

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-55102; File No. SR-NYSEArca-2006-63)

January 12, 2007

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change and Amendment Nos. 1 and 2 Thereto to Trade iShares[®] Lehman Bond Funds Pursuant to Unlisted Trading Privileges

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 September 20, 2006, the NYSE Arca, Inc. (the "Exchange"), through its wholly owned subsidiary, NYSE Arca Equities, Inc. ("NYSE Arca Equities"), filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which Items have been substantially prepared by the Exchange. The Exchange submitted Amendment No. 1 to the proposed rule change on January 8, 2007, which replaces the original filing in its entirety. On January 12, 2007, the Exchange submitted Amendment No. 2 to the proposed rule change.³ The Commission is publishing this notice to solicit comment on the proposal, 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

The Exchange, through NYSE Arca Equities, has proposed to trade shares ("Shares") of the following Index Funds ("Funds") pursuant to unlisted trading privileges ("UTP") based on NYSE Arca Equities Rule 5.2(j)(3): (1) iShares[®] Lehman Short Treasury Bond Fund; (2) iShares Lehman 3-7 Year Treasury Bond Fund; (3) iShares Lehman 10-20 Year Treasury Bond Fund; (4)

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Amendment No. 2 clarified that Amendment No. 1 replaced the original filing in its entirety and revised the statutory basis section of the proposed rule change.

iShares Lehman 1-3 Year Credit Bond Fund; (5) iShares Lehman Intermediate Credit Bond Fund; (6) iShares Lehman Credit Bond Fund; (7) iShares Lehman Intermediate Government/Credit Bond Fund; and (8) iShares Lehman Government/Credit Bond Fund. The text of the proposed rule change is available at the Exchange, the Commission's Public Reference Room, and <http://www.nysearca.com>.

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 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

Under NYSE Arca Equities Rule 5.2(j)(3), the Exchange may propose to list or trade pursuant to UTP “Investment Company Units” (“ICUs”). The Exchange proposes to trade pursuant to UTP the Shares of the Funds under NYSE Arca Equities Rule 5.2(j)(3).⁴ The Commission has approved a proposed rule change by the New York Stock Exchange LLC (the “NYSE”) to list and trade the Shares of the Funds.⁵

The Funds will be based on the following indexes, respectively: (1) Lehman Brothers

⁴ NYSE Arca Equities Rule 5.2(j)(3)(A)(i)(a) allows the listing and trading of ICUs issued by a registered investment company that holds securities comprising, or otherwise based on or representing an interest in, an index or portfolio or securities.

⁵ See Securities Exchange Act Release No. 54916 (December 12, 2006), 71 FR 76008 (December 19, 2006) (SR-NYSE-2006-70) (the “NYSE Proposal”).

Short U.S. Treasury Index; (2) Lehman Brothers 3-7 Year U.S. Treasury Index; (3) Lehman Brothers 10-20 Year U.S. Treasury Index; (4) Lehman Brothers 1-3 Year U.S. Credit Index; (5) Lehman Brothers Intermediate U.S. Credit Index; (6) Lehman Brothers U.S. Credit Index; (7) Lehman Brothers Intermediate U.S. Government/Credit Index; and (8) Lehman Brothers U.S. Government/Credit Index.

The indexes are referred to herein collectively as “Indexes” or “Underlying Indexes,” which are described in detail in the NYSE Proposal. Each Fund is an “index fund” that seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of its Underlying Index developed by Lehman.

Availability of Information Regarding iShares and the Underlying Index

Quotations for and last sale information regarding the Shares are disseminated through the Consolidated Tape System (“CTS”). The NYSE Proposal states that, on each business day the list of names and amount of each security constituting the current Deposit Securities⁶ of the Fund Deposit⁷ and the Balancing Amount⁸ effective as of the previous business day will be made available. An amount per iShare representing the sum of the estimated Balancing Amount effective through and including the previous business day, plus the current value of the Deposit Securities in U.S. dollars, on a per iShare basis (the “Intra-day Optimized Portfolio Value” or “IOPV”) will be calculated by an independent third party (the “Value Calculator”), such as Bloomberg L.P., every 15 seconds during the Exchange’s regular trading hours and disseminated

⁶ Deposit Securities are the in-kind deposit of a designated portfolio of securities, which constitute a substantial replication, or a portfolio sampling representation, of the securities in the relevant Fund's Underlying Index.

