

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-54944; File No. SR-NYSE-2006-69)

December 15, 2006

Self-Regulatory Organizations; New York Stock Exchange LLC; Order Granting Accelerated Approval to Proposed Rule Change and Amendment No. 1 Thereto Relating to the Listing and Trading of Exchange-Traded Notes of Barclays Bank PLC Linked to the Performance of the MSCI India Equities Index

I. Introduction

On August 24, 2006, the New York Stock Exchange LLC (“NYSE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), 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> a proposed rule change to list and trade exchange-traded notes (“Notes”) of Barclays Bank PLC (“Barclays”) linked to the performance of the MSCI India Total Return Index<sup>SM</sup> (“Index”). On November 8, 2006, the Exchange submitted Amendment No. 1.<sup>3</sup> The proposed rule change, as amended, was published for comment in the Federal Register on November 28, 2006 for a 15-day comment period.<sup>4</sup> The Commission received one comment regarding the proposal.<sup>5</sup> This order approves the proposed rule change, as amended, on an accelerated basis.

II. Description of the Proposal

Under Section 703.19 of the Listed Company Manual (“Manual”), the Exchange may, subject to Commission approval of a submission pursuant to Section 19(b) of the Act, approve

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

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

<sup>3</sup> Amendment No. 1 replaced and superseded the Exchange’s original submission in its entirety.

<sup>4</sup> See Securities Exchange Act Release No. 54800 (November 21, 2006), 71 FR 68864.

<sup>5</sup> See letter from Claire P. McGrath, Senior Vice President and General Counsel, American Stock Exchange LLC (“Amex”), to Nancy M. Morris, Secretary, Commission, dated December 8, 2006.

for listing and trading securities not otherwise covered by the criteria of Sections 1 and 7 of the Manual, provided the issue is suited for auction market trading. Accordingly, the Exchange proposes to list and trade, under Section 703.19 of the Manual, the Notes, which are linked to the performance of the Index.<sup>6</sup>

In its proposal, the Exchange described the structure and features of the Notes, including early redemption and default provisions, as well as the underlying index, applicable trading rules and surveillance procedures. Key aspects of the proposal are noted below.

### The Notes

The Notes are a series of debt securities of Barclays that provide for a cash payment at maturity or upon earlier redemption at the holder's option based on the performance of the Index, subject to applicable fees and expenses. The original issue price of each Note will be \$50. The Notes will trade on the Exchange's equity trading floor, and the Exchange's existing equity trading rules will apply to trading in the Notes. Holders of the Notes will not receive any interest payments from the Notes, and the Notes will not have a minimum principal amount that will be repaid. Accordingly, payment on the Notes prior to or at maturity may be less than the original issue price of the Notes. The Notes will have a term of 30 years. The Notes are not callable.

Holders of the Notes at maturity will receive a payment equal to the initial issue price of their Notes times an index factor minus an investor fee ("Cash Payment"). The "index factor" on any given day will be equal to the closing value of the Index on that day divided by the initial index level. The investor fee will be equal to 0.89 percent per year times the principal amount of holders' Notes times the index factor, calculated on a daily basis. Thus, each day until maturity or early redemption, the investor fee will increase by an amount equal to 0.89 percent times the

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<sup>6</sup> Barclays intends to issue the Notes under the name "iPath<sup>SM</sup> Exchange-Traded Notes."

principal amount of holders' Notes times the index factor on that day (or, if such day is not a trading day, the index factor on the immediately preceding trading day) divided by 365. Subject to certain restrictions,<sup>7</sup> the Notes may be redeemed prior to maturity. Unless otherwise permitted by Barclays,<sup>8</sup> Notes may only be redeemed in aggregations of 50,000. Upon redemption, a Note holder will receive the applicable Cash Payment less a redemption charge. The investor fee and the redemption charge are the only fees holders will be charged in connection with their ownership of the Notes.

