR 19271 (April 9, 2008) (Order Modifying the Exemption for Qualified Contingent Trades from Rule 611(a) of Regulation NMS Under the Securities Exchange Act of 1934).

QCC with Stock Orders reduce the chance that members miss the market since the Exchange will calculate a price for the stock and options components that honors the net price of the package and current market prices, if possible. At the same time, the Exchange permits members to submit QCC with Stock Orders with separate stock and options prices for members that want specific prices for each individual component.

When a member enters a QCC with Stock Order, a QCC Order is entered on the Exchange.[14] That QCC Order is automatically executed upon entry provided that the conditions of Rule 721(b) are met. If the QCC Order is executed, the Exchange will automatically communicate the stock component to the member's designated broker-dealer for execution.[15] Although QCC Orders are eligible for automatic execution, it is possible that the QCC Order may not be executable based on market prices at the time the order is entered. If the QCC Order is not capable of being executed, the entire QCC with Stock Order, including both the stock and options components, is cancelled.[16] This prevents members from executing the stock component of a qualified contingent trade where the options component has not been successfully executed.

Furthermore, it is possible that the member will receive an execution for the QCC Order but not the stock component communicated to the broker-dealer. Once the stock component is communicated to the member's designated broker-dealer for execution, the broker-dealer is responsible for determining whether the stock component may be executed in accordance with all of the rules applicable to execution of such orders.

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[14] See Proposed Rule 721(c)(1).

[15] See Proposed Rule 721(c)(2).

[16] See Proposed Rule 721(c)(3).

Members that execute the options component of a qualified contingent trade entered as a QCC with Stock Order remain responsible for the execution of the stock component if they do not receive an execution from their designated broker-dealer.[17] In such cases, the Exchange will inform the member that the stock component of the trade has not been executed, and that they must find an alternative means of executing the stock component. The Exchange conducts surveillance to ensure that members execute the stock component of their qualified contingent trades; this surveillance also extends to QCC with Stock Orders where the options component is successfully executed but the stock component is not.

Example 1:

Stock NBBO: $100 x $101

Option NBBO: $1 x $2

Member submits a QCC with Stock Order buying 1,000 puts and 100,000 shares of stock with a net price of $101.50.

QCC Order is entered on the Exchange and executed at a price of $1.50.

Stock component is routed to member's designed broker-dealer at a price of $100.

The stock component is executed successfully, or the member remains responsible for executing the stock component elsewhere.

Example 2:

Stock NBBO: $100 x $101

Option NBBO: $1 x $2

[17] See Proposed Supplementary Material .03 to Rule 721.

Member submits a QCC with Stock Order buying 1,000 puts at $1.99 and 100,000 shares of stock at $100.

QCC Order is entered on the Exchange and executed at a price of $1.99.

Stock component is routed to the member's designed broker-dealer at a price of $100.

The stock component is executed successfully, or the member remains responsible for executing the stock component elsewhere.

Example 3:

Stock NBBO: $100 x $101

ABBO: $1.00 x $1.05

Exchange BBO: $1.00 (Priority Customer) x 1.01 (Priority Customer)

Member submits a QCC with Stock Order buying 1,000 puts at $1.01 and 100,000 shares of stock at $100.

QCC Order is entered on the Exchange at a price of $1.01 and is cancelled due to being at the same price as a Priority Customer order on the Exchange.

Because the QCC Order is not successfully executed the entire QCC with Stock Order is cancelled.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder that are applicable to a national securities exchange, and, in particular, with the requirements of Section 6(b) of the Act.[18] In particular, the proposal is consistent with Section 6(b)(5) of the Act,[19]

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[18] 15 U.S.C. 78f(b).

[19] 15 U.S.C. 78f(b)(5).

because is designed to promote just and equitable principles of trade, remove impediments to and perfect the mechanisms of a free and open market and a national market system and, in general, to protect investors and the public interest.

