

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56218; File No. SR-Amex-2007-74)

August 7, 2007

Self-Regulatory Organizations; American Stock Exchange LLC; Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto Relating to the Listing and Trading of Shares of Funds of the Rydex ETF Trust

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 July 13, 2007, the American Stock Exchange LLC (“Amex” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change (“Exchange Notice”) as described in Items I, II, and III below, which Items have been substantially prepared by the Exchange. On July 31, 2007, Amex submitted Amendment No. 1 to the proposed rule change. The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

The Exchange proposes to list and trade the shares (the “Shares”) of forty-five funds of the Rydex ETF Trust (the “Trust”)³ based on numerous domestic securities indexes. The text of the proposed rule change is available at Amex, the Commission’s Public Reference Room, and www.amex.com.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ The Trust is registered as a business trust under the Delaware Corporate Code.

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**

Amex Rules 1000A–AEMI and 1001A - 1005A provide standards for the listing of Index Fund Shares, which are securities issued by an open-end management investment company for exchange trading. These securities are registered under the Investment Company Act of 1940 (“1940 Act”), as well as under the Act. Index Fund Shares are defined in Amex Rule 1000A–AEMI(b)(1) generally as securities based on a portfolio of stocks or fixed income securities that seek to provide investment results that correspond generally to the price and yield of a specified foreign or domestic stock index or fixed income securities index. Amex Rule 1000A–AEMI(b)(2) permits the Exchange to list and trade Index Fund Shares that seek to provide investment results that exceed the performance of an underlying securities index by a specified multiple or that seek to provide investment results that correspond to a specified multiple of the inverse or opposite of the index’s performance.⁴

⁴ See Amex Rule 1000A – AEMI(b)(2)(iii) and Commentary .02 thereto (providing that the listing and trading of Index Fund Shares under paragraph (b)(2) thereof cannot be approved by the Exchange pursuant to Rule 19b-4(e) under the Act (17 CFR 240.19b-4(e)).

The Exchange proposes to list under Amex Rule 1000A–AEMI the Shares of forty-five new funds of the Trust that are designated as the Rydex Leveraged Funds (the “Leveraged Funds”), Rydex Inverse Funds (the “Inverse Funds”), and Rydex Leveraged Inverse Funds (the “Leveraged Inverse Funds,” and together with the Leveraged Funds and Inverse Funds, collectively, the “Funds”). Each of the Funds will have a distinct investment objective by attempting, on a daily basis, to correspond to a specified multiple of the performance, or the inverse performance, of a particular equity securities index as described below.

The Funds will be based on the following benchmark indexes: (1) the S&P 500 Index; (2) the S&P MidCap 400 Index; (3) the S&P Small Cap 600 Index; (4) the Russell 1000 Index; (5) the Russell 2000 Index; (6) the Russell 3000 Index; (7) the S&P 500 Consumer Discretionary Index; (8) the S&P 500 Consumer Staples Index; (9) the S&P 500 Energy Index; (10) the S&P 500 Financials Index; (11) the S&P 500 HealthCare Index; (12) the S&P 500 Industrials Index; (13) the S&P 500 Information Technology Index; (14) the S&P 500 Materials Index; and (15) the S&P 500 Utilities Index (each index individually referred to as an “Underlying Index,” and all Underlying Indexes collectively referred to as the “Underlying Indexes”).⁵

⁵ Amex states that certain exchange-traded funds (“ETFs”) and/or options based on each of the Underlying Indexes are currently listed and traded on the Exchange. See infra notes 10-21 and accompanying text. The Statement of Additional Information (“SAI”) for the Funds discloses that each Fund reserves the right to substitute a different Underlying Index. Substitutions can occur if an Underlying Index becomes unavailable, no longer serves the investment needs of shareholders, the Fund experiences difficulty in achieving investment results that correspond to the applicable Underlying Index, or for any other reason determined in good faith by the Board (as defined herein). In such instance, the substitute index would attempt to measure the same general market as the then current Underlying Index. Consistent with applicable law, shareholders would be notified (either directly or through their respective intermediary) if a Fund’s Underlying Index is replaced. As explained herein, the continued listing standards under Amex Rule 1002A would apply to the Shares. See Amex Rule 1002A(b)(i)(B) (providing that the Exchange will consider the suspension of trading in, or removal from listing of, a series of Index

The Leveraged Funds will seek daily investment results, before fees and expenses, that correspond to twice (200%) the daily performance of the corresponding Underlying Indexes. The net asset value (“NAV”) of the Shares of each of these Leveraged Funds, if successful in meeting its objective, should increase, on a percentage basis, approximately twice as much as the respective Fund’s Underlying Index gains when the prices of the securities in such Underlying Index increase on a given day, and should decrease approximately twice as much as the respective Underlying Index loses when such prices decline on a given day.

The Inverse Funds will seek daily investment results, before fees and expenses, that correspond to the inverse or opposite of the daily performance (-100%) of the Underlying Indexes. If each of these Inverse Funds is successful in meeting its objective, the NAV of the Shares of each Inverse Fund should increase approximately as much, on a percentage basis, as the respective Underlying Index loses when the prices of the securities in the Underlying Index decline on a given day, or should decrease approximately as much as the respective Underlying Index gains when the prices of the securities in the Underlying Index rise on a given day.

The Leveraged Inverse Funds will seek daily investment results, before fees and expenses, that correspond to twice the inverse (-200%) of the daily performance of the Underlying Indexes. If each of these Leveraged Inverse Funds is successful in meeting its objective, the NAV of the Shares of each Leveraged Inverse Fund should increase approximately twice as much, on a percentage basis, as the respective Underlying Index loses when the prices of the securities in the Underlying Index decline on a given day, or should decrease

Fund Shares if, among other circumstances, the Underlying Index or portfolio is replaced with a new index or portfolio, subject to certain exceptions).

approximately twice as much as the respective Underlying Index gains when the prices of the securities in the Underlying Index rise on a given day.

Rydex Investments is the investment advisor (the “Advisor”) to each Fund. The Advisor is registered under the Investment Advisers Act of 1940.⁶ While the Advisor will manage each Fund, the Trust’s Board of Trustees (the “Board”) will have overall responsibility for the Funds’ operations. The composition of the Board is, and will be, in compliance with the requirements of Section 10 of the 1940 Act.⁷ Rydex Distributors, Inc. (the “Distributor”), a broker-dealer registered under the Act, will act as the distributor and principal underwriter of the Shares. State Street Bank & Trust will act as the index receipt agent (the “Index Receipt Agent”) for which it will receive fees. The Index Receipt Agent will be responsible for transmitting the Deposit List (as defined herein) to the National Securities Clearing Corporation (“NSCC”) and for the processing, clearance, and settlement of purchase and redemption orders through the facilities of the Depository Trust Company (“DTC”) and NSCC on behalf of the Trust. The Index Receipt Agent will also be responsible for the coordination and transmission of files and purchase and redemption orders between the Distributor and the NSCC.

