July 8, 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. This comment letter replies to assertions made by PHLX in response to an earlier letter submitted by ISE on this proposal.[1]

As explained in our original comment letter, we believe that the PHLX proposal would encourage participants on that exchange to bring more orders to the floor, where they may receive a higher trade allocation or be able to internalize the trade, without providing those orders the benefit of interacting with significant liquidity available on-screen and via electronic auctions available to a more significant pool of market participants. PHLX attempts to discredit this point by claiming that "based on [their] experience, in-crowd liquidity on PHLX in many issues exceeds the displayed wider electronic markets." We believe that such representations must be based on data and we note that PHLX has failed to submit any such data to support its unsubstantiated conclusions. In particular, before the Commission can give any credence to PHLX's claim, it should require PHLX to provide data that would allow the Commission to gauge the level of participation of floor-based market makers against orders represented in open outcry, and the price improvement provided by these participants.

If floor-based liquidity providers are actively participating in orders brought to the PHLX floor at tighter markets than those quoted electronically then why does the exchange need to afford these participants priority at the quoted market prices? We believe the fact that PHLX wants to offer priority to in-crowd participants at the same price as electronic quotes should bring into doubt PHLX's claims that these participants are offering active price improvement. To

[1] See Letter from Carla Behnfeldt, Associate General Counsel, The NASDAQ OMX Group, Inc., dated June 20, 2014; Letter from Michael J. Simon, Secretary and General Counsel, International Securities Exchange, LLC, dated June 3, 2014.

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the extent that in-crowd participants provide price improvement to orders represented in open outcry, their orders are already entitled to priority over other orders at a worse price, including electronic quotes. Rather than offering a real opportunity for price improvement, the special priority rules are geared to allow firms to internalize orders without being subject to competition from active liquidity providers in the electronic markets. This is true both for small orders of less than 500 contracts, and also for larger orders where in-crowd participants enjoy special priority on PHLX today.

Finally, it is irrelevant whether the Chicago Board Options Exchange, Inc. ("CBOE") has a similar rule. The PHLX proposal must stand or fall on its own individual merit, based on the particular facts and circumstances on that exchange. In any event, we believe the current in-crowd priority rules, both at PHLX and the CBOE, are not in the public interest, and the proposed expansion of these rules would only serve to further foster internalization and limit price improvement. We thus respectfully ask the Commission 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