

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-53103; File No. SR-ISE-2006-01)

January 11, 2006

Self-Regulatory Organizations; International Securities Exchange, Inc.; Notice of Filing of Proposed Rule Change to Amend Exchange Rule Governing Directed Orders

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 January 5, 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 ISE. 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 ISE Rule 811 with respect to identifying to a Directed Market Maker (“DMM”) the identity of the firm entering a Directed Order.

The text of the proposed rule change is below. Proposed new language is underlined; proposed deletions are in [brackets].

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Rule 811. Directed Orders

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(b) Exchange market makers may only receive and handle orders on an agency basis if they are Directed Orders and only in the manner prescribed in the Rule 811. A market maker can elect whether or not to accept Directed Orders on a daily basis. If a market maker elects to be a

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

Directed Market Maker, it must accept Directed Orders from all Electronic Access Members[. A Directed market maker] and cannot reject a Directed Order. The identity of the Electronic Access Member that entered the Directed Order will be made available to the Directed Market Maker.

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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 ISE included statements concerning the purpose of and basis for 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 Exchange operates a Directed Order system in which Electronic Access Members (“EAMs”) can send an order to a DMM for possible price improvement.³ If a DMM accepts Directed Orders generally, that DMM must accept all Directed Orders from all EAMs. Once such a DMM receives a Directed Order, it either must enter the order into the Exchange’s “Price Improvement Mechanism” (“PIM”) or must release the order into the Exchange’s limit order book, in which case there are certain restrictions on the DMM interacting with the order.

The Boston Options Exchange (“BOX”) operates a system almost identical to ISE’s Directed Order system. Based on BOX’s published rules, the ISE believed that BOX’s system had the same anonymity feature as ISE’s system. However, the Boston Stock Exchange, Inc. (“BSE”) has filed a proposed rule change that acknowledges that BOX provides its directed

³ See Securities Exchange Act Release No. 52331 (August 24, 2005), 70 FR 51856 (August 31, 2005) (SR-ISE-2004-16).

market makers with the identity of the order entry firm and seeks to amend the BOX rules to be consistent with the actual operation of the BOX system (the “BOX Proposal”).⁴

The ISE has significant concerns with the BOX Proposal and will be filing a comment letter arguing against its approval. Notwithstanding ISE’s concerns with the BOX Proposal, the ISE believes it needs to remain competitive in the market place if the Commission determines to approve the BOX Proposal and allow exchanges to disclose the identity of order-entry firms in their order routing and execution systems. In this respect, the ISE has modified its system to disclose the identity of order entry firms to DMMs on a temporary basis.⁵ The purpose of this proposed rule change is to specify in the ISE rules that Directed Orders are not anonymous, which if approved by the Commission, will make the temporary system change permanent.⁶

2. Statutory Basis

The Exchange believes that the basis under the Act for this proposed rule change is found in Section 6(b)(5),⁷ in that the proposed rule change is designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, to remove impediments to and perfect the mechanisms 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 enable the Exchange to remain competitive in the market place.

⁴ See Securities Exchange Act Release No. 53015 (December 22, 2005), 70 FR 77207 (December 29, 2005) (SR-BSE-2005-52).

⁵ See Securities Exchange Act Release No. 53104 (January 11, 2006) (File No. SR-ISE-2006-02). This temporary system change was effective upon filing pursuant to Rule 19b-4(f)(5) under the Act. 17 CFR 240.19b-4(f)(5).

⁶ Currently, the ISE rules do not specify that Directed Orders are sent to a DMM on an anonymous basis. The ISE also enforces anonymity in certain other trading systems, such as its Facilitation Mechanism. The Exchange plans to file a proposed rule change eliminating the anonymity provisions in certain of these areas as well.

⁷ 15 U.S.C. 78f(b)(5).

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 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 shall:

- (a) by order approve such 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 No. SR-ISE-2006-01 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 20549-9303.

All submissions should refer to File Number SR-ISE-2006-01. 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 such filing also will be available for inspection and copying at the principal office of the ISE. 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-2006-01 and should be submitted on or before [insert date 21 days from the date of publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁸

Nancy M. Morris
Secretary

⁸ 17 CFR 200.30-3(a)(12).