⁶ The Trust, Advisor, and Distributor (“Applicants”) have filed with the Commission an application for an order under the 1940 Act (the “Application”) for the purpose of exempting the Funds of the Trust from various provisions of the 1940 Act. See Investment Company Act Release No. 27703 (February 20, 2007), 72 FR 8810 (February 27, 2007) (File No. 812-13337) (providing notification of an application for an order under Section 6(c) of the 1940 Act for an exemption from Sections 2(a)(32), 5(a)(1), 22(d), and 24(d) of the 1940 Act and Rule 22c-1 under the 1940 Act, and under Sections 6(c) and 17(b) of the Act for an exemption from Sections 17(a)(1) and (a)(2) of the 1940 Act).

⁷ 15 U.S.C. 80a-10 (setting forth certain restrictions and requirements with respect to affiliations or interest of directors, officers, and employees of registered investment companies).

Shares of the Funds issued by the Trust will be a class of exchange-traded securities that represent an interest in the portfolio of a particular Fund.⁸ The Shares will be registered in book-entry form only, and the Trust will not issue individual share certificates. DTC or its nominee will be the record or registered owner of all outstanding Shares. Beneficial ownership of Shares will be shown on the records of DTC or DTC participants.

Underlying Indexes

While the Exchange proposes to list and trade the Shares of the Funds pursuant to Section 19(b)(1) of the Act, the Exchange represents that the Underlying Index components comply with the generic listing standards set forth in Commentary .02 to Amex Rule 1000A-AEMI.⁹

S&P 500 Index. The S&P 500 Index is a capitalization-weighted index composed of 500 common stocks, which are chosen by Standard & Poor's ("S&P") on a statistical basis. As of July 10, 2007, the S&P 500 Index included companies with an average capitalization of \$27.895 billion. This Underlying Index has been approved for options trading and is also the basis for an ETF.¹⁰

S&P MidCap 400 Index. The S&P MidCap 400 Index is a modified capitalization-weighted index composed of 400 mid-cap stocks chosen by S&P for market size, liquidity, and

⁸ The Trust is registered as a business trust under the Delaware Corporate Code.

⁹ E-mail from Jeffrey P. Burns, Associate General Counsel, Amex, to Edward Cho, Special Counsel, Division of Market Regulation, Commission, dated August 1, 2007 (clarifying the basis for the Exchange's proposal to list and trade the Shares) ("Amex Confirmation").

¹⁰ See Securities Exchange Act Release No. 31591 (December 11, 1992), 57 FR 60253 (December 18, 1992) (SR-Amex-92-18) (approving the listing and trading of portfolio depository receipts ("PDRs"), including receipts based on the S&P 500 Index).

industry group representation. This Underlying Index covers approximately 7% of the total market capitalization of the U.S. equities market. As of July 10, 2007, the S&P MidCap 400 Index included companies with an average capitalization of \$3.219 billion. This Underlying Index has been approved for options trading and is also the basis for an ETF.¹¹

S&P SmallCap 600 Index. The S&P SmallCap 600 Index is a measure of small-cap company stock performance. It is a float-adjusted, market-capitalization-weighted index of 600 U.S. operating companies. Securities are selected for inclusion in this Underlying Index by an S&P committee through a non-mechanical process that factors criteria such as liquidity, price, market capitalization, financial viability, and public float. As of July 10, 2007, the S&P SmallCap 600 Index included companies with an average capitalization of \$1.075 billion. This Underlying Index has been approved for options trading and is also the basis for an ETF.¹²

Russell 1000 Index. The Russell 1000 Index measures the performance of the 1,000 largest companies in, and represents approximately 92% of the total market capitalization of, the Russell 3000 Index. As of July 10, 2007, the Russell 1000 Index included companies with an average market capitalization of approximately \$16.193 billion. This Underlying Index has been approved for options trading and is also the basis for an ETF.¹³

Russell 2000 Index. The Russell 2000 Index measures the performance of the 2,000 smallest companies in, and represents approximately 8% of the total market capitalization of, the

¹¹ See Securities Exchange Act Release No. 35534 (March 24, 1995), 60 FR 16686 (March 31, 1995) (SR-Amex-94-52) (approving the listing and trading of PDRs based on the S&P 400 Midcap Index).

¹² See Securities Exchange Act Release No. 35532 (March 24, 1995), 60 FR 16518 (March 30, 1995) (SR-CBOE-94-43) (approving the listing and trading of options on the S&P SmallCap 600 Index).

Russell 3000 Index. As of July 10, 2007, the Russell 2000 Index included companies with an average market capitalization of approximately \$899 million. This Underlying Index has been approved for options trading and is also the basis for an ETF.¹⁴

Russell 3000 Index. The Russell 3000 Index measures the performance of the 3,000 largest U.S. companies based on total market capitalization and represents approximately 98% of the investable U.S. equity market. As of July 10, 2007, the Russell 3000 Index included companies with an average market capitalization of approximately \$6.165 billion. This Underlying Index has been approved for options trading and is also the basis for an ETF.¹⁵

S&P 500 Consumer Discretionary Index. The S&P 500 Consumer Discretionary Index consists of the common stocks of the following industries that comprise the Consumer Discretionary sector of the S&P 500 Index: automobiles and components, consumer durables, apparel, hotels, restaurants, leisure, media, and retailing. As of July 10, 2007, the S&P 500 Consumer Discretionary Index included companies with an average capitalization of \$16.685 billion. This Underlying Index is the basis for both the Select Sector SPDR – Consumer Discretionary ETF and the Rydex S&P Equal Weight Consumer Discretionary ETF listed and traded on the Exchange.

S&P 500 Consumer Staples Index. The S&P 500 Consumer Staples Index consists of the common stocks of the following industries that comprise the Consumer Staples sector of the S&P 500 Index: food and drug retailing, beverages, food products, tobacco, household products, and personal products. As of July 10, 2007, the S&P 500 Consumer Staples Index included

¹³ See Securities Exchange Act Release No. 53191 (January 30, 2006), 71 FR 6111 (February 6, 2006) (SR-Amex-2005-061) (approving the listing and trading of options on the Russell Indexes, including the Russell 1000, 2000, and 3000 Indexes).

¹⁴ See id.

companies with an average capitalization of \$35.494 billion. This Underlying Index is the basis for both the Select Sector SPDR – Consumer Staples ETF¹⁶ and the Rydex S&P Equal Weight Consumer Staples ETF listed and traded on the Exchange.

S&P 500 Energy Index. The S&P 500 Energy Index consists of the common stocks of the following industries that comprise the Energy sector of the S&P 500 Index: oil and gas exploration, production, marketing, refining and/or transportation, and energy equipment and services industries. As of July 10, 2007, the S&P 500 Energy Index included companies with an average capitalization of \$46.785 billion. This Underlying Index is the basis for both the Select Sector SPDR – Energy ETF¹⁷ and the Rydex S&P Equal Weight Energy ETF listed and traded on the Exchange.

S&P 500 Financials Index. The S&P 500 Financials Index consists of the common stocks of the following industries that comprise the Financials sector of the S&P 500 Index: banks, diversified financials, brokerage, asset management insurance, and real estate, including real estate investment trusts. As of July 10, 2007, the S&P 500 Financials Index included companies with an average capitalization of \$30.683 billion. This Underlying Index is the basis for both the Select Sector SPDR – Financials ETF¹⁸ and the Rydex S&P Equal Weight Financials ETF listed and traded on the Exchange.

