

**SECURITIES AND EXCHANGE COMMISSION**  
**(Release No. 34-51619; File No. SR-ISE-2005-09)**

**April 27, 2005**

**Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change and Amendment Nos. 1 and 2 Thereto by the International Securities Exchange, Inc. to List and Trade Options on Various Russell Indexes**

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on February 1, 2005, the International Securities Exchange, Inc. (“ISE” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. On March 18, 2005, the Exchange filed Amendment No. 1 to the proposed rule change.<sup>3</sup> On April 22, 2005, the Exchange filed Amendment No. 2 to the proposed rule change.<sup>4</sup> The Commission is publishing this notice and order to solicit comments on the proposed rule change, as amended, from interested persons and to approve the proposal on an accelerated basis.

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

ISE is proposing to amend its rules to list and trade new options on various Russell Indexes. The text of the proposed rule change is available on ISE’s Web site (<http://www.iseoptions.com>), at ISE’s principal office, and at the Commission’s Public Reference Room.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> Amendment No. 1 made clarifications to the Purpose section and included rule text that was inadvertently left out of the original filing.

<sup>4</sup> Amendment No. 2 made clarifications to the Purpose section.

## **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 Exchange proposes to amend its rules to list and trade on the Exchange cash-settled, European-style index options on the full and reduced values of each of the following Russell Indexes:

- Russell 3000 Index
- Russell 3000 Value Index
- Russell 3000 Growth Index
- Russell 2500 Index
- Russell 2500 Value Index
- Russell 2500 Growth Index
- Russell 2000 Index
- Russell 2000 Value Index
- Russell 2000 Growth Index
- Russell 1000 Index

- Russell 1000 Value Index
- Russell 1000 Growth Index
- Russell Top 200 Index
- Russell Top 200 Value Index
- Russell Top 200 Growth Index
- Russell MidCap Index
- Russell MidCap Value Index
- Russell MidCap Growth Index
- Russell Small Cap Completeness Index
- Russell Small Cap Completeness Value Index
- Russell Small Cap Completeness Growth Index

Specifically, the Exchange proposes to list options based upon (i) full values of the Russell Indexes (“Full Value Russell Indexes”) and (ii) one-tenth values of the Russell Indexes (“Reduced Value Russell Indexes”). Each of these Russell Indexes is a capitalization-weighted index containing various groups of stocks drawn from the largest 3,000 companies incorporated in the United States. All index components are traded on the New York Stock Exchange (“NYSE”), the American Stock Exchange (“Amex”), and/or the Nasdaq Stock Market. Options on all of the indexes, except for the Russell 2500 Index (regular, value, and growth) and the Russell Small Cap Completeness Index (regular, value, and growth), currently trade on the Chicago Board Options Exchange (“CBOE”).<sup>5</sup> The Exchange also is proposing to be able to list

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<sup>5</sup> See Securities Exchange Act Release No. 49388 (March 10, 2004), 69 FR 12720 (March 17, 2004) (approving listing and trading on CBOE of options, including LEAPS, on the Russell Top 200 Index, Russell Top 200 Growth Index, and the Russell Top 200 Value

and trade long-term options on each of the Full Value Russell Indexes noted above (“Russell LEAPS”).<sup>6</sup>

### Index Design and Composition

The Russell Indexes are designed to be a comprehensive representation of the investable U.S. equity market. These indexes are capitalization-weighted and include only common stocks belonging to corporations domiciled in the United States are traded on NYSE, Nasdaq, or Amex. Stocks are weighted by their “available” market capitalization, which is calculated by multiplying the primary market price by the “available” shares; that is, total shares outstanding less corporate cross-owned shares; shares owned by Employee Stock Ownership Plans (“ESOPs”) and Leveraged Employee Stock Ownership Plans (“LESOPs”) that comprise 10% or more of shares outstanding; shares that are part of unlisted share classes; and shares held by an individual, a group of individuals acting together, or a corporation not in the index that owns 10% or more of the shares outstanding. Below is a brief description of each index:<sup>7</sup>

