

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-54151; File No. SR-ISE-2006-27]

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

July 14, 2006.

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 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

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

Jill M. Peterson,
Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-54146; File No. SR-ISE-2006-39]

Self-Regulatory Organizations; International Securities Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to a One-Year Pilot Extension Until July 18, 2007 for the Price Improvement Mechanism

July 14, 2006.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934

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.

¹⁰ 15 U.S.C. 78s(b)(2).

¹¹ 17 CFR 200.30-3(a)(12).

("Act")¹ and Rule 19b-4 thereunder,² notice is hereby given that on July 12, 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. The Exchange filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(6) thereunder,⁴ which renders the proposed rule change effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to extend the Pilot Periods contained in paragraphs .03 and .05 of the Supplemental Material to Exchange Rule 723. The text of the proposed rule change is available on the Exchange's Web site (<http://www.iseoptions.com>), at the Exchange's Office of the Secretary, and at the Commission's Public Reference Room.

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 pilot periods provided in paragraphs .03 and .05 of the Supplementary Material to ISE Rule 723 expire on July 18, 2006.⁵ Paragraph .03 provides that there is no minimum size requirement for orders to be eligible for the Price Improvement Mechanism.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(6).

⁵ See Securities Exchange Act Release Nos. 50819 (December 8, 2004), 69 FR 75093 (December 15, 2004); and 52027 (July 13, 2005), 70 FR 41804 (July 20, 2005).

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.

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).