



Ms. Elizabeth M. Murphy
Secretary
United States Securities and Exchange Commission
100 F. Street NE
Washington, DC 20549

Re: Comments of The NASDAQ OMX Group, Inc. to File No. SR-ISE-2012-22

The NASDAQ OMX Group, Inc. (“NASDAQ OMX”)¹ respectfully submits these comments to the above-referenced filing in which the International Securities Exchange, LLC (“ISE”) proposes to amend its rules to allow for its listing and trading of options on ISE’s ISE Max SPY Index, a proprietary index calculated simply by multiplying the share prices of McGraw Hill’s SPDR® S&P 500® ETF Trust by a factor of ten (rounded to the tenths place).² The Commission invited comments on ISE’s proposed rule change by August 10, 2012.

NASDAQ OMX® is a pioneer in developing, maintaining and licensing proprietary financial indexes and index-related investment vehicles. As part of its Global Index Group business, NASDAQ OMX develops and licenses NASDAQ OMX-branded indexes and associated derivatives and financial products, including ETFs, mutual funds, options, futures and options on futures. NASDAQ OMX maintains over 2,900 different indexes, and as of June 30, 2012, NASDAQ OMX indexes were the basis for over 7,200 different structured investment products in 22 countries. Its flagship index, the NASDAQ-100 Index®, includes the top 100 non-financial securities listed on The NASDAQ Stock Market®.

NASDAQ OMX continues to invest in developing new proprietary indexes and increasing the alternatives available to investors pursuing widely differing investment objectives. Most recently, in 2011, NASDAQ OMX launched the NASDAQ US All Market Index family consisting of more than 900 market capitalization-weighted, float-adjusted indexes, including the NASDAQ US All Market index, which covers more than 4,000 companies.

As a result of innovation, goodwill and enormous investment of index developers like NASDAQ OMX, The McGraw-Hill Companies (“Mc-Graw Hill”), Dow Jones & Company (“Dow Jones”), Frank Russell Company and others, thousands of different index-derived investment products offering a variety of unique advantages to investors have become fixtures of the investment landscape attracting trillions of dollars in investment assets over the past two decades.

¹ The NASDAQ OMX Group, Inc. files these comments on behalf of the three securities markets it operates in the United States, The NASDAQ Stock Market, LLC, NASDAQ OMX PHLX, Inc. and NASDAQ OMX BX, Inc.

² The proposal was published by the Securities and Exchange Commission (“Commission” or “SEC”) at 77 Fed. Reg. 16883 (March 22, 2012).

As explained below, ISE's proposed rule would unfairly deprive McGraw-Hill of its intellectual property rights in the S&P 500[®] Index without fair compensation, thereby casting a deep chill on future development of financial indexes and investment products based on such indexes, to the detriment of investors.³ Another broader consequence of the proposed rule change would be the potential upset of existing exclusive licenses for the listing and trading of options on the S&P 500[®] Index and the SPDR[®] S&P 500[®] ETF Trust. Furthermore, approval of the proposed rule would effectively dismantle McGraw Hill's intellectual property rights in S&P 500[®] index options, as such rights were confirmed by *Chicago Bd. Options Exch., Inc. v. Int'l Sec. Exch., LLC*, No. 06 CH 24798 (Ill. Cir. Ct. July 8, 2010), *aff'd*, No. 102228 (Ill. App. Ct. (1st Dist.) May 25, 2012), and would effectively supplant the permanent injunction issued against ISE in the parties' ongoing intellectual property dispute. Failure by the Commission to recognize the intellectual property implications of index-derived investments in its rulemaking process in this instance could well have far reaching negative consequences, not only on index providers who develop indexes and sponsors who have contracted with index providers, but also for the diversity of investment options available to investors in the U.S.