S&P 500 Health Care Index. The S&P 500 Health Care Index consists of the common stocks of the following industries that comprise the Health Care sector of the S&P 500 Index:

¹⁵ See id.

¹⁶ See Securities Exchange Act Release No. 40749 (December 4, 1998), 63 FR 68483 (December 11, 1998) (SR-Amex-98-29) (approving the listing and trading of certain Select SPDR ETFs).

¹⁷ See id.

¹⁸ See id.

health care equipment and supplies, health care providers and services, and biotechnology and pharmaceuticals. As of July 10, 2007, the S&P 500 Health Care Index included companies with an average capitalization of \$29.614 billion. This Underlying Index is the basis for both the Select Sector SPDR – Health Care ETF and the Rydex S&P Equal Weight Health Care ETF listed and traded on the Exchange.

S&P 500 Industrials Index. The S&P 500 Industrials Index consists of the common stocks of the following industries that comprise the Industrials sector of the S&P 500 Index: aerospace and defense, building products, construction and engineering, electrical equipment, conglomerates, machinery, commercial services and supplies, air freight and logistics, airlines, and marine, road, and rail transportation infrastructure. As of July 10, 2007, the S&P 500 Industrials Index included companies with an average capitalization of \$28.706 billion. This Underlying Index is the basis for both the Select Sector SPDR – Industrials ETF¹⁹ and the Rydex S&P Equal Weight Industrials ETF listed and traded on the Exchange.

S&P 500 Information Technology Index. The S&P 500 Information Technology Index consists of the common stocks of the following industries that comprise the Information Technology sector of the S&P 500 Index: internet equipment, computers and peripherals, electronic equipment, office electronics and instruments, semiconductor equipment and products, diversified telecommunication services, and wireless telecommunication services. As of July 10, 2007, the S&P 500 Information Technology Index included companies with an average capitalization of \$30.947 billion. This Underlying Index is the basis for both the Select Sector

¹⁹ See id.

SPDR – Technology ETF²⁰ and the Rydex S&P Equal Weight Technology ETF listed and traded on the Exchange.

S&P 500 Materials Index. The S&P 500 Materials Index consists of the common stocks of the following industries that comprise the Materials sector of the S&P 500 Index: chemicals, construction materials, containers and packaging, metals and mining, and paper and forest products. As of July 10, 2007, the S&P 500 Materials Index included companies with an average capitalization of \$15.358 billion. This Underlying Index is the basis for both the Select Sector SPDR – Materials ETF and the Rydex S&P Equal Weight Materials ETF listed and traded on the Exchange.

S&P 500 Utilities Index. The S&P 500 Utilities Index consists of the common stocks of the following industries that comprise the Utilities sector of the S&P 500 Index: electric utilities, gas utilities, multi-utilities, unregulated power and water utilities, and telecommunication service companies, including fixed-line, cellular, wireless, high bandwidth, and fiber-optic cable networks. As of July 10, 2007, the S&P 500 Utilities Index included companies with an average capitalization of \$14.794 billion. This Underlying Index is the basis for both the Select Sector SPDR – Utilities ETF²¹ and the Rydex S&P Equal Weight Utilities ETF listed and traded on the Exchange.

Investment Objective of the Funds

Each Leveraged Fund will seek investment results that correspond, before fees and expenses, to twice (200%) the daily performance of an Underlying Index and will invest its assets based upon the same strategies as conventional index funds. Rather than hold positions in

²⁰ See id.

²¹ See id.

equity securities and financial instruments intended to create exposure to 100% of the daily performance of an Underlying Index, these Funds will hold positions in equity securities and certain financial instruments²² designed to create exposure equal to twice (200%), before fees and expenses, the daily performance of an Underlying Index. These Leveraged Funds generally will hold at least 80% of their net assets, plus any borrowings for investment purposes, in the component equity securities of the relevant Underlying Index and Financial Instruments with economic characteristics that should perform similar to that of the relevant Underlying Index. The remainder of assets will be devoted to certain Financial Instruments and money market instruments²³ that are intended to create the additional needed exposure to such Underlying Index necessary to pursue its investment objective.

The Inverse Funds will seek daily investment results, before fees and expenses, of the inverse or opposite (-100%) of the Underlying Index, and the Leveraged Inverse Funds will seek daily investment results, before fees and expenses, of twice the inverse or opposite (-200%) of the daily performance of the Underlying Index. Each of these Funds will generally hold at least 80% of their respective net assets, plus any borrowings for investment purposes, in instruments with economic characteristics that should perform opposite to that of the Underlying Index. Each Inverse and Leveraged Inverse Fund will rely on establishing positions in Financial Instruments that provide, on a daily basis, the inverse or opposite of, or twice the inverse or

²² The financial instruments to be held by any of the Funds may include stock index futures contracts, options on futures contracts, options on securities and indices, equity caps, collars and floors, as well as swap agreements, forward contracts, repurchase agreements, and reverse repurchase agreements (the “Financial Instruments”).

²³ Money market instruments include U.S. government securities and repurchase agreements (the “Money Market Instruments”). The Exchange states that repurchase agreements held by the Funds will be consistent with Rule 2a-7 of the 1940 Act (17 CFR 270.2a-7), i.e., remaining maturities of 397 days or less and rated investment-grade.

opposite of, as the case may be, the performance of the relevant Underlying Index. Normally, 100% of the value of the portfolios of each Inverse and Leveraged Inverse Fund will be devoted to Financial Instruments and Money Market Instruments.

While the Advisor will attempt to minimize any “tracking error” between the investment results of a particular Fund and the performance (and specified multiple thereof) or the inverse performance (and specified multiple thereof) of its Underlying Index, certain factors may tend to cause the investment results of a Fund to vary from such relevant Underlying Index or specified multiple thereof.²⁴ The Leveraged Funds are expected to be highly correlated to each respective Underlying Index and investment objective (0.95 or greater). The Inverse and Leveraged Inverse Funds are expected to be highly inversely correlated to each respective Underlying Index and investment objective (-0.95 or greater).²⁵ In each case, the Funds are expected to have a

²⁴ The Exchange states that several factors may cause a Fund to vary from the relevant Underlying Index and investment objective including: (1) a Fund’s expenses, including brokerage fees (which may be increased by high portfolio turnover) and the cost of the investment techniques employed by that Fund; (2) less than all of the securities in the benchmark Underlying Index being held by a Fund and securities not included in the benchmark Underlying Index being held by a Fund; (3) an imperfect correlation between the performance of instruments held by a Fund, such as futures contracts, and the performance of the underlying securities in the cash market; (4) bid-ask spreads (the effect of which may be increased by portfolio turnover); (5) holding instruments traded in a market that has become illiquid or disrupted; (6) a Fund’s Share prices being rounded to the nearest cent; (7) changes to the benchmark Underlying Index that are not disseminated in advance; (8) the need to conform a Fund’s portfolio holdings to comply with investment restrictions or policies or regulatory or tax law requirements; (9) early and unanticipated closings of the markets on which the holdings of a Fund trade, resulting in the inability of the Fund to execute intended portfolio transactions; and (10) market movements that run counter to a Fund’s investments.

