SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–68971; File No. SR–ISE–2013–14]

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing of Proposed Rule Change To List Options on the Dow Jones FXCM Dollar Index

February 22, 2013.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the ''Act''),[1] and Rule 19b–4 thereunder,[2] notice is hereby given that on February 13, 2013, 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 and II below, which items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend its rules for the listing and trading on the Exchange of options on a foreign currency index, the Dow Jones FXCM Dollar Index. The Exchange also proposes to list and trade long-term options on the Dow Jones FXCM Dollar Index. Options on the Dow Jones FXCM Dollar Index will be settled in the same manner as the Exchange's foreign currency options and will have European-style exercise provisions. The text of the proposed rule change is available on the Exchange's Internet Web site at *http://www.ise.com,* at the principal office of the Exchange, and at the Commission's Public Reference Room.

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

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

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

1. Purpose

The Exchange proposes to amend its rules to provide for the listing and trading on the Exchange of options on a foreign currency index, the Dow Jones FXCM Dollar Index (the ''Dollar Index''). Options on the Dollar Index will be settled in the same manner as the Exchange's foreign currency options (''FX Options'')[3] and will have European-style exercise provisions. The components that comprise the Dollar Index are a subset of the Exchange's FX Options. In addition to regular options, the Exchange propose to also list long-term options on the Dollar Index.

Index Design and Composition

The Dollar Index was designed and developed by Dow Jones Indexes, a unit of CME Group that creates indexes, and Forex Capital Markets LLC, an online foreign exchange brokerage firm. The Dollar Index is calculated and maintained by Dow Jones. The Dollar Index reflects U.S. dollar fluctuations against a basket of four of the most liquid currencies in the world: Euro, British pound, Japanese yen, and Australian dollar. More specifically, the Dollar Index's input data are individual currency pairs calculated based on the conventional quote format as follows:

Convention	Currency
EUR/USD	euro.
GBP/USD	British pound.
USD/JPY	Japanese yen.
AUD/USD	Australian dollar.

Spot currency quotes are derived from ThomsonReuters, the same source that the Exchange currently uses for the underlying values of its existing FX Options. Each input value is based on the mid-point between the bid and ask quotes. The Dollar Index has a base date of January 1, 2011 and a base value of 10000, using closing prices as of December 31, 2010. Spot quotes for each pair on the base date were as follows:

EUR/USD	1.3370
GBP/USD	1.5601
USD/JPY	81.21
AUD/USD	1.0218

On its base date, the Dollar Index was set to be equally-weighted such that each constituent currency pair has equal influence on the overall index value. Equal positions in U.S. dollar terms were calculated on the base date by assuming a $10,000 allocation to each currency pair as follows:

EUR/USD position in U.S. dollar terms	1.3370 × €7,479 = $10,000.
GBP/USD position in U.S. dollar terms	1.5601 × £6,410 = $10,000.
USD/JPY position in U.S. dollar terms	¥812,150 ÷ 81.21 = $10,000.
AUD/USD position in U.S. dollar terms	1.0218 × AU$9,787 = $10,000.

This method is similar to equally-weighted stock indexes that calculate the number of shares needed in order for each stock constituent to have an equal position.[4] The Dollar Index level is calculated in accordance with the following equation:

Dollar Index level = [($20,000 − ((EUR/USD) × (€ Position) + ($20,000 − ((GBP/USD) × (£ Position)) + ($20,000 − ((¥ Position) ÷ (USD/JPY)) + ($20,000 − ((AUD/USD) × (AU$ Position)]/Divisor

The Dollar Index is designed to reflect spot positions in each currency with the weighting of each currency set as equal at inception and rebalancing events. Rebalancing events are not scheduled. For example, the Dollar Index is rebalanced if the value of any position falls below $1,000 (*i.e.,* loses 90% of its original $10,000 position value).[5] At that point, each currency is again set to an equal position. This method of unscheduled rebalancing captures the prevalent strategy among currency traders with long-term exposure to the most actively traded currency pairs. The

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

[2] 17 CFR 240.19b–4.

