

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-53783; File No. SR-ISE-2005-60)

May 10, 2006

Self-Regulatory Organizations; International Securities Exchange, Inc.; Notice of Filing of a Proposed Rule Change and Amendment Nos. 1 and 2 Thereto Relating to the Criteria for Securities that Underlie Options Traded on the Exchange

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on December 14, 2005, the International Securities Exchange, Inc. (“Exchange” or “ISE”) 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 Exchange. On May 5, 2006, the Exchange filed Amendment No. 1 to the proposed rule change.³ On May 9, 2006, the Exchange filed Amendment No. 2 to the proposed rule change.⁴ The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

The Exchange proposes to amend ISE Rules 408(a), 502(h), 503(h), 807(a), and 1400 to enable the initial and continued listing and trading on the Exchange of Fund Shares that hold specified non-U.S. currency options, futures or options on futures on such currency, or any other derivatives based on such currency. The text of the proposed rule change is provided below (underlining indicates additions; [brackets] indicate deletions):

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¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Amendment No. 1 replaced the original filing in its entirety.

⁴ Amendment No. 2 replaced the text of proposed ISE Rules 408(a) and 807(a) in their entirety.

Rule 408. Prevention of the Misuse of Material Nonpublic Information

(a) Every Member, other than a lessor that is neither registered, nor required to be registered, as a broker-dealer under Section 15 of the Exchange Act, shall establish, maintain and enforce written policies and procedures reasonably designed, taking into consideration the nature of the Member's business, to prevent the misuse of material nonpublic information by such Member or persons associated with such Member in violation of the Exchange Act and Exchange Rules.

(1) Misuse of material nonpublic information includes, but is not limited to:

(i) trading in any securities issued by a corporation or Funds, as defined in Rule 502(h), or a trust or similar entities, or in any related securities or related options or other derivative securities, or in any related non-U.S. currency, non-U.S. currency options, futures or options on futures on such currency, or any other derivatives based on such currency while in possession of material nonpublic information concerning that corporation or those Funds or that trust or similar entities;

(ii) trading in an underlying security or related options or other derivative securities, or in any related non-U.S. currency, non-U.S. currency options, futures or options on futures on such currency, or any other derivatives based on such currency while in possession of material nonpublic information concerning imminent transactions in the above; [underlying security or related securities;] and

(iii) disclosing to another person any material nonpublic information involving a corporation or Funds or a trust or similar entities whose shares are publicly traded or an imminent transaction in an underlying security or related securities or in the underlying non-U.S. currency or any related non-U.S. currency options, futures or options on futures on such currency, or any other derivatives based on such currency for the purpose of facilitating the possible misuse of such material nonpublic information.

(2) No change.

(b) – (c) No change.

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Rule 502. Criteria for Underlying Securities

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(h) Securities deemed appropriate for options trading shall include shares or other securities (“Fund Shares”) that (i) represent interests in registered investment companies (or series thereof) organized as open-end management investment companies, unit investment trusts or similar entities that are [principally] traded on a national securities exchange or through the facilities of a national securities association and are defined as an “NMS stock” under Rule 600 of Regulation NMS [reported as “national market” securities], and that hold portfolios of securities comprising or otherwise based on or representing investments in broad-based indexes or portfolios of securities (or that hold securities in one or more other registered investment companies that themselves hold such portfolios of securities) or (ii) represent interests in a trust

that holds a specified non-U.S. currency deposited with the trust when aggregated in some specified minimum number may be surrendered to the trust by the beneficial owner to receive the specified non-U.S. currency and pays the beneficial owner interest and other distributions on the deposited non-U.S. currency, if any, declared and paid by the trust (“Funds”); provided that all of the following conditions are met:

(1) any non-U.S. component securities of [the] an index or portfolio of securities on which the Fund Shares are based that are not subject to comprehensive surveillance agreements do not in the aggregate represent more than 50% of the weight of the index or portfolio;

(2) component securities of an index or portfolio of securities on which the Fund Shares are based for which the primary market is in any one country that is not subject to a comprehensive surveillance agreement do not represent 20% or more of the weight of the index;

(3) component securities of an index or portfolio of securities on which the Fund Shares are based for which the primary market is in any two countries that are not subject to comprehensive surveillance agreements do not represent 33% or more of the weight of the index; [and]

(4) For Funds that hold a specified non-U.S. currency deposited with the trust, the Exchange has entered into an appropriate comprehensive surveillance sharing agreement with the marketplace or marketplaces with last sale reporting that represent(s) the highest volume in derivatives (options or futures) on the specified non-U.S. currency,

which are utilized by the national securities exchange where the underlying Funds are listed and traded; and

