SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-79352; File No. SR-ISE-2016-26)

November 18, 2016

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing of Proposed Rule Change to Reduce the Response Times in the Block Mechanism, Facilitation Mechanism, Solicited Order Mechanism and Price Improvement Mechanism

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 November 8, 2016, 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 Rules 716 (Block Trades) and 723 (Price Improvement Mechanism for Crossing Transactions) to reduce the response times in the Block Order Mechanism, Facilitation Mechanism, Solicited Order Mechanism, and Price Improvement Mechanism. The text of the proposed rule change is available on the Exchange's website 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

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

[2] 17 CFR 240.19b-4.

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 amend the time period allowed for member submission of responses in the Block Order Mechanism, Facilitation Mechanism, Solicited Order Mechanism, and Price Improvement Mechanism ("PIM") from 500 milliseconds (1/2 of one second) to a time period designated by the Exchange of no less than 100 milliseconds (1/10 of one second) and no more than 1 second.[3]

Rule 716 contains the requirements applicable to the execution of orders using the Block Order Mechanism, Facilitation Mechanism, and Solicited Order Mechanism. The Block Order Mechanism allows members to obtain liquidity for the execution of a block-size order,[4] and the Facilitation and Solicited Order Mechanisms allow members to enter cross transactions seeking price improvement.[5] Rule 723 contains the requirements applicable to the execution of orders using the PIM. The PIM allows members to enter cross transactions of any size. The Facilitation, Solicited Order Mechanisms and PIM allow for members to designate certain customer orders

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3 While the Exchange intends to decrease the time period allowed for responses, the proposed rule would also allow the Exchange to increase this time period up to 1 second, which is the time period previously allowed for the submission of responses. See Securities Exchange Act Release No. 58224 (July 25, 2008), 73 FR 44303 (July 30, 2008) (SR-ISE-2007-94).

4 Block-size orders are orders for 50 contracts or more. See Rule 716(a).

5 Only block-size orders can be entered into the Facilitation Mechanism, whereas only orders for 500 contracts or more can be entered into the Solicited Order Mechanism. See Rule 716(d) and (e).

for price improvement and submit such orders into one of the mechanisms with a matching contra order. Once the order is submitted, the Exchange commences an auction by broadcasting a message to all members that includes the series, price, size and side of the market.[6] Further, responses within the PIM (i.e., Improvement Orders), are also broadcast to market participants during the auction. Orders entered into any of these mechanisms currently are exposed to all market participants for 500 milliseconds, giving them an opportunity to enter additional trading interest before the orders are automatically executed. Under the proposal, the Exchange would determine an appropriate exposure period for each of the four auction mechanisms that is no less than 100 milliseconds and no more than 1 second, consistent with exposure periods permitted on other exchanges such as NASDAQ BX ("BX") and NASDAQ PHLX ("Phlx").[7] When approving the previous change to exposure periods in these mechanisms the Securities and Exchange Commission concluded that reducing these time periods was consistent with the Securities Exchange Act of 1934 (the "Act").[8]

The Exchange is not proposing any change to the requirement in Rule 717(d) and (e) that requires an Electronic Access Member ("EAM") to expose its customer's order on the book for at least one second before either executing such agency order as principal or against orders solicited from members and non-members, unless the EAM submits the agency order to the

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6 Members may choose to hide the size, side, and price when entering orders into the Block Order Mechanism.

7 See Securities Exchange Act Release No. 76301 (October 29, 2015), 80 FR 68347 (November 4, 2015) (SR-BX-2015-032) and Securities Exchange Act Release No. 77557 (April 7, 2016), 81 FR 21935 (April 13, 2016) (SR-PHLX-2016-40).

8 See Exchange Act Release No. 68849 (February 6, 2013), 78 FR 9973 (February 12, 2013) (SR-ISE-2012-100).

Facilitation Mechanism, Solicited Order Mechanism, or PIM.[9] The Exchange believes this exception for the Facilitation Mechanism, Solicited Order Mechanism and PIM is appropriate because the customer order is guaranteed an execution at the National Best Bid/Offer ("NBBO") or a better price through the Facilitation Mechanism, Solicited Order Mechanism and PIM. Additionally, members are informed about the agency order starting the auction through receipt of the broadcast. Members have the opportunity to compete for participation in the execution of the customer order by responding to the broadcast with their best priced responses.

