

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-53484; File No. SR-ISE-2005-25]

Self-Regulatory Organizations; International Securities Exchange, Inc.; Notice of Filing and Order Granting Accelerated Approval to a Proposed Rule Change and Amendment No. 1 Thereto Relating to Trading Options on Full and Reduced Values of the FTSE 100 Index and the FTSE 250 Index, Including Long-Term Options

March 14, 2006.

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 May 16, 2005, the International Securities Exchange, Inc. (the "Exchange" or the "ISE") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the ISE. On February 22, 2006, the Exchange filed Amendment No. 1 to the proposed rule change.³ The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons. In addition, the Commission is granting accelerated approval of the proposed rule change, as amended.

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

The ISE is proposing to amend its rules to trade options on full and reduced values of the FTSE 100 Index and the FTSE 250 Index. The Exchange also proposes to list and trade long-term options on full and reduced values of the FTSE 100 Index and the FTSE 250 Index. Options on these indexes will be a.m. cash-settled and will have European-style exercise provisions. The text of this proposed rule change is available on the Exchange's Web site at http://www.iseoptions.com/legal/proposed_rule_changes.asp, the Exchange's principal office, and in the Commission's Public Reference Room.

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 ISE 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 III 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 2001, 2004 and 2009 to provide for the listing and trading on the Exchange of a.m. cash-settled, European-style, index options on the FTSE 100 Index and the FTSE 250 Index (collectively, the "FTSE Indexes"). Specifically, the Exchange proposes to list options based upon (i) full value of the FTSE Indexes, (ii) one-tenth of the value of the FTSE Indexes ("Mini FTSE Indexes"), and (iii) one one-hundredth of the value of the FTSE Indexes ("Micro FTSE Indexes"). In addition to regular options on the FTSE Indexes, the Exchange may list long-term options on the FTSE Indexes, the Mini FTSE Indexes, and the Micro FTSE Indexes ("FTSE LEAPS").⁴

The Exchange states that the FTSE 100 Index and the FTSE 250 Index are internationally recognized, capitalization-weighted indexes based on the prices of the most highly capitalized British stocks traded on the London Stock Exchange ("LSE"), a Recognized Investment Exchange under the Financial Services and Markets Act 2000 of the U.K. and regulated by the Financial Services Authority ("FSA") of the U.K. The LSE's Stock Exchange Electronic Trading Service ("SETS") is a fully electronic order book trading service. SETS is the central price formation and trading service for the securities comprising the FTSE 100 Index, the most liquid FTSE 250 securities, and equities that underlie Euronext.LIFFE ("LIFFE") traded equity options. SETS market maker ("SETSm") is the LSE's trading service for, among others, the FTSE 250 securities that are not traded on SETS.

⁴ 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.

Currently, LIFFE lists equity options on the FTSE 100 Index and futures and futures options on the FTSE 250 Index. The Exchange notes that the Commission previously approved for the Chicago Board Options Exchange ("CBOE") to list reduced-value options on the FTSE 100 Index, and for the American Stock Exchange ("Amex"), the CBOE, the Midwest Stock Exchange ("MSE") n/k/a the Chicago Stock Exchange, the New York Stock Exchange ("NYSE"), and the Pacific Stock Exchange ("PSE") to trade warrants on the FTSE 100 Index.⁵

Index Design and Composition

The FTSE 100 and 250 Indexes were created in the 1980's by the International Stock Exchange of the United Kingdom and the Republic of Ireland (the predecessor to the LSE) in conjunction with the Financial Times and a committee of U.K. financial institutions, including LIFFE. The Indexes are administered and maintained by FTSE International Limited ("FTSE").⁶ To qualify for inclusion in a FTSE Index, a company must satisfy, among others, the following conditions: (1) It must have a full listing on the London Stock Exchange; (2) it must not be a subsidiary of another FTSE Index constituent; and (3) it must be sufficiently liquid to be traded.⁷ The FTSE 100 Index consists of the largest 100 UK companies ranked by unadjusted market value, and the FTSE 250 consists of the next 250 UK companies ranked by unadjusted market value.⁸ The FTSE EMEA Committee

⁵ See Securities Exchange Act Release Nos. 29722 (September 23, 1991), 56 FR 49807 (October 1, 1991) (order approving File No. SR-CBOE-91-07); 27769 (March 6, 1990), 55 FR 9380 (March 13, 1990) (order approving File No. SR-Amex-90-03); 28634 (November 20, 1990), 55 FR 49729 (November 30, 1990) (order approving File No. SR-MSE-90-12); 28399 (August 30, 1990), 55 FR 37390 (September 11, 1990) (order approving File No. SR-NYSE-90-37); and 28106 (June 12, 1990), 55 FR 24955 (June 19, 1990) (order approving File No. SR-PSE-90-15).