²⁵ Correlation is the strength of the relationship between (1) the change in a Fund’s NAV and (2) the change in the benchmark Underlying Index (investment objective). The statistical measure of correlation is known as the “correlation coefficient.” A correlation coefficient of +1 indicates a perfect positive correlation, while a value of -1 indicates a perfect negative (inverse) correlation. A value of zero would mean that there is no correlation between the two variables.

daily tracking error of less than 5% (excluding expenses and interest, if any) relative to the specified multiple or inverse multiple of the performance of the relevant Underlying Index.

The Exchange believes that the Shares will not trade at a material discount or premium to the underlying securities held by a Fund based on potential arbitrage opportunities. The arbitrage process, which provides the opportunity to profit from differences in prices of the same or similar securities, increases the efficiency of the markets and serves to prevent potentially manipulative efforts. If the price of a Share deviates enough from the Creation Unit (as defined herein), on a per-Share basis, to create a material discount or premium, an arbitrage opportunity is created allowing the arbitrageur to either buy the Shares at a discount, immediately cancel them in exchange for the Creation Unit and sell the underlying securities in the cash market at a profit, or sell the Shares short at a premium and buy the Creation Unit in exchange for the Shares to deliver against the short position. In both instances the arbitrageur locks in a profit and the markets move back into line.

The Portfolio Investment Methodology

The Advisor will seek to establish an investment exposure in each portfolio corresponding to each Fund’s investment objective based on its “Portfolio Investment Methodology,” as described below. The Exchange states that the Portfolio Investment Methodology is a mathematical model based on well-established principles of finance that are widely used by investment practitioners, including conventional index fund managers.

As set forth in the Application, the Portfolio Investment Methodology was designed to determine for each Fund the portfolio investments needed to achieve its stated investment objectives. The Portfolio Investment Methodology takes into account a variety of specified criteria, the most important of which are: (1) net assets (taking into account creations and

redemptions) in each Fund’s portfolio at the end of each trading day; (2) the amount of required exposure to the Underlying Index; and (3) the positions in equity securities, Financial Instruments, and/or Money Market Instruments at the beginning of each trading day. The Advisor, pursuant to such methodology, will then mathematically determine the end-of-day positions to establish the required amount of exposure to the Underlying Index, which will consist of equity securities, Financial Instruments, and/or Money Market Instruments. The difference between the start-of-day positions and the required end-of-day positions is the actual amount of equity securities, Financial Instruments, and/or Money Market Instruments that must be bought or sold for the day (the “Solution”). The Solution represents the required exposure and, when necessary, is converted into an order or orders to be filled that same day.

Generally, portfolio trades effected pursuant to the Solution are reflected in the NAV on the first business day (T+1) after the date the relevant trade is made. Therefore, the NAV calculated for a Fund on a given day should reflect the trades executed pursuant to the prior day’s Solution. For example, trades pursuant to the Solution calculated on a Monday afternoon are executed on behalf of the Fund in question on that day. These trades will then be reflected in the NAV for that Fund that is calculated as of 4:00 p.m. Eastern Time (“ET”) on Tuesday.

The timeline for the Portfolio Investment Methodology is as follows. Authorized Participants (“APs” or “Authorized Participants”)²⁶ have a 3:00 p.m. ET cut-off for orders submitted by telephone, facsimile, and other electronic means of communication and a 4:00 p.m. ET cut-off for orders received via mail.²⁷ Orders are received by the Distributor and relayed to

²⁶ An Authorized Participant is: (1) either (a) a broker-dealer or other participant in the continuous net settlement system of the NSCC, or (b) a DTC participant; and (2) a party to a participant agreement with the Distributor.

²⁷ The Exchange states that AP orders by mail are exceedingly rare.

the Advisor within ten minutes. The Advisor will know by 3:10 p.m. ET the number of creation/redemption orders by APs for that day. Orders are then placed at approximately 3:40 p.m. ET as market-on-close orders. At 4:00 p.m. ET, the Advisor will again look at the exposure to make sure that the orders placed are consistent with the Solution, and as described above, the Advisor will execute any other transactions in Financial Instruments to assure that the Fund's exposure is consistent with the Solution.

Description of Investment Techniques

In attempting to achieve its individual investment objectives, a Fund may invest its assets in equity securities, Financial Instruments, and Money Market Instruments. The Leveraged Funds will hold at least 80% of their net assets in the equity securities comprising the relevant Underlying Index. The remainder of assets, if any, will be devoted to Financial Instruments and Money Market Instruments that are intended to create additional needed exposure to such Underlying Index necessary to pursue the Leveraged Funds' investment objectives. The Inverse and Leveraged Inverse Funds generally will not invest in equity securities comprising the applicable Underlying Index, but rather will hold only Financial Instruments and Money Market Instruments. To the extent, applicable, each Fund will comply with the requirements of the 1940 Act with respect to "cover" for Financial Instruments and, thus, may hold a significant portion of its assets in liquid instruments in segregated accounts.

Each Fund may engage in transactions in futures contracts on designated contract markets where such contracts trade and will only purchase and sell futures contracts traded on a

U.S. futures exchange or board of trade. Each Fund will comply with the requirements of Rule 4.5 of the regulations promulgated by the Commodity Futures Trading Commission (“CFTC”).²⁸

Each Fund may enter into swap agreements and/or forward contracts for the purposes of attempting to gain exposure to the equity securities of its Underlying Index without actually transacting such securities. The Exchange states that the counterparties to the swap agreements and/or forward contracts will be major broker-dealers and banks. The creditworthiness of each potential counterparty is assessed by the Advisor’s credit committee pursuant to guidelines approved by the Board. Existing counterparties are reviewed periodically by the Board. Each Fund may also enter into repurchase and reverse repurchase agreements with terms of less than one year and will only enter into such agreements with: (1) members of the Federal Reserve System; (2) primary dealers in U.S. government securities; or (3) major broker-dealers. Each Fund may also invest in Money Market Instruments, in pursuit of its investment objectives, as “cover” for Financial Instruments, as described above, or to earn interest.

The Trust will adopt certain fundamental policies consistent with the 1940 Act, and each Fund will be classified as “non-diversified” under the 1940 Act. Each Fund, however, intends to maintain the required level of diversification and otherwise conduct its operations so as to qualify as a “regulated investment company” or “RIC” for purposes of the Internal Revenue

²⁸ The Exchange states that CFTC Rule 4.5 provides an exclusion for investment companies registered under the 1940 Act from the definition of the term “commodity pool operator” upon the filing of a notice of eligibility with the National Futures Association.