⁷ The Fund Deposit represents the minimum initial and subsequent investment amount for a Creation Unit.

⁸ Balancing Amount, together with the Deposit Securities, constitute the "Fund Deposit."

every 15 seconds on the Consolidated Tape. Because NSCC does not disseminate the new basket amount to market participants until approximately 6:00 p.m. to 7:00 p.m. ET, an updated IOPV is not possible to calculate during the Exchange's late trading session (4:15 p.m. to 8:00 p.m. ET).

The NYSE Proposal indicates that the NYSE intends to disseminate a variety of data with respect to each Fund on a daily basis by means of the Consolidated Tape Association and CQ High Speed Lines; information with respect to recent NAV, shares outstanding, estimated cash amount and total cash amount per Creation Unit⁹ will be made available each trading day.

The Underlying Indexes are calculated once each trading day, and are available from major market data vendors. The NAV for each Fund will be calculated and disseminated daily in a number of places, including iShares.com and on the Consolidated Tape. In the NYSE Proposal, the NYSE stated that it will receive a representation from the Advisor to the Funds that the NAV will be calculated and made available to all market participants at the same time.

In addition, the Web site for the iShare[®] Trust ("Trust"), which will be publicly accessible at no charge, will contain the following information, on a per iShare basis, for each Fund: (a) the prior business day's NAV and the mid-point of the bid-ask price and a calculation of the premium or discount of such price against such NAV; and (b) data in chart format displaying the frequency distribution of discounts and premiums of the Bid/Ask Price against the NAV, within appropriate ranges, for each of the four previous calendar quarters.

UTP Trading Criteria

The Exchange represents that it will cease trading the Shares of a Fund if: (a) the listing

⁹ Shares of the Funds will be issued on a continuous offering basis in groups of 50,000 to 100,000 iShares (as specified for each Fund), or multiples thereof. These "groups" of shares are called "Creation Units."

market stops trading the Shares because of a regulatory halt similar to a halt based on NYSE Arca Equities Rule 7.12; or (b) the listing market delists the Shares. Additionally, the Exchange may cease trading the Shares if such other event shall occur or condition exists which in the opinion of the Exchange makes further dealings on the Exchange inadvisable. UTP trading in the Shares is also governed by the trading halts provisions of NYSE Arca Equities Rule 7.34 relating to temporary interruptions in the calculation or wide dissemination of the Intraday Indicative Value (“IOPV”) or the value of the underlying index.

Trading Rules

The Exchange deems the Shares to be equity securities, thus rendering trading in the Shares subject to the Exchange's existing rules governing the trading of equity securities. Shares will trade on the NYSE Arca Marketplace from 4:00 a.m. until 8:00 p.m. ET, even if the IOPV is not disseminated from 4:15 p.m. to 8:00 p.m. ET.¹⁰ The Exchange has appropriate rules to facilitate transactions in the Shares during all trading sessions. The minimum trading increment for Shares on the Exchange will be \$0.01.

With respect to trading halts, the Exchange may consider all relevant factors in exercising its discretion to halt or suspend trading in the Shares. Trading may be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable. These may include: (1) the extent to which trading is not occurring in the securities comprising an Underlying Index of a Fund, or (2) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present. In

¹⁰ The Exchange relies on the listing market to monitor dissemination of the IOPV during the Exchange’s core trading session (9:30 a.m. to 4:15 p.m. ET). Currently the official index sponsors for the Funds’ indexes do not calculate updated index values during the Exchange’s late trading session; however, if the index sponsors did so in the future, the Exchange will not trade this product unless such official index value is widely disseminated.

addition, trading in Shares will be subject to trading halts caused by extraordinary market volatility pursuant to the Exchange's "circuit breaker" rule¹¹ or by the halt or suspension of trading of the underlying securities. See "UTP Trading Criteria" above for specific instances when the Exchange will cease trading the Shares.

Shares will be deemed "Eligible Listed Securities," as defined in NYSE Arca Equities Rule 7.55, for purposes of the Intermarket Trading System ("ITS") Plan and therefore will be subject to the trade through provisions of NYSE Arca Equities Rule 7.56, which require that ETP Holders avoid initiating trade-throughs for ITS securities.

