SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-55784; File No. SR-ISE-2007-27)

May 18, 2007

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Order Delivery

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),[1] and Rule 19b-4 thereunder,[2] notice is hereby given that on May 16, 2007, the International Securities Exchange, LLC ("ISE" or "Exchange") filed with the Securities and Exchange Commission ("Commission" or "SEC") the proposed rule change as described in Items I and II below, which Items have been substantially prepared by ISE. The Exchange filed the proposal as a "non-controversial" proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act[3] and Rule 19b-4(f)(6) thereunder,[4] which renders it effective upon filing with the Commission.[5] 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 ISE is proposing to amend its rules to allow for order delivery. The text of the proposed rule change is available at ISE, the Commission's Public Reference Room, and www.iseoptions.com.

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

2 17 CFR 240.19b-4.

3 15 U.S.C. 78s(b)(3)(A)(iii).

4 17 CFR 240.19b-4(f)(6).

5 The Exchange has asked the Commission to waive the 30-day operative delay required by Rule 19b-4(f)(6)(iii), 17 CFR 240.19b-4(f)(6)(iii). See discussion infra Section III.

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 ISE 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 ISE 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 this filing is to amend ISE Rules to allow order delivery Electronic Communication Networks ("ECNs") to display quotations on the ISE Stock Exchange ("ISE Stock" or "System"). An order delivery ECN submits quotations that are displayed on the Exchange, while simultaneously executing buy and sell orders internally as agent for its subscribers. To preclude the potential for double liability on a single order (e.g., an order executing internally in the ECN immediately before the quotation that reflects such order is executed in ISE order book), the Exchange will first confirm the continued availability of an order before executing it against incoming orders. In this context, the Commission requires that the system that connects an exchange facility and an ECN be of very high reliability and speed, and that the exchange's rules governing order delivery assure fast and efficient handling of quotation updates.[6]

[6] See Question 2.04: Automated Trading Centers/Order-Delivery ECNs, Responses to Frequently Asked Questions Concerning Rule 611 and Rule 610 of Regulation NMS, Division of Market Regulation, SEC (October 31, 2006).

The Exchange proposes to amend ISE Rule 2107 (the "Rule") to offer order delivery to Equity Electronic Access Members ("EAMs") in a manner consistent with the Commission's requirements. To be eligible to use the order delivery functionality, an ECN that is an Equity EAM must demonstrate the ability to produce system response times that meet or exceed the maximum standard set by the Exchange, which shall not exceed 100 milliseconds.[7] The System will automatically cancel a limit order designated for order delivery treatment if no response is received from the Equity EAM within a time limit established by the Exchange, which shall not exceed 500 milliseconds. The Exchange will notify Equity EAMs of the required response times under the Rule by issuing a Regulatory Information Circular.

The Exchange also proposes to further amend the Rule to clarify that, in order to receive an immediate execution, Fill-or-Kill ("FOK") orders will execute against regular limit orders on the ISE order book and will be canceled if any portion of the FOK order would need to execute against an order that has been entered on an order delivery basis to receive its fill.[8] FOK orders are immediately executed upon receipt in their entirety at the Best Available Price[9] or canceled. Accordingly, the System cannot hold an FOK order for the duration of time necessary to confirm that the order entered on an order delivery basis is still available. To ensure a maximum execution rate for FOK orders, the System, in seeking a fill for a FOK order, will suppress time priority for orders on the

7 "Response time" shall include the Exchange's message to the order delivery ECN, the order delivery ECN's response to the Exchange, and the execution of the trade.

8 Equity EAMs should conduct a regular and rigorous review of their order routing practices to ensure that their orders are routing in compliance with their best execution obligations.

9 See ISE Rule 2100(c)(3).

ISE order book that have been entered on an order delivery basis to those that are limit orders, but will not violate price priority. In other words, FOK orders will only be eligible to execute against limit orders on the ISE order book. The following example shows how this will work:

Assume there are the following orders on the ISE order book in Company XYZ: an order entered on an order delivery basis to buy 1000 shares for 10.00, a limit order to buy 1000 shares for 10.00, and a limit order to buy 500 for 9.99 — and the orders were received in that time sequence. If the ISE Stock then receives a FOK order with a limit price of 9.99 to sell 1000 shares of Company XYZ, then the order will execute against the regular limit order to buy 1000 shares for 10.00 and the order delivery order will remain at the top of the book. In contrast, if the ISE Stock receives a FOK order with a limit price of 9.99 to sell 1500 shares, the order would be canceled because to receive the best available price the order would need to be filled at 10.00, which would require an execution against the order entered on the order delivery basis.

The above example illustrates that the System will skip order delivery orders with respect to time priority when doing so will allow for an execution of a FOK order, but will never give an inferior execution price by ignoring the limit price of order delivery orders.

2. Statutory Basis

The basis under the Exchange Act for this proposed rule change is found in Section 6(b)(5).[10] Specifically, the Exchange believes the proposed rule change is consistent with Section 6(b)(5) requirements that the rules of an exchange be designed to

[10] 15 U.S.C. 78f(b)(5).

promote just and equitable principles of trade, serve to remove impediments to and perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest. In particular, this filing will provide investors with more flexibility in entering orders and receiving executions of such orders.

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

Because the foregoing proposed rule change does not (1) significantly affect the protection of investors or the public interest; (2) impose any significant burden on competition; and (3) become operative for thirty days from the date on which it was filed, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, it has become effective pursuant to Section 19(b)(3)(A) of the Act[11] and Rule 19b-4(f)(6)[12] thereunder.[13]

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11 15 U.S.C. 78s(b)(3)(A).

12 17 CFR 240.19b-4(f)(6).

13 Pursuant to Rule 19b-4(f)(6)(iii), the Exchange gave the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date on which the Exchange filed the proposed rule change. See 17 CFR 240.19b-4(f)(6)(iii).

A proposed rule change filed under Commission Rule 19b-4(f)(6)[14] normally does not become operative prior to thirty days after the date of filing. The Exchange requests that the Commission waive the 30-day operative delay, as specified in Rule 19b-4(f)(6)(iii), and designate the proposed rule change to become operative immediately. The Commission hereby grants the request. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest because such waiver will enable the Exchange to benefit investors by affording them access, without delay, to the additional liquidity available from order-delivery ECNs. For these reasons, the Commission designates the proposed rule change as effective upon filing.[15]

At any time within 60 days of the filing of such proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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

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14 17 CFR 240.19b-4(f)(6).

15 For the purposes only of waiving the operative date of this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

- Send an e-mail to rule-comments@sec.gov. Please include File No. SR-ISE-2007-27 on the subject line.

Paper comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, Station Place, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File No. SR-ISE-2007-27. 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 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 inspection and copying in the Commission's Public Reference Room. 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 No. SR-ISE-2007-27 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[16]

Florence E. Harmon
Deputy Secretary

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