Code to relieve the Trust and the Funds of any liability for Federal income tax to the extent that its earnings are distributed to shareholders.²⁹

Availability of Information about the Shares and Underlying Indexes

The Trust's Internet Web site (www.rydexinvestments.com), which is and will be publicly accessible at no charge, will contain the following information for each Fund's Shares:

(1) the prior business day's closing NAV, the reported closing price, and a calculation of the premium or discount of such price in relation to the closing NAV; (2) data for a period covering at least the four previous calendar quarters (or the life of a Fund, if shorter) indicating how frequently each Fund's Shares traded at a premium or discount to NAV based on the daily closing price and the closing NAV, and the magnitude of such premiums and discounts; (3) its prospectus and product description; and (4) other quantitative information, such as daily trading volume. The prospectus and/or product description for each Fund will inform investors that the Trust's Internet Web site has information about the premiums and discounts at which the Fund's Shares have traded.³⁰

²⁹ See Exchange Notice n.16 (providing a description of the Internal Revenue Code requirements pertaining to RICs). The Exchange Notice is available at Amex's Web site (www.amex.com).

³⁰ The Exchange states that the Application requests relief from Section 24(d) of the 1940 Act (15 U.S.C. 80a-24(d)), which would permit 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. Additionally, if a product description is being provided in lieu of a prospectus, Commentary .06 of Amex Rule 1000A-AEMI requires that Amex members and member organizations provide to all purchasers of a series of Index Fund Shares a written description of the terms and characteristics of such securities, in a form prepared by the open-end management investment company issuing such securities, not later than the time of confirmation of the first transaction in such series is delivered to such purchaser. Furthermore, any sales material will reference the availability of such circular and the prospectus. Amex Confirmation (confirming the Amex rule requiring the delivery of a written description of the terms and characteristics of the Shares).

Amex will disseminate for each Fund on a daily basis by means of the Consolidated Tape Association (“CT”) and CQ High Speed Lines information with respect to an Indicative Intraday Value (the “IIV”) (as defined and discussed herein), recent NAV, number of Shares outstanding, and the estimated cash amount and total cash amount per Creation Unit. The Exchange will make available on its Web site daily trading volume, closing prices, NAV, and the final dividend amounts to be paid for each Fund.

Each Fund’s total portfolio composition will be disclosed on the Web site of the Trust or another relevant Internet Web site as determined by the Trust and/or the Exchange. The Trust will provide Web site disclosure of each Fund’s portfolio holdings daily and will include, as applicable, the names and number of Shares held of each specific equity security, the specific types of Financial Instruments and characteristics of such Financial Instruments, and the cash equivalents and amount of cash held in the portfolio of each Fund. This public Web site disclosure of the portfolio composition of each Fund and the disclosure by the Advisor of the “IIV File” (as described below) and the portfolio composition file or “PCF” (as described below) will occur at the same time. Therefore, the same portfolio information (including accrued expenses and dividends) will be provided on the public Internet Web site(s), as well as in the IIV File and PCF provided to Authorized Participants. The format of the public Web site disclosure and the IIV File and PCF will differ because the public Web site will list all portfolio holdings, while the IIV File and PCF will similarly provide the portfolio holdings, but in a format appropriate for Authorized Participants, i.e., the exact components of a Creation Unit.³¹

³¹ The composition will be used to calculate the NAV later that day.

Accordingly, each investor will have access to the current portfolio composition of each Fund through the Trust’s Web site and/or the Exchange’s Web site.

Beneficial owners of Shares (“Beneficial Owners”) will receive all of the statements, notices, and reports required under the 1940 Act and other applicable laws. They will receive, for example, annual and semi-annual Fund reports, written statements accompanying dividend payments, proxy statements, annual notifications detailing the tax status of Fund distributions, and Form 1099-DIVs. Some of these documents will be provided to Beneficial Owners by their brokers, while others will be provided by the Fund through the brokers.

The daily closing value and the percentage change in the daily closing value for each Underlying Index will be publicly available on various Internet Web sites, and data regarding each Underlying Index will be available from the respective Underlying Index provider. Several independent data vendors also package and disseminate Underlying Index data in various value-added formats (including vendors displaying both securities and Underlying Index levels and vendors displaying Underlying Index levels only). The value of each Underlying Index will be updated intra-day on a real-time basis as its individual component securities change in price. These intra-day values of each Underlying Index will be disseminated at least every 15 seconds throughout the trading day by Amex or another organization authorized by the relevant Underlying Index provider.

Creation and Redemption of Shares

Each Fund will issue and redeem Shares only in aggregations of at least 50,000 (each aggregation, a “Creation Unit”). Purchasers of Creation Units will be able to separate the Creation Units into individual Shares. Once the number of Shares in a Creation Unit is determined, it will not

change thereafter (except in the event of a stock split or similar revaluation). The initial value of a Share for each of the Funds is expected to be in the range of \$50-\$250.

At the end of each business day, the Trust will prepare the list of names and the required number of Shares of each Deposit Security (as defined herein) to be included in the next trading day's Creation Unit for each Leveraged Fund (the "Deposit List"). The Trust will then add to the Deposit List the cash information effective as of the close of business on that business day and create a PCF for each Fund, which will be transmitted to NSCC before the open of business the next business day. The information in the PCF will be available to all participants in the NSCC system.

Because the NSCC's system for the receipt and dissemination to its participants of the PCF is not currently capable of processing information with respect to Financial Instruments, the Advisor has developed an "IIV File," which it will use to disclose the Funds' holdings of Financial Instruments.³² The IIV File will contain, for each Leveraged Fund (to the extent that it holds Financial Instruments) and Inverse and Leveraged Inverse Fund, information sufficient by itself or in connection with the PCF and other available information for market participants to calculate a Fund's IIV and effectively value such Fund.

For example, the following information would be provided in the IIV File for a Leveraged Fund holding equity securities and Financial Instruments and an Inverse Fund and/or Leveraged Inverse Fund holding swaps and futures contracts (certain Financial Instruments):

³² The Trust or the Advisor will post the IIV File to a password-protected Internet Web site before the opening of business on each business day, and all Authorized Participants and the Exchange will have access to a password and the Web site containing the IIV File. The Funds, however, will disclose each business day to the public identical information, but in a format appropriate to public investors, at the same time the Funds disclose the IIV File and PCF, as applicable, to industry participants.

(A) the total value of the equity securities held by the Leveraged Fund; (B) the notional value of the swaps held by such Funds (together with an indication of the Underlying Index on which such swap is based and whether the Funds' position is long or short); (C) the most recent valuation of the swaps held by the Funds; (D) the notional value of any futures contracts (together with an indication of the Underlying Index on which such contract is based, whether the Funds' position is long or short, and the contract's expiration date) held by the Funds; (E) the number of futures contracts held by the Funds (together with an indication of the Underlying Index on which such contract is based, whether the Funds' position is long or short, and the contract's expiration date); (F) the most recent valuation of the futures contracts held by the Funds; (G) the total assets and total number of Shares outstanding of each Fund; and (H) a "net other assets" figure reflecting expenses and income of the Funds to be accrued during and through the following business day and accumulated gains or losses on the Funds' Financial Instruments through the end of the business day immediately preceding the publication of the IIV File. To the extent that any Fund holds cash or cash equivalents about which information is not available in a PCF, information regarding such Fund's cash and cash equivalent positions will be disclosed in the IIV File for such Fund.