The Exchange believes that the proposed rule change is designed to promote just and equitable principles of trade because it will increase transparency for members and other market participants with respect to how the Exchange facilitates the execution of the stock component of qualified contingent trades. The QCC with Stock Order is an optional piece of functionality offered to members to communicate the stock component of a qualified contingent trade to a designated broker-dealer for execution. Members that do not wish to use QCC with Stock functionality can enter QCC Orders on the Exchange and separately execute the stock component of their trades on another venue. Members can also build their own technology to electronically communicate the stock component of a qualified contingent trade to a broker-dealer for execution. QCC with Stock Orders reduce members' compliance burden because it allows for the automatic submission of the stock component of a qualified contingent trade in connection with the execution of the options component(s) as a QCC Order on the Exchange. It also provides benefits to the Exchange by establishing an audit trail for the execution of the stock component of such trades within a reasonable period of time after the execution of the QCC Order. Members remain responsible for ensuring the execution of the stock component of a qualified contingent trade. Nevertheless, the Exchange believes that members have found the QCC with Stock Order functionality useful for ensuring compliance with the requirement that they execute the stock component of a qualified contingent trade within a reasonable period of time after executing the option component(s) on the Exchange as a

QCC Order. The Exchange therefore believes that QCC with Stock Orders are designed to remove impediments to and perfect the mechanisms of a free and open market and a national market system, and in general, to protect investors and the public interest.

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

In accordance with Section 6(b)(8) of the Act,[20] the Exchange does not believe that the proposed rule change will impose any burden on intermarket or intramarket competition that is not necessary or appropriate in furtherance of the purposes of the Act. QCC with Stock Orders facilitate member compliance with the requirements associated with executing QCC Orders on the Exchange, and are not designed to impose any unnecessary burden on competition. Members are not required to use QCC with Stock Orders, and can either create similar functionality, or manually communicate the stock component of their qualified contingent trades to a broker-dealer for execution. In addition, QCC with Stock Orders are available to all members either through the Exchange's PrecISE front end or the member's FIX connection.

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

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant

20 15 U.S.C. 78f(b)(8).

to Section 19(b)(3)(A)(iii) of the Act[21] and subparagraph (f)(6) of Rule 19b-4 thereunder.[22]

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-ISE-2017-12 on the subject line.

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21 15 U.S.C. 78s(b)(3)(A)(iii).

22 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

Paper comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-ISE-2017-12. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet 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 website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-ISE-2017-12 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[23]

Robert W. Errett
Deputy Secretary

[23] 17 CFR 200.30-3(a)(12).

EXHIBIT 5

Deleted text is [bracketed]. New text is <u>underlined</u>.

THE INTERNATIONAL SECURITIES EXCHANGE RULES

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Rule 715. Types of Orders

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<u>(t) QCC with Stock Orders. A QCC with Stock Order is a Qualified Contingent Cross Order, as defined in Rule 715(j), entered with a stock component to be communicated to a designated broker-dealer for execution pursuant to Rule 721(c).</u>

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Rule 721. Crossing Orders

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<u>(c) QCC with Stock Orders are processed as follows:</u>

<u>(1) When a member enters a QCC with Stock Order, a Qualified Contingent Cross Order is entered on the Exchange pursuant to Rule 721(b).</u>

<u>(2) If the Qualified Contingent Cross Order is executed, the Exchange will automatically communicate the stock component to the member's designated broker-dealer for execution.</u>

<u>(3) If the Qualified Contingent Cross Order cannot be executed, the entire QCC with Stock Order, including both the stock and options components, is cancelled.</u>

<u>**Supplementary Material to Rule 721**</u>

<u>.01 QCC with Stock Orders can be entered with separate prices for the stock and options components, or with a net price for both.</u>

<u>.02 QCC with Stock Orders are available to members on a voluntary basis. Members that enter QCC with Stock Orders must enter into a brokerage agreement with one or more broker-dealers designated by the Exchange. The member must designate a specific broker-dealer on each order if the member has entered into an agreement with more than one. The Exchange will have no financial arrangements with the designated broker-dealers with respect to communicating stock orders to them.</u>

<u>.03 Members that execute the options component of a qualified contingent trade entered as a QCC with Stock Order remain responsible for the execution of the stock component if they do not receive an execution from their designated broker-dealer.</u>

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