

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-54270; File No. SR-ISE-2006-34)

August 3, 2006

Self-Regulatory Organizations; International Securities Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment No. 1 Thereto Relating to Rule 1406, Regulatory Cooperation

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 May 31, 2006, 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 and II below, which Items have been prepared by the Exchange. On July 7, 2006, ISE filed Amendment No. 1 to the proposed rule change. The Exchange filed the proposed rule change as a “non-controversial” rule change under Rule 19b-4(f)(6) under the Act,³ which rendered the proposal effective upon filing with the Commission. 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 proposes to amend ISE Rule 1406, Regulatory Cooperation, to clarify that the Exchange may contract with another self-regulatory organization (“SRO”) for the performance of certain regulatory functions. The text of the proposed rule change is available on ISE’s Web site, <http://www.iseoptions.com>, at ISE’s Office of the Secretary, and at the Commission’s Public Reference Room.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 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 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

ISE Rule 1406 allows the Exchange to enter into agreements with domestic and foreign SROs, associations and contract markets and the regulators of such markets for the exchange of information and other regulatory purposes. The Exchange proposes to amend ISE Rule 1406 to specify that the Exchange may contract with another SRO for the performance of certain of ISE’s regulatory functions.⁴ ISE states that such regulatory services agreements could enhance ISE’s ability to carry out its regulatory obligations under the Act.

This rule change would have immediate applicability with respect to a regulatory services agreement (“RSA”) between ISE, the Chicago Board Options Exchange, Incorporated (“CBOE”), and other options markets participating in the Options Regulatory Surveillance Authority national market system plan (“ORSA”). ISE has determined that to best discharge its SRO responsibilities, it will contract with CBOE, which is subject to Commission oversight

⁴ The Exchange states that the proposed rule change is identical to rule changes recently adopted by other options markets. See, e.g., Securities Exchange Act Release No. 53832 (May 18, 2006), 71 FR 30007 (May 24, 2006) (SR-CBOE-2006-46).

pursuant to Sections 6 and 19 of the Act,⁵ for CBOE to provide certain regulatory services to ISE, as set forth in the ORSA RSA. In performing services under the ORSA RSA, CBOE will be operating pursuant to the statutory SRO responsibilities of ISE under Sections 6 and 19, as well as performing for itself its own SRO responsibilities.

According to the proposed rule change, ISE remains an SRO registered under Section 6 of the Act⁶ under any agreement for regulatory services with another SRO and, therefore, continues to have statutory authority and responsibility for enforcing compliance by its members, and persons associated with its members, with the Act, the rules thereunder, and the rules of the Exchange. The proposed rule change specifically states that any action taken by another SRO, or its employees or authorized agents, operating on behalf of ISE pursuant to a regulatory services agreement with ISE, will be deemed an action taken by ISE. Under any agreement for regulatory services with another SRO, ISE retains ultimate responsibility for performance of its SRO duties, and the proposed rule change states that ISE shall retain ultimate legal responsibility for, and control of, its SRO responsibilities.

2. Statutory Basis

The Exchange believes that the proposed rule change furthers the objectives of Section 6(b)(5) of the Act,⁷ in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, 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

⁵ 15 U.S.C. 78f and 15 U.S.C. 78s.

⁶ 15 U.S.C. 78f.

⁷ 15 U.S.C. 78f(b)(5).

public interest. In particular, the proposal specifies in the Exchange's rules that the Exchange may enter into regulatory services agreements, which the ISE believes could enhance the Exchange's regulatory program.

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

The Exchange does not believe that the proposed rule change will 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 neither solicited nor received written comments on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the proposed rule change: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of filing, or such shorter time as the Commission may designate, if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act⁸ and subparagraph (f)(6) of Rule 19b-4 thereunder.⁹ The Exchange has requested that the Commission waive the 30-day operative delay period for "non-controversial" proposals and make the proposed rule change effective and operative upon filing. The Commission hereby grants the request. The Commission believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest. In this regard, the Commission believes that the proposal should be implemented without delay because of its immediate

⁸ 15 U.S.C. 78s(b)(3)(A).

⁹ 17 CFR 240.19b-4(f)(6).

applicability with respect to the RSA among ISE, CBOE and the other ORSA participants.¹⁰ For this reason, the Commission designates the proposal to be effective and operative upon filing with the Commission.

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 the furtherance of the purposes of the Act.¹¹

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 Number SR-ISE-2006-34 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.

¹⁰ The Commission notes that the proposed rule change is based on a similar rule of the Boston Stock Exchange, Inc. See Securities Exchange Act Release No. 53436 (March 7, 2006), 71 FR 13194 (March 14, 2006) (SR-BSE-2006-08).

¹¹ See 15 U.S.C. 78s(b)(3)(C). For purposes of calculating the 60-day period within which the Commission may summarily abrogate the proposed rule change, as amended, under Section 19(b)(3)(C) of the Act, the Commission considers the period to commence on July 7, 2006, the date on which the Exchange submitted Amendment No. 1.

All submissions should refer to File Number SR-ISE-2006-34. 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 Exchange. 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-2006-34 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.¹²

Nancy M. Morris
Secretary

¹² 17 CFR 200.30-3(a)(12).