

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56696; File No. SR-NYSEArca-2007-110)

October 24, 2007

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Proposed Rule Change
Relating to Certain Modifications to the Initial Listing and Trading Standards for Equity Index-
Linked Securities

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 October 18, 2007, NYSE Arca, Inc. (“NYSE Arca” or “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, II, and III below, which Items have been substantially prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend NYSE Arca Equities Rule 5.2(j)(6)(B)(I) to permit the listing and trading of Equity Index-Linked Securities³ where the underlying index consists, in whole or in part, of (1) securities of closed-end management investment companies (“Closed-End Fund Securities”) or (2) investment company units (“ETF Securities”), which, in each case, are registered under the Investment Company Act of 1940 (the “1940 Act”) and listed on a national securities exchange. In addition, the Exchange proposes to amend NYSE Arca Equities

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ NYSE Arca Equities Rule 5.2(j)(6) defines Equity Index-Linked Securities as securities that provide for the payment at maturity of a cash amount based on the performance of an underlying index or indexes of equity securities, also referred to as the “Equity Reference Asset.” See NYSE Arca Equities Rule 5.2(j)(6).

Rule 5.2(j)(6)(B)(I) to provide for a limited exception, subject to certain proposed conditions, to one of the initial listing standards related to the eligibility of component securities comprising the index underlying Equity Index-Linked Securities. The text of the proposed rule change is available at the Exchange, the Commission’s Public Reference Room, and www.nyse.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 IV 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 Exchange proposes to amend NYSE Arca Equities Rule 5.2(j)(6)(B)(I) to permit the listing and trading of Equity Index-Linked Securities where the underlying index consists in whole or in part of Closed-End Fund Securities or ETF Securities, which, in each case, are registered under the 1940 Act and are listed on national securities exchange. NYSE Arca Equities Rule 5.2(j)(6)(B)(I) currently permits the Exchange to list and trade, pursuant to Rule 19b-4(e) under the Act,⁴ Equity Index-Linked Securities if, among other requirements, all

⁴ See 17 CFR 240.19b-4(e). Rule 19b-4(e) provides that the listing and trading of a new derivative securities product by a self-regulatory organization (“SRO”) shall not be deemed a proposed rule change, pursuant to paragraph (c)(1) of Rule 19b-4, if the Commission has approved, pursuant to Section 19(b) of the Act (15 U.S.C. 78s(b)), the SRO’s trading rules, procedures, and listing standards for the product class that would include the new derivative securities product, and the SRO has a surveillance program for such product class.

component securities included in the underlying index are either: (1) securities (other than foreign country securities and American Depositary Receipts (“ADRs”)) that are (a) issued by a reporting company under the Act that is listed on a national securities exchange and (b) an “NMS stock,” as defined in Rule 600 of Regulation NMS;⁵ or (2) foreign country securities or ADRs, subject to certain limitations. The Exchange proposes to amend Rule 5.2(j)(6)(B)(I) to include Closed-End Fund Securities and ETF Securities that are NMS stocks listed on national securities exchanges as components, in whole or in part, in any index underlying an issuance of Equity Index-Linked Securities. The Exchange believes that trading in exchange-listed Closed-End Fund Securities and ETF Securities is subject to the same level of regulation as exchange-listed equity securities. In addition, Closed-End Fund Securities and ETF Securities trade on the same exchange platforms as equity securities registered under the Act and are subject to the same exchange trading rules as equity securities. As such, the Exchange believes that it is appropriate to permit their inclusion as components of indexes underlying Equity Index-Linked Securities.

The Exchange also proposes to amend NYSE Arca Equities Rule 5.2(j)(6)(B)(I)(1)(b)(v) to incorporate a limited exception to the requirement that 90% of the index’s numerical value and at least 80% of the total number of component securities underlying an Equity Reference Asset must meet the then current criteria for standardized options trading set forth in NYSE Arca Rule 5.3. The Exchange proposes that an underlying index would not be subject to such requirement if (1) no underlying component security represents more than 10% of the dollar weight of such index and (ii) such index has a minimum of 20 component securities.

⁵ See 17 CFR 242.600(b)(47).

All of the options exchanges apply the same criteria to securities underlying exchange-traded options.⁶ These criteria relate primarily to the distribution and trading volume of the securities underlying an option⁷ and, as such, the Exchange believes that such criteria are duplicative of the minimum market capitalization and trading volume requirements for securities underlying Equity Index-Linked Securities set forth in NYSE Arca Equities Rule 5.2(j)(6)(B)(I)(1)(b)(i) and (ii), respectively. The Exchange notes that the current requirement of NYSE Arca Equities Rule 5.2(j)(6)(B)(I)(1)(b)(ii) that relates to minimum trading volume for each component security is more stringent than the trading volume requirement related to options trading.⁸ Notwithstanding the foregoing, while a significant number of listed equity securities meet the minimum market capitalization and trading volume requirements for components of equity indexes under NYSE Arca Equities Rule 5.2(j)(6), the Exchange represents that many do not meet the current criteria for standardized options trading. The Exchange believes that the explicit market capitalization and trading volume requirements of NYSE Arca Equities Rule 5.2(j)(6)(B)(I)(1)(b)(i) and (ii), respectively, are sufficient to ensure that any component security

⁶ See, e.g., Rule 1009 of the Philadelphia Stock Exchange, Inc.; Rule 5.3 of the Chicago Board Options Exchange, Incorporated; Rule 5.3 of NYSE Arca; and Rule 502 of the International Securities Exchange, LLC.

⁷ The rules generally require a minimum of 7,000,000 publicly-held shares, 2,000 holders, a trading volume of at least 2,400,000 shares in the preceding 12 months, and a market price per share of the underlying security of at least \$3.00 per share for securities that are “covered securities,” as defined in Section 18(b)(1) of the Securities Act of 1933 (15 U.S.C. 77r(b)(1)), and a market price per share of the underlying security of at least \$7.50 for securities that are not “covered securities.”

⁸ NYSE Arca Equities Rule 5.2(j)(6)(B)(I)(1)(b)(ii) requires that each component security must have trading volume in each of the last six months or not less than 1,000,000 shares per month, except that for each of the lowest dollar weighted component securities in the index that, in the aggregate, account for no more than 10% of the dollar weight of the index, the trading volume shall be at least 500,000 shares per month in each of the last six months. In contrast, the options criteria for underlying securities generally require a

that any component security comprising an Equity Reference Asset underlying a series of Equity Index-Linked Securities will have an adequate liquid trading market. In addition, the Exchange believes that, by requiring that both proposed conditions to NYSE Arca Equities Rule 5.2(j)(6)(B)(I)(1)(b)(v) (i.e., enhancing concentration limits for component securities and increasing the minimum number of component securities) be met in order to avail of the proposed exemption to such rule, the proposal would significantly reduce the possibility of manipulation of the index. Based on the foregoing, the Exchange believes that the protection of requiring such securities to be qualified for options trading is unnecessary.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,⁹ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹⁰ in particular, in that it is designed 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.

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

The Exchange believes the proposed rule change will impose no burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

minimum trading volume (in all markets in which the underlying security is traded) of 2,400,000 shares in the preceding twelve months, as stated above.

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

The Exchange states that no written comments were solicited or received with respect to the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which NYSE Arca consents, the Commission will:

- A. by order approve such proposed rule change, or
- B. institute proceedings to determine whether the proposed rule change should be disapproved.

IV. 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-NYSEArca-2007-110 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-NYSEArca-2007-110. 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, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the 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-

NYSEArca-2007-110 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹¹

Nancy M. Morris
Secretary

¹¹ 17 CFR 200.30-3(a)(12).