

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-55002; File No. SR-NYSEArca-2006-32)

December 21, 2006

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change to Trade Various iShares<sup>®</sup> MSCI Index Funds Pursuant to Unlisted Trading Privileges

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 October 18, 2006, NYSE Arca, Inc. ("NYSE Arca" 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. The Commission is publishing this notice and order to solicit comments on the proposed rule change from interested persons and to approve 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, through its wholly owned subsidiary NYSE Arca Equities, Inc. ("NYSE Arca Equities"), proposes to trade shares ("Shares") of the following Index Funds ("Funds") pursuant to unlisted trading privileges ("UTP") based on NYSE Arca Rule 5.2(j)(3):

- iShares MSCI Brazil (Symbol: EWZ)
- iShares MSCI South Africa (EZA)
- iShares MSCI South Korea (EWY)
- iShares MSCI Taiwan (EWT)

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

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

The text of the proposed rule change is available on the Exchange's Web site ([www.nysearca.com](http://www.nysearca.com)), at the principal office of the Exchange, and at the Commission's Public Reference Room.

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 the Shares of the Funds pursuant to UTP. Each Fund seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the applicable underlying index ("Index"). Each Index is calculated by Morgan Stanley Capital Investment ("MSCI") for each trading day based on official closing prices of the Index components in the applicable foreign markets. Each Index consists of stocks traded primarily on the respective country's stock exchange. Each Fund utilizes a passive or indexing investment approach, which attempts to approximate the investment performance of its benchmark index through quantitative analytical procedures. MSCI generally seeks to have 60% of the capitalization of a country's stock market reflected in the MSCI Index for such country.

The Commission previously approved the original listing and trading of the Shares of the Funds on the American Stock Exchange, LLC. (“Amex”).<sup>3</sup> The Funds, with the exception of iShares MSCI South Africa, were subsequently listed on The New York Stock Exchange (“NYSE”).<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. Trading hours on the Exchange for the Shares are the same as those set forth in NYSE Arca Equities Rule 7.34, except that the Shares issued by MSCI Brazil and iShares MSCI South Africa will not trade in the Opening Session (4:00 a.m. to 9:30 a.m. Eastern Time) unless the Indicative Optimized Portfolio Value (“IOPV”) is calculated and disseminated during that time. The iShares MSCI South Korea Index Fund and iShares MSCI Taiwan Index Fund will trade during the Opening Session, and there is no overlap in trading hours of the Opening Session and the foreign markets trading the MSCI South Korea Index and MSCI Taiwan Index securities. The last calculated IOPV is available to investors during the Opening Session by means of the consolidated tape or major market data vendors. The IOPV for these two Funds is unchanged during the Opening Session from its last calculated value.

Quotations for and last sale information regarding the Funds are disseminated through the Consolidated Quotation System. The Index on which each Fund is based is calculated by MSCI for each trading day in the applicable foreign market based on official closing prices of the Index components in such markets. The Indexes are

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<sup>3</sup> See Securities Exchange Act Release No. 42748 (May 2, 2000), 65 FR 30155 (May 10, 2000) (SR-AMEX-98-49). The Funds were formerly known as World Equity Benchmark Shares or WEBS.

<sup>4</sup> See Securities Exchange Act Release No. 52761 (November 10, 2005), 70 FR 70010 (November 18, 2005) (SR-NYSE-2005-76).

reported periodically in major financial publications, and the intra-day value of each Index is disseminated every 15 seconds throughout the trading day by organizations authorized by MSCI. The net asset value (“NAV”) of each Fund is calculated and disseminated each business day, normally at the close of regular trading of the NYSE.

To provide updated information relating to each Fund for use by investors, professionals, and persons wishing to create or redeem the proposed Funds, the IOPV for each Fund as calculated by Bloomberg, L.P. is disseminated through the facilities of the Consolidated Tape Association. The IOPV is disseminated on a per-share basis every 15 seconds during regular NYSE trading hours of 9:30 a.m. to 4:15 p.m. Eastern Time, or, for iShares MSCI South Africa (listed on Amex), 9:30 a.m. to 4:00 p.m. or 4:15 p.m., depending on the time Amex specifies for the trading of such Fund’s Shares.