⁶ The FTSE Europe, Middle East and Africa ("EMEA") Committee is responsible for, among other things, establishing rules to determine, review, and modify the composition of the FTSE Indexes, as well as how the FTSE Indexes are calculated. The FTSE EMEA Committee is comprised of representatives from various financial institutions including, among others, FTSE, Barclays Global Investors, Goldman Sachs, and LIFFE.

⁷ See "Ground Rules for the Management of the UK Series of the FTSE Actuaries Share Indices," at <http://www.ftse.com> for complete eligibility criteria.

⁸ Unadjusted market capitalization (as opposed to a "free-float" index methodology) refers to the total number of shares outstanding multiplied by the share price. A "free-float" index methodology usually excludes shares held by strategic investors by way of cross ownership, government ownership, private ownership, and restricted share ownership. Telephone conversation between Samir Patel,

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Form 19b-4 dated February 22, 2006. ("Amendment No. 1"). In Amendment No. 1, which replaced the original filing in its entirety, the Exchange: (1) Expanded the "purpose" section to include additional information about the components, and calculation and maintenance of the FTSE Indexes; and (2) obtained a representation by the FTSE regarding FTSE's insider trading and non-disclosure policies as they pertain to broker-dealer members of the FTSE committees that determine the composition of the indexes.

conducts a quarterly review of the FTSE Indexes to ensure that its component stocks are representative of the state of the equity market for the largest U.K. companies.

As of February 14, 2005, following are the characteristics of the FTSE 100 Index: (i) The total capitalization of all of the components in the Index is £1.23 trillion; (ii) regarding component capitalization, (a) the highest capitalization of a component is £119.14 billion (BP Plc), (b) the lowest capitalization of a component is £516.80 million (Schroders NV), (c) the mean capitalization of the components is £12.07 billion, and (d) the median capitalization of the components is £5.20 billion; (iii) regarding component price per share, (a) the highest price per share of a component is £31.56 (Carnival), (b) the lowest price per share of a component is 60 pence (Corus Group), (c) the mean price per share of a component is £6.91, and (d) the median price per share of a component is £6.06; (iv) regarding component weightings, (a) the highest weighting of a component is 9.82% (BP Plc), (b) the lowest weighting of a component is 0.04% (Schroders NV), (c) the mean weighting of the components is 0.98%, (d) the median weighting of the components is 0.43%, and (e) the total weighting of the top five highest weighted components is 36.52% (BP Plc, HSBC Holdings, Vodafone Group, GlaxoSmithKline, Royal Bank of Scotland); (v) regarding component available shares, (a) the most available shares of a component is 65.28 billion (Vodafone Group), (b) the least available shares of a component is 70.94 million (Schroders NV), (c) the mean available shares of the components is 2.72 billion, and (d) the median available shares of the components is 1.11 billion; (vi) regarding the six month average daily volumes of the components, (a) the highest six month average daily volume of a component is 224.20 million (Vodafone Group), (b) the lowest six month average daily volume of a component is 117,669 (Schroders NV), (c) the mean six month average daily volume of the components is 13.69 million, (d) the median six month average daily volume of the components is 7.56 million, (e) the average of six month average daily volumes of the five most heavily traded components is 441.02 million (Vodafone Group, BP Plc, Corus Group, BT Group, Shell Transport and Trading Co.), and (f) 100% of the components had a six

month average daily volume of at least 50,000.