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Index); Securities Exchange Act Release No. 48591 (October 2, 2003), 68 FR 58728 (October 10, 2003) (approving listing and trading on CBOE of options, including LEAPS, on the Russell 3000 Index, Russell 3000 Value Index, Russell 3000 Growth Index, Russell 2000 Value Index, Russell 2000 Growth Index, Russell 1000 Index, Russell 1000 Value Index, Russell 1000 Growth Index, Russell MidCap Index, Russell MidCap Value Index, and Russell MidCap Growth Index); Securities Exchange Act Release No. 31382 (October 30, 1992), 57 FR 52802 (November 5, 1992) (approving listing and trading on CBOE of options, including LEAPS, on the Russell 2000 Index).

<sup>6</sup> Under ISE Rule 2009(b), “Long-Term Index Options Series,” the Exchange may list long-term options that expire from 12 to 60 months from the date of issuance.

<sup>7</sup> Additional information about the Russell Indexes can also be found at <http://www.russell.com/us/indexes/us/definitions.asp>.

- Russell 3000 Index-- Measures the performance of the 3,000 largest U.S. companies based on total market capitalization, representing approximately 98% of the investable U.S. equity market.
- Russell 1000 Index-- Measures the performance of the 1,000 largest U.S. companies based on total market capitalization, representing approximately 92% of the investable U.S. equity market.
- Russell Top 200 Index-- Measures the performance of the 200 largest companies in the Russell 1000 Index, representing approximately 74% of the total market capitalization of the Russell 1000 Index.
- Russell 2000 Index-- Measures the performance of the 2,000 smallest companies in the Russell 3000 Index, representing approximately 8% of the investable U.S. equity market.
- Russell 2500 Index-- Measures the performance of the 2,500 smallest companies in the Russell 3000 Index, representing approximately 16% of the investable U.S. equity market.
- Russell 3000 Value Index-- Measures the performance of those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values. Each stock in this index is also a member of either the Russell 2500 Growth, Russell 2000 Growth, or the Russell 1000 Growth Index.
- Russell 3000 Growth Index-- Measures the performance of those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values. Each stock in this index is also a member of either the Russell 2500 Growth, Russell 2000 Growth, or the Russell 1000 Growth Index.

- Russell 2500 Value Index-- Measures the performance of those Russell 2500 companies with lower price-to-book ratios and lower forecasted growth values.
- Russell 2500 Growth Index-- Measures the performance of those Russell 2500 companies with higher price-to-book ratios and higher forecasted growth values.
- Russell 2000 Value Index-- Measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.
- Russell 2000 Growth Index-- Measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.
- Russell 1000 Value Index-- Measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.
- Russell 1000 Growth Index-- Measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
- Russell Top 200 Value Index-- Measures the performance of those Russell Top 200 companies with lower price-to-book ratios and lower forecasted growth values. Each stock in this index is also a member of the Russell 1000 Growth Index.
- Russell Top 200 Growth Index-- Measures the performance of those Russell Top 200 companies with higher price-to-book ratios and higher forecasted growth values. Each stock in this index is also a member of the Russell 1000 Growth Index.
- Russell MidCap Index-- Measures the performance of the 800 smallest companies in the Russell 1000 Index, representing approximately 26% of the total market capitalization of the Russell 1000 Index.

- Russell MidCap Value Index-- Measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values. Each stock in this index is also a member of the Russell 1000 Growth Index.
- Russell MidCap Growth Index-- Measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values. Each stock in this index is also a member of the Russell 1000 Growth Index.
- Russell Small Cap Completeness Index-- Measures the performance of the companies in the Russell 3000 Index excluding the companies in the Standard & Poor's 500 Index.
- Russell Small Cap Completeness Value Index-- Measures the performance of those Russell Small Cap Completeness companies with lower price-to-book ratios and lower forecasted growth values.
- Russell Small Cap Completeness Growth Index-- Measures the performance of those Russell Small Cap Completeness companies with higher price-to-book ratios and higher forecasted growth values.

