

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-68849; File No. SR-ISE-2012-100)

February 6, 2013

Self-Regulatory Organizations; International Securities Exchange, LLC; Order Approving a Proposed Rule Change to Reduce the Response Times in the Block Mechanism, Facilitation Mechanism, Solicited Order Mechanism and Price Improvement Mechanism from One Second to 500 Milliseconds

I. Introduction

On December 19, 2012, the International Securities Exchange, LLC (the “Exchange” or the “ISE”) 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 amend ISE Rules 716 (Block Trades) and 723 (Price Improvement Mechanism for Crossing Transactions) to reduce the response times in the Block Mechanism, Facilitation Mechanism, Solicited Order Mechanism and Price Improvement Mechanism (“PIM”) from one second to 500 milliseconds (i.e., 1/2 of one second). The proposed rule change was published for comment in the Federal Register on December 27, 2012.³ The Commission received no comment letters on the proposed rule change. This order approves the proposed rule change.

II. Description of the Proposed Rule Change

ISE Rule 716 (Block Trades) 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 ISE members to obtain liquidity for the

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 68492 (December 20, 2012), 77 FR 76336 (“Notice”).

execution of a block-size order.⁴ The Facilitation and Solicited Order Mechanisms allow ISE members to enter cross transactions seeking price improvement.⁵ ISE Rule 723 (Price Improvement Mechanism for Crossing Transactions) contains the requirements applicable to the execution of orders using the PIM. The PIM allows ISE members to enter cross transactions of any size. The Facilitation, Solicited Order Mechanisms and PIM allow for ISE members to designate certain customer orders for price improvement and submit such orders into one of the mechanisms with a matching contra order. Once such an order is submitted, ISE commences an auction by broadcasting a message to all ISE 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 the Block Order Mechanism, Facilitation Mechanism, Solicited Order Mechanism, and PIM are currently exposed to all market participants for one second, giving them an opportunity to enter additional trading interest before the orders are automatically executed. Under the proposal, the exposure period for each of the four mechanisms would be reduced from one second to 500 milliseconds.

III. Discussion and Commission's Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national

⁴ Block-size orders are orders for 50 contracts or more. See ISE 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 ISE Rule 716(d) and (e).

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

securities exchange.⁷ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,⁸ which requires, among other things, that the rules of a national securities exchange be designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest, and not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers. The Commission also finds that the proposed rule change is consistent with Section 6(b)(8) of the Act,⁹ which requires that the rules of an exchange not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

The Commission believes that, given the electronic environment of ISE, reducing each of the exposure periods from one second to 500 milliseconds could facilitate the prompt execution of orders, while continuing to provide market participants with an opportunity to compete for exposed bids and offers. To substantiate that its members could receive, process and communicate a response back to ISE within 500 milliseconds, ISE stated that it surveyed all ISE members that have participated in the mechanisms in 2011 and 2012. Seventeen of the twenty-one firms surveyed indicated that they can currently receive, process and communicate a response back to ISE within 500 milliseconds. Of the four firms that cannot currently respond within 500 milliseconds, one firm stated that 500 milliseconds is sufficient for non-complex orders in the mechanisms, but had not yet tested for complex orders. Each of the four firms

⁷ In approving this proposed rule change, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

⁸ 15 U.S.C. 78f(b)(5).

⁹ 15 U.S.C. 78f(b)(8).

indicated that with six weeks' notice of the implementation date, they can perform the systems work necessary to respond to an ISE broadcast within 500 milliseconds.¹⁰ To give ISE members an opportunity to make any necessary modifications to coincide with the implementation date, ISE, upon effectiveness of the proposal, and at least six weeks prior to implementation of the proposed rule change, will issue an Informational Circular to Members, informing its members of the implementation date of the reduction of the auction from one second to 500 milliseconds in the mechanisms to allow members the opportunity to perform systems changes. In addition, ISE reviewed all executions occurring in the mechanisms by ISE members for the month of October 2012. This review of executions in the mechanisms indicated that approximately ninety-three percent (93%) of responses in the mechanisms (excluding PIM) and approximately eighty-nine percent (89%) of responses in the PIM that resulted in price improving executions at the conclusion of an auction were submitted within 500 milliseconds.¹¹ Furthermore, with regard to the impact of the proposal on system capacity, ISE has analyzed its capacity and represented 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 reduction in the auction duration to 500 milliseconds.¹²

Based on ISE's statements, the Commission believes that market participants should continue to have opportunities to compete for exposed bids and offers within a 500 millisecond exposure period. Accordingly, the Commission believes that it is consistent with the Act for the Exchange to reduce the response times in the Block Mechanism, Facilitation Mechanism, Solicited Order Mechanism and PIM from one second to 500 milliseconds.

¹⁰ See Notice, supra note 3, at 76337.

¹¹ Id., supra note 3, at 76337.

¹² Id., supra note 3, at 76338.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹³ that the proposed rule change (SR-ISE-2012-100) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁴

Kevin M. O'Neill
Deputy Secretary

¹³ 15 U.S.C. 78s(b)(2).

¹⁴ 17 CFR 200.30-3(a)(12).