As of February 14, 2005, following are the characteristics of the FTSE 250 Index: (i) The total capitalization of all of the components in the Index is £220.24 billion; (ii) regarding component capitalization, (a) the highest capitalization of a component is £2.69 billion (BPB), (b) the lowest capitalization of a component is £212.30 million (PZ Cussons PLC), (c) the mean capitalization of the components is £877.46 million, and (d) the median capitalization of the components is £693.41 million; (iii) regarding component price per share, (a) the highest price per share of a component is £43.72 (Greggs PLC), (b) the lowest price per share of a component is 20 pence (Invensys), (c) the mean price per share of a component is £4.91, and (d) the median price per share of a component is £3.47; (iv) regarding component weightings, (a) the highest weighting of a component is 1.30% (BPB), (b) the lowest weighting of a component is 0.06% (Euromoney Institutional Investor PLC), (c) the mean weighting of the components is 0.40%, (d) the median weighting of the components is 0.31%, and (e) the total weighting of the top five highest weighted components is 6.04% (BPB, International Power, Hammerson PLC, Kelda Group, Peninsular & Oriental Steam PLC); (v) regarding component available shares, (a) the most available shares of a component is 5.69 billion (Invensys), (b) the least available shares of a component is 12.14 million (Greggs PLC), (c) the mean available shares of the components is 345.10 million, and (d) the median available shares of the components is 201.60 million; (vi) regarding the six month average daily volumes of the components, (a) the highest six month average daily volume of a component is 40.89 million (Invensys), (b) the lowest six month average daily volume of a component is 4,139 (PZ Cussons PLC), (c) the mean six month average daily volume of the components is 1.95 million, (d) the median six month average daily volume of the components is 702,801, (e) the average of six month average daily volumes of the five most heavily traded components is 104.75 million (Invensys, ARM Holdings PLC, Cookson Group, Woolworths Group, EMI Group), and (f) 97% of the components had a six month average daily volume of at least 50,000.

Index Calculation and Index Maintenance

The base index value of the FTSE 100 Index and the FTSE 250 Index, was 1000, as of December 31, 1983, and

1412.60, as of December 31, 1985, respectively. On February 14, 2005, the index value of the FTSE 100 Index and the FTSE 250 Index was 5041.80 and 7370.10, respectively. The Exchange believes that these levels are too high for successful options trading. As a result, the premiums for options on the full values of the FTSE Indexes are high, which may deter retail investors.

Accordingly, the Exchange proposes to base trading in options on both full size FTSE Indexes and on fractions of full size FTSE Indexes. In particular, the Exchange proposes to list (i) Mini FTSE Index options that are based on one-tenth of the value of each of the FTSE Indexes, and (ii) Micro FTSE Index options that are based on one one-hundredth of each of the FTSE Indexes.⁹ The Exchange believes that listing options on reduced values will attract a greater source of customer business than if options were based only on the full value of the FTSE Indexes. The Exchange further believes that listing options on reduced values will provide an opportunity for investors to hedge, or speculate on, the market risk associated with the stocks comprising the FTSE Indexes. Additionally, by reducing the values of the FTSE Indexes, investors will be able to 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.¹⁰

Index levels for options on the full size FTSE Indexes, the Mini FTSE Indexes and the Micro FTSE Indexes shall each be calculated by FTSE, and shall be disseminated by ISE every 15 seconds during the Exchange's regular trading hours to market information vendors via the Options Price Reporting Authority ("OPRA").¹¹ The methodology used to calculate the value of the FTSE Indexes is similar to the methodology used to calculate the value of other well-known market-capitalization weighted indexes. The level of each FTSE Index reflects the total market value of the component

⁹ As noted above, the Exchange also proposes to list LEAPS on all FTSE Indexes.

¹⁰ The concept of listing reduced value options on an index is not a novel one. For example, the Commission has previously approved the listing of reduced value options on the S&P 500 Index, the Nasdaq 100 Index, and the NYSE Composite Index. See Securities Exchange Act Release Nos. 32893 (September 14, 1993), 58 FR 49070 (September 21, 1993) (S&P 500 Index); 43000 (June 30, 2000), 65 FR 42409 (July 10, 2000) (Nasdaq 100 Index); 48681 (October 22, 2003), 68 FR 62337 (November 3, 2003) (NYSE Composite Index).

