

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-55747; File No. SR-CBOE-2007-48)

May 10, 2007

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change to Trade the iShares MSCI Canada 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 May 10, 2007, the Chicago Board Options Exchange, Incorporated (“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. This notice and order provides notice of the proposed rule change 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 Exchange proposes to trade, on the CBOE Stock Exchange (“CBSX”), shares (“Shares”) of iShares MSCI Canada Index Fund (“Fund”) 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 Exchange is proposing to trade Shares of the Fund pursuant to UTP. The Fund seeks to provide investment results that correspond generally to the price and yield performance, before fees and expenses, of publicly traded securities in the Canadian market, as measured by the MSCI Canada Index (“Index”).

The Commission previously approved the original listing and trading of the Shares on the American Stock Exchange (“Amex”).<sup>3</sup> Subsequently, the Commission approved the listing and trading of the Shares on the Pacific Exchange, which is now known as NYSE Arca (“NYSE Arca”).<sup>4</sup>

The Exchange deems the Shares to be equity securities, thus rendering trading in the Shares subject to the Exchange’s existing rules governing the trading of equity securities. The trading hours for the Shares on CBSX will be 8:15 a.m. until 3:15 p.m.

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<sup>3</sup> See Securities Exchange Act Release No. 36947 (March 8, 1996), 61 FR 10606 (March 14, 1996).

<sup>4</sup> See Securities Exchange Act Release No. 53230 (February 6, 2006), 71 FR 7594 (February 13, 2006) (approving SR-PCX-2005-116, which permitted the listing and trading on the Pacific Exchange of the Shares, as well as shares of other iShares MSCI international index funds).

Central Time (“CT”), unless the intraday indicative value (“IIV”) of the Fund is not being calculated and widely disseminated before 8:30 a.m. CT, in which case trading will begin at 8:30 a.m. CT; and unless Amex closes trading at 3:00 p.m. CT, in which case trading will end at 3:00 p.m. CT.

Quotations for and last sale information regarding the Shares are disseminated through the Consolidated Quotation System. The value of the Index is updated intra-day on a real-time basis as individual component securities of the Index change in price. The intraday value of the Index is disseminated every 15 seconds throughout the trading day. In addition, a value for the Index is disseminated once each trading day, based on closing prices in the relevant exchange markets.

To provide updated information relating to the Shares for use by investors, professionals, and persons wishing to create or redeem them, Amex disseminates through the facilities of the Consolidated Tape Association the IIV for the Fund as calculated by a securities information provider. The IIV is disseminated on a per-share basis every 15 seconds during regular trading hours. CBOE Rule 52.3 provides that, if the IIV ceases to be widely available, CBSX would cease trading the Shares.

In connection with the trading of the Shares, the Exchange would inform members and member organizations in an Information Circular of the special characteristics and risks associated with trading the Shares, including how they are created and redeemed, the prospectus or product description delivery requirements applicable to the Shares, applicable Exchange rules, how information about the value of the underlying Index is disseminated, and trading information. In addition, before a member recommends a transaction in the Shares, the member must determine that the

Shares are suitable for the customer as required by CBOE Rule 53.6.

With respect to trading halts, the Exchange may consider all relevant factors in exercising its discretion to halt or suspend trading in the Shares. Trading may be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable. These may include: (1) the extent to which trading is not occurring in the securities comprising the underlying index and/or financial instruments of the Fund, or (2) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present. In addition, trading in the Shares would be subject to trading halts caused by extraordinary market volatility pursuant to the Exchange's "circuit breaker" rule.<sup>5</sup>

Moreover, the Exchange represents that it would cease trading the Shares if the listing market stops trading the Shares because of a regulatory halt similar to a halt based on CBOE Rule 6.3. UTP trading in the Shares is also governed by the trading halts provisions of CBOE Rule 52.3 relating to temporary interruptions in the calculation or wide dissemination of the IIV or the value of the underlying index.

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

## 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.

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<sup>5</sup> CBOE Rule 6.3B.

Specifically, the Exchange believes that the proposed rule change is consistent with the Section 6(b)(5)<sup>6</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>7</sup> because it deems Shares to be equity securities, thus rendering trading in the Shares subject to the Exchange's existing rules governing the trading of equity securities.

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.

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

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<sup>6</sup> 15 U.S.C. 78(f)(b)(5).

<sup>7</sup> 17 CFR 240.12f-5.

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-CBOE-2007-48 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-2007-48. 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-2007-48 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 is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.<sup>8</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>9</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>10</sup> which permits an exchange to trade, pursuant to UTP, a security that is listed and registered on another exchange.<sup>11</sup> The Commission notes that it previously approved the listing and trading of the Shares on Amex and NYSE Arca.<sup>12</sup> The

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<sup>8</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>9</sup> 15 U.S.C. 78f(b)(5).

<sup>10</sup> 15 U.S.C. 78l(f).

<sup>11</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 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>12</sup> See supra notes 3 and 4.

Commission also finds that the proposal is consistent with Rule 12f-5 under the Act,<sup>13</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>14</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 the 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.

Furthermore, the Commission believes that the proposal is reasonably designed to preclude trading of the Shares when transparency is impaired. CBOE Rule 52.3 sets forth trading halt procedures when CBOE trades the Shares pursuant to UTP. Under this rule, if the listing market halts trading when the IIV is not being calculated or widely disseminated, CBOE also would halt trading in the Shares. This rule is substantially

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<sup>13</sup> 17 CFR 240.12f-5.

<sup>14</sup> 15 U.S.C. 78k-1(a)(1)(C)(iii).

similar to those recently adopted by other exchanges and found by the Commission to be consistent with the Act.<sup>15</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, the Commission previously found the listing and trading of the Shares on Amex and NYSE Arca to be 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

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<sup>15</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).

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>16</sup> that the proposed rule change (SR-CBOE-2007-48) be and it hereby is, approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>17</sup>

Florence E. Harmon  
Deputy Secretary

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<sup>16</sup> 15 U.S.C. 78s(b)(2).

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