I. Intellectual Property Considerations

NASDAQ OMX and many other index providers have conceived new and proprietary algorithms and methods, have developed securities indexes utilizing those algorithms and methods, have developed those indexes into marketable investment products, and continuously monitor and maintain those indexes, all with an enormous investment of money, effort and skill. As a result, NASDAQ OMX and other index providers have protectable, licensable intellectual property rights in their indexes and in index-related investment products.⁴ Such rights have been judicially protected from misappropriation by derivative investments relying on such indexes. *Id.* Accordingly, NASDAQ OMX urges the Commission to recognize that an investment product that uses index values to allow investors additional opportunities to trade index-derived

³ This consequence is by no means speculative. After misappropriation of Dow Jones' intellectual property rights in its financial index was judicially enjoined nearly thirty years ago in *Board of Trade v. Dow Jones & Co.*, 98 Ill.2d 109 (1983), the index marketplace flourished, welcoming dozens of new competitors and tens of thousands of new indexes. Should indexes no longer be protected from use in derivative investments without fair compensation, investors can fairly expect the currently robust market for index based investment products to wither.

⁴ *Chicago Bd. Options Exch., Inc. v. Int'l Sec. Exch., LLC*, No. 06 CH 24798 (Ill. Cir. Ct. July 8, 2010), *aff'd*, No. 102228 (Ill. App. Ct. (1st Dist.) May 25, 2012) (affirming injunction of ISE's S&P 500[®] and DJIA index-based options based on property rights arising from "skills, expertise and goodwill in the creation" of the indexes); *Dow Jones & Co. v. Int'l Securities Exch., Inc.*, 451 F.3d 295 (2d Cir. 2006) (discussion of acquisition of property right, not preempted by Copyright Act, acquired through the skill, labor, money and reputation used in a securities index); *Standard & Poor's v. Commodity Exch. Inc.*, 538 F. Supp. 1063 (S.D.N.Y. 1982) (Standard & Poor's selection of securities and weightings for the index as well as skill, money and labor create property right); *Dow Jones & Co., Inc. v. Bd. Of Trade*, 217 U.S.P.Q. 901 (S.D.N.Y. 1982) (selection of index components created protectable property, but not copyrighted work); *Bd. of Trade v. Dow Jones & Co. Inc.*, 108 Ill. App.3d 681 (Ill. App. Ct. (1st Dist.) 1982), *aff'd*, 98 Ill.2d 109 (1983) (effort, expense and method involved in developing index, extensive licensing and distribution efforts created protectable property right in index).

investments is, in essence, a market substitute that calls into play the index provider's intellectual property rights.

NASDAQ OMX believes that ISE's proposal establishes that the ISE Max SPY Index is, in essence, a market substitute for the S&P 500[®] Index, and that ISE's original characterization of the proposed options on the ISE Max SPY index was the accurate characterization, i.e. as providing "additional opportunities to trade S&P 500[®] options." Although ISE later amended its proposal to retreat from this admission, the reality is, if not exactly as originally described by ISE, at least a situation wherein McGraw-Hill's intellectual property rights are clearly implicated.⁵ Moreover, although ISE claims that the ISE Max SPY index is *proprietary* to ISE, it is difficult to discern any substantive contribution by ISE that would give rise to a property right, given that the ISE Max SPY index merely multiplies by 10 the share price of an ETF that tracks the S&P 500[®]. ISE adds none of its own development or constructive interpretation of the S&P 500[®] Index. In any event, the implication of McGraw-Hill's intellectual property rights in ISE's proposal and the ongoing dispute in the courts regarding the same calls for disapproval of the proposed rule to allow for adjudication of the dispute in the proper forum, without harm to market or investors.

II. The Proposed Rule Would Adversely Impact the Several Stakeholders in a Diverse and Robust Securities Market That Includes Index Related Investments, Causing Substantial Negative Consequences

Although, as discussed below, intellectual property matters are not the province of the Commission, failure by the Commission recognize the intellectual property implications of index-derived investments in its rulemaking process could well result in decisions that have far reaching negative consequences, not only for index providers who develop indexes and sponsors who have contracted with index providers, but also for the diversity of investment options available to investors in the U.S.