The MSCI India Total Return Index<sup>SM</sup>

The Exchange provided detailed description of the Index in its proposal.<sup>9</sup> In summary, the Index is a free float-adjusted market capitalization index that is designed to measure the market performance, including price performance and income from dividend payments, of Indian equity securities. The Index is currently comprised of the top 68 companies by market capitalization listed on the National Stock Exchange of India ("NSE"). The Index is calculated by Morgan Stanley Capital International Inc. ("MSCI") and is denominated in U.S. dollars.<sup>10</sup>

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<sup>7</sup> Generally, the Notes may only be redeemed once each week on a "Redemption Date," which is the third business day following a weekly "Valuation Date." Unless there is a market disruption event, a Valuation Date is each Thursday from the first Thursday after issuance of the Notes until the last Thursday before maturity of the Notes. See Notice, 71 FR at 68864-65.

<sup>8</sup> The Exchange states that any such reduction will be applied on a consistent basis for all holders of Notes at the time the reduction becomes effective.

<sup>9</sup> See Notice, 71 FR at 68866-68.

<sup>10</sup> As the Commission has previously stated, when a broker-dealer, or a broker-dealer's affiliate such as MSCI, is involved in the development and maintenance of a stock index upon which a product such as iShares is based, the broker-dealer or its affiliate should have procedures designed specifically to address the improper sharing of information. See Securities Exchange Act Release No. 52178 (July 29, 2005), 70 FR 46244 (August 8, 2005) (SR-NYSE-2005-41). In this proposal, the Exchange states that MSCI has implemented procedures to prevent the misuse of material, non-public information regarding changes to component stocks in the MSCI Indexes.

The Index is calculated and updated continuously until the market closes and is published as end of day values in U.S. dollars using the exchange rate published by WM Reuters at 4:00 p.m. on the previous day. The Index is reported by Bloomberg, L.P. under the ticker symbol “NDEUSIA.” The Index is static during the Exchange trading day.

Generally, the prices used to calculate the MSCI Indexes are the official exchange closing prices or those figures accepted as such. MSCI uses the foreign exchange rates published by WM Reuters at 4:00 p.m. London time.<sup>11</sup>

#### Pricing Information Regarding the Notes

An intraday value (“Indicative Value”) meant to approximate the intrinsic economic value of the Notes, updated to reflect changes in currency exchange rates, will be calculated and published by a third-party service provider via the facilities of the Consolidated Tape Association at least every fifteen seconds throughout the NYSE trading day on each day on which the Notes are traded on the Exchange. The Indicative Value will not reflect changes in the prices of securities included in the Index resulting from trading on other markets after the close of trading on the NSE, but will be updated to reflect changes in the exchange rate between the U.S. dollar and the Indian rupee. Additionally, Barclays or an affiliate will calculate and publish the closing Indicative Value of the Notes on each trading day at [www.ipathetn.com](http://www.ipathetn.com). The last sale price of the Notes will also be disseminated over the Consolidated Tape, subject to a 20-minute delay.

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<sup>11</sup> MSCI monitors exchange rates independently and may, under exceptional circumstances, elect to use an alternative exchange rate if the WM Reuters rate is believed not to be representative for a given currency on a particular day.

## Listing Criteria

In its proposal, the Exchange stated that the Notes will conform to the initial listing standards for equity securities under Section 703.19 of the Manual insofar as (i) Barclays is an affiliate of Barclays PLC,<sup>12</sup> which is an Exchange-listed company in good standing, (ii) the Notes will have a minimum life of one year, (iii) the minimum public market value of the Notes at the time of issuance will exceed \$4 million, (iv) there will be at least one million Notes outstanding, and (v) there will be at least 400 holders at the time of issuance.

