

November 3, 2005

Mr. Jonathan G. Katz
Secretary
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: File No. 10-131; Nasdaq Exchange Application

Dear Mr. Katz:

The International Securities Exchange, Inc. ("ISE") is pleased to comment on The Nasdaq Stock Market, Inc.'s ("Nasdaq") Amendments 4 and 5 to its application for registration as a national security exchange.¹ We limit our comments to one issue: Nasdaq's proposed regulatory structure. We strongly support Nasdaq's proposal in this area and we urge the Commission to use this structure as one possible template in overseeing the regulatory functions of other self-regulatory organizations ("SROs").

Nasdaq proposes to establish a Regulatory Oversight Committee ("ROC"), consisting entirely of independent directors, which would be responsible for monitoring the adequacy and effectiveness of Nasdaq's regulatory program. Nasdaq also would appoint a Chief Regulatory Officer ("CRO") who will meet periodically with the ROC to consider regulatory issues. While the CRO will report to Nasdaq's Chief Executive Officer ("CEO") and may also be Nasdaq's General Counsel, Nasdaq will inform the ROC about the CRO's compensation, as well as the CRO's promotion or termination. Management also will present the ROC with Nasdaq's regulatory budget as part of the ROC's monitoring of the regulatory program.

We believe that Nasdaq is proposing a reasonable and workable regulatory structure that addresses the need for an SRO to have a strong and effective regulatory program while allowing the SRO to operate a competitive and efficient business. In particular, we believe that Nasdaq's proposal is superior to the regulatory structure the Commission proposed in Regulation SRO.² That regulation proposed that an SRO: (i) appoint a ROC that, among other things, would assure the adequacy of an SRO's regulatory program and that would determine the SRO's regulatory plan; and (ii) hire a CRO that reported directly to the ROC and not the organization's CEO, while also requiring the CEO to sign off on the SRO's annual regulatory report.

¹ Release No. 34-52559 (October 4, 2005); 70 F.R. 59097 (October 11, 2005).

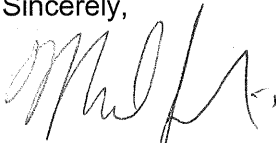
² Release No. 34-50699 (November 18, 2004); 69 F.R. 71126 (December 8, 2005).

As we discussed in our comment letter on proposed Regulation SRO,³ we have two major concerns with proposed Regulation SRO. First, we believe that the Regulation effectively would impose management responsibilities on the ROC, which are inappropriate for a board-level committee and would make it extremely difficult for an SRO to recruit independent directors. Second, we are concerned that the proposed reporting structure actually would impede effective regulation. Because the ROC is composed entirely of independent directors, we believe that this committee would not have the expertise to manage the SRO's regulatory function, including the CRO's activities. Further, we believe that effective regulation is fully compatible with good business practices, and that the CEO, as the executive overall charged with operating the SRO, is the best person to have ultimate responsibility for regulation.

Nasdaq's proposal addresses both of our concerns while providing the foundation for Nasdaq to develop and maintain a strong regulatory program. Nasdaq proposes the use of an ROC, but properly limits the committee's function to an oversight, not a management role. We believe that having independent directors oversee regulation will provide valuable assistance to the CRO without requiring independent directors to assume an inappropriate role in the operation of an SRO. We also support having the CRO report directly to the CEO, while having management advise the ROC with respect to material aspects of the CRO's employment. This will provide checks and balances over the regulatory function in a structure in which the CEO, the CRO and ROC all assume appropriate responsibilities and obligations.

As we discuss in our Comment Letter, we do not believe that there is "one size fits all" solution for effective governance of SROs. However, we believe that Nasdaq's proposal provides one workable and thoughtful governance structure. Thus, we urge the Commission to endorse this form of governance and to permit other SROs to adopt similar structures if such SROs believe that this form of governance is appropriate for their markets. We again thank the Commission for the opportunity to comment on this application. If you have any questions on this letter, please do not hesitate to contact us.

Sincerely,



Michael J. Simon
Secretary

cc: Robert Colby

³ Letter dated March 8, 2005 from Michael J. Simon, Secretary, ISE, to Jonathan G. Katz, Secretary, Commission ("Comment Letter").