Surveillance

The Exchange will utilize its existing surveillance procedures applicable to ICUs to monitor trading of the Funds. Surveillance procedures applicable to trading in the proposed Shares are comparable to those applicable to other ICUs currently trading on the Exchange. The Exchange represents that these surveillance procedures are adequate to properly monitor the trading of the Funds. The Exchange's current trading surveillances focus on detecting securities trading outside their normal patterns. When such situations are detected, surveillance analysis follows and investigations are opened, where appropriate, to review the behavior of all relevant parties for all relevant trading violations.

Information Bulletin

Prior to the commencement of trading, the Exchange will inform its ETP Holders in an Information Bulletin of the special characteristics and risks associated with trading the Shares. Specifically, the Information Bulletin will discuss the following: (1) the procedures for purchases and redemptions of Shares in Creation Unit Aggregations (and that Shares are not individually

¹¹ See NYSE Arca Equities Rule 7.12.

redeemable); (2) NYSE Arca Equities Rule 9.2(a),¹² which imposes a duty of due diligence on its ETP Holders to learn the essential facts relating to every customer prior to trading the Shares; (3) how information regarding the IOPV is disseminated; (4) the requirement that ETP Holders deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction; and (5) trading information.

In addition, the Information Bulletin will advise ETP Holders, prior to the commencement of trading, of the prospectus delivery requirements applicable to the Funds.¹³ The Exchange notes that investors purchasing Shares directly from the Trust will receive a prospectus. ETP Holders purchasing Shares from the Trust for resale to investors will deliver a prospectus to such investors. The Information Bulletin will also discuss any exemptive, no-action and interpretive relief granted by the Commission from any rules under the Act.

In addition, the Information Bulletin will reference that the Trust is subject to various fees and expenses described in the Registration Statement. The Information Bulletin will also disclose that the NAV for the Shares will be calculated shortly after 4:00 p.m. ET each trading day.

¹² NYSE Arca Equities Rule 9.2(a) (“Diligence as to Accounts”) provides that ETP Holders, before recommending a transaction, must have reasonable grounds to believe that the recommendation is suitable for the customer based on any facts disclosed by the customer as to his other security holdings and as to his financial situation and needs. Further, with a limited exception, prior to the execution of a transaction recommended to a non-institutional customer, ETP Holders shall make reasonable efforts to obtain information concerning the customer’s financial status, tax status, investment objectives, and any other information that they believe would be useful to make a recommendation. See Securities Exchange Act Release No. 54045 (June 26, 2006), 71 FR 37971 (July 3, 2006) (SR-PCX-2005-115).

¹³ See In the Matter of iShares, Inc., Investment Company Act Release No. 25623 (June 25, 2002), which permits dealers to sell Shares in the secondary market unaccompanied by a statutory prospectus when prospectus delivery is not required by the Securities Act of 1933. Any product description used in reliance on the Section 24(d) exemptive order will comply with all representations and conditions set forth in the order.

The Commission has granted the Funds an exemption from certain prospectus delivery requirements under Section 24(d) of the Investment Company Act of 1940 (“1940 Act”).¹⁴ Any product description used in reliance on the Section 24(d) exemptive order will comply with all representations made and all conditions contained in the Funds’ application for orders under the 1940 Act.¹⁵

In connection with the trading of the Funds, the Exchange would inform ETP Holders in an Information Circular of the special characteristics and risks associated with trading the Funds, including how the Funds are created and redeemed, the prospectus or product description delivery requirements applicable to the Funds, applicable Exchange rules, how information about the value of the underlying index is disseminated, and trading information.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act¹⁶ in general and Section 6(b)(5) of the Act¹⁷ in particular in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments and perfect the mechanisms of a free and open market and to protect investors and the public interest.

In addition, the proposed rule change is consistent with Rule 12f-5¹⁸ under the Act because it deems the Shares to be equity securities, thus rendering the Shares subject to the Exchange’s rules governing the trading of equity securities.

¹⁴ 15 U.S.C. 80a-24(d).

¹⁵ See In the Matter of iShares, Inc., Investment Company Act Release No. 25623 (June 25, 2002).

¹⁶ 15 U.S.C. 78f(b).

¹⁷ 15 U.S.C. 78f(b)(5).

¹⁸ 17 CFR 240.12f-5.

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

The Exchange does not believe that the proposed rule change will impose 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

The Exchange has neither solicited nor received written comments on the proposed rule change.