As detailed in its proposal, the Exchange will delist the Notes under the following circumstances:

- If, following the initial twelve month period from the date of commencement of trading of the Notes, (a) the Notes have more than 60 days remaining until maturity and there are fewer than 50 beneficial holders of the Notes for 30 or more consecutive trading days, (b) fewer than 100,000 Notes remain issued and outstanding, or (c) the market value of all outstanding Notes is less than \$1,000,000.
- If the Index closing value ceases to be calculated or available during the time the Notes trade on the Exchange on at least a 15 second basis through one or more major market data vendors.<sup>13</sup>

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<sup>12</sup> Though not an Exchange-listed company itself, Barclays would exceed the Exchange's earnings and minimum tangible net worth requirements in Section 102 of the Manual. Additionally, Barclays has informed the Exchange that the original issue price of the Notes, when combined with the original issue price of all other iPath securities offerings of the issuer that are listed on a national securities exchange (or association), does not exceed 25 percent of the issuer's net worth.

<sup>13</sup> Telephone conference between John Carey, Assistant General Counsel, NYSE, and Brian Trackman, Special Counsel, Division of Market Regulation, Commission, on December 15, 2006 ("Telephone Conference") (clarifying scope of delisting condition).

- If, during the time the Notes trade on the Exchange, the Indicative Value ceases to be available through the facilities of the Consolidated Tape Association or a major market data vendor on a 15 second delayed basis.<sup>14</sup>
- If such other event shall occur or condition exists which in the opinion of the Exchange makes further dealings on the Exchange inadvisable.

In addition, the Exchange will file a proposed rule change pursuant to Rule 19b-4 under the Act, seeking approval to continue trading the Notes and unless approved, the Exchange will commence delisting the Notes, if

- A successor or substitute index is used in connection with the Notes. The filing will address, among other things, the listing and trading characteristics of the successor or substitute index and the Exchange's surveillance procedures applicable thereto.
- At any time the most heavily weighted component stock in the Index exceeds 25 percent of the weight of the Index or the five most heavily weighted component stocks exceed 60 percent of the weight of the Index.
- MSCI substantially changes the index methodology.

The Exchange prohibits the initial and/or continued listing of any security that is not in compliance with Rule 10A-3 under the Act.<sup>15</sup>

### Trading Rules

The Exchange's existing equity trading rules will apply to trading of the Notes. The Notes will trade between the hours of 9:30 a.m. and 4:00 p.m. ET and will be subject to the

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<sup>14</sup> Telephone Conference (clarifying how dissemination must occur).

<sup>15</sup> 17 CFR 240.10A-3.

equity margin rules of the Exchange.<sup>16</sup>

### Trading Halts

With regard to trading of the Notes, the Exchange represents that, if the Index Value or the Indicative Value is not being disseminated as required, the Exchange may halt trading during the day on which the interruption to the dissemination of the Index Value or the Indicative Value first occurs. If the interruption to the dissemination of the Index Value or the Indicative 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.

### Suitability

Pursuant to Exchange Rule 405, the Exchange will impose a duty of due diligence on its members and member firms to learn the essential facts relating to every customer prior to trading the Notes.<sup>17</sup> With respect to suitability recommendations and risks, the Exchange will require members, member organizations and employees thereof recommending a transaction in the Notes: (i) to determine that such transaction is suitable for the customer, and (ii) to have a reasonable basis for believing that the customer can evaluate the special characteristics of, and is able to bear the financial risks of, such transaction.

### Information Memorandum

The Exchange will, prior to trading the Notes, distribute an information memorandum to the membership providing guidance with regard to member firm compliance responsibilities (including suitability recommendations) when handling transactions in the Notes. The information memorandum will note to members language in the prospectus used by Barclays in

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<sup>16</sup> See NYSE Rule 431.

<sup>17</sup> NYSE Rule 405 requires that every member, member firm or member corporation use due diligence to learn the essential facts relative to every customer and to every order or account accepted.

connection with the sale of the Notes regarding prospectus delivery requirements for the Notes. Specifically, in the initial distribution of the Notes,<sup>18</sup> and during any subsequent distribution of the Notes, NYSE member organizations will deliver a prospectus to investors purchasing from such distributors.

