

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-57507; File No. SR-ISE-2007-77)

March 14, 2008

Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing of Proposed Rule Change, as Modified by Amendment Nos. 1 and 2 Thereto, Relating to Complex Orders

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 August 24, 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, II, and III below, which Items have been prepared by the ISE. On November 27, 2007, the Exchange filed Amendment No. 1 to the proposed rule change.³ The Exchange filed Amendment No. 2 to the proposed rule change on March 11, 2008.⁴ The Commission is publishing this notice to solicit comments on the proposed rule change, as modified by Amendment Nos. 1 and 2, from interested persons.

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

The ISE proposes to amend ISE Rule 722 pertaining to Complex Orders to provide an opportunity for marketable complex orders to receive price improvement and to provide more specificity on the mechanics of how complex orders are executed. The text of the proposed rule change is available at ISE, the Commission’s Public Reference Room, and www.iseoptions.com.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Amendment No. 1 expanded the discussion in the purpose section of the original filing, but did not change the text of the proposed rule change.

⁴ Amendment No. 2 modified the original filing to make exposure of marketable complex orders voluntary. Amendment No. 2 replaced the original filing in its entirety.

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 ISE 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 722 describes execution principles for complex orders, including priority rules regarding the execution of complex orders when there are Public Customer orders resting on the Exchange's limit order book in the options series that comprise the individual leg(s) of a complex order. The Exchange's System automatically executes complex orders in conformance with the requirements of ISE Rule 722, and the Exchange is not proposing any changes to these substantive requirements. Additionally, other ISE rules, such as Rule 717(d) and (e) that require members to expose orders to the marketplace before executing them against proprietary or solicited orders, also apply to the execution of complex orders. The Exchange is not proposing any changes to the application of these other Exchange rules to the execution of complex orders.

The purpose of the proposed rule change is to amend ISE Rule 722 to provide an opportunity for marketable complex orders to receive price improvement and to provide more specificity in the Rule on the mechanics of how complex orders are executed by the System in conformance with the existing requirements of Rule 722.⁵ In particular, the Exchange proposes

⁵ The Exchange also proposes to delete an outdated cross reference from ISE Rule 722. Specifically, ISE Rule 722(b)(5) specifies that the restrictions on order entry contained in

to amend ISE Rule 722 to specify that complex orders: (1) are executed against orders on the complex order book in price priority and in time priority at the same price; and (2) will be executed against the bids and offers for the individual legs in the Exchange's options market provided the complex order can be executed in full or in a permissible ratio by such bids and offers. The System matches incoming complex orders against contra-side complex orders when possible, and then executes the individual legs of a complex order against the limit order book when possible. In each of these circumstances, the System assures that the requirements of ISE Rule 722 are satisfied. For example, the System will not execute two complex orders against each other if the execution price of the options leg(s) would be below the best price available on the ISE for the options series, nor will it execute two complex orders at a price that matches the best price available on the ISE when there is a Public Customer order on the book unless the specific requirements of ISE Rule 722 are satisfied.

Under the proposal, the Exchange also will allow members to choose to give their marketable complex orders an opportunity for price improvement by introducing a delay of up to one second before automatically executing designated incoming complex orders.⁶ During this delay, the complex order will be exposed on the complex order book to give market participants an opportunity to enter contra-side complex orders.⁷ While the Exchange is not proposing to

two paragraphs of ISE Rule 717 do not apply to Complex Orders. The requirements contained in the two paragraphs have been removed from ISE Rule 717, so the Exchange proposes to delete subparagraph (5) from Rule 722(b).

⁶ The Exchange will determine the appropriate length of the delay, not to exceed one second, from time to time. The initial delay period and any subsequent changes to the delay period will be communicated to Members via an Exchange circular.

⁷ The complex order book is available to all ISE market participants. However, the application of ISE Rules 717(d) and (e), which require a three-second exposure period, will prohibit the member that entered the complex order from entering contra-side principal orders or orders solicited from other broker-dealers during the proposed one-second (or less) exposure period.

conduct an actual auction for an incoming marketable complex order (i.e., there will be no messages sent to members specifically soliciting interest to trade with the complex order), this short delay before executing a marketable complex order will provide an opportunity for the order to receive price improvement. The System will execute the incoming order against interest on the complex order book in price time priority following the delay, so while it is possible that the order will receive price improvement as a result of contra-side orders being entered during the delay, it is also possible that orders will no longer be executable at the end of the delay. Members will be able to mark all complex orders for price improvement, including stock-option orders.⁸

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b)(5) of the Act,⁹ in that it is designed to prevent fraudulent and manipulative acts and practices, 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 proposal will provide an opportunity for marketable complex orders to receive price improvement.

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

The proposed rule change does not 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

⁸ See Supplementary Material to ISE Rule 722 regarding execution of the stock legs of stock-option orders.

⁹ 15 U.S.C. 78f(b)(5).

The Exchange has not solicited, and does not intend to solicit comments on the 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

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

- (A) by order approve such proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

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 No. SR-ISE-2007-77 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 No. SR-ISE-2007-77. 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 at <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, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 am and 3:00 pm. Copies of the 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 No. SR-ISE-2007-77 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁰

Florence E. Harmon
Deputy Secretary

¹⁰ 17 CFR 200.30-3(a)(12).