

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56559; File No. SR-CBOE-2007-103)

September 27, 2007

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change to Trade Shares of the iShares FTSE/Xinhua China 25 Index Fund Pursuant to Unlisted Trading Privileges

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 September 6, 2007, the Chicago Board Options Exchange, Incorporated (“CBOE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been substantially prepared by the Exchange. This order provides notice of the proposed rule change and approves the proposed rule change 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 of the iShares FTSE/Xinhua China 25 Index Fund (“Fund”) pursuant to unlisted trading privileges (“UTP”). The text of the proposed rule change is available at CBOE, the Commission’s Public Reference Room, and www.cboe.org/legal.

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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 proposes to trade shares of the Fund on CBSX pursuant to UTP. The Fund seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the FTSE/Xinhua China 25 Index (“Index”). The Index consists of 25 of the largest and most liquid companies in the Chinese equity market that are available to international investors. The Commission previously approved the original listing and trading of the Fund shares on the New York Stock Exchange LLC (“NYSE”).³ Subsequently, the Commission approved the listing and trading of the Fund shares on the Pacific Exchange, Inc.,⁴ which is now known as NYSE Arca, Inc. (“NYSE Arca”), and the trading of the Fund shares pursuant to UTP on the American Stock Exchange LLC (“Amex”).⁵

The Exchange deems the Fund shares to be equity securities, thus rendering trading in the Fund shares subject to the Exchange’s existing rules governing the trading of equity securities. The trading hours for the Fund shares on CBSX will be from 8:15 a.m. until 3:15 p.m. Central Time or 9:15 a.m. until 4:15 p.m. Eastern Time (“ET”).

Quotations for and last-sale information regarding the Fund shares are disseminated through the Consolidated Quotation System. The value of the Index is updated intraday on a

³ See Securities Exchange Act Release No. 50505 (October 8, 2004), 69 FR 61280 (October 15, 2004) (SR-NYSE-2004-55).

⁴ See Securities Exchange Act Release No. 50799 (December 6, 2004), 69 FR 72242 (December 13, 2004) (SR-PCX-2004-99).

⁵ See Securities Exchange Act Release No. 50800 (December 6, 2004), 69 FR 72228 (December 13, 2004) (SR-Amex-2004-85).

real-time basis as individual component securities of the Index change in price. The intraday value of the Index is disseminated at least every 60 seconds from 8:15 p.m. until 3:00 a.m. ET.⁶ In addition, a value for the Index is disseminated once each trading day, based on closing prices in the relevant exchange market.⁷

To provide updated information relating to the Fund for use by investors, professionals, and persons wishing to create or redeem the shares, NYSE disseminates through the facilities of the Consolidated Tape Association the Intraday Indicative Value (“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 NYSE trading hours.⁸

In connection with the trading of the Fund shares, the Exchange will inform members and member organizations in an Information Circular of the special characteristics and risks associated with trading the Fund shares, including how they are created and redeemed, the prospectus or product description delivery requirements applicable to the Fund, 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 Fund, the member must determine that the Fund is suitable for the customer, as required by CBOE Rule 53.6.

The Exchange intends to utilize its existing surveillance procedures applicable to exchange-traded funds to monitor trading in the Fund shares. CBOE represents that these

⁶ E-mail from Angelo Evangelou, Assistant General Counsel, CBOE, to Rebekah Goshorn, Division of Market Regulation, Commission, dated September 19, 2007 (correcting the timing of the dissemination of the intraday value of the Index).

⁷ See supra note 4, 69 FR at 72245 (providing a more detailed discussion of the calculation and dissemination of the Index value).

⁸ See supra note 4, 69 FR at 72246.

procedures are adequate to monitor Exchange trading of the Fund shares.

With respect to trading halts, the Exchange may consider all relevant factors in exercising its discretion to halt or suspend trading in the Fund shares. Trading may be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Fund shares inadvisable. These may include: (1) the extent to which trading is not occurring in the securities comprising the Index and/or the financial instruments of the Fund; (2) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present; or (3) trading of the Fund shares has been halted or suspended in the primary market.⁹ In addition, trading in the Fund shares will be subject to trading halts caused by extraordinary market volatility pursuant to the Exchange's "circuit breaker" rule.¹⁰ UTP trading in the Fund 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.