¹¹ The Exchange shall also disseminate these values to its members. The FTSE Indexes will be published daily through major quotation vendors, such as Reuters.

stocks relative to a particular base period and is computed by dividing the total market value of the companies in each index by its respective index divisor.¹²

The FTSE Indexes are updated on a real-time basis from 8 a.m. to 4:30 p.m. (London time), which corresponds to 3 a.m. to 11:30 a.m. (New York time). After 11:30 a.m. (New York time), the Exchange will disseminate a static value of the FTSE Indexes via OPRA until the close of trading each day. The FTSE Indexes are calculated using the last traded price of the component securities. If a component security does not open for trading, the price of that security at the close or the index on the previous day is used in the calculation.¹³

The FTSE Indexes will be monitored and maintained by FTSE. FTSE will be responsible for making all necessary adjustments to the indexes to reflect component deletions, share changes, stock splits, stock dividends (other than an ordinary cash dividend), and stock price adjustments due to restructuring, mergers, or spin-offs involving 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, that change the market value would require changing the index divisor to effect adjustments.

The FTSE Indexes are reviewed each quarter in March, June, September, and December based on market capitalization. Based on information submitted by FTSE, the FTSE EMEA Committee approves the new index components and a reserve list of six companies for the FTSE 100 Index. If a company is deleted from the FTSE 100 Index between reviews as a result of a merger, takeover, or other corporate action, the highest ranking company from the reserve list will replace it in the index.

Although the Exchange is not involved in the maintenance of any of the FTSE Indexes, the Exchange

represents that it will monitor each FTSE Index on a quarterly basis, at which point the Exchange will notify the staff of the Market Regulation Division of the Commission by filing a proposed rule change pursuant to Rule 19b-4, if, with respect to any FTSE Index: (i) The number of securities in a FTSE Index drops by $\frac{1}{3}$ rd or more; (ii) 10% or more of the weight of a FTSE Index is represented by component securities having a market value of less than 50 million; (iii) 10% or more of the weight of a FTSE Index is represented by component securities trading less than 20,000 shares per day; or (iv) the largest component security accounts for more than 15% of the weight of a FTSE Index or the largest five components in the aggregate account for more than 50% of the weight of a FTSE Index.

The Exchange will also notify the staff of the Market Regulation Division of the Commission immediately in the event FTSE ceases to maintain and calculate the FTSE Indexes, or in the event values of the FTSE Indexes are not disseminated every 15 seconds by a widely available source. In the event the FTSE Indexes cease 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 for trading 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.

Exercise and Settlement Value

Options on the FTSE Indexes will expire on the Saturday following the third Friday of the expiration month. Trading in the FTSE Indexes will normally cease at 4:15 p.m. (New York time) on the Thursday preceding an expiration Saturday. The index value for exercise of the FTSE Index options will be calculated based on the LSE's Exchange Delivery Settlement Price ("EDSP") intra-day auction, which was introduced by LSE in November of 2004. The EDSP is a settlement value calculated by Euronext-LIFFE for FTSE index futures and options contracts traded on its exchange. The EDSP value is calculated using an intra-day auction process administered by the LSE for all the component stocks of the FTSE 100 Index and the FTSE 250 Index. The intra-day auction occurs between 10:10 a.m. and 10:29 a.m. (London time) for the FTSE 100 Index, and between 10:10 a.m. and 10:31 a.m. (London time) for the FTSE 250 Index on the third Friday of the expiration month. Therefore, because trading in the expiring contract months will normally cease on a

Thursday at 4:15 p.m. (New York time), the EDSP for exercise will be determined the day after trading has ceased, *i.e.*, during the Friday morning LSE trading session, by 5:31 a.m. (New York time). The last automated traded price prior to the EDSP auction or the previous day's closing price will be used to calculate the final EDSP if a security did not participate in the auction. During the auction process, indications of the settlement price for each index are widely disseminated every 15 seconds via special indexes called Expiry Indexes. The purpose of the Expiry Indexes is to disseminate expected settlement values as the auction progresses. When the auction is finished, the final values of the Expiry Indexes are disseminated as the EDSP values. The Expiry Indexes and subsequent EDSP values are widely disseminated through major market data vendors including Reuters, Bloomberg, and Thomson.

If the LSE is closed on the Friday before expiration, but the ISE remains open, then the last trading day for expiring FTSE Index options will be moved earlier to Wednesday as if the ISE had had a Friday holiday. The settlement index value used for exercise will be calculated during LSE's EDSP intra-day auction on Thursday morning.

