

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-55586; File No. SR-ISE-2007-19)

April 5, 2007

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Access to the Exchange by Sponsored Customers

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 March 13, 2007, the International Securities Exchange, LLC (“ISE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been substantially prepared by ISE. The Exchange has filed the proposal as a “non-controversial” rule change pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(6) thereunder,⁴ which renders it 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

ISE proposes to amend ISE Rule 706 to permit Sponsored Customers of a Member to access the Exchange. The text of the proposed rule change is available at ISE, the Commission’s Public Reference Room, and www.iseoptions.com.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, ISE included statements concerning the purpose of and

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).

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. ISE 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

This proposed rule change seeks to permit Sponsored Customers of Members to access the Exchange provided that a Sponsored Customer Agreement has been entered into with the Exchange by the Sponsored Customer, and provided certain other conditions are satisfied. The proposed revisions to Rule 706 outlines the requirements that Sponsoring Members and Sponsored Customers would be required to meet prior to engaging in a Sponsoring Member/Sponsored Customer relationship.⁵

A “Sponsored Customer” is a non-Member of the Exchange, such as an institutional investor, that trades under a Sponsoring Member’s execution and clearing identity pursuant to a sponsorship arrangement between such non-Member and a Member. The Sponsoring Member must have documentation acknowledging it has full and complete responsibility for all trading activity conducted by its Sponsored Customer. A Sponsoring Member that provides access to a Sponsored Customer also has a continuing obligation to comply with all ISE rules and procedures and the federal securities laws and regulations. A Sponsoring Member must also continue to satisfy any agency obligations that may exist between itself and its Sponsored Customer.

⁵ ISE notes that this proposed rule change will enable Sponsored Customers of Members to access both its Options Exchange, as per Rule 706, and its Stock Exchange, as per Rule 2100, which incorporates Rule 706 by cross-reference.

A Sponsored Customer's access to the Exchange is conditioned on the following requirements being met: Sponsored Customers would be required to enter into a sponsorship arrangement with a "Sponsoring Member," which is defined as an ISE Member that has been designated by a Sponsored Customer to execute, clear and settle transactions on ISE. The sponsorship arrangement consists of three separate components.

First, the Sponsored Customer would have to enter into and maintain a customer agreement with its Sponsoring Member, establishing a proper relationship and account through which the Sponsored Customer would be permitted to trade on ISE.

Second, the Sponsored Customer and its Sponsoring Member would have to enter into a written agreement that incorporates the following Sponsorship Provisions:

(1) The Sponsoring Member acknowledges and agrees that: (i) all orders entered by its Sponsored Customer and any person acting on behalf of or in the name of such Sponsored Customer and any executions occurring as a result of such orders are binding in all respects on the Sponsoring Member; and (ii) the Sponsoring Member is responsible for any and all actions taken by such Sponsored Customer and any person acting on behalf of or in the name of such Sponsored Customer.

(2) The Sponsored Customer agrees that it would comply with the ISE Certificate of Formation, Constitution, Rules and procedures with regard to its activity on the Exchange as if the Sponsored Customer were an ISE Member.

(3) The Sponsored Customer agrees that it would maintain, keep current and provide to the Sponsoring Member a list of its Authorized Traders⁶ who would be permitted to obtain access to the Exchange on behalf of the Sponsored Customer(s).

⁶ See proposed ISE Rule 706, Supplementary Material .01(b)(2)(iv).

(4) The Sponsored Customer agrees that it would familiarize its Authorized Traders with all of the Sponsored Customer's obligations under ISE Rules and would assure that they receive appropriate training prior to any use of or access to the Exchange.

(5) The Sponsored Customer agrees that it would not permit anyone other than Authorized Traders to use or obtain access to the Exchange.

(6) The Sponsored Customer agrees that it would take reasonable security precautions to prevent unauthorized use or access to the Exchange, including unauthorized entry of information into the System, or the information and data made available therein. The Sponsored Customer understands and agrees that it is responsible for any and all orders, trades and other messages and instructions entered, transmitted or received under identifiers, passwords and security codes of Authorized Traders, and for the trading and other consequences thereof.

(7) The Sponsored Customer acknowledges its responsibility for establishing adequate procedures and controls that permit it to effectively monitor its employees, agents and customers' use of and access to the Exchange for compliance with the terms of the Sponsorship Provisions.

(8) The Sponsored Customer agrees that it would pay when due all amounts, if any, payable to the Sponsoring Member, ISE or any other third parties that arise from the Sponsored Customer's access to and use of the Exchange. Such amounts would include, but would not be limited to, applicable exchange and regulatory fees.

Third, the Sponsoring Member would have to provide ISE with an express acknowledgement of the Sponsoring Member's responsibility for the orders, executions and actions of its Sponsored Customer.

As a further condition to access to the Exchange, each Member would be required to maintain an up-to-date list of persons who could obtain access to the Exchange on behalf of the Sponsoring Member or the Sponsoring Member's Sponsored Customers, i.e., Authorized Traders, and provide the list to ISE upon request. In addition, each Member would have to have reasonable procedures to ensure that all of its Authorized Traders maintain the physical security of ISE and otherwise comply with ISE Rules. If ISE determines that an Authorized Trader has caused a Member to violate ISE Rules, ISE could direct the Member to suspend or withdraw the person's status as an Authorized Trader.

The Sponsoring Member/Sponsored Customer relationship would allow a Member to grant access to ISE to their customers while confirming that those customers who do have access to ISE have appropriate procedures in place to comply with ISE rules. Furthermore, the identity of all individuals with access (i.e., Authorized Traders) would have to be disclosed to the Exchange, giving the Exchange better information in the event that the Exchange determines to take action because its systems have been used inappropriately.

2. Statutory Basis

ISE believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,⁷ in general, and with Section 6(b)(5) of the Act,⁸ in particular, in that the proposal is designed 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.

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

ISE does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

⁷ 15 U.S.C. 78f.

⁸ 15 U.S.C. 78f(b)(5).

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any unsolicited written comments from members or other interested parties.

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

Because the forgoing rule change does not: (1) significantly affect the protection of investors or the public interest; (2) impose any significant burden on competition; and (3) become operative for 30 days after the date of this filing, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act⁹ and Rule 19b-4(f)(6) thereunder.¹⁰

A proposed rule change filed under 19b-4(f)(6) normally may not become operative prior to 30 days after the date of filing.¹¹ However, Rule 19b-4(f)(6)(iii)¹² permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has requested that the Commission waive the 30-day operative delay. The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest because such waiver would permit ISE Members to

⁹ 15 U.S.C. 78s(b)(3)(A).

¹⁰ 17 CFR 240.19b-4(f)(6).

¹¹ 17 CFR 240.19b-4(f)(6)(iii). In addition, Rule 19b-4(f)(6)(iii) requires that a self-regulatory organization submit to the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Commission has decided to waive the five-day pre-filing notice requirement.

¹² Id.

immediately provide its Sponsored Customers access to ISE's markets.¹³ For this reason, the Commission designates the proposed rule change to be operative upon filing with the Commission.¹⁴

At any time within 60 days of the filing of such 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 furtherance of the purposes of the Act.

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-2007-19 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.

All submissions should refer to File Number SR-ISE-2007-19. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your

¹³ The Commission notes that proposed ISE Rule 706, Supplementary Material .01 is substantially similar to NYSE Arca, Inc. Rule 7.29.

¹⁴ For the purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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 the filing also will be available for inspection and copying at the principal office of ISE. 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-2007-19 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.¹⁵

Florence E. Harmon
Deputy Secretary

¹⁵ 17 CFR 200.30-3(a)(12).