SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–68492; File No. SR–ISE–2012–100]

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

December 20, 2012.

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 December 19, 2012, 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 Exchange. 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 Mechanism, Facilitation Mechanism, Solicited Order Mechanism and Price Improvement Mechanism (''PIM''). The text of the proposed rule change is available on the Exchange's Internet Web site at *http://www.ise.com,* on the Commission's Internet Web site at *http://www.sec.gov,* 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 Exchange included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in Sections A, B and C below, of the most significant aspects of such statements.

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

[2] 17 CFR 240.19b–4.

A. Self-Regulatory Organization's Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of this proposed rule change is 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 PIM from one second to 500 milliseconds (½ of one second).

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,[3] whereas the Facilitation and Solicited Order Mechanisms allow members to enter cross transactions seeking price improvement.[4] 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 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 Members that includes the series, price, size and side of the market.[5] 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 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 to 500 milliseconds. When approving previous reductions in ISE exposure periods in these mechanisms the Commission concluded that reducing these time periods from three seconds to one second was consistent with the Act.[6]

[3] Block-size orders are orders for 50 contracts or more. *See* Rule 716(a).

[4] 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).

[5] ISE Members may choose to hide the size, side and price when entering orders into the Block Order Mechanism.

ISE is not proposing any change to the requirement in ISE Rule 717(d) and (e) that requires an Electronic Access Member (''EAM'') to expose its customer's order on the ISE 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 Facilitation Mechanism, Solicited Order Mechanism or PIM.[7] ISE 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, ISE Members are informed about the agency order starting the auction through receipt of the broadcast. ISE 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, ISE believes the proposed rule change could provide more customer orders an opportunity for price improvement because it will reduce the market risk for all ISE Members executing trades in these mechanisms. ISE 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 ISE Members. While other ISE 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 one second, leaving the Initiating Members vulnerable to trading losses due to their choice to seek price improvement for their customer. The Initiating Member

[6] *See* Securities Exchange Act Release No. 58224 (July 25, 2008), 73 FR 44303 (July 30, 2008) (Order granting accelerated approval of a proposed rule change as modified by amendments No. 1 and 3 thereto relating to reduction of certain order handling and exposure periods from three seconds to one second) (SR–ISE–2007–94).

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

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 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 one second is necessary in today's market where, generally, Members' systems have the capability to respond within milliseconds. As such, reducing the response time in the Block Order Mechanism is appropriate as Members no longer need one second to respond to the auction. Reducing the auction time for the Block Order Mechanism from one second to 500 milliseconds will allow members the opportunity to seek out liquidity in an expedient manner that is consistent with system capabilities.

ISE's Members operate electronic systems that enable them to react and respond to orders in a meaningful way in fractions of a second. ISE anticipates that its Members will continue to compete within the proposed auction duration of 500 milliseconds. In particular, ISE believes that 500 milliseconds will continue to provide ISE 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 one second to 500 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 90% of executions occurring in the mechanisms Members respond within the first 500 milliseconds. ISE believes that 500 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.[8]

In consideration of this proposed rule change, ISE surveyed all ISE Members that have participated in the mechanisms in 2011 and 2012 to substantiate that such ISE Members could receive, process and communicate a response to an ISE broadcast within 500 milliseconds. Twenty of the twenty-one firms surveyed indicated that they can, either currently or with some system development, receive, process and communicate a response back to ISE within 500 milliseconds.[9]

Also in consideration of this proposed rule change, ISE reviewed all executions occurring in the mechanisms by its Members for the month of October 2012. This review of executions in the mechanisms (excluding PIM) indicates that approximately ninety-three percent (93%) of responses that resulted in price improving executions at the conclusion of an auction were submitted within 500 milliseconds. Approximately eighty-nine percent (89%) of responses that resulted in price improving executions at the conclusion of an auction were submitted within 100 milliseconds of the initial order, and eighty-five percent (85%) were submitted within 10 milliseconds of the initial order. The review of executions in the PIM indicates that approximately eighty-nine percent (89%) of responses that resulted in price improving executions at the conclusion of an auction were submitted within 500 milliseconds. Approximately sixty-six percent (66%) of responses that resulted in price improving executions at the conclusion of an auction were submitted within 100 milliseconds of the initial order, and sixty-four percent (64%) were submitted within 10 milliseconds of the initial order. As mentioned above, ISE surveyed Members that use the mechanisms to confirm that they have sufficiently automated electronic systems to enable them to react and respond to an auction within 500 milliseconds.

Accordingly, ISE believes that 500 milliseconds will continue to provide ISE 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 500 milliseconds will decrease the likelihood that an auction is underway when a customer order is received. Accordingly, ISE believes it is likely that the number of PIM transactions will increase, thereby providing customers a greater opportunity to benefit from price improvement.

Based on current market data related to the mechanisms and feedback from the surveyed ISE Members, ISE believes that reducing the exposure time in the mechanisms from one second to 500 milliseconds would not impair Members' ability to compete in the mechanisms. For example, in the mechanisms (excluding PIM) eighty-four percent (84%) of auctions include competition for execution (*i.e.,* at least one other Member competes for execution of the customer order), sixty percent (60%) of all auctions include two or more Members competing for an execution, while forty-five percent (45%) of all auctions include three or more Members competing for an execution. In the PIM, ninety-six percent (96%) of auctions include competition for execution (*i.e.,* at least one other Member competes for execution of the customer order), seventy-seven percent (77%) of all auctions include two or more Members competing for an execution, while forty-six percent (46%) of all auctions include three or more Members competing for an execution.

ISE believes that the information outlined above regarding price improving transactions in the mechanisms and the feedback provided by ISE Members provides substantial support for its assertion that reducing the auction from one second to 500 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, ISE has

---

[8] 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.

[9] 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 that need to perform systems work 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.

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 500 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.

Upon effectiveness of the proposal, and at least six weeks prior to implementation of the proposed rule change, ISE will issue an Informational Circular to Members, informing them 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. This will give Members an opportunity to make any necessary modifications to coincide with the implementation date.

2. Basis

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,[10] in general, and with Section 6(b)(5) of the Act,[11] in particular, in that the proposal is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, 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. 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 additional investors the opportunity to receive price improvement through the mechanisms, and will reduce market risk for ISE Members using the mechanisms. As such, ISE 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 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, ISE believes the reduction in the auction duration reduces the market risk for all ISE 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 ISE received from its Members, ISE believes that a reduction in the auction period to 500 milliseconds would not impair Members' ability to compete in the mechanisms. ISE believes these results support the assertion that a reduction in the auction duration would not be unfairly discriminatory and would benefit investors.

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

The proposed rule change does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

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 date of publication of this notice or within such longer period (i) as the Commission may designate up to 90 days of such date 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 changes; or

(b) Institute proceedings to determine whether the proposed rule changes 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 email to *rule-comments@sec.gov.* Please include File No. SR–ISE–2012–100 on the subject line.

Paper Comments

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549–1090.

All submissions should refer to File No. SR–ISE–2012–100. This file number should be included on the subject line if email 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 Web site (*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 Web site 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 such 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 No. SR–ISE–2012–100 and should be submitted on or before January 17, 2013.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[12]

Kevin M. O'Neill,

Deputy Secretary.

[FR Doc. 2012–31124 Filed 12–26–12; 8:45 am]

BILLING CODE 8011–01–P

[10] 15 U.S.C. 78f.

[11] 15 U.S.C. 78f(b)(5).

[12] 17 CFR 200.30–3(a)(12).