The information in the IIV File will be sufficient for participants in the NSCC system to calculate the IIV for the Inverse and Leveraged Inverse Funds and, together with the information on equity securities contained in the PCF, will be sufficient for calculation of the IIV for the Leveraged Funds, during such next business day. The IIV File, together with the applicable information in the PCF in the case of Leveraged Funds, will also be the basis for the next business day's NAV calculation.

Under normal circumstances, the Leveraged Funds will be created and redeemed either entirely for cash and/or for a deposit basket of equity securities (“Deposit Securities”), plus a Balancing Amount (as defined herein), as described below. Under normal circumstances, the Inverse and Leveraged Inverse Funds will be created and redeemed entirely for cash. The IIV File published before the open of business on a business day will, however, permit NSCC participants to calculate (by means of calculating the IIV) the amount of cash required to create a Creation Unit and the amount of cash that will be paid upon redemption of a Creation Unit, for each Inverse and Leveraged Inverse Fund for that business day.

For the Leveraged Funds, the PCF will be prepared by the Trust after 4:00 p.m. ET and transmitted by the Index Receipt Agent to NSCC by 6:30 p.m. ET. All Authorized Participants who are NSCC participants and the Exchange will have access to the Internet Web site containing the IIV File. The IIV File will reflect the trades made on behalf of a Fund and the creation/redemption orders, in each case, for that business day. Accordingly, by 6:30 p.m. ET, Authorized Participants will know the composition of the Fund’s portfolio for the next trading day.

Creation of the Leveraged Funds. Typically, persons³³ purchasing Creation Units from a Leveraged Fund must make an in-kind deposit of a basket of Deposit Securities consisting of the securities selected by the Advisor from among those securities contained in the Fund’s portfolio, together with an amount of cash specified by the Advisor (the “Balancing Amount”), plus the applicable transaction fee (the “Transaction Fee”). The Deposit Securities and the Balancing

³³ Authorized Participants are the only persons who may place orders to create and redeem Creation Units. Authorized Participants must be registered broker-dealers or other securities market participants, such as banks and other financial institutions that are exempt from registration as broker-dealers to engage in securities transactions, who are participants in DTC. See supra note 26.

Amount collectively are referred to as the “Creation Deposit.” The Balancing Amount is a cash payment designed to ensure that the value of a Creation Deposit is identical to the value of the Creation Unit. The Balancing Amount is an amount equal to the difference between the NAV of a Creation Unit and the market value of the Deposit Securities.³⁴

The Balancing Amount will be determined shortly after 4:00 p.m. ET each business day. Although the Balancing Amount for most ETFs is a small amount reflecting accrued dividends and other distributions, for the Leveraged Funds it is expected to be larger due to changes in the value of the Financial Instruments, *i.e.*, daily mark-to-market. For example, assuming a basket of Deposit Securities is valued at \$5 million for a Leveraged Fund, if the market increases 10%, such basket of Deposit Securities would be equal to \$5.5 million at 4:00 p.m. ET. The value of the Leveraged Fund Shares would increase by 20% or \$1 million to equal \$6 million total. With such basket of Deposit Securities valued at \$5.5 million, the Balancing Amount would be \$500,000. The values of the next day’s basket of Deposit Securities and Balancing Amount are announced between 5:30 p.m. ET and 6:00 p.m. ET each business day. The Balancing Amount may, at times, represent a significant portion of the aggregate purchase price (or in the case of redemptions, the redemption proceeds). This may occur because the mark-to-market value of the Financial Instruments held by the Leveraged Funds, if any, is included in the Balancing Amount. The Transaction Fee is a fee imposed by the Funds on investors purchasing (or redeeming) Creation Units.

³⁴ While not typical, if the market value of the Deposit Securities is greater than the NAV of a Creation Unit, then the Balancing Amount will be a negative number, in which case the Balancing Amount will be paid by the Leveraged Fund to the purchaser, rather than vice-versa.

The Trust will make available through DTC or the Distributor on each business day, prior to the opening of trading on the Exchange, the Deposit List indicating the Deposit Securities to be included in the Creation Deposit for each Leveraged Fund.³⁵ The Trust also will make available on a daily basis information about the previous day's Balancing Amount.

The Leveraged Funds reserve the right to permit or require an Authorized Participant to substitute an amount of cash and/or a different security to replace any prescribed Deposit Security.³⁶ Substitutions might be permitted or required, for example, because one or more Deposit Securities may be unavailable or may not be available in the quantity needed to make a Creation Deposit. Brokerage commissions incurred by a Fund to acquire any Deposit Security not part of a Creation Deposit are expected to be immaterial, and in any event, the Advisor may adjust the relevant Transaction Fee to ensure that the Fund collects the extra expense from the purchaser. Orders to create or redeem Shares of the Leveraged Funds must be placed through an Authorized Participant.

Redemption of the Leveraged Funds. Leveraged Fund Shares in Creation Unit-size aggregations will be redeemable on any day on which the New York Stock Exchange LLC is open in exchange for a basket of securities ("Redemption Securities"). As it does for Deposit Securities, the Trust will make available to Authorized Participants on each business day prior to the opening of trading a list of the names and number of shares of Redemption Securities for

³⁵ In accordance with the Advisor's Code of Ethics, personnel of the Advisor with knowledge about the composition of a Creation Deposit will be prohibited from disclosing such information to any other person, except as authorized in the course of their employment, until such information is made public.

³⁶ In certain limited instances, a Leveraged Fund may require a purchasing investor to purchase a Creation Unit entirely for cash. For example, on days when a substantial rebalancing of a Fund's portfolio is required, the Advisor might prefer to receive cash rather than in-kind stocks so that it has liquid resources on hand to make the necessary purchases.

each Fund. The Redemption Securities given to redeeming investors in most cases will be the same as the Deposit Securities required of investors purchasing Creation Units on the same day.³⁷ Depending on whether the NAV of a Creation Unit is higher or lower than the market value of the Redemption Securities, the redeemer of a Creation Unit will either receive from or pay to the Leveraged Fund a cash amount equal to the difference (the “Redemption Balancing Amount”). In the typical situation where the Redemption Securities are the same as the Deposit Securities, this cash amount will be equal to the Balancing Amount described above in the creation process involving Deposit Securities. The redeeming investor also must pay to the Leveraged Fund a transaction fee (“Redemption Transaction Fee”) to cover transaction costs.³⁸

A Leveraged Fund has the right to make redemption payments in cash, in-kind, or a combination of each, provided that the value of its redemption payments equals the NAV of the Shares tendered at the time of tender, and the Redemption Balancing Amount. The Advisor currently contemplates that Creation Units of each Leveraged Fund will be redeemed principally in-kind with respect to the Redemption Securities and the Redemption Balancing Amount in cash largely resulting from the value of the Financial Instruments included in the Leveraged Fund.

