SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-53948; File No. SR-ISE-2006-14)

June 6, 2006

Self-Regulatory Organizations; International Securities Exchange, Inc.; Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto Relating to ISE Rule 720

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 March 22, 2006, the International Securities Exchange, Inc. ("ISE" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. On May 18, 2006, the ISE submitted Amendment No. 1 to the proposed rule change.[3] 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 proposes to amend ISE Rule 720 ("Obvious Error Rule"). The text of the proposed rule change is below. Proposed new language is underlined. Proposed deletions are in [brackets].

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

2 17 CFR 240.19b-4.

3 In Amendment No. 1, the Exchange amended proposed new Supplementary Material .08 to ISE Rule 720 to state that unless all parties to a trade agree otherwise, ISE Market Control may nullify a trade if all parties to a trade fail to receive a trade execution report due to a verifiable system outage. Amendment No. 1 also clarified that the proposed rule change operates under the assumption that a trade has taken place, but due to a system outage, the parties to the trade never received a trade execution report and thus were unaware of the trade having taken place.

Rule 720. Obvious Errors

The Exchange shall either bust a transaction or adjust the execution price of a transaction that results from an Obvious Error as provided in this Rule. In limited circumstances, the Exchange may nullify transactions, pursuant to Supplementary Material .08 below.

(a) – (c) No change.

(d) [(e)] Obvious Error Panel.

(1) – (4) No change.

Supplementary Material to Rule 720

.01 - .07 No change.

.08 Unless all parties to a trade agree otherwise, Market Control may nullify a trade if all parties to a trade fail to receive a trade execution report due to a verifiable system outage.

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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 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 ISE Rule 720 to expand its application. Specifically, ISE proposes to expand its Obvious Error Rule to provide the Exchange with the ability, in limited circumstances, to nullify a transaction when all parties to a trade do not receive a trade execution report[4] due to a system outage. The Exchange routinely sends out trade execution reports to all Members that are parties to a trade.[5]

The ISE developed the Obvious Error Rule to address the need to handle errors in a fully electronic market where orders and quotes are executed automatically before an obvious error may be discovered and corrected by Members. The Exchange states that in formulating the Obvious Error Rule, it has weighed carefully the need to assure that one market participant is not permitted to receive a wind-fall at the expense of another market participant that made an obvious error, against the need to assure that market participants are not simply being given an opportunity to reconsider poor trading decisions. The Exchange believes that the proposed rule change would strengthen ISE's Obvious Error Rule because it would ensure that parties are not adversely affected by a trade whose terms were never fully communicated to them due to a system outage. The Exchange states that the proposed rule change reflects the Exchange's constant evaluation of the Obvious Error Rule and its fairness to all market participants. The Exchange also believes that the proposed rule change is necessary to assure that those

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[4] A trade execution report is an ISE system message sent to all parties to a trade to inform them that a trade has been consummated. Among other things, a trade execution report contains pertinent details such as the underlying security, the price, number of contracts traded, the strike price and the expiration date.

[5] See, Amendment No. 1, supra note 3.

transactions where a trade execution report is not sent to all the participants to a trade are eligible to be busted under the Obvious Error Rule.

Finally, as a matter of "housekeeping," the Exchange proposes a technical correction of the numbering within ISE Rule 720 to change what is now ISE Rule 720(e) to ISE Rule 720(d)

2. Statutory Basis

The Exchange believes the proposal is consistent with Section 6(b) of the Act[6], in general, and furthers the objectives of Section 6(b)(5) of the Act,[7] in particular, in that it is designed to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transaction in securities, 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.

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

The Exchange believes 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

No written comments were solicited or received by the Exchange on this proposal.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the date of publication of this notice in the Federal Register 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

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6 15 U.S.C. 78f(b).

7 15 U.S.C. 78f(b)(5).

the Exchange consents, the Commission will:

(A) by order approve the proposed rule change, or

(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, as amended, 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-2006-14 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-ISE-2006-14. 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 Number SR-ISE-2006-14 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.[8]

Nancy M. Morris
Secretary

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8 17 CFR 200.30-3(a)(12).