

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-55736; File No. SR-CBOE-2007-37)

May 10, 2007

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change as Modified by Amendment No. 1 to Trade the iShares MSCI Index Funds and the S&P Europe 350 Index Fund Pursuant to UTP

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on April 20, 2007, the Chicago Board Options Exchange, Incorporated (the “Exchange” or “CBOE”), 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. On May 7, 2007, the Exchange filed Amendment No. 1 to the proposed rule change. This notice and order provides notice of the proposed rule change, as amended, and approves the proposal on an accelerated basis.

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

The Chicago Board Options Exchange, Incorporated proposes to trade on its subsidiary, the CBOE Stock Exchange (“CBSX”), shares of 15 international exchange-traded funds (“ETFs” or “Funds”) pursuant to unlisted trading privileges (“UTP”). The text of the proposed rule change is available on the Exchange’s Web site

(<http://www.cboe.org/Legal>), at the Exchange’s principal office, and at the Commission's Public Reference Room.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

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

The purpose of the proposed rule change is to trade on CBSX shares of 15 international ETFs (the "Shares") pursuant to UTP. These Funds are:

- iShares MSCI Australia Index Fund
- iShares MSCI Brazil Index Fund
- iShares MSCI EAFE Index Fund
- iShares MSCI Emerging Markets Index Fund
- iShares MSCI Germany Index Fund
- iShares MSCI Hong Kong Index Fund
- iShares MSCI Malaysia Index Fund
- iShares MSCI Mexico Index Fund
- iShares MSCI Pacific ex-Japan Index Fund
- iShares MSCI Singapore Index Fund
- iShares MSCI South Africa Index Fund
- iShares MSCI South Korea Index Fund
- iShares MSCI Taiwan Index Fund
- iShares MSCI United Kingdom Index Fund
- iShares S&P Europe 350 Index Fund

The Exchange deems the Shares to be equity securities, thus rendering trading in the Shares subject to existing CBSX rules governing the trading of equity securities.

a. Description of the Funds

The following funds are listed on the American Stock Exchange ("Amex"):

- iShares MSCI Australia Index Fund
- iShares MSCI Brazil Index Fund
- iShares MSCI Germany Index Fund
- iShares MSCI Hong Kong Index Fund
- iShares MSCI Malaysia Index Fund
- iShares MSCI Mexico Index Fund
- iShares MSCI Singapore Index Fund
- iShares MSCI South Korea Index Fund
- iShares MSCI Taiwan Index Fund
- iShares MSCI United Kingdom Index Fund
- iShares S&P Europe 350 Index Fund

The following funds are listed on the New York Stock Exchange ("NYSE"):<sup>3</sup>

- iShares MSCI EAFE Index Fund
- iShares MSCI Emerging Markets Index Fund
- iShares MSCI Pacific ex-Japan Index Fund
- iShares MSCI South Africa Index Fund

In addition to being listed on the Amex or NYSE, the Shares<sup>4</sup> are traded on those and

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<sup>3</sup> Effective February 16, 2007, the iShares MSCI Index Funds for EAFE, Emerging Markets, Pacific ex-Japan, and South Africa transferred their primary listing to the NYSE and are no longer listed on Amex. See Supplement dated February 16, 2007 to the Prospectus dated January 1, 2007 for the iShares MSCI Series, and Supplement dated February 16, 2007 to the Prospectus dated December 1, 2006 for the iShares Goldman Sachs Series and the iShares MSCI EAFE Series.

<sup>4</sup> The Funds (with the exception of the MSCI EAFE and S&P Europe 350 Funds) were formerly known as World Equity Benchmark Shares or WEBS. An initial series of WEBS, including the iShares MSCI Australia, Germany, Hong Kong, Malaysia, Mexico, Singapore, and United Kingdom Index Funds were initially approved for listing and trading on Amex in 1996. See Securities Exchange Act Release No. 36947 (March 8, 1996), 61 FR 10606 (March 14, 1996) (SR-Amex-95-43). Additional WEBS series were approved for listing and trading in 2000, including iShares MSCI Brazil, iShares MSCI Taiwan, iShares MSCI South Africa and iShares MSCI South Korea. See Securities Exchange Act Release No. 42748 (May 2, 2000), 65 FR 30155 (May 10, 2000) (SR-Amex-98-49). iShares MSCI EAFE and iShares S&P Europe 350, issued by iShares Trust, were approved for Amex listing and trading in, respectively, in 2001. See Securities Exchange Release No. 44700 (August 14, 2001), 66 FR 43927 (August 21, 2001) (SR-Amex-2001-34); Securities Exchange Act Release No. 42786 (May 15, 2000), 65 FR 33586 (May 24, 2000) (SR-Amex-99-49) (collectively, "Listing Approval Orders").

