

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-55648; File No. SR-Amex-2007-09)

April 19, 2007

Self-Regulatory Organizations; American Stock Exchange LLC; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change as Modified by Amendment No. 1 Thereto Relating to the Listing and Trading of Options on Vanguard Emerging Markets ETF

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 19, 2007, the American Stock Exchange LLC (“Amex” or “Exchange”) 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 March 23, 2007. The Commission is publishing this notice and order to solicit comments on the proposal, as amended, from interested persons and to approve the proposed rule change, as modified by Amendment No. 1, on an accelerated basis.

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

The Exchange proposes to list and trade options (“Fund Options”) on the Vanguard Emerging Markets ETF. The text of the proposed rule change is available on the Amex’s Web site at <http://www.amex.com>, the Office of the Secretary, the Amex 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, the Exchange included statements concerning the purpose of, and basis for, the proposed rule change. The text of these statements may be

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 parts of such statements.

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

1. Purpose

The purpose of this rule change is to obtain approval to list for trading on the Exchange options on the Vanguard Emerging Markets ETF (the "Fund")(symbol: VWO) on a pilot basis for six (6) months to commence on the date of approval. Commentary .06 to Amex Rule 915 and Commentary .07 to Amex Rule 916, respectively (the "Listing Standards") establish the Exchange's initial listing and maintenance standards. The Listing Standards permit the Exchange to list funds structured as open-end investment companies (such as the Fund), unit investment trust ("UITs") or other similar entities, without having to file for approval with the Commission to list for trading options on such funds.³ The Exchange submits that the Fund meets substantially all of the Listing Standard requirements, and for the requirements that are not met, sufficient mechanisms exist that would provide the Exchange with adequate surveillance and regulatory information with respect to the Fund.

The Fund is an open-end investment company designed to hold a portfolio of securities which tracks the performance of the MSCI Emerging Markets Index (the "Index" or "Select Index")⁴. The Fund employs a "representative sampling" methodology to track the Index, which

³ Commentary .06 to Amex Rule 915 sets forth the initial listing and maintenance standards for shares or other securities ("Exchange-Traded Fund Shares") that are principally traded on a national securities exchange or through the facilities of a national securities exchange and reported as a national market security, and that represent an interest in a registered investment company organized as an open-end management investment company, a unit investment trust or other similar entity.

⁴ The Emerging Markets Index includes approximately 848 equity components of companies located in emerging markets around the world. As of February 28, 2007, the

means that the Fund invests in a representative sample of securities in the Index that have a similar investment profile as the Index.⁵ Securities selected by the Fund have aggregate investment characteristics (based on market capitalization and industry weightings), fundamental characteristics (such as return variability, earnings valuation and yield) and liquidity measures similar to those of the Index.

The Index provides exposure to 25 emerging market countries in Europe, Asia, Africa, and Latin America. As of February 28, 2007, the Emerging Markets Index consisted of companies representing Argentina, Brazil, Chile, China, Colombia, the Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Malaysia, Mexico, Morocco, Pakistan, Peru, the Philippines, Poland, Russia, South Africa, South Korea, Taiwan, Thailand, and Turkey. MSCI periodically adjusts the list of included countries to keep pace with the evolution in world markets (such adjustments made on a forward-looking basis, so past performance of the Emerging Markets Index always reflects actual country representation during the relevant period).

The Fund generally invests at least 95% of its assets in the common stocks included in the Index. In order to improve portfolio liquidity and give the Fund additional flexibility to comply with the requirements of the U.S. Internal Revenue Code and other regulatory

largest markets covered in the Index were South Korea, Taiwan, Brazil, China and Russia (which made up 15.7%, 12.4%, 10.5%, 10.5% and 10.0%, respectively, of the Index's market capitalization). MSCI (www.msci.com) calculates and maintains the Emerging Markets Index. The Index is a capitalization-weighted index whose component securities are adjusted for available float and must meet objective criteria for inclusion in the Index. The Index aims to capture 85% of the publicly available total market capitalization in each emerging market included in the Index. The Index is rebalanced quarterly, calculated in U.S. Dollars on a real time basis, and disseminated every 60 seconds during market trading hours.

