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Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-0609

Re: File No. SR-Phlx-2014-66

Dear Ms. Murphy,

We submit this letter in response to comments submitted by letter dated February 25, 2015, to the U.S. Securities and Exchange Commission by the International Securities Exchange, LLC (“ISE”) on the above referenced rule filing in which NASDAQ OMX PHLX, LLC (“PHLX”) proposes to establish an electronic solicitation mechanism through which a member may execute all-or-none orders that it represents as agent against contra orders that it has solicited from other market participants. ISE asserts that the PHLX proposal does not contain appropriate safeguards to ensure that customer orders on the book are protected and that agency orders are adequately exposed to all potential price improvement. PHLX strongly disagrees with ISE’s negative characterization of PHLX’s proposal, as explained below. Additionally, ISE expressed concerns about PHLX’s proposed handling of all-or-none orders on the book. PHLX addresses both these comments in turn below.

I. Customer Orders

In its letter ISE first notes that under the PHLX proposal a solicitation auction would be cancelled if there is customer interest on the book at the stop price that, combined with other available price improving interest, would be of sufficient size to trade with the agency order. ISE then observes that other options exchanges, including its own, would execute the agency order against the customer order and other price improving interest, thus securing an execution for the customer on the book as well as an improved price for the agency order. ISE claims that this aspect of the PHLX proposal would result in “weakened protections” for customers and would enable “regulatory

arbitrage”, pursuant to which broker dealers would be encouraged to send solicited crosses to PHLX in order to reduce the likelihood their crosses would be broken up.

ISE’s argument is without merit. The PHLX proposal clearly protects customer orders. PHLX will not allow a solicitation auction to be initiated at a price where there is non-contingent customer interest on the PHLX book and will continue to prevent customers from being traded through. Customer interest which arrives after an order is submitted into the solicitation mechanism and is ‘stopped’ is protected, but in a different manner than on the ISE.

Further, PHLX’s protection of customer interest at the stop price would not result in “regulatory arbitrage”. Rather, PHLX’s proposal represents merely a different process for protecting customers. PHLX’s proposal would not permit trading through the customer, nor would it allow trading ahead of the customer. PHLX is simply not providing customer interest (or any other interest) which arrives after the solicited order is stopped with the unfair advantage of trading against the solicited agency order ahead of the solicited contra order at a price which does not offer price improvement. PHLX believes there is no justification for permitting any type of market participant to step ahead of the solicited contra order and break up potential crosses without offering any price improvement. Like ISE, PHLX will cancel a solicitation auction with no trade resulting, if there is customer interest at the stop price and the customer interest together with any improving interest cannot fully satisfy the solicited agency order.

Cancellation of price improvement auctions occurs today on ISE. As noted above, ISE, like the PHLX proposal, cancels a solicitation auction with no trade resulting if there is a customer at the stop price when the customer interest, together with any improving interest, cannot satisfy the solicited agency order. Whether ISE “protects” a customer order at the stop price evidently depends upon the size of that customer order (or the absence or presence of other orders sufficient to aggregate into a size sufficient for the agency order to execute against) and therefore cannot really be considered customer “protection”.

The Exchange has observed that customers rarely submit interest, priced at the stop price, after an auction has been initiated and execute in such auction. For example, in a similar auction process, the Exchange’s PIXL mechanism, PHLX has observed that customer orders rarely appear at the stop price after the auction is initiated and then execute as part of the PIXL auction. In February 2015, such executions occurred only 70 times out of 474,388 PIXL auctions, amounting to a mere 0.015% of all PIXL auctions. There is no reason to expect that customer orders would be received at the stop price more frequently in solicitation auctions than in PIXL auctions. Given how rarely a customer order can be expected to be received during a solicitation auction at the stop price, the PHLX’s proposal to cancel a solicitation order with no trade occurring when a customer order is received at the stop price during the auction does not pose a significant risk to the protection of customer interest nor to the opportunity for price improvement. Assuming the same infrequency of this customer behavior would be

observed in solicitation auctions, PHLX's proposal would potentially result in the cancellation of a solicitation order with no trade occurring only roughly 0.015% (that is, less than one time in 6,700) more often than occurs in ISE's solicitation mechanism.

While PHLX's proposal may differ from ISE's solicitation mechanism with respect to the treatment of customer interest at the stop price, it certainly is not violating or weakening the central principal of customer protection.

II. All-or-None Orders.

ISE also observes in its letter that PHLX's proposal allows a solicited order to cross with the agency order when there is a resting customer all-or-none order at the stop price. All-or-none orders are customer orders which have been entered with an optional all-or-none designation. These orders continue to be protected from being traded through when their all-or-none contingency can be satisfied. However, due to the all-or-none contingency, these types of orders are offered a less robust protection than non-contingent orders. If a customer wants the same protection afforded to a non all-or-none order, the customer may elect to submit the order without this contingency or to cancel and replace an existing contingent order to remove the contingency. The presence or absence of order contingencies is entirely within the discretion and control of the customer.

Finally, ISE believes PHLX should be required to include all-or-none orders that are represented on the complex order book in determining the sufficiency of interest to execute the agency order at a better price. The supplementary material to ISE Rule 713 makes quite clear that all-or-none orders have no priority on the book on ISE's own exchange.¹

As the Exchange has explained in the proposal, all-or-none simple orders reside with simple orders on the book. By contrast, all-or-none complex orders reside in a separate book, in a different part of the trading system. Thus aggregation of all-or-none complex orders with other complex orders in order to determine the presence of sufficient improving interest is a more difficult process than aggregation of all-or-none simple orders with other simple orders. In any event, the Exchange has observed that complex all-or-none orders are rare. The Exchange reviewed six months of data which showed that all-or-none complex orders represented only 0.12% of all Complex Orders. Like ISE, the Exchange must carefully weigh the costs and benefits of changes to its trading system and deploy its resources in the manner it determines most beneficial to its market participants. In this case, the Exchange has elected to deploy its resources in ways that enhance the efficiency and effectiveness of its markets rather than to overhaul the trading

¹ According to this ISE provision, "[a]ll-or-none orders, as defined in Rule 715(c)...are contingency orders that have no priority on the book. Such orders are maintained in the system and remain available for execution after all other trading interest at the same price has been exhausted."

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system in order to include a mere 0.12% of all Complex Orders in the calculation of sufficiency of improving interest, which the Exchange does not believe would advance the interests of market participants in any event.

In summary, we believe ISE's concerns are misguided and raise no valid concerns. To the contrary, as explained in our filing we believe the proposed rule change is good for investors. PHLX respectfully submits that the proposed rule change should be approved.

Sincerely,

