

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-54531; File No. SR-ISE-2006-52)

September 28, 2006

Self-Regulatory Organizations; International Securities Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the Block Order Mechanism

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on September 6, 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 and II below, which Items have been prepared by the ISE. The ISE filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder,<sup>4</sup> which renders the proposal effective upon filing with the Commission. 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 Exchange is proposing to reduce the exposure period for orders entered into the Block Order Mechanism under Rule 716 to three seconds. The text of the proposed rule change is available on the ISE’s Web site (<http://www.iseoptions.com>), at the ISE’s Office of the Secretary, and at the Commission’s Public Reference Room.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(6).

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

Under ISE Rule 716, members can seek liquidity for a single-sided order of at least fifty contracts (a “block order”) by entering such order into the Block Order Mechanism. Currently, upon entry of an order, the Block Order Mechanism gives market participants thirty seconds to respond with contra-side trading interest.<sup>5</sup> The ISE has reduced the exposure period for the other special order mechanisms contained in Rule 716, the Facilitation Mechanism and the Solicited Order Mechanism, to three seconds and has found that this is more than enough time for market participants to respond. Because the longer exposure period introduces unnecessary market risk to orders entered into the Block Order Mechanism, the Exchange proposes to reduce the Block Order Mechanism exposure period to three seconds.

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<sup>5</sup> At the conclusion of this time period, either an execution occurs automatically, or the order is cancelled. Bids (offers) on the Exchange at the time the block order is executed that are priced higher (lower) than the block execution price, as well as responses that are priced higher (lower) than the block execution price, are executed at the block execution price. Responses, quotes and non-customer orders at the block execution price participate in the execution of the block order according to the allocation method set forth in ISE Rule 713(e). See ISE Rule 716(c).

2. Statutory Basis

The basis under the Act for this proposed rule change is found in Section 6(b)(5),<sup>6</sup> in that the proposed rule change is designed to 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. In particular, the proposed rule change will reduce unnecessary market risk for orders entered into the Block Order Mechanism.

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

The proposed rule change does not impose any burden on competition.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>7</sup> and Rule 19b-4(f)(6) thereunder.<sup>8</sup>

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<sup>6</sup> 15 U.S.C. 78f(b)(5).

<sup>7</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>8</sup> 17 CFR 240.19b-4(f)(6).

At any time within 60 days of the filing of the 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.

A proposed rule change filed under Rule 19b-4(f)(6) normally may not become operative prior to 30 days after the date of filing.<sup>9</sup> However, Rule 19b-4(f)(6)(iii)<sup>10</sup> permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The ISE provided the Commission with written notice of its intent to file this proposed rule change at least five business days prior to the date of filing of the proposed rule change. In addition, the ISE has requested that the Commission waive the 30-day operative delay. The Commission has previously stated its belief that in an electronic environment – such as that of the ISE options market – reducing the exposure period for orders to three seconds could facilitate the prompt execution of such orders, while providing market participants with an adequate opportunity to compete for them.<sup>11</sup> Thus, the Commission believes that waiving the 30-day operative delay for the instant proposed rule change is consistent with the protection of investors and the public interest. For this reason, the Commission designates the

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<sup>9</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>10</sup> Id.

<sup>11</sup> See, e.g., Securities Exchange Act Release Nos. 52711(November 1, 2005), 70 FR 67508 (November 7, 2005) (SR-ISE-2004-04); 53384 (February 27, 2006), 71 FR 11280 (March 6, 2006) (SR-PCX-2005-135); and 53567 (March 29, 2006), 71 FR 17529 (April 6, 2006) (SR-CBOE-2006-09).

proposal to be effective and operative immediately.<sup>12</sup>

#### 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](mailto:rule-comments@sec.gov). Please include File Number SR-ISE-2006-52 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-2006-52. 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

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<sup>12</sup> For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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-2006-52 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.<sup>13</sup>

Nancy M. Morris  
Secretary

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<sup>13</sup> 17 CFR 200.30-3(a)(12).