⁵ As of February 28, 2007, the Fund was comprised of 863 securities and had total net assets of \$13.5 billion. OAO Gazprom ADR had the greatest individual weight at 4.16%. The aggregate percentage weighting of the top 10 securities in the Fund was 18.1%.

requirements and to manage future corporate actions and index changes in smaller markets, the Fund also has the authority to invest the remainder of its assets in securities that are not included in the Index or in ADRs and GDRs representing such securities. The Fund may invest up to 10% of its assets in other exchange-traded funds or registered management investment companies that seek to track the performance of equity securities of constituent countries of the Index. The Fund is not permitted to concentrate its investments (i.e., hold 25% or more of its total assets in the stocks of a particular industry or group of industries), except that, to the extent practicable, the Fund will concentrate to approximately the same extent that the Index concentrates in the stocks of such particular industry or group of industries. The Exchange believes that these requirements and policies prevent the Fund from being excessively weighted in any single security or small group of securities and significantly reduce concerns that trading in the Fund could become a surrogate for trading in unregistered securities.

Shares of the Fund (the "Fund Shares") are issued in exchange for an "in kind" deposit of a specified portfolio of securities, together with a cash payment, in minimum size aggregation size of 150,000 shares (each, a "Creation Unit"), as set forth in the Fund's prospectus. The Fund issues and sells Fund Shares in Creation Unit sizes through a principal underwriter on a continuous basis at the net asset value per share next determined after an order to purchase Fund Shares and the appropriate securities are received. Following issuance, Fund Shares are traded on an exchange like other equity securities, and equity trading rules apply. Likewise, redemption of Fund Shares is made in Creation Unit size and "in kind," with a portfolio of securities and cash exchanged for Fund Shares that have been tendered for redemption.

The Exchange notes that the maintenance listing standards set forth in Commentary .07 to Amex Rule 916 for open-end investment companies do not include criteria based on either the

number of shares or other units outstanding or on their trading volume. The absence of such criteria is justified on the ground that since it should always be possible to create additional shares or other interests in open-end investment companies at their net asset value by making an in-kind deposit of the securities that comprise the underlying index or portfolio, there is no limit on the available supply of such shares or interests. This, in turn, should make it highly unlikely that the market for listed, open-end investment company shares could be capable of manipulation, since whenever the market price for such shares departs from net asset value, arbitrage will occur. Similarly, since the Fund meets all of the requirements of the listing standards except as described below, the Exchange believes that the same analysis applies to the Fund.

The Exchange has reviewed the Fund and determined that it satisfies the listing standards except for the requirement set forth in Commentary .06(b)(i) to Amex Rule 915, which requires the Fund to meet the following condition: "any non-U.S. component stocks in the index or portfolio on which the Fund Shares are based that are not subject to comprehensive surveillance agreements do not in the aggregate represent more than 50% of the weight of the index or portfolio." Currently, the Exchange has in place comprehensive surveillance agreements covering 48.89% of the stocks comprising the Index. One of the foreign exchanges on which component securities of the Fund are traded and with which the Exchange does not have a surveillance agreement is the Bolsa Mexicana de Valores ("Bolsa"). The percentage of the weight of the Fund represented by these securities is 6.3%.

The Exchange notes that the Commission recently approved the listing and trading of options on the iShares MSCI Emerging Markets Index Fund on a pilot basis and permitted the Exchange to rely on the memorandum of understanding executed by the Commission and the

NVBV, dated as of October 18, 1990 (the “MOU”) for purposes of satisfying its surveillance and regulatory responsibilities for the component securities in the Fund that trade on the Bolsa until the Exchange is able to secure a surveillance agreement with the Bolsa.

In connection with the listing and trading of options on the iShares MSCI Emerging Markets Index Fund, the Exchange contacted the Bolsa with a request to enter into a comprehensive surveillance sharing agreement. Although the officials at the Bolsa expressed an interest to enter into such comprehensive surveillance sharing agreement (a “CSSA”), to date, the Exchange has been unable to do so. As a result of being unable to secure a CSSA with the Bolsa, the Exchange requested permission to rely for a pilot period on the MOU and the Exchange agreed to use its best efforts during this period to secure a CSSA with the Bolsa, which would reflect the following: (i) express language addressing market trading activity, clearing activity, and customer identity; (ii) Bolsa’s reasonable ability to obtain access to and produce requested information; and (iii) based on the comprehensive surveillance agreement and other information provided by Bolsa, the absence of existing rules, laws, or practices that would impede the Exchange from foreign information relating to market activity, clearing activity, or customer identity, or, in the event such rules, laws, or practices exist, they would not materially impede the production of customer or other information. We note that in the past the Commission has relied on a memorandum of understanding between the relevant regulators where it would be impossible to secure an effective CSSA.⁶