2. Statutory Basis

CBOE believes that the proposed rule change is consistent with the Act, the rules and regulations thereunder applicable to a national securities exchange, and, in particular, the requirements of Section 6(b) of the Act.¹¹ Specifically, CBOE believes that the proposed rule change is consistent with the Section 6(b)(5) of the Act¹² in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free

⁹ See CBOE Rule 6.3(a). E-mail from Angelo Evangelou, Assistant General Counsel, CBOE, to Rebekah Goshorn, Division of Market Regulation, Commission, dated September 27, 2007 (clarification on trading halts).

¹⁰ See CBOE Rule 6.3B.

¹¹ 15 U.S.C. 78f(b).

¹² 15 U.S.C. 78f(b)(5).

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 Act¹³ because it deems the Fund shares to be equity securities, thus rendering trading in the Fund shares subject to the Exchange's existing rules governing the trading of equity securities.

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

The Exchange does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purpose of the Act.

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

The Exchange has neither solicited nor received written comments on the proposed rule change.

III. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CBOE-2007-103 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.

¹³ 17 CFR 240.12f-5.

All submissions should refer to File Number SR-CBOE-2007-103. 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 such filing also will be available for inspection and copying at the principal office of CBOE. 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-2007-103 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.¹⁴ In particular, the Commission finds that the proposed rule change is

¹⁴ In approving this rule change, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

consistent with Section 6(b)(5) of the Act,¹⁵ 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 shares of the Fund.

In addition, the Commission finds that the proposal is consistent with Section 12(f) of the Act,¹⁶ which permits an exchange to trade, pursuant to UTP, a security that is listed and registered on another exchange.¹⁷ The Commission notes that it previously approved the listing and trading of the shares on NYSE and NYSE Arca¹⁸ and trading of the Fund shares pursuant to UTP on Amex.¹⁹ The Commission also finds that the proposal is consistent with Rule 12f-5 under the Act,²⁰ 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 Fund shares to be equity securities, thus rendering trading in such shares subject to the Exchange's existing rules governing the trading of equity securities.

¹⁵ 15 U.S.C. 78f(b)(5).

¹⁶ 15 U.S.C. 78l(f).

¹⁷ 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.

¹⁸ See supra notes 3 and 4.

¹⁹ See supra note 5.

²⁰ 17 CFR 240.12f-5.

The Commission further believes that the proposal is consistent with Section 11A(a)(1)(C)(iii) of the Act,²¹ 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 Fund shares are disseminated through the Consolidated Quotation System. The value of the Index is disseminated every 60 seconds from 8:15 p.m. until 3:00 a.m. ET. In addition, NYSE disseminates through the facilities of the Consolidated Tape Association the IIV for the Fund on a per-share basis every 15 seconds during regular NYSE trading hours.

Moreover, the proposal appears reasonably designed to halt trading in the Fund shares when transparency is impaired. UTP trading in the Fund 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. If the listing market halts trading in the shares, or the IIV or the Index value is not being calculated or disseminated as required, the Exchange would halt trading in the shares.

The Commission notes that, if the Fund shares should be delisted by the listing exchange, 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 represents that its surveillance procedures are adequate to monitor Exchange trading of the Fund shares.

²¹ 15 U.S.C. 78k-1(a)(1)(C)(iii).

- (2) The Exchange will inform its members in an Information Circular of the special characteristics and risks associated with trading the Fund shares, including suitability recommendation requirements.
- (3) The Exchange will require its members to deliver a prospectus or product description to investors purchasing shares of the Fund and will note this prospectus delivery requirement in the Information Circular.

This approval order is based on the Exchange's 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 above, the Commission previously found that the listing and trading of the Fund shares on NYSE and NYSE Arca is consistent with the Act.²² In addition, the Commission notes that it previously approved the trading of the Fund shares on Amex pursuant to UTP.²³ The Commission presently is not aware of any regulatory issue that should cause it to revisit these findings or would preclude the trading of the Fund shares on the Exchange pursuant to UTP. Therefore, accelerating approval of this proposal should benefit investors by creating, without undue delay, additional competition in the market for such shares.

²² See supra notes 3 and 4.

²³ See supra note 5.

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act²⁴ that the proposed rule change (SR-CBOE-2007-103), be, and it hereby is, approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.²⁵

Florence E. Harmon
Deputy Secretary

²⁴ 15 U.S.C. 78s(b)(2).

²⁵ 17 CFR 200.30-3(a)(12).