All equity securities listed on NYSE, Amex, or Nasdaq are considered for inclusion in the Russell Indexes, with the following exceptions: (1) stocks trading less than \$1.00 per share on May 31 of each year, (2) stocks of non-U.S. companies, (3) preferred and convertible preferred stocks, (4) redeemable shares, (5) participating preferred stocks, (6) warrants and rights, (7) trust receipts, (8) royalty trusts, (9) limited liability companies, (10) Bulletin Board and Pink Sheet stocks, (11) closed-end investment companies, (12) limited partnerships, and (13) foreign stocks. The Russell 3000 Index is made up of the top 3,000 eligible stocks ranked by available market

capitalization. All of these stocks are “reported securities” as defined by Rule 11Aa3-1(a)(4) under the Act.<sup>8</sup>

All of the Russell Indexes described above are subsets of the Russell 3000 Index. The growth and value versions of each primary index (Russell 3000, Russell 2500, Russell 2000, Russell 1000, Russell Top 200, Russell Midcap, and Russell Small Cap Completeness) may contain common components, but the capitalization of those components is apportioned so that the sum of the total capitalization of the growth and value indexes equals the total capitalization of the respective primary index.

As of November 30, 2004, the stocks comprising the Russell 3000 Index had an average market capitalization of \$4.69 billion, ranging from a high of \$474.20 billion (General Electric Co.) to a low of \$40.26 million (Tripath Technology). The number of available shares outstanding averaged 132.56 million, ranging from a high of 10.55 billion (General Electric Co.) to a low of 354,000 (Seaboard Corp.). The six-month average daily trading volume for Russell 3000 Index components was 955,069, ranging from a high of 67.5 million shares per day (Intel Corp.) to a low of 1,113 shares per day (Seaboard Corp.). Stocks that averaged less than 50,000 shares per day for the previous six months accounted for 0.98% of the index weight of the Russell 3000 Index. Additionally, over 63% of Russell 3000 Index components have options listed on them, representing over 95% of the index weight.

The Russell Indexes themselves range in capitalization from a high of \$14 trillion (Russell 3000) to a low of \$895.82 billion (Russell 2000 Growth). The number of index components range from a high of 2985 (Russell 3000) to a low of 135 (Russell Top 200 Value).

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<sup>8</sup> 17 CFR 240.11Aa3-1(a)(4).



Index Calculation and Index Maintenance

The value of each Russell Index is currently calculated by Reuters on behalf of the Frank Russell Company and is disseminated every 15 seconds during regular ISE trading hours to market information vendors via the Options Price Reporting Authority (“OPRA”).

The methodology used to calculate the value of the Russell Indexes is similar to the methodology used to calculate the value of other well known market-capitalization-weighted indexes. The level of each index reflects the total market value of the component stocks relative to a particular base period and is computed by dividing the total market value of the companies in each index by the respective index divisor. The divisor is adjusted periodically to maintain consistent measurement of the index. Below is a table of base dates and the respective index levels as of November 30, 2004:

<b>Index</b>	<b>Base Date / Base Index Value</b>	<b>November 30, 2004 Index Value</b>
Russell 3000 Index	12/31/86 = 140.00	670.84
Russell 2500 Index	12/31/90 = 100.00	229.65
Russell 2000 Index	12/31/86 = 135.00	633.77
Russell 1000 Index	12/31/86 = 130.00	629.26
Russell Top 200 Index	3/16/00 = 400.00	285.76
Russell Midcap Index	12/31/86 = 200.00	755.57
Russell Smallcap Completeness Index	3/31/99 = 1000.00	569.68
Russell 3000 Growth Index	3/16/00 = 700.00	385.68