other securities exchanges and in the over-the-counter market.<sup>5</sup> The information below is intended to provide a description of how the Shares were created and are traded.<sup>6</sup>

The Shares are issued by iShares, Inc., except for iShares MSCI EAFE and S&P Europe 350, which are issued by iShares Trust. iShares, Inc. and iShares Trust are open-ended management investment companies. Each Fund seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the applicable underlying index. The Funds utilize representative sampling to invest in a representative sample of securities in the applicable underlying index. Barclays Global Fund Advisors (“BGFA”), a subsidiary of Barclays Global Investors, N.A. (“BGI”), is the investment advisor for each Fund. BGI is a wholly owned indirect subsidiary of Barclays Bank PLC of the United Kingdom. BGFA and its affiliates are not affiliated with the index providers (MSCI and Standard & Poor’s). Investors Bank and Trust Company serves as administrator, custodian, and transfer agent for the Funds, and SEI Investments Distribution Co. is distributor for the Funds. The distributor is not affiliated with BGFA.

b. MSCI and S&P Indexes

The MSCI Indexes are calculated by MSCI for each trading day in the applicable

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<sup>5</sup> See, e.g., Securities Exchange Act Release No. 50142 (August 3, 2004), 69 FR 48539 (August 10, 2004) (SR-NYSE-2004-27) (approving trading of the Shares pursuant to UTP).

<sup>6</sup> Much of the information in this filing was taken from the Prospectuses and Statements of Additional Information of iShares, Inc. dated January 1, 2007, the Prospectus of iShares S&P Europe 350, dated August 1, 2006, the Prospectus of iShares Trust MSCI EAFE, dated December 1, 2006, and the Web sites of Amex ([www.amex.com](http://www.amex.com)), the NYSE ([www.nyse.com](http://www.nyse.com)), and iShares ([www.ishares.com](http://www.ishares.com)). Fund information relating to net asset value (“NAV”), returns, dividends, component stock holdings, and the like is updated on a daily basis on the Web sites.

foreign exchange markets based on official closing prices in such exchange markets. For each trading day, MSCI publicly disseminates the MSCI Index values for the previous day's close. The S&P Europe 350 Index is calculated by Standard & Poor's ("S&P"), and is publicly disseminated by S&P for the previous day's close. The indexes are reported periodically in major financial publications, and the intra-day values of the Indexes, disseminated every 15 seconds throughout the trading day, are available through vendors of financial information as further described in the Listing Approval Orders.

c. Tracking Error

The Funds have chosen to pursue a representative sampling strategy that, by its very nature, entails some risk of tracking error. (It should also be noted that Fund expenses, the timing of cash flows, and other factors all contribute to tracking error.) The Web site for the Funds, [www.iShares.com](http://www.iShares.com), contains detailed information on the performance and tracking error for each Fund.

d. Availability of Information Regarding Funds

The Web site for the Funds ([www.iShares.com](http://www.iShares.com)) contains the prior business day's NAV and the reported closing price, and a calculation of the premium or discount of such price against NAV; and data in chart format displaying the frequency distribution of discounts and premiums of the daily closing price against the NAV.

The intra-day values of the indexes will be disseminated every 15 seconds throughout the trading day by organizations authorized by the index providers and are available through major financial information vendors.

The intraday indicative value ("IIV") of each Fund will be disseminated every 15 seconds throughout the trading day by the national securities exchange on which the

Fund is listed or by other information providers or market data vendors. The IIV likely will not reflect the value of all securities included in the applicable indexes. In addition, the IIV will not necessarily reflect the precise composition of the current portfolio of securities held by the Funds at a particular moment. The IIV disseminated throughout the trading day should not be viewed as a real-time update of the NAV of the Funds, which is calculated only once a day. It is expected, however, that during the trading day the IIV will closely approximate the value per share of the portfolio of securities for the Funds, except under unusual circumstances.

