The McGraw-Hill Companies

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BY E-MAIL

April 11, 2012

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: Comments to File No. SR-ISE-2012-22

Dear Ms. Murphy:

The McGraw-Hill Companies, Inc. ("McGraw-Hill"), on behalf of itself and its wholly-owned subsidiary, Standard & Poor's Financial Services LLC ("S&P"), respectfully submits this comment letter in opposition to the Proposed Rule Change filed by International Securities Exchange, LLC ("ISE") on March 9, 2012. *See* Release No. 34-66614, File No. SR-ISE-2012-22, 77 Fed. Reg. 16883-88 (Mar. 22, 2012) (the "Rule Change Filing"). ISE's planned unauthorized use of the S&P 500 Composite Stock Price Index ("S&P 500") in connection with its proposed product offering constitutes an unlawful violation of S&P's intellectual property rights and violates a standing permanent injunction that bars ISE from such unlawful use and bars The Options Clearing Corporation ("OCC") from facilitating such unlawful use. *Chicago Board Options Exchange, Incorporated v. International Securities Exchange, LLC*, No. 06 CH 24798 (Ill. Circuit Ct. July 8, 2010).[1] McGraw-Hill and its co-plaintiff Chicago Board Options Exchange, Incorporated ("CBOE") have moved to enforce the injunction, and if ISE were permitted to commence offering its proposed product prior to the conclusion of litigation, investors would be locked into existing contracts with no readily available means of settlement or closure when the injunction is enforced, or ISE's unlawful use of the S&P 500 is otherwise judicially restrained, with potentially disastrous consequences for them.

McGraw-Hill recognizes that resolving intellectual property disputes is not the province of the U.S. Securities and Exchange Commission (the "Commission"). We respectfully submit, however, that it would be inappropriate and contrary to the public interest for the Commission to allow trading to commence in a product that has been enjoined and is the subject of ongoing litigation to enforce the injunction. Accordingly, and to prevent harm to investors, the Commission should reject ISE's proposed rule change.

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[1] A copy of the court's decision in *Chicago Board Options Exchange* is enclosed. ISE has appealed the decision. ISE's appeal has been fully briefed, was argued on September 22, 2011, and is awaiting decision by the Appellate Court. ISE's Rule Change Filing does not disclose the injunction.

The unauthorized use of a proprietary stock index such as the S&P 500 in connection with the listing and trading of cash-settled, exchange-traded derivative investment products has been recognized to be unlawful since the very inception of the market for such products. *See Board of Trade of the City of Chicago v. Dow Jones & Co., Inc.*, 98 Ill.2d 109 (1983) (permanently enjoining the Board of Trade from offering futures on the Dow Jones Industrial Average ("DJIA") without a license from Dow Jones); *Standard & Poor's Corp. v. Commodity Exch., Inc.*, 538 F. Supp. 1063, 164-65 (S.D.N.Y. 1982) ("*Comex*") (granting preliminary injunction to prevent Commodity Exchange from offering futures contracts settled on the value of the S&P 500), *aff'd*, 683 F.2d 704 (2d Cir. 1982) ("*Comex II*").

When ISE unsuccessfully challenged this longstanding authority in 2006 and sought to offer options on the S&P 500 and DJIA, McGraw-Hill, Dow Jones & Company, and CBOE, as the exclusive licensee of the S&P 500 and DJIA for purposes of exchange-traded index options, sued ISE and OCC to enforce their rights. In July 2010, following four years of litigation in Illinois state court and in the federal courts of both Illinois and New York,[2] extensive fact and expert discovery, and cross-motions for summary judgment, the Illinois Circuit Court entered an injunction to prevent ISE from carrying out its stated intent to offer options based on the S&P 500 and to clear trades in those options through the OCC without a license from S&P. The court held that the Illinois Supreme Court's long-standing decision in *Board of Trade*, 98 Ill. 2d 109 (1983), was "dispositive of the issues presented" and concluded that "the trading of index options on the . . . S&P 500 by ISE would misappropriate [S&P's] rights" in that index. *Chicago Board Options Exchange*, at 15. Accordingly, the court permanently restrained and enjoined ISE "from listing or providing an exchange market for the trading of . . . S&P 500 index options" and from "attempting to cause OCC to issue such options, clear trades in, or settle the exercise of such options." *Id.* at 16. OCC was enjoined "from participating in the facilitation of an ISE index option based upon the . . . S&P 500 and from issuing, clearing or settling the exercise of such . . . S&P 500 index options." *Id.*

ISE misleadingly labels its proposed new product offering as Max SPY Index options, and purports to base them on a so-called ISE Max SPY index,[3] but this effort at repackaging does not take the product