Russell 3000 Value Index	3/16/00 = 700.00	838.54
Russell 2500 Growth Index	5/31/95 = 1000.00	217.86
Russell 2500 Value Index	5/31/95 = 1000.00	240.08
Russell 2000 Growth Index	3/16/00 = 500.00	326.84
Russell 2000 Value Index	3/16/00 = 500.00	940.02
Russell 1000 Growth Index	8/31/92 = 200.00	475.18
Russell 1000 Value Index	8/31/92 = 200.00	637.05
Russell Top 200 Growth Index	3/16/00 = 400.00	208.37
Russell Top 200 Value Index	3/16/00 = 400.00	394.01
Russell Midcap Growth Index	3/16/00 = 500.00	320.77
Russell Midcap Value Index	3/16/00 = 500.00	836.65
Russell Smallcap Completeness Growth Index	3/31/99 = 1000.00	544.26
Russell Smallcap Completeness Value Index	3/31/99 = 1000.00	595.93

In recent years, the value of the Russell Indexes has increased significantly. As a result, the premium for options on the Full Value Russell Indexes has also increased, causing these index options to trade at a level that may be uncomfortably high for retail investors. Therefore, the Exchange also proposes to trade options on the Reduced Value Russell Indexes. The Exchange believes that listing options on the reduced-value indexes would attract a greater source of customer business than if options were based only on the Full Value Russell Indexes.

The Exchange further believes that listing options on the reduced-value indexes would provide an opportunity for investors to hedge, or speculate on, the market risk associated with the stocks comprising the Russell Indexes and use this trading vehicle while extending a smaller outlay of capital. The Exchange believes that this should attract additional investors and, in turn, create a more active and liquid trading environment.<sup>9</sup>

Options on the Russell Indexes would expire on the Saturday following the third Friday of the expiration month. Trading in options on the Russell Indexes would normally cease at 4:15 p.m. ET on the Thursday preceding an expiration Saturday. The exercise settlement value at expiration of each new index option would be calculated by Reuters on behalf of the Frank Russell Company, based on the opening prices of the index's component securities on the last business day prior to expiration ("Settlement Day").<sup>10</sup> The Settlement Day is normally the Friday preceding "Expiration Saturday." If a component security in a Russell Index does not trade on Settlement Day, the last reported sales price in the primary market from the previous trading day would be used to calculate both full and reduced settlement values. Settlement values for the Full and Reduced Value Russell Indexes would be disseminated by OPRA.

The Russell Indexes are monitored and maintained by the Frank Russell Company. The Frank Russell Company is responsible for making all necessary adjustments to the indexes to reflect component deletions, share changes, stock splits, stock dividends (other than ordinary cash dividends), and stock price adjustments due to restructuring, mergers, or spin-offs involving

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<sup>9</sup> The Exchange believes that reduced-value options on the Russell Indexes have generated considerable interest from investors, as measured by their robust trading volume on CBOE.

<sup>10</sup> The aggregate exercise value of the option contract is calculated by multiplying the index value by the index multiplier, which is 100.

the underlying components. Some corporate actions, such as stock splits and stock dividends, require simple changes to the available shares outstanding and the stock prices of the underlying components. Other corporate actions, such as share issuances, change the market value of an index and require the use of an index divisor to effect adjustments.

The Russell Indexes are re-constituted annually on June 30, based on prices and available shares outstanding as of the preceding May 31. New index components are added only as part of the annual re-constitution, after which, should a stock be removed from an index for any reason, it could not be replaced until the next re-constitution.

The Exchange represents that, although it is not involved in the maintenance of any of the Russell Indexes, it would monitor each Russell Index on a quarterly basis and notify the Commission's Division of Market Regulation ("Division") by filing a proposed rule change pursuant to Rule 19b-4 if: (i) the number of securities in any index drops by one-third or more; (ii) 10% or more of the weight of any index is represented by component securities having a market value of less than \$75 million; (iii) less than 80% of the weight of any index is represented by component securities that are eligible for options trading pursuant to ISE Rule 502; (iv) 10% or more of the weight of any index is represented by component securities trading less than 20,000 shares per day; or (v) the largest component security in any index accounts for more than 15% of the weight of the index, or the largest five components in the aggregate account for more than 50% of the weight of the index.