The information memorandum will discuss the special characteristics and risks of trading this type of security. Specifically, the information memorandum, among other things, will discuss what the Notes are, how the Notes are redeemed, applicable Exchange rules, dissemination of information regarding the Index value and the Indicative Value, exchange rate, trading information, and applicable suitability rules. The information memorandum will also notify members and member organizations about the procedures for redemptions of Notes and that Notes are not individually redeemable but are redeemable only in aggregations of at least 100,000 Notes.

The information memorandum will also discuss any exemptive or no-action relief under the Act provided by the Commission staff.

### Surveillance

The Exchange's surveillance procedures will incorporate and rely upon existing Exchange surveillance procedures governing equities with respect to surveillance of the Notes.<sup>19</sup> The Exchange believes that these procedures are adequate to monitor Exchange trading of the Notes and to detect violations of Exchange rules, thereby deterring manipulation. In this regard, the Exchange currently has the authority under NYSE Rule 476 to request the Exchange

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<sup>18</sup> The Registration Statement reserves the right to make subsequent distributions of these Notes.

<sup>19</sup> The Exchange's current trading surveillances focus on detecting securities trading outside normal patterns. When such situations are detected, surveillance analysis follows and investigations are opened, where appropriate, to review the behavior of all relevant parties for all relevant trading violations.

specialist in the Notes to provide NYSE Regulation with information that the specialist uses in connection with pricing the Notes on the Exchange, including specialist proprietary or other information regarding securities, options on securities or other derivative instruments. The Exchange believes it also has authority to request any other information from its members – including floor brokers, specialists and “upstairs” firms – to fulfill its regulatory obligations.

### III. Summary of Comment

In its comment letter,<sup>20</sup> Amex noted that the NYSE intended to list and trade the Notes without entering into a comprehensive surveillance sharing agreement (“CSSA”) with the NSE or other Indian marketplaces. The Amex stated its belief that approval of the proposal would be a “significant departure” from existing practice and rules to permit derivative products like the Notes to be listed and traded without a CSSA. Specifically, the Amex noted that the Commission has generally required CSSAs between U.S. exchanges and foreign markets for index-linked notes and other derivative securities products. In addition, the Amex cited Section 107D(g)(viii) of the Amex Company Guide relating to index-linked securities and similar rules of other exchanges,<sup>21</sup> which require that foreign country securities or American Depository Receipts (“ADRs”) that are not subject to CSSAs do not in the aggregate represent more than 20 percent of the weight of the index. The Amex further noted that other rules addressing listing standards for derivative products, including index options and options on exchange-traded funds, generally require CSSAs but are not consistent with regard to what percentage of underlying foreign securities must be subject to such agreements. Noting that more recently, the Commission has approved listing standards for exchange-traded funds based on global and/or international securities indexes and other derivative products without requiring CSSAs, the

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<sup>20</sup> See supra note 5.

<sup>21</sup> See NYSEArca Rule 5.2(j)(6)(g)(vii) and Nasdaq Rule 4420(m)(7)(ix).

Amex urges the Commission to clarify that CSSAs are not required for index-linked notes and index options. To the extent CSSA standards are inconsistent among different derivative product classes, the Amex also requests guidance on the proper regulatory standard.

While the Commission appreciates these comments, we believe that they are outside the scope of the present rule filing, which addresses only a single derivative product. Rather, the Commission believes that the Amex's comments – particularly in regard to any perceived anomalies between existing exchange rules establishing derivative product listing standards – are best addressed in the context of a separate rule proposal.

#### IV. Discussion and Commission's Findings

The Commission finds that the proposed rule change, as amended, is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange. In particular, the Commission finds that the proposal, as amended, is consistent with the objectives of Section 6(b)(5) of the Act,<sup>22</sup> which requires, among other things, that the Exchange's rules be 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, in general, to protect investors and the public interest.

##### A. Surveillance

The Commission finds that the Exchange's surveillance procedures are reasonably designed to monitor for trading abuses in connection with the Notes.