Contract Specifications

The contract specifications for options on the FTSE 100 Index and the FTSE 250 Index are set forth in Exhibits 3-2 and 3-4, respectively, to the proposed rule change filed by the Exchange. The FTSE Indexes are broad-based indexes, as defined in Exchange Rule 2001(j). Options on the FTSE Indexes are European-style and a.m. cash-settled. The Exchange's standard trading hours for broad-based index options (9:30 a.m. to 4:15 p.m., New York time), as set forth in Rule 2008(a), will apply to the FTSE Indexes. Exchange rules that are applicable to the trading of options on broad-based indexes will apply to both full and reduced values of the FTSE Indexes.¹⁴ Specifically, the trading of full and reduced values of the FTSE Indexes will be subject to, among others, Exchange rules governing margin requirements and trading halt procedures for index options. Options shall be quoted and traded in U.S. dollars.

For options on the full value FTSE Indexes, the Exchange proposes to establish aggregate position limits at 25,000 contracts on the same side of the market, provided no more than 15,000 of such contracts are in the nearest

¹² A divisor is an arbitrary number chosen at the starting date of an index to fix the index starting value. The divisor is adjusted periodically when capitalization amendments are made to the constituents of the index in order to allow the index value to remain comparable over time. Without a divisor the index value would change when corporate actions took place and would not reflect the true value of an underlying portfolio based upon the index.

¹³ The FTSE Indexes are published daily in the Financial Times and are available real-time on Reuters, Bloomberg, and other market information systems which disseminate information on a real-time basis.

¹⁴ See ISE Rules 2000 through 2012.

expiration month series. Mini FTSE Index option contracts and Micro FTSE Index option contracts shall be aggregated with full value FTSE Index option contracts, where ten (10) Mini FTSE Index option contracts and one-hundred (100) Micro FTSE Index option contracts equal one (1) full value FTSE Index option contracts. These limits are identical to the limits that were approved for options on the FTSE Indexes previously listed for trading at the CBOE.¹⁵ Additionally, under ISE Rule 2006, an index option hedge exemption for public customers may be available which may expand the position limit up to an additional 75,000 contracts.¹⁶ Furthermore, proprietary accounts of members may receive an exemption of up to 50,000 contracts for the purpose of facilitating public customer orders.¹⁷

The Exchange proposes to apply broad-based index margin requirements for the purchase and sale of options on the FTSE Indexes. Accordingly, purchases of put or call options with 9 months or less until expiration must be paid for in full. Writers of uncovered put or call options must 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 strike price intervals at least 2½ points for certain near-the-money series in near-term expiration months when the index level of the FTSE Indexes is below 200, and 5 point strike price intervals for other options series with expirations up to one year, and at least 10 point strike price intervals for longer-term options. The minimum tick size for series trading below \$3 shall be \$0.05, and for series trading at or above \$3 shall be \$0.10.

The Exchange proposes to list options on full and reduced values of the FTSE 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.¹⁸ In addition, long-term option series having up to sixty months to expiration may be

traded.¹⁹ The trading of long-term FTSE Indexes shall be subject to the same rules that govern the trading of all the Exchange's index options, including sales practice rules, margin requirements, and trading rules.

Except for the further reduced value given to the FTSE Indexes, all of the specifications and calculations for the reduced value FTSE Indexes shall be the same as those used for the full value FTSE Indexes. The reduced value FTSE Indexes will trade independently of and in addition to the full value FTSE Indexes, and all the FTSE Indexes shall be subject to the same rules that presently govern the trading of 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 traded on the FTSE Indexes and intends to apply those same program procedures that it applies to the Exchange's other index options. Additionally, the Exchange has provided the Commission, on a confidential basis, a representation made by FTSE to the Exchange regarding FTSE's insider trading policies, as they pertain to the broker-dealer members of FTSE's EMEA Committee who are charged with the selection of component securities that comprise the FTSE Indexes. The FTSE EMEA Committee members are also required to maintain in confidence, including non-disclosure to another party, any information that they may be given by virtue of their membership of the FTSE EMEA Committee, unless such information is already in the public domain or where disclosure is required by law. The Exchange is also 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 U.S. registered stock and options markets: the American Stock Exchange, the Boston Stock Exchange, the Chicago Board Options Exchange, the Chicago Stock Exchange, the National Stock Exchange, the National Association of Securities Dealers, the New York Stock Exchange, the Pacific Stock Exchange and the Philadelphia Stock Exchange. In addition, the LSE and LIFFE are affiliate members of ISG.²⁰ The ISG members

work together to coordinate surveillance and investigative information sharing in the 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 has the necessary systems capacity to support new options series that will result from the introduction of both full and reduced values of the FTSE Indexes, including LEAPS. The Exchange has provided the Commission system capacity information that supports its system capacity representations.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,²¹ in general, and furthers the objectives of Section 6(b)(5),²² in particular, in that it is designed 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.