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[2] *See Int'l Sec. Exch., LLC v. Dow Jones & Co., Inc.*, 1:06-CV-12878-RLC, 2007 WL 2142068 (S.D.N.Y. July 25, 2007) (staying ISE's declaratory judgment action against McGraw-Hill and Dow Jones seeking a declaration that ISE lawfully could offer index options on the S&P 500 and DJIA without licenses in deference to the affirmative action against ISE and OCC in Illinois), *aff'd*, *Int'l Sec. Exch., LLC v. Dow Jones & Co., Inc.*, 07-3324-CV, 2009 WL 46889 (2d Cir. Jan. 8, 2009); *Chicago Bd. Options Exch., Inc. v. Int'l Sec. Exch., LLC*, No. 06 C 6852, 2007 WL 604984, at *5 (N.D. Ill. Feb. 23, 2007) (holding that plaintiffs' claims for misappropriation and unfair competition were not preempted by federal law and remanding action to state court in which it was filed); Order Denying Motion for Leave to File a Petition For Writ of Prohibition, *Int'l Sec. Exch., LLC v. Maki*, No. 108426 (Ill. June 11, 2009).

[3] While ISE purports that the so-called ISE Max SPY is a new, proprietary index, there is no legitimate basis for ISE to claim proprietary rights *for itself* in an index that simply multiplies by 10 the share price of an ETF designed to track the S&P 500—or even to claim that such a straightforward multiplication of

outside the scope of the injunction. ISE would use the S&P 500 as the underlying interest of the proposed options and to calculate their settlement value, in direct violation of the injunction. Indeed, in its Rule Change Filing, ISE proclaims that its new product would provide its members and investors "with additional opportunities to trade S&P 500® options . . . in an exchange environment." SR-ISE-2012-22 at 15. The contract specifications for the proposed options reveal that ISE would determine their settlement value not on the basis of any new index proprietary to ISE or any multiplication of the share price of SPY (the SPDR® S&P 500® ETF Trust)[4] but instead by ISE's calculation of the closing value of the S&P 500 on the settlement date, using the closing prices of the same 500 stocks that S&P has selected for the S&P 500 and using the same proprietary weightings that S&P assigns to each of those stocks. *See* SR-ISE-2012-22 at 40; *see also id.* at 6 n.3 (admitting that the settlement value ISE calculates for its proposed options may be different from the net asset value published by the trustee of the SPDR® S&P 500® ETF Trust).[5] In particular, ISE admits that the "securities that comprise the S&P 500® . . . are the same portfolio securities whose published prices are used to calculate the settlement value of the ISE Max SPY." SR-ISE-2012-22 at 13; s*ee also id.* at 12. ISE further admits that the weighting of the component stocks in the SPY Trust would be identical to the weighting of those same stocks in the S&P 500 (*see* SR-ISE-2012-22 at 3-4; *see also* n.4 *supra*), that those weightings would reflect the proprietary adjustments that S&P—and only S&P—decides are appropriate for the S&P 500 (*see* SR-ISE-2012-22 at 3-4), and that ISE would use those proprietary weightings and adjustments in calculating the "total value" of the S&P 500 component securities and in calculating the settlement value of its proposed options (*see id.* at 6).

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the share price of a single equity could be an index. *Cf. Board of Trade of the City of Chicago v. Dow Jones & Co., Inc.*, 108 Ill. App. 3d 681, 695 (1st Dist. 1982) ("The fact that the Board is willing and able to perform a rote calculation four times a year does not make the index and average its creation or its property, and that occasional calculation does not make the CBT Index and Average any less the Dow Jones Index and Average."), *aff'd*, 98 Ill. 2d 109 (1983).

[4] The SPDR® S&P 500® ETF Trust, as its name suggests, is an exchange-traded fund that is designed to track the performance of the S&P 500 index. S&P granted a license to an affiliate of the trustee of the Trust to use the S&P 500 as the basis for determining the composition of the portfolio of securities held by the Trust and to use certain S&P trade names and trademarks in connection with that portfolio. *See* Prospectus for SPDR S&P 500 ETF Trust, dated January 25, 2012 ("SPDR Prospectus"), at page 52. (A copy of the current SPDR ETF prospectus is available at: https://www.spdrs.com/library-content/public/SPY%20Prospectus.pdf.) The Trust adjusts the composition of the portfolio whenever there is a change in the identity of any security in the S&P 500 index and further adjusts the composition of the portfolio to ensure that the weighting of the stocks it holds tracks S&P's weighting of securities in the S&P 500 index within hundredths of a percentage point. *Id.* at 45-46. These portfolio adjustments by the Trust are non-discretionary. *Id.* at 46.

[5] We respectfully suggest that the Commission should be concerned by the misleading disconnect between the name for ISE's proposed product and the manner in which the options would be settled.