[3] The Commission previously approved the listing of FX Options on nineteen underlying foreign currencies. *See* Securities Exchange Act Release No. 55575 (April 3, 2007), 72 FR 17963 (April 10, 2007) (SR–ISE–2006–59).

[4] Equal-weighted indexes have become increasingly prevalent. For example, Standard & Poor's calculates an equal-weighted version of its S&P500 Index, and Nasdaq OMX calculates an equal-weighted version of its Nasdaq-100 Index. Additionally, ISE once listed options on the Morgan Stanley Technology Index, also an equal-weighted index of stocks in the technology sector.

[5] *See http://www.djindexes.com/mdsidx/downloads/fact_info/Dow_Jones_FXCM_Dollar_Index_Fact_Sheet.pdf.*

need for scheduled rebalancing is more important for stock indexes where the high volatility and idiosyncratic risk of individual stocks can cause a select few to dominate the index weighting. Unlike stocks, a portfolio of major currencies that are all paired against the US dollar does not have the same risks. The volatility of each currency pair is low which results in an even lower volatility for the overall index.

The components that comprise the Dollar Index include a subset of the modified exchange rates [6] previously approved by the Commission as the basis for FX Options. The Exchange represents that the total number of components in the Dollar Index may not decrease from the number of components in the Dollar Index at the time of its initial listing.

As set forth in Exhibit 3–1, following are the characteristics of the Dollar Index: (i) The total number of currency pairs is four; (ii) the total gross domestic product (GDP) of the associated countries of the four currency pairs is $33.83 trillion; (iii) regarding GDP of individual component countries, the United States is the highest at $15.04 trillion and Malta (one of the 17 participating member states of the euro) is the lowest at $0.01 trillion; (iv) regarding the recent exchange rates of the individual components, (a) EUR/USD is 1.3608, (b) USD/JPY is 91.8650, (c) GBP/USD is 1.5790, and (d) AUD/USD is 1.0409; [7] (v) regarding component weights, the Dollar Index is an equal-weighted index at inception and rebalancing; (vi) regarding average daily spot volume of the individual components, according to the Bank for International Settlements' Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity in 2010,[8] (a) EUR/USD is $469 billion, (b) USD/JPY $183 billion, (c) GBP/USD is $140 billion, and (d) AUD/USD is $84 billion.

Index Calculation and Maintenance

As noted above, the Dollar Index will be maintained and calculated by Dow Jones. The level of the Dollar Index will reflect the current exchange rates of the four underlying currency pairs. The Dollar Index will be updated on a real-time basis beginning at 6:15 p.m. each day and ending at 5:00 p.m. (New York time) the following day from Sunday through Friday (the Dollar Index will basically be calculated for 22 hours and 45 minutes each day). If the value of a component's exchange rate is not available, the last known exchange rate will be used in the calculation.

Values of the Dollar Index will be disseminated every 15 seconds during the Exchange's regular trading hours to market information vendors such as Bloomberg and ThomsonReuters. In the event the Dollar Index ceases to be maintained or calculated, or its values are not disseminated every 15 seconds by a widely available source, the Exchange will not list any additional series for trading and will limit all transactions in such options to closing transactions only for the purpose of maintaining a fair and orderly market and protecting investors. As part of this proposal, the Exchange is also making a clarifying change to ISE Rule 2003(b) by replacing the word 'stocks' with 'components' because index options listed by the Exchange are no longer limited to having stocks as their underlying components; with this proposed rule change, the Exchange will also list options on indexes that have currencies as their underlying components.