The Exchange also would notify the Division immediately if the Frank Russell Company ceases to maintain and calculate any of the Russell Indexes on which ISE is proposing to list and trade options, or if the value of any of these Russell Indexes is not disseminated every 15

seconds by a widely available source. If a Russell Index ceases to be maintained or calculated, or its values are not disseminated every 15 seconds by a widely available source, the Exchange would not list any additional series for trading and would limit all transactions in options on that index to closing transactions only for the purpose of maintaining a fair and orderly market and protecting investors.

#### Contract Specifications

The proposed contract specifications for the options on the Russell Indexes are based on the contract specifications of similar options currently listed on CBOE.<sup>11</sup> The Russell Indexes are broad-based indexes, as defined in ISE Rule 2001(j). Options on the Russell Indexes would be European-style and a.m. cash-settled. The Exchange's standard trading hours for index options (9:30 a.m. to 4:15 p.m. EST), as set forth in ISE Rule 2008(a), would apply to options on the Russell Indexes. Exchange rules that apply to the trading of options on broad-based indexes also would apply to options on both the Full and Reduced Value Russell Indexes.<sup>12</sup> The trading of these options also would be subject to, among others, Exchange rules governing margin requirements and trading halt procedures for index options.

For options on the Full Value Russell Indexes, the Exchange proposes to establish an aggregate position limit of 50,000 contracts on the same side of the market, provided that no more than 30,000 of such contracts are in the nearest expiration month series.<sup>13</sup> Full Value Russell Index contracts would be aggregated with Reduced Value Russell Index contracts, where

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<sup>11</sup> See supra note 5.

<sup>12</sup> See ISE Rules 2000 through 2012.

<sup>13</sup> The same limits that apply to position limits would apply to exercise limits for these products.

ten Reduced Value Russell Index contracts would equal one Full Value Russell Index contract. These limits are identical to the limits applicable to options based on the Russell Indexes that currently trade on CBOE.<sup>14</sup>

However, as ISE noted in Amendment No. 2, CBOE currently does not list and trade options on certain Russell Indexes--the Russell 2500 family of indexes and the Russell Small Cap Completeness family of indexes --on which ISE is now proposing to list and trade options. The Exchange believes that the proposed position and exercise limits for the Russell 2500 Indexes are appropriate because those indexes contain more components of the Russell 3000 Index than the Russell 2000 Indexes contain. For example, the Russell 2500 Index and the Russell 2000 Index are made up of the smallest 2500 components and 2000 components of the Russell 3000 Index, respectively. Since the Russell 2000 Indexes already have position and exercise limits of 50,000 contracts, with no more than 30,000 contracts for the near term, the Exchange believes that the Russell 2500 Indexes should have the same position and exercise limits as the Russell 2000 Indexes.

Similarly, the Exchange believes that the proposed position and exercise limits for the Russell Small Cap Completeness Indexes are appropriate because the Russell 2500 Index and the Russell Small Cap Completeness Index share a similar number of components. The Russell 2500 Index is comprised of the smallest 2500 components of the Russell 3000 Index, and the Russell Small Cap Completeness Index is comprised of the Russell 3000 Index components, minus the S&P 500 Index components. Accordingly, the Exchange is proposing the same position and

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<sup>14</sup> See CBOE Rule 24.4(e).

exercise limits for the Russell Small Cap Completeness family of indexes as it is for the Russell 2500 family of indexes.

Additionally, under ISE Rule 2006, an index option hedge exemption for public customers may be available, which could expand the position limit for the proposed options up to an additional 75,000 contracts.<sup>15</sup> Furthermore, proprietary accounts of member organizations could receive an exemption of up to 100,000 contracts for the purpose of facilitating public customer orders, to the extent they comply with procedures and criteria listed in ISE Rule 413(c).

