

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-57207; File No. SR-ISE-2007-95)

January 25, 2008

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing of a Proposed Rule Change, as Modified by Amendment Nos. 2 and 3, Relating to Reserve Orders

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 October 12, 2007, the International Securities Exchange, LLC (“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 substantially prepared by the Exchange. The ISE filed Amendment Nos. 1 and 2 to the proposal on January 17, 2008.³ On January 25, 2008, the ISE filed Amendment No. 3 to the proposed rule change.⁴ The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to add a new order type called Reserve Orders. The text of the proposed rule change is available at the Exchange, the Commission’s Public Reference Room, and www.ise.com.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Amendment No. 2 replaces the original filing and Amendment No. 1 in their entirety.

⁴ Amendment No. 3 clarifies portions of the purpose section of the proposed rule change.

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 Exchange proposes to implement a new order type called Reserve Orders. A Reserve Order is a single-sided limit order that resides in the Exchange's regular limit order book and has both a displayed portion and a non-displayed or reserve portion. The displayed portion would behave exactly like a regular order and would trade in accordance with the Exchange's standard allocation rules, *i.e.*, time priority for customers and pro-rata for non-customers.⁵ The following examples illustrate how Reserve Orders will trade on the Exchange:

Example 1:

The Exchange's order book shows the following at the Best Bid:

10 contracts (100 contracts in reserve)	Customer 1
12 contracts	Customer 2
25 contracts	Competitive Market Maker

⁵ See ISE Rule 713 and Supplementary Material .01 thereto.

20 contracts (500 contracts in reserve) Broker/Dealer

An order comes in to sell 50 contracts at market. This order would be executed with the displayed customer orders trading in time priority followed by non-customers pro-rata, as follows:

10 contracts trade with Customer 1

12 contracts trade with Customer 2

16 contracts trade with Competitive Market Maker (“CMM”): This allocation is calculated as follows: $(25/45) \times 28$, where the numerator (25) is the number of contracts that a CMM is willing to trade, and the denominator (45) is the number of contracts that are available for execution. The resulting number (0.5555) is then multiplied by the number of contracts that have not been executed (28).

The remaining 11 contracts trade with the Broker/Dealer.

Example 2:

The Exchange’s order book shows the same at the Best Bid as in Example 1:

An order to sell 200 contracts at market will be executed as follows:

10 contracts trade with Customer 1

12 contracts trade with Customer 2

25 contracts trade with CMM

20 contracts trade with the Broker/Dealer

100 contracts (the entire reserve portion of Customer 1) trade with Customer 1

33 contracts (from the 500 contracts in reserve) trade with the Broker/Dealer

When the displayed portion of a Reserve Order is decremented, either in full or in part, it shall be refreshed from the non-displayed portion of the resting Reserve Order. If the displayed

portion is refreshed in part, the new displayed portion shall include the previously displayed portion. Upon any refresh, the entire displayed portion shall be ranked at the specified limit price, assigned a new entry time and given priority in accordance with Rule 713.

The non-displayed portion of Reserve Orders shall be ranked based on the specified limit price and the time of order entry. Upon any refresh, any remaining non-displayed portion shall be assigned a new time stamp, same as that assigned to the newly displayed portion. The non-displayed portion of any Reserve Order is available for execution only after all displayed interest has been executed.

The Exchange notes that the full size, i.e., both the displayed and non-displayed portions, of an incoming Reserve Order will be available for execution if that incoming order is marketable. Further, in the event an incoming order is large enough to trade through all displayed quantities, the non-displayed quantities of all resting Reserve Orders will be eligible to trade, again in accordance with the Exchange's standard allocation rules.

The Exchange believes that the new order type proposed in this rule change will provide greater flexibility to members to control their orders. By offering this new order type, members will be able to determine how much of their order they want disseminated at any point in time and help them eliminate the need to enter multiple orders in one series. The Exchange states that this new functionality will be purely voluntary and is similar to that currently offered⁶ or proposed⁷ by other options exchanges.

⁶ See NYSE Arca Rule 6.76(a).

⁷ See Securities Exchange Act Release No. 55667 (April 25, 2007), 72 FR 23869 (May 1, 2007) (SR-NASDAQ-2007-004) (Notice of Filing of Proposed Rule Change and Amendment No. 1 to Establish Rules Governing the Trading of Options on the NASDAQ Options Market).

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b) of the Act,⁸ in general, and furthers the objectives of Section 6(b)(5) of the Act,⁹ in particular, in that it is designed to prevent fraudulent and manipulative acts, promote just and equitable principles of trade, 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. The Exchange believes that this new order type will offer market participants new trading opportunities on the Exchange and enhance the Exchange's competitive position.

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

The Exchange believes that 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 written comments from members or other interested parties.

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 the Exchange consents, the Commission will:

⁸ 15 U.S.C. 78f(b).

⁹ 15 U.S.C. 78f(b)(5).

- 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 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-2007-95 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-2007-95. 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, 100 F Street,

NE, Washington, DC 20549, on official business days between the hours of 10:00 am and 3:00 pm. 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 Number SR-ISE-2007-95 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁰

Florence E. Harmon
Deputy Secretary

¹⁰ 17 CFR 200.30-3(a)(12).