The Exchange notes that the Commission has been willing to allow an exchange to rely on a memorandum of understanding entered into between regulators in the event that the exchanges themselves cannot enter into a CSSA. For example, the Exchange previously

⁶ See Securities Exchange Act Release No. 40761 (December 8, 1998), 63 FR 70952 (December 22, 1998)(the “New Product Release”), at note 101.

attempted to enter into a surveillance agreement with Bolsa as part of seeking approval to list and trade options on the Mexico Index.⁷ Additionally, the Chicago Board Options Exchange, Incorporated (the “CBOE”) also previously attempted to enter into a surveillance agreement with Bolsa at or about the time when the CBOE sought approval to list for trading options on the CBOE Mexico 30 Index in 1995, which was comprised of stocks trading on Bolsa.⁸ Since, in both instances, Bolsa was unable to provide a surveillance agreement, the Commission previously allowed the Exchange and the CBOE to rely on the MOU. The Commission noted in the respective approval orders that in cases where it would be impossible to secure an agreement, the Commission relied in the past on surveillance sharing agreements between the relevant regulators. The Commission further noted in the respective approval orders that pursuant to the terms of the MOU, it was the Commission's understanding that both the Commission and the CNBV could acquire information from and provide information to the other similar to that which would be required in a surveillance sharing agreement between exchanges, and therefore, should the Exchange or the CBOE need information on Mexican trading in the component securities of the Mexico Index or the CBOE Mexico 30 Index, the Commission could request such information from the CNBV under the MOU.

The Exchange is also aware that the Commission recently permitted the listing and trading of iPath Notes linked to the MSCI India Equities Index without a CSSA between the NYSE and the appropriate Indian marketplaces.⁹

⁷ See Securities Exchange Act Release No. 34500 (August 8, 1994) 50 FR 41534 (August 12, 1994).

⁸ See New Product Release; supra note 6.

⁹ See Securities Exchange Act Release No. 54944 (December 15, 2006), 71 FR 77432 (December 26, 2006).

The practice of relying on surveillance agreements between regulators when a foreign exchange was unable or unwilling to provide an information sharing agreement was affirmed by the Commission in the Commission's New Product Release. The Commission noted in the New Product Release that if securing an information sharing agreement is not possible, an exchange should contact the Commission prior to listing a new derivative securities product. The Commission also noted that the Commission may determine instead that it is appropriate to rely on a memorandum of understanding between the Commission and the foreign regulator.

Currently, the Exchange has in place comprehensive surveillance agreements covering 48.89% of the stocks comprising the Index. In addition, the Index also complies with Commentary .06(b)(ii) and (iii) to Rule 915 which provides that component stocks of a single country that is not subject to comprehensive surveillance sharing be limited to less than 20% of the weight of the Index and component stocks in any two (2) countries may not represent 33% or more of the weight of the Index if such countries are not subject to comprehensive surveillance agreements. Because the Index otherwise complies with the requirements of Commentary .06(b) (except for the 50% test), the Exchange submits that the proposal is consistent with the protection of investors and the promotion of competition in the marketplace. A similar product, options on the iShares Emerging Markets Index Fund (Symbol: EEM) are currently listed and traded on both the Amex and CBOE. The underlying index for VWO and EEM are exactly the same, i.e. the MSCI Emerging Market Index.

Given the Exchange's inability to enter into a CSSA with the Bolsa, the Exchange requests permission to rely on a pilot basis on the MOU entered into between the Commission and the CNBV for purposes of satisfying its surveillance and regulatory responsibilities for the component securities in the Fund that trade on the Bolsa until the Exchange is able to secure a

CSSA with the Bolsa. The Exchange believes this request is reasonable because the Commission has already acknowledged that the MOU permits both the Commission and the CNBV to acquire information from and provide information to the other, which is similar to that which would be required in a surveillance sharing agreement between exchanges.