With respect to the Facilitation Mechanism, Solicited Order Mechanism, and PIM, the Exchange believes the proposed rule change could provide more customer orders an opportunity for price improvement because it will reduce the market risk for all members executing trades in these mechanisms. Members that submit orders into such mechanisms to initiate an auction ("Initiating Members") are required to guarantee an execution at the NBBO or a better price, and are subject to market risk while the order is exposed in one of the mechanisms to other members. While other members are also subject to market risk, the Initiating Member is most exposed because the market can move against them during the auction period and they have guaranteed the customer an execution at the NBBO or better based on the market prices prior to the commencement of the auction. In today's fast-paced markets, big price changes can occur in 100 milliseconds or less, leaving the Initiating Members vulnerable to trading losses due to their choice to seek price improvement for their customer. The Initiating Member acts in a critical role in the price improvement process and their willingness to guarantee the customer an execution at the NBBO or a better price is keystone to the customer order gaining the opportunity for price improvement. Therefore, limiting Initiating Members' market risk by reducing the exposure time

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9 Since EAMs submitting orders into the Block Mechanism do not have the contra order, Rule 717(d) and (e) does not apply.

in the mechanisms should increase the likelihood that an Initiating Member would seek price improvement for its customer by entering such orders into one of the mechanisms.

Additionally, the Exchange does not believe that requiring the auction to run for 500 milliseconds is necessary in today's market where, generally, members' systems have the capability to respond within 100 milliseconds or faster. As such, reducing the response time in the Block Order Mechanism is appropriate as members no longer need 500 milliseconds to respond to the auction. Reducing the auction time for the Block Order Mechanism from 500 milliseconds to as low as 100 milliseconds will allow members the opportunity to seek out liquidity in an expedient manner that is consistent with system capabilities.

Furthermore, although the Exchange currently plans to reduce the time period allowed for the submission of auction responses to 100 milliseconds, the Exchange believes that it is appropriate to provide the flexibility to choose a response period of up to 1 second as this is consistent with the rules of other options markets.[10]

The Exchange's members operate electronic systems that enable them to react and respond to orders in a meaningful way in fractions of a second. The Exchange anticipates that its members will continue to compete within the proposed auction duration designated by the Exchange. In particular, the Exchange believes that the proposed auction response times – which will be no less than 100 milliseconds and no more than 1 second – will continue to provide members with sufficient time to respond to, compete for, and provide price improvement for orders, and will provide investors and other market participants with more timely executions, and reduce their market risk.

Reducing the duration of the auctions from 500 milliseconds to as low as 100

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[10] See note 7 supra.

milliseconds will benefit members trading in the mechanisms. It is in these members' best interest to minimize the auction time while continuing to allow members adequate time to electronically respond. Both the order being exposed and the members' responses are subject to market risk during the auction. While a limited number of members wait to respond until later in the auction, presumably to minimize their market risk, in more than 94% of executions occurring in the mechanisms members respond within the first 100 milliseconds. The Exchange believes that an auction time as low as 100 milliseconds will continue to provide market participants with sufficient time to respond, compete, and provide price improvement for orders and will provide investors and other market participants with more timely executions, thereby reducing their market risk.[11]

To substantiate that members can receive, process, and communicate a response to an auction broadcast within 100 milliseconds, the Exchange surveyed all members that responded to an auction in the period beginning July 1, 2015 and ending January 15, 2016. The Exchange received responses from all of the 21 members surveyed, and each member confirmed that they can receive, process, and communicate a response back to the Exchange within 100 milliseconds.

Also in consideration of this proposed rule change, the Exchange reviewed all executions occurring in the mechanisms by its Members from March 28, 2016 – April 25, 2016. This review of executions in the mechanisms indicates that approximately 98% of responses that resulted in price improving executions at the conclusion of an auction were submitted within 500 milliseconds. Approximately 94% of responses that resulted in price improving executions at the

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11 With Block Orders, the member enters one side of the order in an effort to find contra-side liquidity. While this order is exposed, the member is exposed to market risk. Therefore, reducing the exposure time will reduce the market risk for Block Orders just as it will reduce the market risk with respect to orders entered into the Facilitation Mechanism, Solicited Order Mechanism, and PIM.

conclusion of an auction were submitted within 100 milliseconds of the initial order, and 83% were submitted within 50 milliseconds of the initial order.