Exercise and Settlement Value

Options on the Dollar Index will expire on the Saturday following the third Friday of the expiration month. Trading in expiring options on the Dollar Index will normally cease at 12:00 p.m. (New York time) on the Friday preceding an expiration Saturday. The exercise and settlement value will be calculated using the WM Intra-day Spot rate corresponding to 12:00 p.m. New York time. The exercise-settlement amount is equal to the difference between the settlement value and the exercise price of the option, multiplied by $1. Exercise will result in the delivery of cash on the business day following expiration.

Contract Specifications

The contract specifications for options on the Dollar Index are set forth in Exhibit 3–2. The Dollar Index is a foreign currency index, as defined in proposed Rule 2001(h). Options on the Dollar Index are European-style and cash-settled.[9] The Exchange's standard trading hours for FX Options (7:30 a.m. to 4:15 p.m., New York time) will also apply to the Dollar Index. The Exchange proposes to apply margin requirements for the purchase and sale of options on the Dollar Index that are identical to those applied for individual FX Options. Accordingly, per proposed ISE Rule 1202(e), the margin level required for trading options on the Dollar Index shall be identical to the highest margin required for a component foreign currency as determined in accordance with ISE Rule 1202(d).

The trading of options on the Dollar Index will be subject to the trading halt procedures applicable to index options traded on the Exchange.[10] Options on the Dollar Index will be quoted and traded in U.S. dollars.[11] Accordingly, all Exchange and Options Clearing Corporation members shall be able to accommodate trading, clearance and settlement of the Dollar Index without alteration.

The Exchange proposes to list options on the Dollar Index that may expire at three-month (3) intervals or in consecutive months. The Exchange may also list up to six (6) expiration months at any one time. The Exchange proposes to set strike price intervals for options on the Dollar Index at minimum intervals of 2½ points, if the strike price is less than two hundred dollars ($200), in accordance with ISE Rule 2009(c)(1). Further, when new series of options on the Dollar Index with a new expiration date are opened for trading, or when additional series of options on the Dollar Index in an existing expiration date are opened for trading as the current value of the Dollar Index moves substantially from the exercise prices of series already opened, the exercise prices of such new or additional series shall be reasonably related to the current value of the underlying index at the time such series are first opened for trading.[12]

The Exchange may also open for trading additional series of the same class of options on the Dollar Index as the current value of the underlying index moves substantially from the exercise price of those options on the

[6] The term ''modified exchange rate'' means the price, for the sale of one foreign currency for another, quoted by various interbank foreign exchange participants, for immediate delivery (which generally means delivery two business days following the date on which the terms of such a sale are agreed upon), as reflected in the foreign currency price quotations reported by the foreign currency price quotation dissemination vendor selected by the Exchange, which is then modified by the Exchange with a modifier of 1, 10 or 100. *See* ISE Rule 2201(8).

[7] All exchange rates are as of February 1, 2013.

[8] The Triennial Central Bank Survey of Foreign Exchange and Derivatives Market Activity is published every three (3) years; the most recent survey was published in December 2010.

[9] The Exchange will calculate a settlement value for the Index using the settlement values for the individual component currencies. As described earlier, the settlement value for each individual component currency is determined using the WM Intra-day Spot rate.

[10] *See* ISE Rule 2008(c).

[11] *See* ISE Rule 2009(a)(1).

[12] *See* ISE Rule 2009(c)(3). The term ''reasonably related to the current index value of the underlying index'' means that the exercise price is within thirty percent (30%) of the current index value, as defined in ISE Rule 2009(c)(4).

Dollar Index that already have been opened for trading on the Exchange. The exercise price of each series of options on the Dollar Index opened for trading on the Exchange shall be reasonably related to the current index value of the underlying index to which such series relates at or about the time such series of options is first opened for trading on the Exchange. The Exchange may also open for trading additional series of options on the Dollar Index that are more than thirty percent (30%) away from the current index value, provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate, or individual customers or their brokers. Market makers trading for their own account shall not be considered when determining customer interest under this provision.[13]