The Exchange proposes to apply broad-based index margin requirements for the purchase and sale of options on the Russell Indexes. Accordingly, purchases of put or call options with nine months or less until expiration would have to be paid for in full. Writers of uncovered put or call options would have to deposit / maintain 100% of the option proceeds, plus 15% of the aggregate contract value (current index level x \$100), less any out-of-the-money amount, subject to a minimum of the option proceeds plus 10% of the aggregate contract value for call options and a minimum of the option proceeds plus 10% of the aggregate exercise price amount for put options.

The Exchange proposes to set a strike price interval of at least 2½ points for a near-the-money series in a near-term expiration month when the level of a Russell Index is below 200, a 5-point strike price interval for any options series with an expiration up to one year, and at least a 10-point strike price interval for any longer-term option. The minimum tick size for series trading below \$3 would be \$0.05, and for series trading at or above \$3 would be \$0.10.

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<sup>15</sup> See Securities Exchange Act Release No. 51121 (February 1, 2005), 70 FR 6476 (February 7, 2005) (approving amendment to ISE Rule 2006 to allow for a broad-based index option hedge exemption of 75,000 contracts).

The Exchange proposes to list options on the Full and Reduced Value Russell Indexes in the three consecutive near-term expiration months, plus up to three successive expiration months in the March cycle. For example, consecutive expirations of January, February, March, plus June, September, and December expirations would be listed.<sup>16</sup> In addition, long-term option series having up to 60 months to expiration may be traded.<sup>17</sup> The trading of long-term options on the Russell Indexes would be subject to the same rules that govern all the Exchange's index options, including sales practice rules, margin requirements, and trading rules.

All of the specifications and calculations for options on the Reduced Value Russell Indexes would be the same as those used for the Full Value Russell Indexes. The reduced-value options would trade independently of, and in addition to, the full-value options, and options on all the Russell Indexes would be subject to the same rules that presently govern all Exchange index options, including sales practice rules, margin requirements, trading rules, and position and exercise limits.

#### Surveillance and Capacity

The Exchange represents that it has an adequate surveillance program in place for options on the Russell Indexes and intends to apply those same procedures that it applies to the Exchange's other index options. Additionally, the Exchange is a member of the Intermarket Surveillance Group ("ISG") under the Intermarket Surveillance Group Agreement, dated June 20, 1994. The members of the ISG include all of the national securities exchanges, plus NASD. The ISG members work together to coordinate surveillance and share information regarding the

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<sup>16</sup> See ISE Rule 2009(a)(3).

<sup>17</sup> See ISE Rule 2009(b)(1). The Exchange is not proposing to list reduced-value LEAPS on the Russell Indexes.



stock and options markets. In addition, the major futures exchanges are affiliated members of the ISG, which allows for the sharing of surveillance information for potential intermarket trading abuses.

The Exchange also represents that it has the necessary systems capacity to support the new options series that would result from the introduction of options on the Full and Reduced Value Russell Indexes, including LEAPS on the Full Value Russell Indexes. The Exchange has provided the Commission with system capacity information to support this representation.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6 of the Act<sup>18</sup> in general, and with Section 6(b)(5) in particular,<sup>19</sup> in that it would permit the trading of options on the Full and Reduced Value Russell Indexes pursuant to rules designed to prevent fraudulent and manipulative acts and practices and to promote just and equitable principles of trade.

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

The Exchange does not believe that the proposed rule change would impose any inappropriate burden on competition.

### 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.

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<sup>18</sup> 15 U.S.C. 78f.

<sup>19</sup> 15 U.S.C. 78f(b)(5).

### **III. 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](mailto:rule-comments@sec.gov). Please include File Number SR-ISE-2005-09 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-2005-09. 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 Section, 450 Fifth Street, NW, Washington, DC 20549. Copies of such filing also will be available for inspection and copying at the principal office of 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-2005-09 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

**IV. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Change**

The Commission finds that the proposed rule change, as amended, is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.<sup>20</sup> In particular, the Commission believes that the proposal is consistent with Section 6(b)(5) of the Act,<sup>21</sup> which requires that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and in general to protect investors and the public interest.

