
Memorandum

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| To: | ISE Members |
| From: | Office of the CFO |
| Date: | August 1, 2005 |
| Re: | Transaction Fee as of August 1, 2005 |

Per the Average Daily Volume formula presented in the current ISE Fee Schedule, non-public customer transaction fees will be \$0.06 per contract less than standard rates.

| Fee | Standard Rate | Current Rate | Rate as of 08/01/2005 |
|---|---------------|---------------|-----------------------|
| Market Maker & Proprietary Execution Fee | \$0.21 | \$0.15 | \$0.15 |

The above rates do not include a \$.03 per contract comparison fee that is assessed on all transactions (unless otherwise waived) and licensing surcharge that is assessed on all transactions (unless otherwise waived) in the licensed products that are reflected in the ISE fee schedule.

Fee Change

Cancelled Transactions

- Effective only for the month of July 2005, ISE modified the cancellation fee charged to Electronic Access Members for each contract cancelled for its customers, or itself when it self clears. Under that modification, the cancellation fee was applied to cancelled contracts, not orders, at a rate of \$0.10 per contract. The fee applied only if a member's cancellations exceeded its executions by a five-to-one ratio and the member cancelled 5,000 contracts or more.
- Effective August 1, 2005 and continuing until further notice, ISE is reverting back to its cancellation fee that was in effect prior to the modification in July 2005. Using this method, each Electronic Access Member that cancels at least 500 orders in a month will be charged at a rate of \$1.00 per cancellation for each order cancellation in excess of the total number of orders such member executed that month.



Current Products

Effective August 1, 2005, ISE will begin charging customers the regular equity option execution and comparison fees for transactions in the iShares Russell 2000® Index Fund, iShares Lehman Brothers 20+year Treasury Bond Index ETF, Energy Select Sector SPDR® Fund, Semiconductor HOLDRs Trust and Oil Service HOLDRs Trust.

New Products

During the month of July, ISE listed options on the following proprietary indexes: ISE SINdex Index, ISE U.S. Regional Banks Index, ISE Biopharmaceuticals Index, ISE 50 Index, ISE 100 Index, and ISE 250 Index. Effective on each product's listing date, ISE will charge all market participants the regular equity option execution and comparison fees for transactions in these products. There are no surcharge fees or Payment for Order Flow (PFOF) fees that are applied to transactions in any of these products.

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ISE's fee schedule is available at: http://www.iseoptions.com/legal/pdf/fee/fee_schedule.pdf

Please call Meinie Cheek at (212) 897-0246 or Amit Muni at (212) 897-0211 if you have any questions.