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

The Exchange does not believe that the proposed rule change imposes any burden on competition.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

No written comments were either solicited or received.

III. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change 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-2005-25 on the subject line.

Lombardo, Special Counsel, Division, Commission, on February 28, 2006.

²¹ 15 U.S.C. 78f(b).

²² 15 U.S.C. 78f(b)(5).

¹⁵ See *supra* note 5.

¹⁶ The same limits that apply to position limits shall apply to exercise limits for these products.

¹⁷ See ISE Rule 413(c).

¹⁸ See Rule 2009(a)(3).

¹⁹ See Rule 2009(b)(1). The Exchange is not listing reduced value LEAPS on the FTSE Indexes pursuant to Rule 2009(b)(2).

²⁰ Telephone conversation between Samir Patel, Assistant General counsel, ISE, and Raymond

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-2005-25. 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-2005-25 and should be submitted by April 11, 2006.

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

After careful consideration, 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.²³ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b) of the Act,²⁴ in general, and furthers the objectives of Section 6(b)(5),²⁵ in particular, in that it is designed 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.

Because the FTSE 100 and FTSE 250 Indexes are broad-based indexes of actively traded, well-capitalized stocks, the trading of the proposed Index options on the Exchange does not raise unique regulatory concerns. The options on the FTSE Indexes will be traded under ISE's existing regulatory regime for index options, which include, among other things, position and exercise limits and margin requirements. Additionally, the Exchange has represented that it has adequate systems capacity and surveillance for these Index options and that the index value will be disseminated at least every 15 seconds.

Under Section 19(b)(2) of the Act,²⁶ the Commission may not approve any proposed rule change prior to the thirtieth day after publication of the notice of the filing thereof, unless the Commission finds good cause for so doing and publishes its reasons for so finding. The Commission believes that the proposed rule filing does not raise any new, unique or substantive issues from those raised in a filing previously approved by the Commission²⁷ allowing the CBOE to list and trade reduced value index options on the FTSE 100 Index. Accordingly, The Commission hereby finds good cause for approving the proposed rule change and Amendment No. 1 thereto prior to the thirtieth day after the date of publication of notice of filing thereof in the **Federal Register**.

V. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,²⁸ that the proposed rule change (SR-ISE-2005-25), as amended, be, and hereby is, approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.²⁹

Nancy M. Morris,

Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-53488; File No. SR-NASD-2006-015]

Self-Regulatory Organizations; National Association of Securities Dealers, Inc.; Notice of Filing of Proposed Rule Change and Amendment Nos. 1 and 2 Thereto To Establish the Nasdaq Halt Cross

March 15, 2006.

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 31, 2006, the National Association of Securities Dealers, Inc. ("NASD"), through its subsidiary, The Nasdaq Stock Market, Inc. ("Nasdaq"), 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 Nasdaq. On February 16, 2006, Nasdaq filed Amendment No. 1 to the proposed rule change. On March 6, 2006, Nasdaq filed Amendment No. 2 to the proposed rule change. 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

Nasdaq proposes to improve the opening process for Nasdaq securities that are the subject of a trading halt initiated pursuant to NASD Rule 4120(a). The text of the proposed rule change is available on Nasdaq's Web site, <http://www.nasdaq.com>, at Nasdaq's principal office, and at the Commission's Public Reference Room.

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

In its filing with the Commission, Nasdaq included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposal. The text of these statements may be examined at the places specified in Item IV below. Nasdaq has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

²³ In approving this proposal, the Commission has considered its impact on efficiency, competition and capital formation. 15 U.S.C. 78c(f).

²⁴ 15 U.S.C. 78f(b).

²⁵ 15 U.S.C. 78f(b)(5).

²⁶ 15 U.S.C. 78s(b)(2).

²⁷ See Securities Exchange Act Release No. 29722 (September 23, 1991), 56 FR 49807 (October 1, 1991) (order approving SR-CBOE-91-07).

²⁸ 15 U.S.C. 78s(b)(2).

²⁹ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.