The Exchange proposes to adopt the minimum tick size for options on the Dollar Index to be $0.01. Accordingly, the Exchange proposes to amend Supplementary Material .02 to ISE Rule 710 to permit options on the Dollar Index to be quoted and traded in one-cent increments. The Exchange believes that this trading increment will result in narrower spreads for options on the Dollar Index than if traditional trading increments are used because options on the individual foreign currency pairs that make up the Dollar Index are quoted in $0.01 increments.[14] The Exchange recognizes that allowing penny quoting increments for the Dollar Index represents an expansion of products with that feature. Nevertheless, permitting penny quoting in the Index is consistent with the Commission's prior approval of permitting penny quoting in the Exchange's FX Options. The Exchange believes that permitting the Dollar Index to be quoted and traded in one-cent increments will also promote adoption of trading FX-linked products on a listed and regulated market.

ISE further notes that the listing and trading of the Exchange's FX Options in penny increments was permitted in recognition of the immense liquidity in the spot FX markets, as well as the need for market makers in those products, which were new to the market at that time, to appropriately straddle theoretical options prices. In other words, market makers in FX Options could competitively quote the product more effectively if they could create bids and offers equidistant from theoretical prices. An artificially wide increment would have forced market makers to maintain larger spreads if the theoretical price was not coincidentally near the mid-point of the increment. Further, due to the relatively low volatility of currency pairs, quoting in penny increments allowed market makers to quote more aggressively than, say, for newly listed equity options.

The following example illustrates the issue regarding quotes and the theoretical price. Assume that the Dollar Index level is 10,040.00. Also assume that the traditional minimum quoting increments are in place. The at-the-money call options with 30 days until expiration and a theoretical price of $82.04, might be quoted as follows: Bid $81.95 and offered at $82.10. The market maker in the Dollar Index has little choice but to quote this series in such a way to ensure that the bid or offer is not the same as the theoretical price, but doing so results in the market maker setting its quote wider than it otherwise would. Due to the lower volatility exhibited by currency pairs, which is further muted by creating an index of currency pairs, the market maker may have been able to quote with a much smaller spread, resulting in a cost savings for investors. As a matter of reference, the historical annualized volatility for the four currency pairs comprising the Dollar Index is as follows: EURUSD volatility is 9.53%, GBPUSD volatility is 8.91%, USDJPY volatility is 9.67%, and AUDUSD volatility is 14.58%. The historical annualized volatility for the Dollar Index is 6.78%, which illustrates the effects of combining multiple components and the basic principle that an index cannot exhibit overall volatility greater than any one of its components. As a comparison, volatility in the SPY ETF over the same period is 21.22%, and in Apple Inc. is 31.37%.[15]

FX spot trading is available to investors of all sizes on web-based platforms that allow for significant leverage. Those products are not regulated in the same capacity as exchange-listed products, and do not benefit from clearinghouses that can mutualize risk across many participants. ISE endeavors to bring the full panoply of benefits afforded by an exchange listing, including investor safeguards, multi-dealer competitive pricing, central clearing, and innovative functionality. Considering that spot FX is quoted in the smallest increment possible for a currency pair, having an artificial restriction in quoting increments for options would only undermine the attractiveness of the listed product while providing no investor protection. Indeed, it would simply create an unlevel playing field between regulated exchange-listed products and less regulated over-the-counter products. Lastly, as noted above, considering that FX Options are currently quoted in penny increments, the Exchange believes that expanding quoting in penny increments to indexes solely comprised of currency pairs is a logical extension. There is no material impact, whether on industry participants or competitors, if penny quoting increments were permitted for the Dollar Index.