While ISE here proposes, in essence, to calculate the S&P 500 itself—using S&P's proprietary selection of stocks and proprietary weighting methodology—rather than use the S&P 500 value published by S&P, the deliberate connection of ISE's proposed product to, and intended association with, the S&P 500 would create the same unauthorized exploitation of S&P's research efforts, skills, reputation, and goodwill that are embodied in the S&P 500 that already has been held to be unlawful and enjoined. *Chicago Board Options Exchange*, at 7-9, 15. When it comes to the tort of misappropriation, ISE's use of its own computation of the S&P 500 to settle unlicensed index options, rather than S&P's published value, is, in the words of the Illinois Appellate Court, "a distinction without a difference." *Board of Trade of the City of Chicago v. Dow Jones & Co., Inc.*, 108 Ill. App. 3d at 695, *aff'd*, 98 Ill. 2d 109.

Courts have recognized the danger to investors if trading were permitted to commence in an index product subsequently adjudicated to violate the rights of the index provider. In *Comex II*, the Second Circuit observed in affirming a preliminary injunction that if unlicensed trading of S&P 500 futures were to commence and S&P's intellectual property rights were later upheld, thousands of investors "would be drastically affected" and "at a minimum, traders would be locked into existing futures contracts." 683 F.2d at 711-12; *see also Comex*, 538 F. Supp. at 1070-71 (noting "potentially disastrous consequences" for traders and that, in absence of coordination with the index provider, the exchange was "in no position to guarantee performance of its so-called Comex 500 contracts"). That threat of harm to investors is only heightened by the fact that the proposed ISE product falls within the scope of an existing permanent injunction, rather than a prospective one.

While it is not the province of the Commission to resolve intellectual property disputes, we respectfully submit that where those disputes have already been adjudicated (or are subject to pending further court proceedings), the Commission should not approve the listing and trading of products that have previously been determined to be unlawful. As noted above, ISE admits that the proposed rule change would provide its members and investors "with additional opportunities to trade S&P 500® options" on its exchange. SR-ISE-2012-22 at 15. ISE has been enjoined from doing so and, accordingly, the Commission should disapprove ISE's proposed rule change.

Respectfully submitted,

Kenneth M. Vittor
Executive Vice President and General Counsel
The McGraw-Hill Companies, Inc.

Enclosure

IN THE CIRCUIT COURT OF COOK COUNTY
COUNTY DEPARTMENT, CHANCERY DIVISION

CHICAGO BOARD OF OPTIONS EXCHANGE, DOW JONES & COMPANY, INC., and THE MCGRAW-HILL COMPANIES, INC.,	)	
Plaintiffs,	)	Case No. 06 CH 24798
v.	)	Hon. William O. Maki
INTERNATIONAL SECURITIES EXCHANGE, LLC, and THE OPTIONS CLEARING CORPORATION,	)	
Defendants	)	

ENTERED
JUL - 8 2010
JUDGE WILLIAM MAKI
CIRCUIT COURT - 1604

MEMORANDUM OPINION AND ORDER

This matter comes before the court on Plaintiffs' Joint Motion for Partial Summary Judgment and ISE's Motion for Summary Judgment. Having considered the briefing and exhibits in support, and having heard arguments of counsel on May 26, 2010, and therefore being fully informed of the premises, the Court finds as follows:

Background

Plaintiffs Dow Jones & Company, Inc.,[1] and The McGraw-Hill Companies through its wholly owned subsidiary, Standard & Poor's Financial Services LLC, (collectively, the "Index Providers") are the creators of two widely recognized indexes: the Dow Jones Industrial Average ("DJIA") and S&P 500 Composite Stock Price Index ("S&P 500"). The DJIA reflects the average of the stock market values of the shares of thirty leading companies in the United States,

[1] On March 18, 2010, CME Group, Inc. acquired 90% of the Dow Jones index business, including the Dow Jones Industrial Average. CME Group Index Services, LLC ("CGIS") was substituted as a party-plaintiff for Dow Jones on May 3, 2010.

while the S&P 500 reflects that of five hundred leading companies. The S&P 500 is computed at fifteen-second intervals, while the DJIA is calculated in real time and distributed every two seconds. Investors use the published index values to make investment decisions.

Plaintiff Chicago Board Options Exchange, Inc. ("CBOE") is a national securities exchange that specializes in the trading of standardized securities options. Headquartered in Chicago, CBOE is the largest options exchange in the United States. CBOE was the first options exchange to offer trading in index options and holds the exclusive license to offer options based on the S&P 500 and DJIA.

Defendant International Securities Exchange, LLC ("ISE") operates a national securities exchange specializing in the trading of standardized options contracts with a principal place of business in New York. ISE offers trading in index options, and is also a creator and provider of its own indexes and index option products.

Defendant Options Clearing Corporation ("OCC") is the sole clearing agency for standardized index options in the United States. Neither ISE, nor CBOE, or any other options exchange in the United States can offer trading in index options without the participation of OCC in clearing and settling such option trades.