[(4)](5) the Fund Shares either (i) meet the criteria and guidelines set forth in paragraphs (a) and (b) above; or (ii) the Fund Shares are available for creation or redemption each business day from or through the issuing trust, investment company or other entity [Fund] in cash or in kind at a price related to net asset value, and the issuer [Fund] is obligated to issue Fund Shares in a specified aggregate number even if some or all of the [securities] investment assets required to be deposited have not been received by the issuer [Fund], subject to the condition that the person obligated to deposit the [securities] investment assets has undertaken to deliver them [securities] as soon as possible and such undertaking is secured by the delivery and maintenance of collateral consisting of cash or cash equivalents satisfactory to the issuer of Fund Shares [Fund], all as described in the Fund Shares' [Fund's] prospectus.

(i) through (j) No change.

Rule 503. Withdrawal of Approval of Underlying Securities

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(h) Fund Shares approved for options trading pursuant to Rule 502(h) will not be deemed to meet the requirements for continued approval, and the Exchange shall not open for trading any additional series of option contracts of the class covering such Fund Shares if the [issuer is] Fund Shares are delisted from trading as provided in subparagraph (b)(5)[(6)] of this Rule or the Fund Shares are halted from trading on their primary market. In addition, the

Exchange shall consider the suspension of opening transactions in any series of options of the class covering Fund Shares in any of the following circumstances:

(1) In the case of options covering Fund Shares approved pursuant to Rule 502(h)(5)[4](i), in accordance with the terms of subparagraphs (b)(1), (2), (3) and (4) of this Rule 503;

(2) In the case of options covering Fund Shares approved pursuant to Rule 502(h)(5)[(4)](ii), following the initial twelve-month period beginning upon the commencement of trading in the Fund Shares on a national securities exchange or [as NMS securities] through the facilities of a national securities association and are defined as an “NMS stock” under Rule 600 of Regulation NMS, there were fewer than 50 record and/or beneficial holders of such Fund Shares for 30 or more consecutive trading days;

(3) - (4) No change.

(i) through (j) No change.

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Rule 807. Securities Accounts and Orders of Market Makers

(a) Identification of Accounts. A Primary Market Maker in the Fund Shares, as defined in Rule 502(h), is obligated to conduct all trading in the Fund Shares in account(s) that have been reported to the Exchange. In addition, [I]in a manner prescribed by the Exchange, each market maker shall file with the Exchange and keep current a list identifying all accounts for stock, options, non-U.S. currency, non-U.S. currency options, futures or options on futures on such currency, or any other derivatives based on such currency and related securities trading in

which the market maker may, directly or indirectly, engage in trading activities or over which it exercises investment direction. No market maker shall engage in stock, options, non-U.S. currency, non-U.S. currency options, futures or options on futures on such currency, or any other derivatives based on such currency or related securities trading in an account which has not been reported pursuant to this Rule.

(b) – (c) No change.

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Rule 1400. Maintenance, Retention and Furnishing of Books, Records and Other Information

(a) – (b) No change.

Supplementary Material to Rule 1400

.01 In addition to the existing obligations under Exchange rules regarding the production of books and records, a Primary Market Maker in non-U.S. currency options, futures or options on futures on such currency, or any other derivatives based on such currency, shall make available to the Exchange such books, records or other information pertaining to transactions in the applicable non-U.S.-currency options, futures or options on futures on such currency, or any other derivatives on such currency, as may be requested by the Exchange.

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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 Exchange 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

The purpose of the proposed rule change is to amend ISE Rules 408(a), 502(h), 503(h), 807(a), and 1400 to enable the initial and continued listing and trading on the Exchange of Fund Shares that hold specified non-U.S. currency options, futures or options on futures on such currency, or any other derivatives based on such currency. Currently, the term “Fund Shares,” as defined in ISE Rule 502(h), requires that the investment assets held by a trust, investment company, or other similar entity consist of portfolios of securities. As proposed, amended ISE Rule 502(h) would also permit the investment assets to consist of a trust that holds a specified non-U.S. currency deposited with the trust.

