International Securities Exchange

June 3, 2014

Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-0609

Re: File No. SR-PHLX-2014-23

Dear Ms. Murphy:

The International Securities Exchange, LLC ("ISE") appreciates the opportunity to comment on the above-referenced proposed rule filing in which NASDAQ OMX PHLX LLC ("PHLX") proposes to give extra priority for crossing orders executed in open outcry trading to in-crowd participants over electronic participants.

Currently, electronic participants on PHLX may participate in crossing orders that are represented and executed in open outcry trading unless those orders are for a size of 500 or more contracts on each side. PHLX now proposes to remove the 500 contract size requirement and give priority to in-crowd participants over electronic participants, regardless of size. The proposed rule change unfairly denies electronic participants, who represent the vast majority of all trading, the ability to participate in the execution of open outcry orders along with in-crowd participants at the same price. PHLX has not provided any justification for allocating smaller trades negotiated on its floor to counterparties in the trading crowd ahead of same-priced orders from electronic participants. The practical effect of the proposed change will be to facilitate a market structure focused entirely on internalization, where participants can bring orders of any size to the floor in order to ensure that there is little or no chance that electronic participants will be able to break-up their pre-arranged trades.

The proposal will encourage PHLX participants to bring more orders to the floor, where they may receive a higher trade allocation and may be able to internalize the trade, instead of executing those orders through electronic auction systems where a customer order may be subject to more intense price competition. PHLX rules currently only allow in-crowd participants to receive priority over electronic participants when large block orders are brought to the exchange's floor. Considering the on-screen liquidity available at all of the options exchanges, even with the current 500 contract minimum PHLX's priority rules disadvantage orders being internalized to the benefit of the internalizing

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brokers as these orders receive virtually no price competition. Giving priority to small orders on the floor will further skew participants' incentives to bring orders to the floor in order to achieve a frictionless "clean cross" and deprive customers of vigorous competition for these orders.

Most electronic auctions require that orders be exposed to all other participants trading on the exchange. Orders that are not exposed, such as qualified contingent crosses, are required to be for a large size. While the proposal would not prevent small orders executed on the floor from trading against better-priced electronic orders quoted at time of the execution, no trade information is disseminated to electronic participants that may be willing to provide liquidity to these orders. Thus, these orders will not benefit from the opportunities for price improvement built into electronic auctions, where liquidity providers can and often do improve their quoted prices in response to the auction. Price competition for small orders under the proposal will be largely limited to participants physically present in the crowd at the time a floor cross is announced and transacted. Today these in-crowd participants represent only a small fraction of the available liquidity for multiply listed options. Insulating small customer orders brought to the floor from competition by electronic participants may cause more orders to be crossed at prices that have not been sufficiently vetted by the participants most likely to offer price improvement. The ISE believes that it is inappropriate to ignore electronic quotes, especially for smaller orders where substantial capital commitment or efforts to find liquidity are not necessary.

We respectfully request the Commission institute proceedings to disapprove the PHLX proposal.

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We thank the Commission for the opportunity to comment on this proposed rule filing. If you have any additional questions, or if we can be of further assistance in this matter, please do not hesitate to contact us.

Sincerely,

Michael J. Simon,
Secretary and General Counsel

cc: Stephen Luparello, Director, Division of Trading and Markets
James Burns, Deputy Director, Division of Trading and Markets
Heather Seidel, Associate Director, Division of Trading and Markets