Accordingly, the Exchange believes that an auction time as low as 100 milliseconds will continue to provide members with sufficient time to respond to, compete for, and provide price improvement for orders, and will provide investors and other market participants with more timely executions, and reduce their market risk. Moreover, Supplementary Material .04 to Rule 723 provides that the PIM will not run simultaneously with or overlap another PIM in the same series. As a result, members may be unable to initiate PIMs on behalf of their customers. Reducing the auction time to as low as 100 milliseconds will decrease the likelihood that an auction is underway when a customer order is received. Accordingly, the Exchange believes it is likely that the number of PIM transactions will increase, thereby providing customers a greater opportunity to benefit from price improvement.

The Exchange believes that the information outlined above regarding price improving transactions in the mechanisms and the feedback provided by members provides substantial support for its assertion that reducing the auction from 500 milliseconds to as low as 100 milliseconds will continue to provide members with sufficient time to ensure competition for orders entered into the mechanisms, and could provide customer orders with additional opportunities for price improvement.

With regard to the impact of this proposal on system capacity, the Exchange has analyzed its capacity and represents that it has the necessary systems capacity to handle the potential additional traffic associated with the additional transactions that may occur with the implementation of the proposed reduction in the auction duration to no less than 100 milliseconds. Additionally, the Exchange represents that its systems will be able to sufficiently maintain an audit trail for order and trade information with the reduction in the auction duration. Further, although the Exchange and its members are fully capable of handling a response time of 100 milliseconds, the Exchange proposes to reduce the auction time over a period of weeks ending at 100 milliseconds. This will ensure a smooth implementation of the faster timers and that the Exchange's and its members' systems are working properly given the faster response times.

Upon effectiveness of the proposal, and at least six weeks prior to implementation of the proposed rule change, the Exchange will issue a circular to members, informing them of the implementation date of the reduction of the auction from 500 milliseconds to the auction time designated by the Exchange to allow members the opportunity to perform systems changes. This will give members an opportunity to make any necessary modifications to coincide with the implementation date. The Exchange also represents that it will issue a circular at least four weeks prior to any future changes, as permitted by its rules, to the auction time.

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.[12] In particular, the proposal is consistent with Section 6(b)(5) of the Act,[13] because it 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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12 15 U.S.C. 78f(b).

13 15 U.S.C. 78f(b)(5).

In particular, the proposed rule change will provide investors with more timely execution of their options orders, while ensuring that there is an adequate exposure of orders in the mechanisms. Additionally, the proposed change will allow more investors the opportunity to receive price improvement through the mechanisms, and will reduce market risk for members using the mechanisms. Finally, as mentioned above, other exchanges such as BX and Phlx, have already amended their rules to permit response times consistent with those proposed here – i.e., no less than 100 milliseconds and no more than 1 second.[14] As such, the Exchange believes the proposed rule change would help perfect the mechanism for a free and open national market system, and generally help protect investors' and the public's interest.

The Exchange believes the proposed rule change is not unfairly discriminatory because the auction duration would be the same for all members. All members in the mechanisms have today, and will continue to have, an equal opportunity to receive the broadcast and respond with their best prices during the auction. Additionally, the Exchange believes the reduction in the auction duration reduces the market risk for all members. The reduction in time period reduces the market risk for the Initiating Member as well as any members providing orders in response to a broadcast. Moreover, based on the feedback the Exchange received from its members, the Exchange believes that a reduction in the auction period to a low of 100 milliseconds would not impair members' ability to compete in the mechanisms. The Exchange believes these results support the assertion that a reduction in the auction duration would not be unfairly discriminatory and would benefit investors.

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14 See note 7 supra.

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

The Exchange believes the proposal is consistent with Section 6(b)(8) of the Act[15] in that it does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change is not designed to address any aspect of competition, but instead would continue to provide market participants with sufficient time to respond, compete, and provide price improvement for orders in the Exchange's auction mechanisms. The proposed rule also provides investors and other market participants with more timely executions, thereby reducing their market risk. As proposed, the rule does not impose an undue burden on members because they are all currently capable of responding to these mechanisms in under 100 milliseconds. Finally, the proposed rule change offers the same exposure period to all members and would not impose a competitive burden on any particular participant.

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 publication date of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve or disapprove such proposed rule change, or

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

(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 e-mail to rule-comments@sec.gov. Please include File Number SR-ISE-2016-26 on the subject line.

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-2016-26. 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 website (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-2016-26 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.[16]

Brent J. Fields
Secretary

[16] 17 CFR 200.30-3(a)(12).