For options on the Dollar Index, the Exchange proposes to establish aggregate position limits at 600,000 contracts on the same side of the market, provided no more than 300,000 of such contracts are in the nearest expiration month series. The Exchange notes that the proposed positions limits for the Dollar Index are equal to or lower than the position limits for individual FX options on the four currency pairs comprising the Dollar Index.[16] The same limits that apply to position limits shall apply equally to exercise limits for options on the Dollar Index.[17]

The Exchange proposes to list options on the Dollar Index in the three consecutive near-term expiration months plus up to three successive expiration months in the March cycle. For example, consecutive expirations of January, February, March, plus June, September, and December expirations would be listed.[18] The trading of options on the Dollar Index shall be subject to the same rules that presently govern the trading of Exchange index options, including sales practice rules, margin requirements, trading rules, and position and exercise limits. In addition, long-term option series having up to sixty months to expiration may be traded.[19] The trading of long-term options on the Dollar Index shall also be subject to the same rules that govern the trading of all the Exchange's index options, including sales practice rules, margin requirements, and trading rules. Further, pursuant to Supplementary Material .01 and .02 to ISE Rule 2009, the Exchange may also list Short Term Option Series and Quarterly Options Series, respectively, on the Dollar Index.

Chapter 6 of the Exchange's rules is designed to protect public customer

[13] *See* ISE Rule 2009(c)(4).

[14] *See* Securities Exchange Act Release No. 57019 (December 20, 2007), 72 FR 73937 (December 28, 2007) (SR–ISE–2007–120).

[15] Volatility was measured using data from June 27, 2007 through January 10, 2013.

[16] *See* ISE Rule 2208.

[17] *See* ISE Rule 2007.

[18] *See* Rule 2009(a)(3).

[19] *See* Rule 2009(b)(1).

trading and shall apply to trading in options on the Dollar Index. Specifically, ISE Rules 608(a) and (b) prohibit Members from accepting a customer order to purchase or write an option, including options on the Dollar Index, unless such customer's account has been approved in writing by a designated Options Principal of the Member.[20] Additionally, ISE's Rule 610 regarding suitability is designed to ensure that options, including options on the Dollar Index, are only sold to customers capable of evaluating and bearing the risks associated with trading in this instrument. Further, ISE Rule 611 permits members to exercise discretionary power with respect to trading options, including options on the Dollar Index, in a customer's account only if the Member has received prior written authorization from the customer and the account had been accepted in writing by a designated Options Principal. ISE Rule 611 also requires designated Options Principals or Representatives of a Member to approve and initial each discretionary order, including discretionary orders for options on the Dollar Index, on the day the discretionary order is entered. Finally, ISE Rule 609, Supervision of Accounts, Rule 612, Confirmation to Customers, and Rule 616, Delivery of Current Options Disclosure Documents and Prospectus, will also apply to trading in options on the Dollar Index.

Finally, a trading license issued by the Exchange will be required for all market makers to effect transactions as a market maker in the Dollar Index in accordance with ISE Rule 2013.

Surveillance and Capacity

The Exchange has an adequate surveillance program in place for options traded on the Dollar Index, and intends to apply those same program procedures that it applies to the Exchange's other options products. Further, the ISE Market Surveillance Department conducts routine surveillance in approximately 30 discrete areas. Index products and their respective symbols are integrated into the Exchange's existing surveillance system architecture and are thus subject to the relevant surveillance processes. This is true for both surveillance system processing and manual processes that support the ISE's surveillance program. Additionally, the Exchange is also a member of the Intermarket Surveillance Group (ISG) under the Intermarket Surveillance Group Agreement, dated June 20, 1994. The members of the ISG include all of the U.S. registered stock and options markets: NYSE MKT LLC, NYSE Arca, Inc., BATS Exchange, Inc., NASDAQ OMX BX, Chicago Board Options Exchange, Inc., Chicago Stock Exchange, Inc., Financial Industry Regulatory Authority, NASDAQ Stock Market LLC, National Stock Exchange, Inc., the New York Stock Exchange LLC, and NASDAQ OMX PHLX, Inc. The ISG members work together to coordinate surveillance and investigative information sharing in the stock and options markets. In addition, the CME Group and ICE Futures U.S., Inc. are also members of ISG, which allows for the sharing of surveillance information for potential intermarket trading abuses. The CME Group and ICE Futures U.S., Inc. operate a marketplace for trading of futures for all the component foreign currencies included in the Dollar Index. Further, CME Group operates a marketplace for trading options on futures for all the component foreign currencies included in the Dollar Index.