In order to facilitate delivery of Redemption Securities, each redeeming Authorized Participant, acting on behalf of a Beneficial Owner or DTC participant, must have arrangements

³⁷ The Exchange states that there may be circumstances, however, where the Deposit Securities and Redemption Securities could differ. For example, if ABC stock were replacing XYZ stock in a Fund’s Underlying Index at the close of a day’s trading session, the day’s prescribed Deposit Securities might include ABC, but not XYZ, while the day’s prescribed Redemption Securities might include XYZ, but not ABC.

³⁸ Redemptions in which cash is substituted for one or more Redemption Securities may be assessed a higher Redemption Transaction Fee to offset the transaction cost to the Fund

with a broker-dealer, bank, or other custody provider in each jurisdiction in which any of the Redemption Securities are customarily traded. If neither the redeeming Beneficial Owner nor the Authorized Participant has such arrangements, and it is not otherwise possible to make other arrangements, the Leveraged Fund may, in its discretion, redeem the Leveraged Fund Shares for cash.

Creation and Redemption of the Inverse and Leveraged Inverse Funds. The Inverse and Leveraged Inverse Funds will be purchased and redeemed entirely for cash. The use of an all-cash payment for the purchase and redemption of Creation Unit aggregations of these Funds is due to the limited transferability of Financial Instruments.

Placement of Creation Unit Purchases and Redemption Orders. Creation Unit aggregations of the Funds will be purchased at NAV, plus a Transaction Fee. For the Inverse and Leveraged Inverse Funds, the purchaser will make a cash payment by 12:00 p.m. ET on the third business day following the date on which the request was made (T+3). For the Leveraged Funds, the purchaser will make an in-kind payment and/or all-cash payment generally on the third business day following the date on which the request was made (T+3). Purchasers of either Fund in Creation Unit aggregations must satisfy certain creditworthiness criteria established by the Advisor and approved by the Board, as provided in the participation agreement between the Trust and Authorized Participants.

Creation Unit aggregations of the Leveraged Funds will be redeemable either in-kind or all in cash equal to the NAV, less the Redemption Transaction Fee. Creation Unit aggregations of the Inverse and Leveraged Inverse Funds will be redeemable for an all-cash payment equal to

of selling those particular Redemption Securities. This Redemption Transaction Fee is expected to be between \$500 and \$1,000.

the NAV, less the Redemption Transaction Fee. A Leveraged Fund has the right to make redemption payments in cash, in-kind, or a combination of each, provided that the value of its redemption payments equals the NAV of the Shares tendered for redemption at the time of tender.³⁹

Dividends

Dividends, if any, from net investment income will be declared and paid at least annually by each Fund in the same manner as by other open-end investment companies. Certain Funds may pay dividends on a semi-annual or more frequent basis. Distributions of realized securities gains, if any, generally will be declared and paid once a year.

Dividends and other distributions on the Shares of each Fund will be distributed, on a pro rata basis to Beneficial Owners of such Shares. Dividend payments will be made through DTC and DTC participants to Beneficial Owners then of record with proceeds received from each Fund.

The Trust will not make the DTC book-entry Dividend Reinvestment Service (the “Dividend Reinvestment Service”) available for use by Beneficial Owners for reinvestment of their cash proceeds, but certain individual brokers may make a Dividend Reinvestment Service available to Beneficial Owners. The SAI will inform investors of this fact and direct interested investors to contact such investor’s broker to ascertain the availability and a description of such a

³⁹ The Exchange states that, in the event an Authorized Participant has submitted a redemption request in good order and is unable to transfer all or part of a Creation Unit aggregation for redemption, a Fund may nonetheless accept the redemption request in reliance on the Authorized Participant’s undertaking to deliver the missing Fund Shares as soon as possible, which undertaking shall be secured by the Authorized Participant’s delivery and maintenance of collateral. The Authorized Participant’s participant agreement will permit the Fund to buy the missing Shares at any time and will subject the Authorized Participant to liability for any shortfall between the cost to the Fund of purchasing the Shares and the value of the collateral.

service through such broker. The SAI will also caution interested Beneficial Owners that they should note that each broker may require investors to adhere to specific procedures and timetables in order to participate in the service, and such investors should ascertain from their broker such necessary details. Shares acquired pursuant to such service will be held by the Beneficial Owners in the same manner and subject to the same terms and conditions as those for original ownership of Shares. Brokerage commissions, charges, and other costs, if any, incurred in purchasing Shares in the secondary market with the cash from the distributions generally will be an expense borne by the individual Beneficial Owners participating in reinvestment through such service.

Dissemination of Indicative Intra-Day Value (IIV)

In order to provide updated information relating to each Fund for use by investors, professionals, and persons wishing to create or redeem Shares, the Exchange will disseminate through the facilities of the CT: (1) continuously throughout the trading day, the market value of a Share; and (2) at least every 15 seconds throughout the trading day, a calculation of the IIV,⁴⁰ as calculated by the Exchange (the “IIV Calculator”). Comparing these two figures helps an investor to determine whether, and to what extent, the Shares may be selling at a premium or a discount to NAV.

The IIV Calculator will calculate an IIV for each Fund in the manner discussed below. The IIV is designed to provide investors with a reference value that can be used in connection with other related market information. The IIV does not necessarily reflect the precise

⁴⁰ The IIV is also referred to by other issuers as an “Estimated NAV,” “Underlying Trading Value,” “Indicative Optimized Portfolio Value (IOPV),” and “Intraday Indicative Value” in various places such as the prospectus and marketing materials for different exchange-traded funds.

composition of the current portfolio held by each Fund at a particular point in time. Therefore, the IIV on a per-Share basis disseminated during Amex trading hours should not be viewed as a real-time update of the NAV of a particular Fund, which is calculated only once a day. While the IIV that will be disseminated by Amex is expected to be close to the most recently calculated Fund NAV on a per-Share basis, it is possible that the value of the portfolio held by a Fund may diverge from the IIV during any trading day. In such case, the IIV will not precisely reflect the value of the Fund portfolio.

IIV Calculation for the Leveraged Funds. The IIV Calculator will disseminate the IIV throughout the trading day for the Leveraged Funds holding equity securities and Financial Instruments, if any. The IIV Calculator will determine such IIV by: (1) calculating the estimated current value of equity securities held by such Fund by (a) calculating the percentage change in the value of the Deposit Securities indicated on the Deposit List (as provided by the Trust) and applying that percentage value to the total value of the equity securities in the Fund as of the close of trading on the prior trading day (as provided by the Trust) or (b) calculating the current value of all of the equity securities held by the Fund (as provided by the Trust); (2) calculating the mark-to-market gains or losses from the Fund's total return equity swap exposure based on the percentage change to the Underlying Index and the previous day's notional values of the swap contracts, if any, held by such Fund (which previous day's notional value will be provided by the Trust); (3) calculating the mark-to-market gains or losses from futures, options, and other Financial Instrument positions by taking the difference between the current value of those positions held by the Fund, if any (as provided by the Trust), and the previous day's value of such positions; (4) adding the values from (1), (2), and (3) above to an estimated cash amount provided by the Trust (which cash amount will include the swap costs), to arrive at a value; and

(5) dividing that value by the total number of Shares outstanding (as provided by the Trust) to obtain current IIV.

