



CITADEL

February 27, 2006

Nancy Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Proposed Rule Change Relating to the Directed Order Process on the International Securities Exchange (SR-ISE-2006-01)

Dear Ms. Morris:

Citadel Investment Group, L.L.C. (“Citadel”)¹ appreciates the opportunity to comment on the International Securities Exchange, Inc.’s (“ISE”) recent proposal to eliminate anonymity in its Directed Order system.² We believe that this proposal, if approved, will adversely affect the options markets and their participants in a variety of ways. Therefore, we strongly urge the Securities and Exchange Commission (“SEC” or “Commission”) to disapprove the ISE’s rule filing.

In its proposed rule change filing, the ISE itself notes it has “significant concerns” about a Directed Order system that lacks anonymity. In fact, the ISE filed a comment letter arguing against the Boston Option Exchange’s (“BOX”) proposed rule change removing anonymity from its Directed Order process.³

We agree with the ISE’s concerns. As we discussed at length in our comment letter concerning the same BOX rule change proposal,⁴ revealing the identity of order senders to market makers will harm most members of the options investing public by facilitating discriminatory market behavior. In addition, lack of anonymity discourages aggressive quoting and liquidity, thus undermining the many recent advances in the options market structure.

¹ Citadel and its affiliates operate one of the world’s largest alternative investment firms. On an average day, Citadel accounts for approximately 3% of the daily volume on the New York Stock Exchange (“NYSE”) and Nasdaq. Citadel Derivatives Group LLC is one of the most active listed options market makers in the United States.

² Securities Exchange Act Release No. 53103 (Jan. 11, 2006); Securities Exchange Act Release No. 53104 (Jan. 11, 2006).

³ See Letter from Michael J. Simon, Secretary, ISE, to Nancy Morris, Secretary, SEC (Jan. 19, 2006).

⁴ See Letter from Adam C. Cooper, Senior Managing Director & General Counsel, Citadel Investment Group, L.L.C., to Nancy Morris, Secretary, SEC (Jan. 11, 2006) (“BOX Comment Letter”). We incorporate by reference our BOX Comment Letter for the purposes of our comments in this letter.



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Page 2

Furthermore, the BOX since has withdrawn its rule proposal to eliminate anonymity in its Directed Order process. As a result, the ISE's stated reason for its proposed rule change filing – to remain competitive in the marketplace if the Commission approves the BOX's proposal to allow the disclosure of order senders' identities – is no longer an issue.

For these reasons, we recommend that the Commission reject the ISE's rule filing.

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If we can be of further assistance on this matter, please feel free to contact me at (312) 395-3067.

Sincerely,

Adam C. Cooper
Senior Managing Director & General
Counsel

cc: Chairman Christopher Cox
Commissioner Paul S. Atkins
Commissioner Annette L. Nazareth
Commissioner Roel C. Campos
Commissioner Cynthia A. Glassman