

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-54124; File No. SR-ISE-2005-49)

July 11, 2006

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

I. Introduction

On October 4, 2005, the International Securities Exchange, Inc. (“ISE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), 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> a proposed rule change to amend ISE Rule 722, “Complex Orders,” to allow the legs of an options-only complex order to be executed in penny increments. The ISE filed Amendment Nos. 1 and 2 to the proposal on February 1, 2006, and April 20, 2006, respectively.<sup>3</sup> The proposed rule change, as amended by Amendment Nos. 1 and 2, was published for comment in the Federal Register on June 6, 2006.<sup>4</sup> The Commission received no comments regarding the proposal, as amended. This order approves the proposed rule change, as amended.

II. Description of the Proposal

ISE Rule 722(b)(1) currently allows the options leg(s) of a stock-option order to be executed in one-cent increments, regardless of the minimum increment otherwise applicable to the individual options leg(s) of the order.<sup>5</sup> The ISE proposes to amend ISE Rule 722(b)(1) to

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

<sup>4</sup> See Securities Exchange Act Release No. 53909 (May 31, 2006), 71 FR 32617.

<sup>5</sup> Under ISE Rule 710, “Minimum Trading Increments,” the minimum trading increment is \$.05 for an options contract trading at less than \$3.00 per option and \$.10 for an options contract trading at \$3.00 per option or higher.

allow options-only complex orders, as well as stock-option orders, to be executed in one-cent increments. The proposal retains the existing requirement under the ISE's rules that allows a complex order to take priority over established Public Customer interest in the marketplace only if at least one leg of the complex order trades at a price that is better than the corresponding bid or offer in the marketplace by at least one minimum trading increment, as provided in ISE Rule 710.<sup>6</sup>

### III. Discussion

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange and, in particular, with Section 6(b)(5) of the Act,<sup>7</sup> which requires, among other things, that the rules of a national securities exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to 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.<sup>8</sup> Specifically, the Commission believes that by allowing options-only complex orders to be executed in one-cent increments, the proposal may facilitate the execution of options-only complex orders by providing a greater number of price points at which such orders may be executed. As noted above, the ISE's rules will continue to require that at least one leg of a complex order trade at a price that is better than the corresponding bid or offer in the marketplace by at least one

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<sup>6</sup> See ISE Rule 722(b)(2).

<sup>7</sup> 15 U.S.C. 78f(b)(5).

<sup>8</sup> In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

minimum trading increment, as provided in ISE Rule 710, when any of the established bids or offers in the marketplace consists of a Public Customer limit order.<sup>9</sup>

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>10</sup> that the proposed rule change (SR-ISE-2005-49), as amended, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>11</sup>

Nancy M. Morris  
Secretary

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<sup>9</sup> See ISE Rule 722(b)(2).

<sup>10</sup> 15 U.S.C. 78s(b)(2).

<sup>11</sup> 17 CFR 200.30-3(a)(12).