In general, "[o]ptions are contracts which give the purchaser of the option the right, but not the obligation, to buy or sell a security at a specified price (the "strike price"), on or before a specified date." *Dow Jones & Co., Inc. v. Int'l Sec. Exch., Inc.*, 451 F.3d 295, 298 (2d Cir. 2006). Unlike options on equities or exchange traded funds, index options have no underlying security such as a share of common stock. The holder of an index option has the right to receive a cash amount based on the difference between the strike price established when the option was

purchased and a settlement index level at the expiration of the option. Put simply, an index option is "a bet on the future value of the index." *Dow Jones,* 451 F.3d at 300, n.6.

The settlement index level for options based on the DJIA and the S&P 500 is known as the Special Opening Quotation ("SOQ"). The SOQ is calculated by the respective index owner and reflects the opening prices of each of the component stocks in the index, weighted accordingly to the methodology devised by the index provider. The Index Providers publish the SOQ values daily on various financial websites. In order to clear an index option, OCC must consult the SOQ value published by the Index Providers.

ISE seeks to offer options based on the DJIA and the S&P 500, which would be cleared by OCC, without a license from the Index Providers. The Index Providers allege that due to their substantial investments of resources, skill, judgment, creativity and efforts required to develop and maintain their indexes, they possess proprietary interests in the DJIA and the S&P 500 which gives them the exclusive right to authorize the creation, issuance, listing, trading, clearing, and settlement of financial products, including index options, that are based on the underlying indexes.

In Count I, Plaintiffs allege that ISE's proposed actions would misappropriate the proprietary interests of the Index Providers in their indexes, as well as CBOE's exclusive rights under its licenses. In Count II, CBOE alleges that ISE's proposed actions would tortiously interfere with its relationships with customers involving index options, as well as other options. In Count III, Plaintiffs allege that ISE's proposed actions constitute unfair competition under Illinois common law.

In their motion for partial summary judgment, Plaintiffs have moved for summary judgment on Counts I and III arguing that the Illinois Supreme Court's decision in *The Board of*

Trade of the City of Chicago v. Dow Jones & Co, Inc., 98 Ill.2d 109 (1983) ("Board of Trade") controls as a matter of law. ISE has moved for summary judgment as to all three counts arguing that: (1) this action is preempted by the federal Copyright Act; (2) if not preempted, New York law applies and does not afford Plaintiffs the relief they seek; and (3) even if Illinois law applies, Board of Trade is not dispositive and there are genuine issues of material fact precluding summary judgment.

Standard of Review

Summary judgment is appropriate where the pleadings, affidavits, depositions, admissions, and exhibits on file, when viewed in the light most favorable to the non-moving party, reveal that there is no genuine issue as to any material fact and that the movant is entitled to judgment as a matter of law. 735 ILCS 5/2-1005(c). When, as here, the parties file cross-motions for summary judgment, they concede the absence of a genuine issue of material fact and invite the court to decide the questions presented as a matter of law. *Steadfast Ins. Co. v. Caremark Rx Inc.*, 359 Ill. App. 3d 749, 755 (1st Dist. 2005).

Federal Preemption

ISE contends that this Court lacks jurisdiction because the federal Copyright Act completely preempts Plaintiffs' state law claims for misappropriation and tortious interference.[2]

[2] In its Response brief, for the first time, ISE argues that the Securities Exchange Act of 1934 also preempts Plaintiffs' claims. By failing to assert this as an affirmative defense in its Answer, ISE has waived it. *Dickman v. EI Du Pont De Nemours & Co.*, 278 Ill. App. 3d 776, 781 (3d Dist. 1996)(holding "[a] claim that a Federal statute preempts the plaintiff's cause of action meets the test for an affirmative defense under section 2-613(d) and must be raised in the defendant's answer. When a defendant fails to raise the issue, he has waived the defense."). To the extent that the issue has not been waived, the court finds ISE's arguments unpersuasive.

Recognizing that this Court previously rejected this argument in April 2009 when it denied ISE's motion to dismiss, ISE asks for reconsideration of that ruling in light of a recent Illinois Supreme Court decision in *People v. Williams*, 235 Ill.2d 178 (2009). The *Williams* court considered Illinois statutory provisions criminalizing the pirating of sound recordings produced by others. The *Williams* court found that such criminal provisions are a form of copyright protection and that Congress "clearly expressed an intent to abrogate such laws in section 301 of the Act." 235 Ill.2d at 194. ISE asserts that the new principal of law established in *Williams* is that "uniformity of decision is an important consideration when state courts interpret federal statutes." *Id.* at 186-187. ISE asserts that the majority of federal courts have held that the state law claim of misappropriation is always preempted by the Copyright Act where any copying occurs. According to ISE, to agree with Judge Gettleman's decision remanding this action from federal court to the circuit court would be to follow the minority (of one). *See Chi. Bd. Options Exch., Inc. v. Int'l Sec. Exch., LLC*, No. 06 C 6852, 2007 U.S. Dist. LEXIS 13007 (N.D. Ill. Feb. 23, 2007). ISE is incorrect.