For the iShares MSCI Australia, Hong Kong, Malaysia, Pacific ex-Japan, Singapore, South Korea, and Taiwan Funds, there is no overlap in trading hours between the foreign and U.S. markets. Therefore, for each of these Funds, the IIV calculator utilizes closing prices (denominated in the applicable foreign currency) in the principal foreign market for securities in the applicable Fund's portfolio and converts the price to U.S. dollars. This IIV is updated every 15 seconds, during the trading hours of the national securities exchange on which the Fund is listed, to reflect changes in currency exchange rates between the U.S. dollar and the applicable foreign currency. The IIV also includes the estimated cash component for each Fund.

For the iShares MSCI Brazil, EAFE, Germany, Mexico, South Africa, and United Kingdom Funds, and the S&P Europe 350 Fund, there is an overlap in trading hours between the foreign and U.S. markets. Therefore, the IIV calculator updates the applicable IIV every 15 seconds to reflect price changes in the applicable foreign market or markets and converts such prices into U.S. dollars based on the currency exchange rate. When a relevant foreign market is closed but the U.S. markets are open, the IIV is

updated every 15 seconds to reflect changes in currency exchange rates after the foreign market closes. The IIV also includes the applicable cash component for each Fund.

e. Information Circular

In connection with the trading of the Shares, the Exchange will inform members and member organizations in an Information Circular of certain characteristics of certain Funds, as discussed below. The circular will discuss the special characteristics and risks of trading this type of security. Specifically, the circular, among other things, will discuss what the Funds are, how they are created and redeemed, the requirement that members and member firms deliver a prospectus or Product Description to investors purchasing Shares prior to or concurrently with the confirmation of a transaction, applicable Exchange rules, dissemination information, trading information, and the applicability of suitability rules.<sup>7</sup>

In addition, the circular will note Exchange responsibilities, including that before an Exchange member, member organization, or employee thereof recommends a transaction in the Shares, a determination must be made that the recommendation is in compliance with all applicable Exchange and federal rules and regulations. The circular will also discuss exemptive, no-action, and interpretive relief granted by the Commission from Section 11(d)(1) and certain rules under the Act, including Rule 10a-1, Rule 10b-10, Rule 14e-5, Rule 10b-17, Rule 11d1-2, Rules 15c1-5 and 15c1-6, and Rules 101 and 102 of Regulation M under the Act.

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<sup>7</sup> The Commission issued an order (“Order”) granting the Funds an exemption from Section 24(d) of the Investment Company Act of 1940. See, e.g., Investment Company Act Release No. 25623 (June 25, 2002). 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 Application for the Order.

The NAV for the iShares MSCI Malaysia, South Korea, and Taiwan Index Funds will be calculated every day that the listing exchange is open for trading, normally as of 10:00 a.m. Central Time. This is in contrast to the other Funds, for which the NAV is normally calculated at 3:00 p.m. Central Time.

f. Other Issues

i. Surveillance Procedures

The Exchange intends to utilize its existing surveillance procedures applicable to equity securities to monitor trading in the Shares. The Exchange represents that these procedures are adequate to monitor Exchange trading of the Shares.

ii. Trading Hours

The trading hours for the Shares on CBSX will be 8:15 a.m. until 3:15 p.m. Central Time (unless the value of a Fund is not being calculated and widely disseminated before 8:30 a.m., in which case trading in that Fund will begin at 8:30 a.m.; and unless the original listing exchange closes trading of a Fund at 3:00 p.m., in which case trading in that Fund will end at 3:00 p.m.).

iii. Trading Halts

The Exchange proposes to modify its Rule 52.3 to provide that (i) from 8:15 to 8:30 Central Time, if a security described in Rules 54.1, 54.2, and 54.3 (an "ETF") (the Shares are among the securities covered by this provision) begins trading on CBSX and subsequently a temporary interruption occurs in the calculation or wide dissemination of the IIV or the value of the underlying index, as applicable, to such ETF, by a major market data vendor, CBSX may continue to trade the ETF for the remainder of the 8:15 to 8:30 session; and, (ii) during normal market hours, if a temporary interruption occurs



in the calculation or wide dissemination of the applicable IIV or value of the underlying index by a major market data vendor and the listing market halts trading in the ETF, CBSX, upon notification by the listing market of such halt due to such temporary interruption, also shall immediately halt trading in the ETF on CBSX.