The Commission notes that it previously has found that the listing and trading on CBOE of options on most of the Russell Indexes described above, and CBOE's position and exercise limits associated with those options, are consistent with the Act. ISE has proposed substantially the same contract specifications for these options, as well as identical position and exercise limits for those options. The Commission presently is not aware of any issue that would cause it to revisit those earlier findings or preclude the listing and trading of these options on ISE.

ISE also has proposed to list and trade new options on the Russell 2500 Index, Russell 2500 Value Index, Russell 2500 Growth Index, Russell Small Cap Completeness Index, Russell

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<sup>20</sup> In approving this proposal, the Commission has considered its impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>21</sup> 15 U.S.C. 78f(b)(5).

Small Cap Completeness Value Index, and Russell Small Cap Completeness Growth Index-- options that have not previously been approved by the Commission for listing and trading on any national securities exchange. The Commission believes that the composition of these indexes and the characteristics of ISE's proposed options on these indexes will minimize the potential for manipulation, and that listing and trading them on ISE is reasonable and consistent with the Act. As noted above, the Russell Indexes generally, and these Russell Indexes in particular, are designed to represent broad segments of the U.S. equity securities markets. As the indexes are capitalization-weighted rather than price-weighted, the index values should be more difficult to manipulate. Furthermore, ISE has represented that it would notify the Commission if: (1) the number of securities in any index drops by one-third or more; (2) 10% or more of the weight of any index is represented by component securities having a market value of less than \$75 million; (3) less than 80% of the weight of any index is represented by component securities that are eligible for options trading pursuant to ISE Rule 502; (4) 10% or more of the weight of any index is represented by component securities trading less than 20,000 shares per day; or (5) the largest component security accounts for more than 15% of the weight of any index or the largest five components in the aggregate account for more than 50% of the weight of the index.

The Commission also believes that the position and exercise limits for these new Russell Index options, including the index hedge exemption from such position limits, are reasonable and consistent with the Act. These limits are modeled on existing position and exercise limits for options on very similar Russell Indexes that previously have been approved by the Commission.

In approving this proposal, the Commission has specifically relied on the following representations made by the Exchange:

1. The Exchange will notify the Division immediately if the Frank Russell Company ceases to maintain and calculate any Russell Index on which an ISE option is based, or if the value of any such Russell Index is not disseminated every 15 seconds by a widely available source. If a Russell Index ceases to be maintained or calculated, or its values are not disseminated every 15 seconds by a widely available source, the Exchange will not list any additional series on that index and will limit all transactions in such options to closing transactions only for the purpose of maintaining a fair and orderly market and protecting investors.
2. The Exchange has an adequate surveillance program in place for the proposed options on the Russell Indexes.
3. The additional quote and message traffic that will be generated by listing and trading the proposed options on the Russell Indexes, including LEAPS on the Full Value Russell Indexes, will not exceed the Exchange's current message capacity allocated by the Independent System Capacity Advisor.

The Commission further notes that, in approving this proposal, it relied on the Exchange's discussion of how the Frank Russell Company currently calculates the Russell Indexes. If the manner in which any Russell Index is calculated were to change substantially, this approval order, with respect to any ISE options on that index, might no longer be effective.

The Commission finds good cause for approving this proposal before the thirtieth day after the publication of notice thereof in the Federal Register. Most of the proposed options on

the Russell Indexes already have been approved for listing and trading on another exchange and are governed by contract specifications that are substantially the same as those proposed by ISE. The new options proposed by ISE will be governed by contract specifications that are substantially the same as those that govern the similar existing products. Therefore, accelerating approval of ISE's proposal should benefit investors by creating, without undue delay, additional competition in the market for the existing options, as well as an additional investment opportunity with regard to the new options.

**V. Conclusion**

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>22</sup> that the proposed rule change, as amended (SR-ISE-2005-09), is hereby approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>23</sup>

Margaret H. McFarland  
Deputy Secretary

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<sup>22</sup> 15 U.S.C. 78s(b)(2).

<sup>23</sup> 17 CFR 200.30-3(a)(12).