

to file additional proposed rule changes with the Commission when the Exchange identifies specific products. For purposes of this proposed rule change, certain rules indicate that they apply to "specified" indices. ISE Rules 2001(l), 2004(a), 2006(a), 2007(a), 2009, and 2011 all contain provisions that are dependant upon the Exchange identifying specific index products in the rule. Accordingly, ISE Rule 2000 states that where the rules in Chapter 20 indicate that particular indices or requirements with respect to particular indices will be "Specified," the ISE shall file a proposed rule change with the Commission pursuant to Section 19 of the Act⁶ and Rule 19b-4 thereunder⁷ to specify such indices or requirements.

The ISE proposes to add a new Chapter 20 to the Exchange rules, as well as conforming changes to certain existing ISE rules. The following are the specific rule changes:

Proposed ISE Rule 2000: This proposed rule specifies that Chapter 20 is applicable only to index options, and that the rules in Chapters 1 through 19 also apply to index options unless they are replaced by the new rules or the context otherwise requires.

Proposed ISE Rule 2001: This proposed rule contains the necessary definitions for index options trading.

Proposed ISE Rule 2002: This proposed rule contains the general listing standards for index option.

Proposed ISE Rule 2003: This proposed rule requires the dissemination of index values as a condition to the trading of options on an index.

Proposed ISE Rules 2004 through 2007: These proposed rules contain the standard position limit and exercise limits for index options, as well as exemption standards and the procedures for requesting exemptions from those proposed rules.

Proposed ISE Rule 2008: This proposed rule provides that index options will trade until 4:15 p.m. Eastern Time, the same as on other exchanges. The proposed rule also contains procedures for trading rotations, as well as trading halts and suspensions.

Proposed ISE Rules 2009 and 2010: Proposed ISE Rule 2009 outlines the terms of index options contracts, while proposed ISE Rule 2010 applies to debit put spreads.

Proposed ISE Rule 2011: This proposed rule disclaims liability for index reporting authorities.

Proposed ISE Rule 2012: This proposed rule contains standards for exercising American-style index options.

Amendment to ISE Rule 413: This proposed amendment adds broad-based index options to the market maker exemption from position limits.

Amendments to ISE Rules 418 and 1100: In conjunction with proposed ISE Rule 2012, this proposed rule will govern the exercise of American-style, cash settled index options.

Amendment to ISE Rule 701: This proposed amendment applies the trading rotation rule to index options.

Amendment to ISE Rule 705: In conjunction with ISE Rule 2011, this proposed rule would limit liability regarding the dissemination of index information.

Amendment to ISE Rule 803: This proposed amendment provides the Exchange with greater flexibility on applying market making obligations when the primary underlying securities market is not open for trading. It would apply only to the trading of options on non-U.S. indices.

Amendment to ISE Rule 1407: This proposed amendment would apply an exemption from the Nasdaq short sale rule to Nasdaq NMS securities underlying index options.

2. Statutory Basis

The ISE believes that the proposed rule change, as amended, is consistent with and furthers the objectives of section 6(b)(5) of the Act,⁸ in that it is designed to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transaction in securities, 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 ISE does not believe that the proposed rule change, as amended, will result in 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

No written comments were solicited or received with respect to the proposed rule change, as amended.

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 ISE 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. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change, as amended, that are filed with the Commission, and all written communications relating to the proposed rule change, as amended, 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 filings will also be available for inspection and copying at the principal office of ISE. All submissions should refer to File No. SR-ISE-2003-05 and should be submitted by May 23, 2003.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁹

Margaret H. McFarland,
Deputy Secretary.

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⁶ 15 U.S.C 78s.

⁷ 17 CFR 240.19b-4.

⁸ 15 U.S.C. 78(f)(b)(5).

⁹ 17 CFR 200.30-3(a)(12).