IIV Calculation for the Inverse and Leveraged Inverse Funds. The IIV Calculator will disseminate the IIV throughout the trading day for the Inverse and Leveraged Inverse Funds. The IIV Calculator will determine such IIV by: (1) calculating the mark-to-market gains or losses from the Fund's total return equity swap exposure based on the percentage change to the Underlying Index and the previous day's notional values of the swap contracts, if any, held by such Funds (which previous day's notional value will be provided by the Trust); (2) calculating the mark-to-market gains or losses from futures, options, and other Financial Instrument positions by taking the difference between the current value of those positions held by the Funds, if any (as provided by the Trust), and the previous day's value of such positions; (3) adding the values from (1) and (2) above to an estimated cash amount provided by the Trust (which cash amount will include the swap costs), to arrive at a value; and (4) dividing that value by the total number of Shares outstanding (as provided by the Trust) to obtain current IIV.

Criteria for Initial and Continued Listing

The Shares are subject to the criteria for initial and continued listing of Index Fund Shares under Amex Rule 1002A. A minimum of two Creation Units (at least 100,000 Shares) will be required to be outstanding at the start of trading. This minimum number of Shares required to be outstanding at the start of trading will be comparable to requirements that have been applied to previously listed series of Index Fund Shares. The Exchange believes that the proposed minimum number of Shares outstanding at the start of trading is sufficient to provide market liquidity. The Exchange, pursuant to Amex Rule 1002A(a)(ii), will obtain a representation from the Trust (for each Fund), prior to listing, that the NAV per Share for each

Fund will be calculated daily and made available to all market participants at the same time. The Exchange represents that the Trust is required to comply with Rule 10A-3 under the Act⁴¹ for the initial and continued listing of the Shares.

Amex Trading Rules and Trading Halts

The Shares are equity securities subject to Amex rules governing the trading of equity securities. The Exchange states that Amex Rule 154–AEMI(c)(ii)⁴² and Amex Rule 190, Commentary .04,⁴³ apply to Index Fund Shares listed on the Exchange, including the Shares, and the Shares will be deemed “Eligible Securities,” as defined in Amex Rule 230, for purposes of the Intermarket Trading System Plan.

In addition to other factors that may be relevant, the Exchange may consider factors such as those set forth in Amex Rule 918C(b) in exercising its discretion to halt or suspend trading in Index Fund Shares. These factors include, but are not limited to, (1) the extent to which trading is not occurring in securities comprising an Underlying Index and/or the Financial Instruments of a Fund, or (2) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present. In the case of Financial Instruments held by a Fund, the Exchange represents that a notification procedure will be implemented so that timely notice from the Advisor is received by the Exchange when a particular Financial Instrument is in default or

⁴¹ 17 CFR 240.10A-3 (setting forth listing standards relating to audit committees).

⁴² Amex Rule 154–AEMI(c)(ii) provides that stop and stop limit orders to buy or sell a security, the price of which is derivatively priced based upon another security or index of securities, may be elected by a quotation. The Exchange states that the Shares are eligible for this treatment.

⁴³ Commentary .04 states that nothing in Amex Rule 190(a) should be construed to restrict a specialist registered in a security issued by an investment company from purchasing and redeeming the listed security or securities that can be subdivided or converted into the listed security from the issuer as appropriate to facilitate the maintenance of a fair and orderly market.

shortly to be in default. Notification from the Advisor will be made by phone, facsimile, or e-mail. The Exchange would then determine on a case-by-case basis whether a default of a particular Financial Instrument justifies a trading halt of the Shares. Trading in Shares of the Funds will also be halted if the circuit breaker parameters under Amex Rule 117 have been reached.

Amex Rule 1002A(b)(ii) sets forth the trading halt parameters with respect to Index Fund Shares. If the IIV or the Underlying Index value applicable to that series of Index Fund Shares is not being disseminated as required, the Exchange may halt trading during the day in which the interruption to the dissemination of the IIV or the Underlying Index value occurs. If the interruption to the dissemination of the IIV or the Underlying Index value persists past the trading day in which it occurred, the Exchange will halt trading no later than the beginning of the trading day following the interruption.

Information Circular

The Exchange, in an Information Circular to Exchange members and member organizations, prior to the commencement of trading, will inform members and member organizations regarding the application of Commentary .06 of Amex Rule 1000A–AEMI to the Funds.⁴⁴ The Information Circular will further inform members and member organizations of the prospectus and/or product description delivery requirements that apply to the Funds.⁴⁵

The Information Circular will also provide guidance with regard to member firm compliance responsibilities when effecting transactions in the Shares and highlighting the special

⁴⁴ See supra note 30.

⁴⁵ The Exchange states that the any product description used in reliance on Section 24(d) of the 1940 Act (15 U.S.C. 80a-24(d)) will comply with all representations and conditions set forth in the Application. See id.

risks and characteristics of the Funds and Shares as well as applicable Exchange rules. In particular, the Information Circular will set forth the requirements relating to Commentary .05 to Amex Rule 411 (Duty to Know and Approve Customers). Specifically, the Information Circular will remind members of their obligations in recommending transactions in the Shares so that members have a reasonable basis to believe that: (1) the recommendation is suitable for a customer given reasonable inquiry concerning the customer's investment objectives, financial situation, needs, and any other information known by such member; and (2) that the customer can evaluate the special characteristics, and is able to bear the financial risks, of such investment. In connection with the suitability obligation, the Information Circular will also provide that members make reasonable efforts to obtain the following information: (a) the customer's financial status; (b) the customer's tax status; (c) the customer's investment objectives; and (d) such other information used or considered to be reasonable by such member or registered representative in making recommendations to the customer. In addition, the Information Circular will disclose that the procedures for purchases and redemptions of Shares in Creation Units are described in each Fund's prospectus and SAI, and that Shares are not individually redeemable, but are redeemable only in Creation Unit aggregations or multiples thereof.

Surveillance

The Exchange represents that its surveillance procedures are adequate to properly monitor the trading of the Shares. Specifically, Amex will rely on its existing surveillance procedures governing Index Fund Shares. In addition, the Exchange also has a general policy prohibiting the distribution of material, non-public information by its employees.

2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act,⁴⁶ in general, and furthers the objectives of Section 6(b)(5),⁴⁷ 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, 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.

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 Amex consents, the Commission will:

A. by order approve such proposed rule change, or

⁴⁶ 15 U.S.C. 78f(b).

⁴⁷ 15 U.S.C. 78f(b)(5).

- B. institute proceedings to determine whether the proposed rule change should be disapproved.

The Commission is considering granting accelerated approval of the proposed rule change at the end of a 15-day comment period.⁴⁸

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-Amex-2007-74 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-2007-74. 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

⁴⁸ In the Exchange Notice, Amex requested accelerated approval of this proposed rule change prior to the 30th day after the date of publication of the notice of the filing thereof.

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-Amex-2007-74 and should be submitted on or before [insert date 15 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁴⁹

Florence E. Harmon
Deputy Secretary

⁴⁹ 17 CFR 200.30-3(a)(12).