The Exchange represents that it has the necessary system capacity to support additional quotations and messages that will result from the listing and trading of options on the Dollar Index.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Securities Exchange Act of 1934 (the ''Act'') [21] in general, and furthers the objectives of Section 6(b)(5) of the Act [22] in particular in that it will permit options trading in the Dollar Index pursuant to rules designed to prevent fraudulent and manipulative acts and practices and promote just and equitable principles of trade. In particular, the Exchange believes the proposed rule change will further the Exchange's goal of introducing new and innovative products to the marketplace. The Exchange believes that listing options on the Dollar Index will provide an opportunity for investors to hedge, or speculate on, the market risk associated with the foreign currencies underlying the Dollar Index.

The Exchange believes that because the Dollar Index is comprised of a basket of four of the most liquid currencies in the world, and given the immense liquidity found in the spot currency market and the average daily spot volume of the individual components, the concern that the Dollar Index will be subject to market manipulation is greatly reduced. Therefore, the Exchange believes that the proposed rule change to list options on the Dollar Index is appropriate.

The Exchange further notes that ISE Rules that apply to the trading of other index options currently traded on the Exchange would also apply to the trading of options on the Dollar Index. Additionally, the trading of options on the Dollar Index would be subject to, among others, Exchange Rules governing margin requirements and trading halt procedures. Also, the Exchange's proposed position limits for the Dollar Index are equal to or lower than the position limits for individual FX options on the four currency pairs comprising the Dollar Index, namely 600,000 contracts on the same side of the market for options on the Dollar Index. Further, delta-based hedge exemptions, in accordance with Rule 2006(d), will also apply to trading options on the Dollar Index.

Finally, the Exchange represents that it has an adequate surveillance program in place to detect manipulative trading in options on the Dollar Index. The Exchange also represents that it has the necessary systems capacity to support the new options series. And as stated in the filing, the Exchange has rules in place designed to protect public customer trading.

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

This proposed rule change does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange notes that the proposed rule change will facilitate the listing and trading of a novel index option product that will enhance competition among market participants, to the benefit of investors and the marketplace.

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 date of publication of this notice in the **Federal Register** or within such longer period (1) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or

[20] Pursuant to ISE Rule 602, Representatives of a Member may solicit or accept customer orders for options on the Dollar Index.

[21] 15 U.S.C. 78f(b).

[22] 15 U.S.C. 78f(b)(5).

(2) as to which the self-regulatory organization consents, the Commission will:

(a) By order approve or disapprove such proposed rule change; or

(b) Institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

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

Electronic Comments

- Use the Commission's Internet comment form (*http://www.sec.gov/rules/sro.shtml*); or
- Send an email to *rule-comments@sec.gov.* Please include File Number SR–ISE–2013–14 on the subject line.

Paper Comments

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549–1090.

All submissions should refer to File Number SR–ISE–2013–14. This file number should be included on the subject line if email 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 Web site 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–2013–14 and should be submitted on or before March 21, 2013.

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

Kevin M. O'Neill,

Deputy Secretary.

[FR Doc. 2013–04615 Filed 2–27–13; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–68972; File No. SR–NASDAQ–2012–147]

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Order Granting Approval of Proposed Rule Change, as Modified by Amendment No. 1 Thereto, Relating to the Listing and Trading of the Shares of the First Trust High Yield Long/Short ETF of First Trust Exchange-Traded Fund IV

February 22, 2013.