NYSE Rule 476 requires Exchange specialists in the Notes, upon the Exchange's request, to provide NYSE Regulation with information that the specialist uses in connection with pricing the Notes on the Exchange, including specialist proprietary or other information regarding

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<sup>22</sup> 15 U.S.C. 78f(b)(5).

securities, options on securities or other derivative instruments. Furthermore, the Exchange believes it also has authority to request any other information from its members – including floor brokers, specialists and “upstairs” firms – to fulfill its regulatory obligations. The Commission also notes that the Exchange represents that it will delist the Notes if a new component is added to the Index (or pricing information is used for a new or existing component), unless otherwise approved for continued trading by the Commission. The Commission believes that these requirements provide the NYSE with the tools necessary to adequately surveil trading in the Notes.

**B. Dissemination of Information**

The Commission believes that sufficient venues exist for obtaining reliable information so that holders of the Notes can monitor the value of their investment relative to the underlying Index.

Information about the Index (and its components) is widely available through public Web sites and professional subscription services, including Reuters and Bloomberg. Likewise, real-time information about the trading of the Index components and their daily closing values is available through major market data vendors. The Index Sponsor calculates the Index continuously. The Exchange has represented that the daily closing value will be disseminated during the time the Notes trade on the Exchange. Further, while the Index is calculated by a broker-dealer, a number of independent sources verify both the intraday and closing Index values. The composition and calculation methodology for the Index is public and transparent.

An Indicative Value for the Notes will be calculated and disseminated at least every 15 seconds throughout the NYSE trading day on each day on which the Notes are traded on the

Exchange. In addition, Barclays or an affiliate will calculate and publish the closing Indicative Value of the Notes on each trading day at [www.ipathetn.com](http://www.ipathetn.com).

If the closing level of Index or Indicative Value is not disseminated as described in its proposal, the Exchange may halt trading on which the interruption to the dissemination of the Index Value or the Indicative Value first occurs. If the interruption to the dissemination of the Index Value or the Indicative 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.

C. Listing and Trading

The Commission finds that the Exchange's proposed rules and procedures for the listing and trading of the proposed Notes are consistent with the Act. The Notes will trade as equity securities subject to NYSE rules including, among others, rules governing equity margins, specialist responsibilities, account opening, and customer suitability requirements.

The Commission believes that the listing and delisting criteria for the Notes should help to maintain a minimum level of liquidity and therefore minimize the potential for manipulation of the Notes. The Exchange represents that it would file a proposed rule change pursuant to Rule 19b-4 under the Act,<sup>23</sup> which must be approved for continued trading of the Notes, if (a) a successor or substitute index is used in connection with the Notes, (b) at any time, the most heavily weighted component stock in the Index exceeds 25 percent of the weight of the Index or the top five most heavily weighted stocks exceed 60 percent of the weight of the Index, or (c) the Index Sponsor (MSCI) substantially changes the index methodology.

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<sup>23</sup> 17 CFR 240.19b-4.

Finally, the Commission notes that the Information Memorandum that the Exchange will distribute will inform members and member organizations about the terms, characteristics and risks in trading the Notes, including their prospectus delivery obligations.

D. Accelerated Approval

The Commission finds good cause to approve the proposed rule change, as amended, prior to the thirtieth day after publication for comment in the Federal Register. Accelerating approval of this proposal should benefit investors who desire to participate, through the Notes, in the designated Index by enabling them to begin trading the Notes promptly. Therefore, the Commission finds good cause, consistent with Section 19(b)(2) of the Act,<sup>24</sup> to approve the proposed rule change on an accelerated basis.

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act<sup>25</sup> that the proposed rule change (SR-NYSE-2006-69), be, and hereby is, approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>26</sup>

Nancy M. Morris  
Secretary

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<sup>24</sup> 15 U.S.C. 78s(b)(2).

<sup>25</sup> 15 U.S.C. 78s(b)(2).

<sup>26</sup> 17 CFR 200.30-3(a)(12).