

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-54151; File No. SR-ISE-2006-27)

July 14, 2006

Self-Regulatory Organizations; International Securities Exchange, Inc.; Order Granting Approval of Proposed Rule Change Relating to Automatic Execution of Non-Customer Orders

On May 15, 2006, the International Securities Exchange, Inc. (“ISE” or “Exchange”), filed with the Securities and Exchange Commission (“Commission”) a proposed rule change pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² to amend ISE Rule 714 to provide that incoming Non-Customer Orders³ would not be automatically executed at prices that are inferior to the best bid or offer disseminated by another national securities exchange (“NBBO”) and that Non-Customer Orders that are not automatically executed would be rejected. The proposed rule change also would clarify the handling of Public Customer Orders⁴ that are not automatically executed and update the rule text to conform with the Exchange’s current handling of “fill-or-kill” orders. The proposed rule change was published for comment in the Federal Register on June 14, 2006.⁵ The Commission received no comments on the proposal. This order approves the proposed rule change.

The Commission has reviewed carefully the proposed rule change and finds that it is consistent with the requirements of Section 6 of the Act⁶ and the rules and regulations thereunder

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See ISE Rule 100(a)(23).

⁴ See ISE Rule 100(a)(33).

⁵ See Securities Exchange Act Release No. 53946 (June 6, 2006), 71 FR 34406 (“Notice”).

⁶ 15 U.S.C. 78f.

applicable to a national securities exchange.⁷ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,⁸ which requires, among other things, that the rules of an exchange be designed 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.

In particular, the Commission believes that the proposed change should help to prevent Non-Customer Orders from automatically trading at prices that are inferior to the NBBO. The Commission also believes that the proposed rule change provides clarity with respect to the handling of Public Customer Orders and Non-Customer Orders when such orders are not automatically executed—Public Customer Orders would be handled by the Primary Market Maker pursuant to ISE Rule 803(c) and Non-Customer Orders would be automatically rejected. The Commission further believes that the proposed change relating to “fill-or-kill” orders clarifies for investors and market participants how such orders will be handled by the Exchange.

The Commission notes that the Exchange represents that the proposed rule change with respect to the handling of Non-Customer Orders requires the Exchange to implement a systems change that will be implemented by early September 2006. Therefore, this part of the proposed rule change will not be operative until such systems change is implemented.⁹

⁷ In approving this proposal, the Commission has considered the proposed rule’s impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

⁸ 15 U.S.C. 78f(b)(5).

⁹ The Exchange represents in the Notice that it would issue a Regulatory Information Circular notifying members at least five days prior to the operative date of the rule change.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹⁰ that the proposed rule change (SR-ISE-2006-27) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹¹

Nancy M. Morris
Secretary

¹⁰ 15 U.S.C. 78s(b)(2).

¹¹ 17 CFR 200.30-3(a)(12).