Section 301 of the Copyright Act establishes a two-part test to determine whether federal law preempts a cause of action. Under that test, a state law claim is preempted:

> (1) if the works at issue are fixed in tangible form and come within the subject matter of copyright as defined by section 102 of the Act (subject matter prong) and
>
> (2) the rights granted under state law are "equivalent" to any of those exclusive rights "within the general scope of copyright" that are provided by the Act in section 106 (equivalency prong).

Williams, 235 Ill.2d at 187-188; 17 U.S.C. § 301. Both prongs must be met in order for a claim to be preempted. *Id.*

Section 102 protects as copyright subject matter "original works of authorship fixed in any tangible medium of expression." 17 U.S.C. § 102. Categories meeting the definition of

"works of authorship" include: literary and musical works, including any accompanying words and music; pantomimes and choreographic works; pictorial, graphic, and sculptural works; motion pictures; sound recordings; and architectural works. Section 103 protects compilations and derivative works. 17 U.S.C. § 103.

ISE contends that Plaintiffs' misappropriation and tortious interference claims satisfy the subject matter prong because in order to offer options on the DJIA and S&P 500, ISE must be able to copy and use the published S&P 500 and DJIA index values. However, as this court recognized in denying ISE's motion to dismiss, as did Judge Gettleman in granting Plaintiffs' motion to remand, Plaintiffs' claims are not premised upon the copying of published index values from websites and other sources. *See Chi. Bd. Options Exch., Inc. v. Int'l Sec. Exch., LLC*, No. 06 C 6852, 2007 U.S. Dist. LEXIS 13007 (N.D. Ill. Feb. 23, 2007). Rather, it is the connection of ISE's proposed financial product to, and association with, the DJIA and S&P 500 that will allow ISE to exploit Plaintiffs' research efforts, skills, expertise, reputation and goodwill that are embodied in the indexes. Such intangible assets are not capable of being fixed in a tangible medium and are therefore not the subject matter of copyright. *See Toney v. L'Oreal USA Inc.*, 406 F.3d 905, 908-909 (7th Cir. 2005)(holding that a claim for misappropriation arising out of the unauthorized use of the plaintiff's likeness in advertising was not preempted as there was no fixation of identity or persona despite "dozens or hundreds of photographs which fix certain moments in that person's life."). Plaintiffs' claims fail to satisfy the subject matter prong.

The second prong of the preemption analysis concerns whether the elements of a cause of action for copyright infringement are equivalent to the elements of the state law claim. *Williams*, 235 Ill.2d at 187-188. ISE asserts that Plaintiffs' claims are preempted since no claim for "hot

news" misappropriation is alleged, citing *Nat'l Basketball Ass'n v. Motorola, Inc,* 105 F.3d 841 (2d Cir. 1997)("NBA") for the proposition that "hot news" is the only misappropriation claim that is not preempted. ISE ignores that the NBA court recognized that "certain forms of commercial misappropriation otherwise within the general scope requirement will survive preemption if an 'extra-element' test is met." *Id.* at 850. If an extra element is "required instead of or in addition to the acts of reproduction, performance, distribution or display, in order to constitute a state-created cause of action, then the right does not lie 'within the general scope of copyright,' and there is no preemption." *Id.* Here, Plaintiffs do not complain of any copying or dissemination of index values from websites by ISE. In fact, Plaintiffs are aware that they may assert no rights in the published index values themselves, which have been held by courts to constitute "a matter of basic market fact." *NY Mercantile Exch., Inc. v. Intercontinental Exch., Inc.,* 389 F. Supp. 2d 527, 542 (S.D.N.Y. 2005)(holding that published settlement values of oil futures contracts are not protected by copyright and available for a competitor exchange to copy and use for settlement of its own futures contracts).

The parties disagree as to the amount of copying required for ISE to conduct its proposed actions. Plaintiffs assert that the trading of index options, which is when an exchange profits, does not require or involve any copying or reproduction of index values. (Plts. SOF in Opp. ¶4). ISE responds that copying occurs throughout the life of the index option—first, the exchange copies the index level when the new series of index options is opened (as published index values are used to set strike prices[3]); next, investors copy the existing level of the underlying index into standard formulas to determine the current value of an index option; and finally an exchange copies the settlement values when the option is exercised by its holder. Even accepting ISE's

[3] When ISE opens of new series of index options for trading, it offers a range of strike prices. ISE uses the day's SOQ value to determine the midpoint of that range because investors prefer to trade options with strike prices near the current index reference value. (ISE SOF ¶74-76).

statements as true, ISE's chief executive Gary Katz admitted that ISE does not earn a fee for the dissemination of the index values. (Katz Dep. at 280:2-4). Though the research performed by investors, including consultation of index values, might lead to the trading of an index option and fees to the exchange, such trading does not involving copying by the Defendants. Finally, while copying of the settlement values occurs when the option is exercised, again Katz admitted that no fee is earned at the time an option contract is settled. (Id. at 280:10-12). It is further undisputed that only 9% of index options are exercised. (Id.). The remaining 91% expire unexercised or are closed out by offsetting trades before expiration. (Id.). Therefore, copying of the index values, if any, is incidental as it relates to how Defendants would profit from the unlicensed use of the Plaintiffs' indexes.

