

**THE OPTIONS CLEARING CORPORATION**

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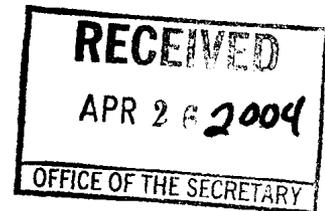
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April 23, 2004

**FEDERAL EXPRESS**

Mr. Jonathan G. Katz  
Secretary  
Securities and Exchange Commission  
450 Fifth Street, NW  
Washington, DC 20549-0609



Re: Release No. 33-8404; File No. S7-17-04  
Covered Securities Under Section 18 of the Securities Act of 1933

Dear Mr. Katz:

As the Commission is aware, The Options Clearing Corporation ("OCC") is the issuer of all options traded on U.S. options exchanges. Therefore, OCC has an interest in the health and competitiveness of the U.S. options industry, as well as in the simplicity and clarity of the regulatory regime applicable to exchange-traded options. OCC believes that the petition of the International Stock Exchange, Inc. ("ISE") for the Commission to amend Rule 146(b) under Section 18(b)(1)(B) of the Securities Act of 1933, as amended (the "Securities Act"), to designate options listed on ISE as "covered securities" furthers these interests. OCC appreciates this opportunity to submit the following comments in support of the Commission's proposed amendments to Rule 146(b).

"Covered securities" are exempt from virtually all of the provisions of the Blue Sky laws of the various States, and, therefore, only those securities that are deemed to be of sufficient quality not to require State regulation are designated as "covered securities." Quality has two basic components with respect to exchange-traded options. First, investors should have adequate assurances that the options themselves will be performed as disclosed in the options disclosure document and OCC's rules. Second, investors should have adequate assurances that the securities underlying the options are subject to selection and maintenance standards that are sufficiently stringent to provide a level of confidence about the quality of the underlying security.

OCC is the issuer of all standardized options traded on U.S. options exchanges, and performance on those options is guaranteed by OCC. OCC's rules make no distinctions among options based upon the exchange on which they are traded. Because all options are

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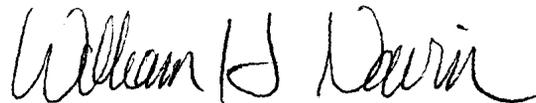
issued and granted by OCC under the same basic rules and subject to the same protections of OCC's clearing system, OCC's guarantee of performance is the same with respect to options arising from transactions on ISE as it is with respect to any other exchange-traded options. The Commission has recognized the equality of all OCC-issued options by designating options listed on four other options exchanges (American Stock Exchange, Inc. ("Amex"), Chicago Board Options Exchange, Incorporated, Philadelphia Stock Exchange, Inc., and Pacific Exchange, Inc.) as "covered securities." OCC believes that options listed on ISE should be treated equally.

Investor protection with respect to securities underlying standardized options is addressed by the requirement that to be named under Rule 146(b) an exchange must have listing requirements that are "substantially similar" to the New York Stock Exchange, Amex, or the National Market System of the Nasdaq Stock Market. *See* Securities Act Section 18(b)(1)(B). ISE's listing standards provide sufficient investor protection with respect to the securities underlying ISE listed options. OCC agrees with the Commission that ISE's selection and maintenance requirements for underlying securities are substantially similar to Amex's selection and maintenance requirements.

As the Commission notes, Amex's rules expressly provide for daily monitoring of news sources for information regarding corporate actions that could indicate that an underlying security no longer satisfies maintenance requirements, while ISE's rules contain no such provision. OCC believes this is a difference without substance. ISE is obligated under Sections 6 and 19(g) of the Securities Exchange Act of 1934, as amended, to enforce its rules, including its maintenance requirements. That overarching statutory requirement compels ISE to monitor for corporate events that make a security no longer eligible to be an underlying for ISE listed options. The fact that ISE's rules do not describe specifically how ISE will conduct such monitoring does not mean that ISE's maintenance standards are less comprehensive.

OCC fully supports ISE's petition and the Commission's proposal to amend Rule 146(b) to include ISE as a named market, making options listed on ISE "covered securities" under Section 18 of the Securities Act. Please do not hesitate to contact me if you have questions regarding these comments.

Yours truly,



William H. Navin  
Executive Vice President and  
General Counsel

cc: Michael Simon