International Securities Exchange

October 1, 2013

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

Re: File No. SR-NYSEArca-2013-42

Dear Ms. Murphy:

The International Securities Exchange, LLC ("ISE") appreciates the opportunity to comment on the proposal ("Proposal") of NYSE Arca, Inc. ("Arca") to make permanent the penny pilot trading program for options (the "Pilot").[1] ISE supports making the Pilot a permanent program and commends Arca for presenting a comprehensive plan for accomplishing that. ISE further supports a number Arca's specific proposals for such trading and views the Proposal as an important first step in an effort to achieve industry consensus on penny trading. However, ISE believes that certain aspects of the Proposal – most importantly the number of options that would trade in pennies – require more consideration before the Commission should approve making the pilot permanent.

ISE is working with Arca, the other options exchanges, the industry, and the Commission in an effort to develop an industry-wide pennies proposal. Since the time Arca made its filing we have taken affirmative steps in that direction, beginning by circulating an ISE position paper with our views on penny trading. We have also engaged in industry-wide discussions on the issue. We ask the Commission to delay action on the Arca Proposal to give the industry an opportunity to come to a consensus on penny trading and to allow the options exchanges to present the Commission with a single penny trading proposal.

We request the delay in acting on the Arca Proposal because we believe it is in the best interests of the investing public and the industry for the options exchanges to work together to propose uniform rules for trading in pennies. Doing so will permit a coordinated approach to such trading, allowing investors and industry participants to fashion a comprehensive trading environment that addresses all aspects of trading, including liquidity for investors, proper incentives for liquidity providers and the efficient use of industry resources for quoting and other information-dissemination vehicles.

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[1] Release No. 34-70317, September 4, 2013 (78 *F.R.* 55312 (September 10, 2013)).

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Failure to adopt a uniform proposal will not necessarily doom the ultimate adoption of common penny rules, but almost certainly will lead to an inferior result. In this regard, business and competitive considerations will create a situation in which the exchanges quickly would adopt the broadest penny trading rules that any one exchange proposes. This will occur because an exchange would face insurmountable competitive disadvantages if it were to quote options in larger increments than a competing exchange. For example, because an exchange cannot trade through superior disseminated quotations of other exchanges, an exchange quoting in nickels could be forced to provide executions a whole increment better to avoid trading through.[2] Providing such executions on a continual basis would not be economically viable.

The options exchanges can avoid these pitfalls by working together, with the rest of the industry and pursuant to Commission oversight, in developing uniform rules that properly weigh competing policy concerns. We respectfully request the Commission to delay taking final action on the Arca Proposal until the industry has an opportunity to develop a unified approach to trading options in pennies.

We again thank the Commission for the opportunity to comment on the Arca Proposal. If you have any questions on our comments, please do not hesitate to contact us.

Sincerely,

Michael J. Simon
Secretary

cc: John Ramsey, acting Director, Division of Trading and Markets
James Burns, Deputy Director, Division of Trading and Markets
Heather Seidel, Associate Director, Division of Trading and Markets

[2] For example, assume an exchange that quotes in nickel increments is disseminating a quotation in an options series of $.20 bid, $.25 offered. If an exchange that quotes in pennies is bidding $.21 for the same contract, absent adopting of some form of potentially confusing rule set, a member of the first exchange would need to buy the same options contract at its offer price – $.25 – to avoid trading through the $.21 bid.