Numerous cases cited to the court and discovered in its own research support Plaintiffs' assertion that misappropriation claims other than "hot news" claims survive preemption analysis. *See e.g., Toney,* 406 F.3d 905 (*supra.* p. 6); *Stewart Title of Cal., Inc, v. Fid. Nat'l Title Co.*, 279 Fed. Appx. 473, 476 (9th Cir. Cal. 2008)(finding that California law protects against improper use and that plaintiff's claim for misappropriation of contract forms was not preempted by the Copyright Act); *National Car Rental Sys., Inc. v. Computer Assocs. Int'l, Inc.*, 991 F.2d 426, 432-433 (8th Cir. Minn. 1993)(claim alleging use of a computer program, which is copyrightable, in breach of a contractual restriction not preempted); *G.S. Rasmussen & Assocs. v. Kalitta Flying Serv.*, 958 F.2d 896 (9th Cir. 1992)(finding claims involving unauthorized use of an FAA-approved design certificate not preempted even though certificate was necessarily copied to modify another plane).

The Illinois Supreme Court has recognized that because "[t]he publication of the indexes involves valuable assets of [Dow Jones], its good will and its reputation for integrity and

accuracy," the index provider is entitled to protection against misappropriation from the proposed use. *Board of Trade,* 98 Ill.2d at 121-122. As noted above, Plaintiffs do not object to the copying of their index values which are widely published. Rather, Plaintiffs seek to protect their interests in the basis of the index options ISE seeks to offer—the indexes themselves, which embody the research, skills, efforts to maintain, reputation and goodwill of the Index Providers.

For these reasons, the Court finds that Plaintiffs claims are not preempted as they fail to satisfy both the subject matter and the equivalency prongs of the preemption analysis.

Choice of Law Analysis

It is well-settled that a "choice of law determination is required only when a difference in law will make a difference in outcome." *Towsend v. Sears, Roebuck & Co.,* 227 Ill.2d 147, 155 (2007). If a conflict exists, the court applies the principles of the Second Restatement of Conflict of Laws to determine the state "which retains the 'most significant relationship' to the occurrence and the parties." *Barbara's Sales, Inc. v. Intel Corp.*, 227 Ill.2d 45, 58 (2007).). "In the absence of a conflict, Illinois law applies as the law of the forum." *SBC Holdings, Inc. v. Travelers Cas. & Sur. Co.,* 374 Ill. App. 3d 1, 13 (1st Dist. 2007).

ISE asserts that, assuming Plaintiffs' claims are not preempted, New York law applies and does not consider ISE's proposed conduct to be tortious. ISE argues that under New York law, unfair competition claims involving misappropriation require direct competition and the only recognized misappropriation claim involving published information is a "hot news" case. While the Board of Trade court rejected the requirement of direct competition to sustain a misappropriation claim, ISE ignores the fact that the first case enjoining misappropriation of a stock index for use in trading products was issued by a court applying New York law. *See*

Standard & Poor's Corp. v. Commodity Exchange, Inc., 538 F. Supp. 1063 (S.D.N.Y. 1982), *aff'd* 683 F.2d 704 (2d Cir. 1982)("Comex"). In Comex, the district court entered a preliminary injunction enjoining the unlicensed use of the S&P 500 as the basis for index futures. The district court held that "Comex is misappropriating the S&P 500 Index and the skills, expenditures, labor and reputation of S&P in generating and producing the S&P 500 Index, for Comex's own advantage and profit by creating a futures contract based on the S&P 500 Index." 538 F. Supp. at 1071. On appeal, the Second Circuit affirmed. As to the direct competition requirement, the appellate court stated, "[w]hile S&P has traditionally been in the business of disseminating financial information, it now has a significant interest in the futures contracts business by virtue of its licensing agreement with CME . . . S&P and Comex are, at least to this extent, in competition." 683 F.2d at 710. Therefore, Illinois and New York law are in agreement that the Index Providers may sustain an action for misappropriation against ISE for its proposed actions.

