

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-53903; File No. SR-ISE-2005-49)

May 31, 2006

Self-Regulatory Organizations; International Securities Exchange, Inc.; Notice of Filing of Proposed Rule Change and Amendment Nos. 1 and 2 Relating to Complex Order Execution

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 4, 2005, the International Securities Exchange, Inc. (“Exchange” or “ISE”) 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 ISE filed Amendment Nos. 1 and 2 to the proposal on February 1, 2006, and April 20, 2006, respectively.³ 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 is proposing to amend ISE Rule 722, “Complex Orders,” with respect to complex order execution. The text of the proposed rule change is below. Proposed new language is underlined; proposed deletions are in [brackets].

* * * * *

Rule 722. Complex Orders.

(a) no change.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Amendment No. 2 replaced the initial filing and Amendment No. 1 in their entirety.

(b) Applicability of Exchange Rules. Except as otherwise provided in this Rule, complex orders shall be subject to all other Exchange Rules that pertain to orders generally.

(1) *Minimum Increments.* Bids and offers on complex orders may be expressed in any decimal price, and the [option] leg(s) of a [stock-option] complex order may be executed in one cent increments, regardless of the minimum increments otherwise applicable to the individual [options] legs of the order. [Complex orders expressed in net price increments that are not multiples of the minimum increment are not entitled to the same priority under subparagraph (b)(2) of this Rule as such orders expressed in increments that are multiples of the minimum increment.]

(2) *Complex Order Priority.* Notwithstanding the provisions of Rule 713, a complex order, as defined in paragraph (a) of this Rule, may be executed at a total credit or debit price with one other Member without giving priority to bids or offers established in the marketplace that are no better than the bids or offers comprising such total credit or debit; provided, however, that if any of the bids or offers established in the marketplace consist of a Public Customer limit order, the price of at least one leg of the complex order must trade at a price that is better than the corresponding bid or offer in the marketplace by at least one minimum trading increment as defined in Rule 710. Under the circumstances described above, the option leg of a stock-option order, as defined in subparagraph (a)(5)(i)(A) of this Rule, or SSF-option order as defined in subparagraph (a)(5)(ii)(A) of this Rule, has priority over bids and offers established in the marketplace by Non-Customer orders and market maker quotes that are no better than the price of the options leg, but not over such bids and offers established by Public Customer Orders.

The option legs of a stock-option order as defined in subparagraph (a)(5)(ii)(B), or SSF-option order as defined in subparagraph (a)(5)(ii)(B), consisting of a combination order with stock or single stock futures, as the case may be, may be executed in accordance with the first sentence of this subparagraph (b)(2).

(3) through (5) no change.

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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 Exchange proposes to allow the legs of an options-only complex order to be executed in penny increments. Currently under ISE Rule 722, the options leg of a stock-option order may be executed in penny increments, but the legs of an options-only complex order must be executed at the standard trading increments. The Exchange proposes to allow the legs of all complex orders to trade in penny increments. The Exchange believes that the proposed rule change will provide investors with flexibility in pricing the complex orders and create more opportunities for complex orders to receive an execution.

Under ISE Rule 722, a complex order may be executed at a total credit or debit price with one other Member without giving priority to bids or offers established in the marketplace that are no better than the bids or offers comprising such total credit or debit, provided that if any of the bids or offers established in the marketplace consist of a Public Customer limit order, the price of at least one leg of the complex order must trade at a price that is better than the corresponding bid or offer in the marketplace. While the Exchange proposes to allow the legs of complex orders to be executed in penny increments, it does not propose to change the existing requirement that to have priority over Public Customer limit orders, at least one leg of the complex order must trade at a price that is better than the corresponding bid or offer in the marketplace by at least one minimum trading increment.⁴ Thus, Public Customer limit orders will maintain their existing priority under ISE Rule 722.

2. Statutory Basis

The Exchange believes that the basis under the Act for this proposed rule change is found in Section 6(b)(5), in that the proposed rule change is designed to promote just and equitable principles of trade, to remove⁵ 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 that it will provide investors with more flexibility in pricing complex orders and increase the opportunity for complex orders to be executed.

⁴ A minimum trading increment is defined in ISE Rule 710, “Minimum Trading Increments,” as \$0.05 if the options contract is trading at less than \$3.00 and \$0.10 if the options contract is trading at or above \$3.00.

⁵ 15 U.S.C. 78f(b).

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:

- (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, 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-2005-49 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-2005-49. 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 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-2005-49 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.⁶

Nancy M. Morris
Secretary

⁶ 17 CFR 200.30-3(a)(12).