In particular, the proposed amendment to ISE Rule 502(h) would permit the Exchange to list options on the Euro Currency Trust (“Trust”). The Trust issues Euro Shares (“Shares”) that represent units of fractional undivided beneficial interest in, and ownership of, the Trust. PADCO Advisors II, Inc., d/b/a Rydex Investments, is the sponsor of the Trust (“Sponsor”)⁵ and may be deemed the “issuer” of the Shares pursuant to Section 2(a)(4) of the Securities Act of 1933, as amended.⁶ The Bank of New York is the trustee of the Trust (“Trustee”), JPMorgan Chase Bank, N.A., London Branch, is the depository for the Trust (“Depository”), and Rydex Distributors, Inc. is the distributor for the Trust (“Distributor”). The Trust intends to issue

⁵ The Sponsor maintains a public Web site on behalf of the Trust, <http://www.currencyshares.com>, which contains information about the Trust and the Shares.

⁶ Rydex Investments is not an “issuer” as per ISE rules.

additional Shares on a continuous basis through the Trustee. The Sponsor, Trustee, Depository, and Distributor are not affiliated with the Exchange or one another, with the exception that the Sponsor and Distributor are affiliated.

As stated in the Trust's Registration Statement,⁷ the investment objective of the Trust is for the Shares to reflect the price of the euro. The Shares are intended to provide institutional and retail investors with a simple, cost-effective means of gaining investment benefits similar to those of holding euro.⁸ The Sponsor believes that the Trust is the first exchange traded fund ("ETF")⁹ whose assets are limited to a particular foreign currency. The Shares may be purchased from the Trust only in one or more blocks of 50,000 Shares, as described in the prospectus under "Creation and Redemption of Shares." A block of 50,000 shares is called a Basket. The Trust issues Shares in Baskets on a continuous basis to certain authorized participants ("Authorized Participants") as described in the prospectus under "Plan of Distribution." Each Basket, when created, is offered and sold to an Authorized Participant at a price in euro equal to the net asset value ("NAV") for 50,000 Shares on the day that the order to create the Basket is accepted by the Trustee.

⁷ The Sponsor, on behalf of the Trust, filed the Form S-1 (the "Registration Statement") on June 7, 2005, Amendment No. 1 thereto on August 12, 2005, Amendment No. 2 thereto on October 25, 2005, Amendment No. 3 thereto on November 28, 2005, and Amendment No. 4 thereto on December 6, 2005. See Registration No. 333-125581.

⁸ The Exchange notes that the Commission has permitted the listing of prior securities products for which the underlying was a commodity or otherwise was not a security trading on a regulated market. See, e.g., Exchange Act Release Nos. 50603 (October 28, 2004), 69 FR 64614 (November 5, 2004) (SR-NYSE-2004-22) (approving listing and trading on NYSE of StreetTRACKS® Gold Shares); 36505 (November 22, 1995), 60 FR 61277 (November 29, 1995) (SR-PHLX-95-42) (approving the listing of dollar-denominated delivery of foreign currency options on the Japanese Yen; 36165 (August 29, 1995), 60 FR 46653 (September 7, 1995) (SR-NYSE-94-41) (approving listing standards for, among other things, currency and currency index warrants); and 19133 (October 14, 1982), 47 FR 46946 (October 21, 1982) (SR-PHLX-81-4) (approving the listing of standardized options on foreign currencies).

⁹ The Exchanges notes that the Trust is not a registered investment company under the Investment Company Act of 1940 ("1940 Act") and is not required to register under the 1940 Act.

On December 12, 2005, the Shares were sold to the public by Authorized Participants at varying prices in dollars by reference to, among other things, the market price of euro and the trading price of the Shares on the New York Stock Exchange (“NYSE”) at the time of each sale. The Shares trade on the NYSE under the symbol “FXE.” The Shares may also trade in other markets.

The Exchange believes that permitting options on foreign currency-based Fund Shares to be traded on the Exchange is consistent with the Commission’s recent approval order of a rule change filed by the NYSE to list and trade shares of the Trust.¹⁰ This rule change to ISE’s listing criteria for Fund Shares is intended to provide appropriate listing standards for options on shares of these and similar types of foreign currency-based Fund Shares that may be listed in the future.

Fund Shares will continue to need to satisfy the listing standards in ISE Rule 502(h). Specifically, the Fund Shares must be traded on a national securities exchange or through the facilities of a national securities association and must be an “NMS stock” as defined under Rule 600 of Regulation NMS.¹¹ The Fund Shares must also either: (1) meet the criteria and guidelines under ISE Rules 502(a) and 502(b) (Criteria for Underlying Securities); or (2) be available for creation or redemption each business day from and through the issuer in cash or in-kind at a price related to net asset value, and the issuer is obligated to issue Fund Shares in a specified aggregate number even if some or all of the investments required to be deposited have not been received by the issuer, subject to the condition that the person obligated to deposit the

¹⁰ See Securities Exchange Act Release No. 52843 (November 28, 2005), 70 FR 72486 (December 5, 2005).