Next, ISE argues that New York law does not recognize a claim of misappropriation based on a theory of "free-riding," citing *H.L. Hayden Co. v. Siemens Med. Sys., Inc.*, 879 F.2d 1005 (2d Cir. 1989). In that case, an authorized dealer of Siemens dental equipment brought an unfair competition claim claiming a mail order company was "free-riding" by encouraging dentists to inspect goods at the authorized dealer's facility before buying from the mail order company. *H.L. Hayden* is both factually and legally distinguishable. The authorized dealer did not, and could not, assert that the mail order company's unauthorized sale of the Siemens product was itself wrongful. *See H.L. Hayden*, 879 F.3d 1005, 1023 (dismissing Siemens' Lanham Act claim failed because the product was "genuine" and there was no risk of deception or

confusion.). Here, Plaintiffs contend that ISE has no right without a license to create and sell a new security based upon the intellectual property of the Index Providers.

Finally, and without authority, ISE argues that New York courts are more likely than Illinois courts to: (a) reject Plaintiffs' claims on public policy grounds; (b) follow the reasoning of decisions from foreign jurisdictions, including courts outside the United States; or (c) give weight to the views of commentators and academics. These arguments are mere speculation by ISE and do not point to an articulable difference between Illinois and New York misappropriation law.

It should be recognized that in recent prior litigation between the parties, a federal court applying New York law expressly declined to rule on the issue presented to this court. *See Dow Jones & Co. v. Int'l Sec. Exch., Inc.*, 451 F.3d 295 (2d Cir. 2006). *Dow Jones* concerned whether ISE could, without a license, offer options on shares of exchange traded funds ("ETFs") that track the performance of the DJIA and S&P 500. In the 1990s, the Index Providers licensed creation of ETFs that track the performance of their indexes. Members of the public are able to buy shares in these ETFs. The court found that ISE, in creating and hosting the trading of such options, would not infringe upon the Index Providers' rights in their indexes and that the Index Providers had failed to "specify any use of the indexes likely to be made by the defendants that would constitute misappropriation." *Id.* at 303. Despite this finding, the court expressly stated that "[its] holding does not address the situation where a proprietary index is employed in the creation of a financial instrument," citing to Comex and Board of Trade. *Id.* at 303, n.9. The *Dow Jones* court had the opportunity to make a broad finding that the Index Providers could assert no rights in their indexes because of the intentional dissemination of index values, yet declined to do so, thus preserving the arguments Plaintiffs assert here under New York law.

In light of the foregoing review of case law, the court finds that there is no conflict between Illinois and New York misappropriation law. Therefore, Illinois law applies as the law of the forum state. *SBC Holdings*, 374 Ill. App. 3d at 13.

Board of Trade

In Board of Trade, the Chicago Board of Trade sought declaratory judgment that "its offering of a commodity futures contract utilizing the Dow Jones Industrial Average as the underlying commodity would not violate [Dow Jones'] legal or proprietary rights." 98 Ill.2d at 110-111. The Illinois Supreme Court disagreed, finding that the index provider's consent was required. Specifically, the court found that "[t]he publication of the indexes involves valuable assets of defendant, its good will and its reputation for integrity and accuracy." *Id.* at 121-122. Even though the Chicago Board of Trade's proposed use would not have been in competition with a use Dow Jones made of its index at the time as Dow Jones had not yet begun to offer financial products based upon the DJIA, the court found that the index provider "is entitled to protection against their misappropriation. *Id.* at 122.

Two factual differences exist between Board of Trade and the instant action. First, the financial product that Chicago Board of Trade wished to offer was a futures contract based upon the DJIA. *Id.* at 109. Second, the index provider was not, at the time, in the business of licensing its index for the purpose of creating financial products based thereupon. Both factual differences are insignificant and, if anything, weigh more heavily in favor of finding in prohibiting ISE from its proposed conduct. The parties agree that a futures contract and an option contract based upon an index use the underlying index in the same manner. That the DJIA was not then licensed or otherwise made use of as the underlying basis of financial

products meant that the Board of Trade court was content to prevent unauthorized use of the index even though the index provider had no plans to allow such use of its index in the future. In addressing this concern, the court stated:

> We conclude that the possibility of any detriment to the public which might result from our holding that defendant's indexes and averages may not be used without its consent in the manner proposed by plaintiff are outweighed by the resultant encouragement to develop new indexes specifically designed for the purpose of hedging against the "systematic" risk present in the stock market.

Id. at 121. The Board of Trade court correctly predicted that its holding would encourage the development of new indexes—tens of thousands of indexes currently exist that track every segment of the market. The Index Providers and ISE have created and maintain numerous indexes and license them for use. Licensing of index-based products is the industry norm. (Krell Dep. 63-64). Consistent with Board of Trade, Plaintiffs are entitled to protection of their rights in their indexes from ISE's proposed use.

In efforts to distinguish Board of Trade, ISE argues that: (1) a balancing of harm analysis favors ISE's position: (2) considerations of federal policy favor unlicensed use; and (3) since Board of Trade was decided following full trial, summary judgment is not proper. The court will address each argument in turn.