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-NYSEArca-2006-63 on the subject line.

Paper comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, Station Place, 100 F Street NE, Washington, DC 20549-1090.

All submissions should refer to File No. SR-NYSEArca-2006-63. 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 Room. Copies of such filing also will be available for inspection and copying at the principal offices of the Exchange. 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 No. SR-NYSEArca-2006-63 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 is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.¹⁹ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,²⁰ which requires that an exchange have rules designed, among other things, 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 believes that this proposal will benefit investors by increasing competition among markets that trade Shares of the Funds.

In addition, the Commission finds that the proposal is consistent with Section 12(f) of the Act,²¹ which permits an exchange to trade, pursuant to UTP, a security that is listed and

¹⁹ In approving this rule change, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

²⁰ 15 U.S.C. 78f(b)(5).

²¹ 15 U.S.C. 78l(f).

registered on another exchange.²² The Commission notes that it previously approved the listing and trading of the Shares on the NYSE.²³ The Commission also finds that the proposal is consistent with Rule 12f-5 under the Act,²⁴ which provides that an exchange shall not extend UTP to a security unless the exchange has in effect a rule or rules providing for transactions in the class or type of security to which the exchange extends UTP. The Exchange has represented that it meets this requirement because it deems the Shares to be an equity security, thus rendering trading in the Shares subject to the Exchange's existing rules governing the trading of equity securities.

The Commission further believes that the proposal is consistent with Section 11A(a)(1)(C)(iii) of the Act,²⁵ which sets forth Congress's finding that it is in the public interest and appropriate for the protection of investors and the maintenance of fair and orderly markets to assure the availability to brokers, dealers, and investors of information with respect to quotations for and transactions in securities. Quotations for and last sale information regarding the Shares are disseminated through the Consolidated Quotation System. Furthermore, a Value Calculator disseminates the value of IOPV every 15 seconds. Because of the importance of this information, if a Value Calculator ceases to maintain or to calculate the value of the IOPV or if the value of the index ceases to be widely available, NYSE Arca Equities Rule 7.34 would require the Exchange to cease trading the Shares.

²² Section 12(a) of the Act, 15 U.S.C. 78j(a), generally prohibits a broker-dealer from trading a security on a national securities exchange unless the security is registered on that exchange pursuant to Section 12 of the Act. Section 12(f) of the Act excludes from this restriction trading in any security to which an exchange "extends UTP." When an exchange extends UTP to a security, it allows its members to trade the security as if it were listed and registered on the exchange even though it is not so listed and registered.

²³ See NYSE Proposal, *supra* note 5.

²⁴ 17 CFR 240.12f-5.

²⁵ 15 U.S.C. 78k-1(a)(1)(C)(iii).

Finally, the Commission notes that, if the Shares should be delisted by NYSE, the original listing exchange, the Exchange would no longer have authority to trade the Shares pursuant to this order.

In support of this proposal, the Exchange has made the following representations:

1. The Exchange's surveillance procedures are adequate to address any concerns associated with the trading of the Shares on a UTP basis.
2. The Exchange will distribute an information circular to its ETP Holders prior to the commencement of trading of the Shares on the Exchange that explains the terms, characteristics, and risks of trading the Shares.
3. The Exchange will require ETP Holders to deliver a prospectus to investors purchasing newly issued Shares and will note this prospectus delivery requirement in the information circular.

This approval order is conditioned on the Exchange's adherence to these representations.

The Commission finds good cause for approving this proposal before the thirtieth day after the publication of notice thereof in the Federal Register. As noted previously, the Commission previously found that the listing and trading of the Shares on NYSE is consistent with the Act.²⁶ The Commission presently is not aware of any regulatory issue that should cause it to revisit that earlier finding or preclude the trading of the Shares on the Exchange pursuant to UTP. Therefore, accelerating approval of this proposal should benefit investors by creating, without undue delay, additional competition in the market for the Shares.

²⁶ See NYSE Proposal, supra note 5.

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,²⁷ that the proposed rule change (SR-NYSEArca-2006-63), as modified by Amendment Nos. 1 and 2, be and hereby is, approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.²⁸

Florence E. Harmon
Deputy Secretary

²⁷ 15 U.S.C. 78s(b)(2).

²⁸ 17 CFR 200.30-3(a)(12).