

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-51176; File No. SR-ISE-2005-03)

Self-Regulatory Organizations; International Securities Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment No. 1 Relating to the Calculation of Securities Indexes Underlying Options

February 9, 2005

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 January 5, 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 and II, which Items have been prepared by the Exchange. The Exchange filed the proposal as a “non-controversial” rule change pursuant to Section 19(b)(3)(A) of the Act,³ and Rule 19b-4(f)(6) thereunder,⁴ which renders the proposal effective upon filing with the Commission. On February 4, 2005, the Exchange filed Amendment No. 1 to the proposal.⁵ The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(6).

⁵ In Amendment No. 1, the Exchange modified the purpose section of the proposed rule change to reflect that the proposal is intended to clarify ISE rules pertaining to the source of pricing information for securities that comprise any particular securities index on which options are traded on the Exchange. Additionally, the Exchange withdrew its request for the waiver of the 30-day operative period, as the Exchange does not currently trade options on any indexes that may be subject to this rule.

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

The ISE proposes to amend its rules to clarify the determination of the source of securities price information used to calculate values of certain securities indexes underlying options traded on the Exchange. The text of the rule change is below. Proposed new language is italicized.⁶

Rule 2009. Terms of Index Options Contracts

(a) – (e) no change.

(f) Index Level at Expiration. With respect to any securities index on which options are traded on the Exchange, the source of the prices of component securities used to calculate the current index level at expiration is determined by the reporting authority for that index.

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 ISE has prepared summaries, set forth in sections A, B and C below, of the most significant aspects of such statements.

⁶ The proposed rule language is based on a Chicago Board Options Exchange, Inc. (“CBOE”) rule change recently approved by the Commission. See Securities Exchange Act Release No. 50269 (August 26, 2004), 69 FR 53755 (September 2, 2004).

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of this proposed rule change is to clarify ISE rules related to index options as they pertain to the source of pricing information for securities that comprise any particular securities index on which options are traded on the Exchange. The purpose of the rule change is to clarify that the “reporting authority” (or index calculator) for any securities index on which options are traded on the ISE may determine to use the reported sale prices for one or more underlying securities from a market that may not necessarily be the primary market for that security in calculating the appropriate index value.⁷ This clarification is necessary because ISE’s rules may be read to mean that the primary market for each security that comprises an index will always be the source of reported sale prices to calculate the index. While the Exchange does not currently trade options on any indexes that are calculated by using prices from sources other than the primary market, the Exchange seeks to adopt this rule in the event it does list such options in the future.

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Act and the rules and regulations thereunder and, in particular, the requirements of Section 6(b) of the Act.⁸ Specifically, the Exchange believes the proposed rule change is consistent with Section 6(b)(5)⁹ requirements that the rules of an exchange be designed to promote just and equitable principles

⁷ On May 12, 2004, Dow Jones & Company (“Dow Jones”) published a plan to implement a pilot program in which Dow Jones proposed to use the opening and closing prices of Nasdaq-listed stocks reported from the American Stock Exchange to calculate certain Dow Jones Averages. Dow Jones has since terminated the pilot program.

⁸ 15 U.S.C. 78f(b).

⁹ 15 U.S.C. 78f(b)(5).

of trade, to prevent fraudulent and manipulative acts, to remove impediments to and perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest.

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

The Exchange does not believe that the proposed rule change will 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 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

Because the foregoing rule change does not:

(i) significantly affect the protection of investors or the public interest;

(ii) impose any significant burden on competition; and

(iii) does not become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective¹⁰ pursuant to Section 19(b)(3)(A) of the Act¹¹ and Rule 19b-4(f)(6) thereunder.¹²

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

¹⁰ The Exchange provided the Commission with notice of its intent to file the proposed rule change at least five days prior to the filing date.

¹¹ 15 U.S.C. 78s(b)(3)(A).

¹² 17 CFR 240.19b-4(f)(6).

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-2005-03 on the subject line.

Paper comments:

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609.

All submissions should refer to File Number SR-ISE-2005-03. 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 (<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-2005-03 and should be submitted on or before [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.¹³

Margaret H. McFarland

Deputy Secretary

¹³ 17 CFR 200.30-3(a)(12).