¹¹ In light of the implementation of certain aspects of Regulation NMS, the Exchange hereby seeks to amend ISE Rule 502(h) to reflect that Fund Shares must be National Market System stocks as defined under Rule 600 of Regulation NMS, instead of “national market” securities.

investments has undertaken to deliver the investment assets as soon as possible, and such undertaking is secured by the delivery and maintenance of collateral consisting of cash or cash equivalents satisfactory to the issuer, as described in the issuer's prospectus.

Under the applicable continued listing criteria in ISE Rule 503(h), the Fund Shares may be delisted as follows: (1) following the initial twelve-month period beginning upon the commencement of trading of the Fund Shares, there are fewer than 50 record and/or beneficial holders of the Fund Shares for 30 or more consecutive trading days; (2) the value of the euro is no longer calculated or available;¹² or (3) such other event occurs or condition exists that in the opinion of the Exchange makes further dealing on the Exchange inadvisable. Additionally, the Fund Shares shall not be deemed to meet the requirements for continued approval, and the Exchange shall not open for trading any additional series of option contracts of the class covering such Fund Shares, if the Fund Shares are halted from trading on their primary market.

Finally, the Exchange represents that the expansion of the types of investments that may be held by a Fund Share under ISE Rule 502(h) will not have any effect on the rules pertaining to position and exercise limits¹³ or margin.¹⁴

The Exchange is also proposing to amend ISE Rule 408(a) to ensure that, in connection with trading in the applicable non-U.S. currency, non-U.S. currency options, futures or options on futures on such currency, or any other derivatives on such currency, the ISE Primary Market

¹² Euro pricing information based on the euro spot price is available to investors on 24-hour basis from various financial information service providers. There are a variety of other public Web sites providing information on foreign currency and euro, including Bloomberg, CBS MarketWatch and Yahoo! Finance. The Trust Web site's euro spot price will be provided by The Bullion Desk (www.thebulliondesk.com). The Bullion Desk is not affiliated with the Trust, Trustee, Sponsor, Depository, Distributor or the Exchange. In the event that the Trust's Web site should cease to provide this euro spot price information, the Fund Shares shall fail this maintenance requirement and may be delisted by the Exchange.

¹³ See ISE Rules 412 and 414.

¹⁴ See ISE Rule 1202.

Maker does not use any material nonpublic information it might have or receive from any person associated with it in the applicable non-U.S. currency options, futures or options on futures on such currency, or any other derivatives on such currency. Finally, the Exchange is proposing to amend ISE Rules 807(a) and 1400 to ensure that market makers handling Fund Shares provide the Exchange with all necessary information relating to their trading in the applicable non-U.S. currency, non-U.S. currency options, futures or options on futures on such currency, or any other derivatives based on such currency.

The Exchange represents that it has an adequate surveillance program in place for options on the Shares, and intends to apply those same program procedures that it applies to options on Fund Shares currently traded on the Exchange. In addition, the Exchange may obtain trading information via the Intermarket Surveillance Group (“ISG”) from other exchanges who are members or affiliates of the ISG. Specifically, ISE can obtain such information from the Philadelphia Stock Exchange (“Phlx”) in connection with euro options trading on the Phlx and from the Chicago Mercantile Exchange (“CME”) and the London International Financial Futures Exchange (“LIFFE”) in connection with euro futures trading on those exchanges.¹⁵

2. Basis

The Exchange believes that, with the commencement of trading of a currency-based ETF on the NYSE, amending its rules to accommodate the listing and trading of options on publicly traded shares or other securities that hold investment assets consisting of foreign currency will benefit investors by providing them with the same valuable risk management tool that is currently available with respect to other publicly traded ETFs whose investment assets consist of securities. Accordingly, the proposed rule change is consistent with Section 6(b) of the Act, in

¹⁵ Phlx is a member of ISG. CME and LIFFE are affiliate members of ISG.

general and furthers the objectives of Section 6(b)(5) in particular, in that it would remove impediments to and perfect the mechanism for a free and open market in a manner consistent with the protection of investors and the public interest.

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

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

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 self-regulatory organization consents, the Commission will:

- (a) by order approve such proposed rule change, as amended; or
- (b) institute proceedings to determine whether the proposed rule change, as amended, 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, as amended, 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-2005-60 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-2005-60. 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 Commissions 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 such filing also will be available for inspection and copying at the principal office of the 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-2005-60 and should be submitted by [insert date 21 days from the date of publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁶

Nancy M. Morris
Secretary

¹⁶ 17 CFR 200.30-3(a)(12).