As a pioneer in the index marketplace, NASDAQ OMX believes that approval of ISE's proposal rulemaking would create uncertainty and strongly deter index providers and sponsors from making the significant long term investment required to develop new unique financial indexes. Investors will thus have fewer choices as fewer index developers are willing to enter the U.S. index marketplace.

Further, the cloud of uncertainty that approval in this case would place over the entire landscape of index-based investments and existing licenses may cause current index providers to rethink their long term commitment to costly maintenance and updating of existing indexes. Index providers may be forced to revisit their existing U.S. contractual arrangements to protect other revenue sources or offset potential losses from the disenfranchisement of their intellectual property rights in the U.S. In any event, the brunt of the potential economic impact to index

⁵ See Letter from The McGraw Hill Companies dated June 18, 2012 submitted in this file in response to ISE's letter dated May 4, 2012 responding to McGraw-Hill's opposition to the proposed rule change, and specifically addressing ISE's strained denials that the ISE Max SPY options are not, in essence, options on the S&P 500[®].

provider revenue will ultimately be borne by shareholders as they encounter fewer investment choices and increased expenses.

III. Allowing the Proposed Rule Change Would Conflict with the Commission's Practice to Defer to the Courts to Resolve Intellectual Property Disputes

As addressed in detail by McGraw-Hill in its comment letters to the instant file objecting to the proposed rulemaking, ISE is currently subject to a standing permanent injunction prohibiting ISE from "listing or providing an exchange market for the trading of . . . S&P 500 index options and from thereby attempting to cause [the Options Clearing Corporation] to issue such options, clear trades in, or settle the exercise of such options."⁶ On several past occasions, the Commission has expressly declined to involve itself in intellectual property issues presented by rule changes.⁷ In this instance, there is already a relevant injunction issued against ISE. To the extent ISE disputes the scope of that injunction here, that issue too should be resolved in the appropriate judicial forum.

Although ISE has not explicitly argued that the Commission may preemptively allow activities that have been judicially enjoined under state law intellectual property laws (indeed ISE's rule change filing does not mention the injunction), ISE's proposed rule change would result in just such an unintended *de facto* preemptive result, wherein options on ISE Max SPY begin trading notwithstanding an existing injunction which may subsequently terminate trading. In the circumstances, NASDAQ OMX respectfully submits that both the principles of judicial certainty and comity and the investors' interest in an orderly market argue strongly in favor of disallowing the proposed rule change.

⁶ *Chicago Bd. Options Exch., Inc. v. Int'l Sec. Exch., LLC*, No. 06 CH 24798 at 16 (Ill. Cir. Ct. July 8, 2010), *aff'd*, No. 102228 (Ill. App. Ct. (1st Dist.) May 25, 2012).

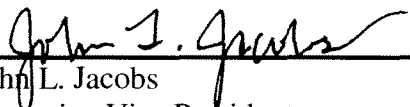
⁷ *See, e.g.*, Securities Exchange Act Release No. 42312 (Jan. 4 2000)(Commission declined to hear an appeal when "[T]he primary issue raised by Amex's appeal is whether the license agreement between Amex and Dow Jones grants Amex the exclusive right to trade Diamonds. The resolution of this question should be left to the Courts, which have experience in adjudicating such questions."); Securities Exchange Act Release No. 26709 (April 11, 1989)("Neither the plain language of these statutes nor any provision of the Act suggests that Congress intended that the Commission attempt, in the context of an approval proceeding, to resolve intellectual property right claims that can be pursued elsewhere."). *See also* Securities Exchange Act Release No. 43268 (Sept. 11, 2000) and Securities Exchange Act Release No. 36070 (Aug. 9, 1995).

VI. Conclusion

NASDAQ OMX respectfully requests, based on the foregoing, that the Commission disallow ISE's proposed rule change so as to ensure that intellectual property disputes will continue to be resolved in the appropriate forum. We would be pleased to discuss these matters further with the Commission and to respond to any questions.

Respectfully submitted,

THE NASDAQ OMX GROUP, INC.



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August 10, 2012