In support of its assertion that a balancing of harm analysis favors its position, ISE argues that its proposed use would neither harm the Index Providers' reputation, nor their incentive to maintain the S&P 500 and the DJIA, nor CBOE's incentive to continue investing and offering new options products. ISE ignores the Board of Trade court's express rejection of a similar argument—that Dow Jones had failed to prove that use of its index would cause it injury—and the finding that the "publication of the indexes involves valuable assets of [Dow Jones], its good will and its reputation for integrity and accuracy." *Id.* at 121.

In further support of its contention that others will suffer more harm than Plaintiffs, ISE offers its retained expert, Professor Erik Sirri who posits a wide margin of $2 – 9.7 billion in potential savings to investors arising from inter-exchange price competition if options on the DJIA and S&P 500 are listed on multiple exchanges. Notwithstanding the numerous issues raised as to Professor Sirri's methodology by Plaintiffs' expert Dr. Dennis Carlton, such theoretical savings ignore the findings of the Board of Trade court. As discussed above, the court was willing to deny the investing public all access to a financial product based upon the DJIA in favor of protecting Dow Jones' rights in its indexes and in the interest of encouraging innovation. The effect of the Board of Trade decision includes the thousands of indexes in the marketplace today that did not exist in 1983.

It bears noting that ISE unabashedly admits that it attempted to create a competitive product, the ISE 250, which was an index highly correlated to the S&P 500. After spending a large sum of money developing and promoting options on the ISE 250, ISE discontinued the project which had failed to garner significant trading volume. The court fails to understand how ISE's failure somehow entitles it to profit for free from the efforts, skills, and reputation of the Index Providers.

As to its federal policy argument, ISE contends that the SEC has recognized the public's interest in multiple listing and inter-exchange competition for securities trades because such competition results in lower spreads and prices. ISE points to the SEC's 1989 adoption of Rule 19c-5, 17 CFR 240.19c-5, which prohibits exchanges from adopting any rule that would bar the listing on other exchanges of any stock options class. However, Rule 19c-5 clearly does not provide ISE with authority for its proposed actions as ISE petitioned the SEC in 2002 to create a rule that would "prohibit an options exchange from being a party to exclusive or preferential

licensing arrangements with respect to index options products." (Plts. Opp. SOF ¶55). The SEC declined to adopt the proposed rule. ISE also quotes statements from SEC Commissioner Annette Nazareth in support of its position, however Ms. Nazareth prefaced her statements by stating that she was expressing her own opinions, not those of the SEC. Therefore, contrary to ISE's contentions, there is no SEC policy directly contrary to Board of Trade.

The Court finds that Board of Trade is on all fours with the facts and issues presented by Plaintiffs' claims for misappropriation and unfair competition. The Index Providers are entitled to protection against the misappropriation of their indexes from unlicensed use in the creation of index options by ISE. Having failed to distinguish Board of Trade in any significant way or to identify any genuine issues of material fact, ISE's contention that this matter may only be decided following a trial is unsupported.

Conclusion

This court finds that no genuine issues of material fact exist. Plaintiffs' cause of action is not preempted by the Copyright Act. Because there is no conflict between Illinois and New York misappropriation law, Illinois law controls. Therefore, the case of *Board of Trade of the City of Chicago v. Dow Jones & Co, Inc.*, 98 Ill.2d 109 (1983) is dispositive of the issues presented and the Court finds that the trading of index options on the DJIA and S&P 500 by ISE would misappropriate the Index Providers' rights in their indexes.

The court further finds:

A. Plaintiffs have shown that they have a clearly ascertainable right in need of protection;

B. Plaintiffs have shown that they will suffer irreparable harm if an injunction does not issue;

C. Plaintiffs have succeeded on the merits;

D. Plaintiffs have shown that they have no adequate remedy at law.

WHEREFORE, IT IS HEREBY ORDERED AS FOLLOWS:

Plaintiffs' motion for partial summary judgment is granted and summary judgment is entered in favor of Plaintiffs as to Counts I (misappropriation) and III (unfair competition).

ISE is hereby permanently restrained and enjoined from listing or providing an exchange market for the trading of DJIA and/or S&P 500 index options and from thereby attempting to cause OCC to issue such options, clear trades in, or settle the exercise of such options.

OCC is hereby permanently restrained and enjoined from participating in the facilitation of an ISE index option based upon the DJIA and/or S&P 500 and from issuing, clearing or settling the exercise of such DJIA and S&P 500 index options.

Having granted all relief sought by CBOE, Count II is dismissed as moot.

ISE motion for summary judgment is denied.

ENTERED

JUL - 8 2010

JUDGE WILLIAM MAKI
CIRCUIT COURT - 1604

Entered:

Judge William O. Maki

Dated: July 8, 2010