Additionally, if the Commission approves the listing and trading of the Fund on a pilot basis, during this period, the Exchange will continue its efforts to obtain a CSSA with the Bolsa. The Exchange also will update the Commission on the status of its discussions with the Bolsa. The Commission's approval of this request would otherwise render the Fund compliant with all of the Listing Standards.¹⁰ The Exchange believes that listing and trading options on VWO will benefit investors and the marketplace.

2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act¹¹ in general and furthers the objectives of Section 6(b)(5) of the Act¹² in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, 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; and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers, or to regulate by virtue of

¹⁰ The Exchange notes that the component securities of the Fund change periodically. Therefore, the Exchange may in fact have in place surveillance agreements that would otherwise cover the percent weighting requirements set forth in the Listing Standards for securities not trading on Bolsa. In this event, the Fund would satisfy all of the Listing Standards and reliance on an approval order for the Fund would be unnecessary.

¹¹ 15 U.S.C. 78f(b).

¹² 15 U.S.C. 78f(b)(5).

any authority conferred by the Act matters not related to the purpose of the Act or the administration of the Exchange.

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

The proposed rule change does not 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

No written comments were solicited or received with respect to 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 Number SR-Amex-2007-09 on the subject line.

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-Amex-2007-09. 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 Number SR-Amex-2007-09 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 the 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.

¹³ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act, ¹⁴ 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 listing of the Fund Options does not satisfy Commentary .06(b)(i) to Amex Rule 915, which requires the Fund to meet the following condition: "any non-U.S. component stocks in the index or portfolio on which the Fund Shares are based that are not subject to comprehensive

¹³ 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).

¹⁴ 15 U.S.C. 78f(b)(5).

surveillance agreements do not in the aggregate represent more than 50% of the weight of the index or portfolio." Although the Commission has been willing to allow an exchange to rely on a memorandum of understanding entered into between regulators where the listing SRO finds it impossible to enter into an information sharing agreement, it is not clear that that Amex has exhausted all avenues of discussion with foreign markets, including Bolsa, in order to obtain such an agreement.

Consequently, the Commission has determined to approve Amex's listing and trading of Fund Options for a six-month pilot period during which time Amex may rely on the MOU with respect to Fund components trading on Bolsa. During this period, the Exchange has agreed to use its best efforts to obtain a comprehensive surveillance agreement with Bolsa, which shall reflect the following: (1) Express language addressing market trading activity, clearing activity, and customer identity; (2) the Bolsa's reasonable ability to obtain access to and produce requested information; and (3) based on the CSSA and other information provided by the Bolsa, the absence of existing rules, law or practices that would impede the Exchange from obtaining foreign information relating to market activity, clearing activity, or customer identity, or in the event such rules, laws, or practices exist, they would not materially impede the production of customer or other information.

The Exchange also represents that it will regularly update the Commission on the status of its negotiations with Bolsa. In approving the proposed rule change, the Commission notes that Amex currently has in place surveillance agreements with foreign exchanges that cover 48.89% of the securities in the Fund and that the Index upon which the Fund is based appears to be a broad-based index. The Commission further notes that it recently has approved a proposed

rule change by another SRO to list and trade options on the same product on a six-month pilot basis.¹⁵

The Exchange has requested accelerated approval of the proposed rule change. The Commission finds good cause, consistent with Section 19(b)(2) of the Act,¹⁶ for approving this proposed rule change before the thirtieth day after the publication of notice thereof in the Federal Register because it will enable the Exchange to immediately consider listing and trading the Fund Options, similar to products already traded on another SRO, and because it does not raise any new regulatory issues. The Exchange has agreed to use its best efforts to obtain a comprehensive surveillance agreement with the Bolsa during a six-month pilot period in which the Exchange will rely on the MOU.

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹⁷ that the proposed rule change (SR-Amex-2007-09), as modified by Amendment No. 1, be, and it hereby is approved on an accelerated basis for a six-month pilot period ending on October 19, 2007.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁸

Florence E. Harmon
Deputy Secretary

¹⁵ Securities Exchange Act Release No. 55491 (March 19, 2007), 72 FR 14145 (March 26, 2007).

¹⁶ 15 U.S.C. 78s(b)(2).

¹⁷ Id.

¹⁸ 17 CFR 200.30-3(a)(12).