I. Introduction

On December 21, 2012, The NASDAQ Stock Market LLC (''Nasdaq'' or ''Exchange'') filed with the Securities and Exchange Commission (''Commission''), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'')[1] and Rule 19b–4 thereunder,[2] a proposed rule change to list and trade the shares (''Shares'') of the First Trust High Yield Long/Short ETF (''Fund'') of First Trust Exchange-Traded Fund IV (''Trust'') under Nasdaq Rule 5735. The proposed rule change was published for comment in the **Federal Register** on January 10, 2013.[3] The Commission received no comments on the proposal. On February 20, 2013, the Exchange filed Amendment No. 1 to the proposed rule change.[4] This order grants approval of the proposed rule change.

II. Description of the Proposed Rule Change

The Exchange proposes to list and trade the Shares of the Fund under Nasdaq Rule 5735, which governs the listing and trading of Managed Fund Shares on the Exchange. The Fund will be an actively managed exchange-traded fund (''ETF''). The Shares will be offered by the Trust, which was established as a Massachusetts business trust on September 15, 2010.[5] The Trust is registered with the Commission as an investment company and has filed a registration statement on Form N–1A with the Commission.[6]

First Trust Advisors L.P. is the investment adviser (''Adviser'') to the Fund. First Trust Portfolios L.P. (''Distributor'') is the principal underwriter and distributor of the Fund's Shares. The Bank of New York Mellon Corporation will act as the administrator, accounting agent, custodian, and transfer agent to the Fund. The Adviser is affiliated with the Distributor, a broker-dealer. The Exchange represents that the Adviser has implemented a fire wall with respect to its broker-dealer affiliate.[7]

First Trust High Yield Long/Short ETF

The Fund's primary investment objective is to provide current income. The Fund's secondary investment objective is capital appreciation. The Fund will pursue its objectives by seeking to invest in a broadly diversified portfolio composed principally of high-yield debt securities.

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[23] 17 CFR 200.30–3(a)(12).

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

[2] 17 CFR 240.19b–4.

[3] *See* Securities Exchange Act Release No. 68581 (January 4, 2013), 78 FR 2295 (''Notice'').

[4] In Amendment No. 1, the Exchange made a number of technical changes to the proposed rule change. In addition, the Exchange clarified that the pooled investment vehicles in which the Fund may invest would be exchange-traded. Because the changes made by Amendment No. 1 are technical in nature and do not materially alter the substance of the proposed rule change, and do not raise any novel or unique regulatory issues, Amendment No. 1 is not subject to notice and comment.

[5] The Commission has issued an order granting certain exemptive relief to the Trust under the Investment Company Act of 1940 (''1940 Act''). *See* Investment Company Act Release No. 30029 (April 10, 2012) (File No. 812–13795) (''Exemptive Order''). In compliance with Nasdaq Rule 5735(b)(5), which applies to Managed Fund Shares based on a fixed income portfolio (including without limitation exchange-traded notes and senior loans) or a portfolio invested in a combination of equity securities and fixed income securities, the Trust's application for exemptive relief under the 1940 Act states that the Fund will comply with the federal securities laws in accepting securities for deposits and satisfying redemptions with redemption securities, including that the securities accepted for deposits and the securities used to satisfy redemption requests are sold in transactions that would be exempt from registration under the Securities Act of 1933.

[6] *See* Post-Effective Amendment No. 6 to Registration Statement on Form N–1A for the Trust, dated October 11, 2012 (File Nos. 333–174332 and 811–22559) (''Registration Statement'').

[7] *See* Nasdaq Rule 5735(g). The Exchange represents that, in the event (a) the Adviser becomes newly affiliated with a broker-dealer, or (b) any new adviser or sub-adviser becomes affiliated with a broker-dealer, it will implement a fire wall with respect to such broker-dealer regarding access to information concerning the composition and/or changes to the portfolio, and will be subject to procedures designed to prevent the use and dissemination of material, non-public information regarding such portfolio. In addition, Nasdaq Rule 5735(g) requires that Adviser personnel who make decisions regarding the Fund's portfolio be subject to procedures designed to prevent the use and dissemination of material, non-public information regarding the Fund's portfolio.