2. Statutory Basis

CBOE believes that the proposed rule change is consistent with the Act and the rules and regulations thereunder applicable to a national securities exchange.

Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>8</sup> requirements that an exchange have rules that are designed 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 to protect investors and the public interest. In addition, CBOE believes that the proposal is consistent with Rule 12f-5 under the Act<sup>9</sup> because it deems each Share to be an equity security, thus rendering trading in each Fund subject to the Exchange's existing rules governing the trading of equity securities.<sup>10</sup>

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

CBOE does not believe that the proposed rule change will impose any burden on competition 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 neither solicited nor received comments on the proposal.

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<sup>8</sup> 15 U.S.C. 78(f)(b)(5).

<sup>9</sup> 17 CFR 240.12f-5.

<sup>10</sup> See e-mail dated May 8, 2007 from Brian Jung, Law Clerk, CBOE, to Geoffrey Pemble, Special Counsel, Division of Market Regulation, Commission.

### 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](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2007-37 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-CBOE-2007-37. 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 office 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-CBOE-2007-37 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

After careful review, the Commission finds that the proposed rule change, as amended, is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.<sup>11</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>12</sup> 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 should benefit investors by increasing competition among markets that trade the Shares.

In addition, the Commission finds that the proposal is consistent with Section 12(f) of the Act,<sup>13</sup> which permits an exchange to trade, pursuant to UTP, a security that is listed and registered on another exchange.<sup>14</sup> The Commission notes that it previously

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<sup>11</sup> In approving this rule change, the Commission notes that it has considered the proposal's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>12</sup> 15 U.S.C. 78f(b)(5).

<sup>13</sup> 15 U.S.C. 78l(f).

<sup>14</sup> Section 12(a) of the Act, 15 U.S.C. 78l(a), generally prohibits a broker-dealer from trading a security on a national securities exchange unless the security is

approved the listing and trading of each of the Shares on either Amex or the NYSE.<sup>15</sup> The Commission also finds that the proposal is consistent with Rule 12f-5 under the Act,<sup>16</sup> 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 equity securities, 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,<sup>17</sup> which sets forth Congress' 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 facilities of the CTA and the Consolidated Quotation System. In addition, the IIV of each Fund is disseminated every 15 seconds throughout the trading day by the national securities exchange on which the Fund is listed or by other information providers or market data vendors.

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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.

<sup>15</sup> See *supra* notes 3-5.

<sup>16</sup> 17 CFR 240.12f-5.

<sup>17</sup> 15 U.S.C. 78k-1(a)(1)(C)(iii).

Furthermore, the Commission believes that the proposal is reasonably designed to preclude trading of the Shares when transparency is impaired. New CBOE Rule 52.3 sets forth trading halt procedures when CBOE trades an ETF pursuant to UTP. Under this rule, if the listing market halts trading when the IIV is not being calculated or disseminated, CBOE also would halt trading in the Shares. This rule is substantially similar to those recently adopted by other exchanges and found by the Commission to be consistent with the Act.<sup>18</sup>

The Commission notes that, if the Shares should be delisted by the listing market, 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 properly monitor Exchange trading of the Shares and to deter and detect violations of Exchange rules.
2. Prior to the commencement of trading, the Exchange would inform its members and member organizations in an Information Circular of the special characteristics and risks associated with trading the Shares.
3. The Information Circular would include the requirement that members and member firms deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction.

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,

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<sup>18</sup> See e.g., NYSE Arca Equities Rule 7.34; Securities Exchange Act Release No. 54997 (December 21, 2006), 71 FR 78501 (December 29, 2006).

the Commission previously found that the listing and trading of the Shares on either Amex or the NYSE is consistent with the Act. The Commission presently is not aware of any regulatory issue that should cause it to revisit that finding or would 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.

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>19</sup> that the proposed rule change (SR-CBOE-2007-37), as modified by Amendment No. 1 thereto, be and it hereby is, approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>20</sup>

Florence E. Harmon  
Deputy Secretary

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<sup>19</sup> 15 U.S.C. 78s(b)(2).

<sup>20</sup> 17 CFR 200.30-3(a)(12).