The IOPV may not reflect the value of all securities included in the applicable Index. In addition, the IOPV does not necessarily reflect the precise composition of the current portfolio of securities held by each Fund at a particular point in time. Therefore, the IOPV on a per-share basis disseminated during NYSE’s or Amex’s regular 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. The IOPV is intended to closely approximate the value per share of the portfolio of securities for the Fund and provide for a close proxy of the NAV at a greater frequency for investors.

For the iShares MSCI South Korea Index and MSCI Taiwan Index Funds, there is no overlap in trading hours between the foreign markets and NYSE. Therefore, for these Funds, the IOPV is calculated based on closing prices in the principal foreign market for securities in each Fund’s portfolio, which are then converted from the applicable foreign

currency to U.S. dollars. This IOPV is updated every 15 seconds during NYSE regular trading hours of 9:30 a.m. to 4:15 p.m. E.T. to reflect changes in currency exchange rates between the U.S. dollar and the applicable foreign currency.

The iShares MSCI Brazil and South Africa Index Funds include companies trading in markets with trading hours overlapping regular NYSE or Amex trading hours. For each of these Funds, the IOPV calculator updates the IOPV during the overlap period every 15 seconds to reflect price changes in the principal foreign market and converts such prices into U.S. dollars based on the current currency exchange rate. When the foreign market or markets are closed but NYSE or Amex is open for trading, the IOPV is updated every 15 seconds to reflect changes in currency exchange rates.

The Commission has granted each Fund an exemption from certain prospectus delivery requirements under Section 24(d) of the Investment Company Act of 1940 (“1940 Act”).<sup>5</sup> Any product description used in reliance on the Section 24(d) exemptive order will comply with all representations made and all conditions contained in the Funds’ application for orders under the 1940 Act.<sup>6</sup>

In connection with the trading of each Fund, the Exchange would inform ETP Holders in an Information Circular of the special characteristics and risks associated with trading Shares of such Fund, including how the Fund Shares 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. The Information Circular will disclose that the

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<sup>5</sup> 15 U.S.C. 80a-24(d).

<sup>6</sup> See In the Matter of iShares, Inc., et al., Investment Company Act Release No. 25623 (June 25, 2002).

NAV is determined for Brazil, South Korea, or Taiwan at different times than other MSCI Index Series. Further, the Information Circular will disclose the possible market impact of the Fund buying or selling securities in Brazil, South Korea, or Taiwan prior to the calculation of the NAV.

In addition, before an ETP Holder recommends a transaction in the Shares, the ETP Holder must determine the Shares are suitable for the customer, as required by NYSE Arca Equities Rule 9.2(a)-(b).

The Exchange intends to utilize its existing surveillance procedures applicable to derivative 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

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act<sup>7</sup> in general and Section 6(b)(5) of the Act<sup>8</sup> in particular in that it is designed to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments and perfect the mechanisms of a free and open market, and to protect investors and the public interest. In addition, the Exchange believes that the proposal is consistent with Rule 12f-5 under the Act<sup>9</sup> 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.

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<sup>7</sup> 15 U.S.C. 78s(b).

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

<sup>9</sup> 17 CFR 240.12f-5.

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

The Exchange does not believe that the proposed rule change would impose any 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

Written comments on the proposed rule change were neither solicited nor received.

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](mailto:rule-comments@sec.gov). Please include File Number SR-NYSE Arca-2006-32 on the subject line.

Paper comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NYSEArca-2006-32. 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-NYSEArca-2006-32 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>10</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>11</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

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<sup>10</sup> 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).

<sup>11</sup> 15 U.S.C. 78f(b)(5).

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>12</sup> which permits an exchange to trade, pursuant to UTP, a security that is listed and registered on another exchange.<sup>13</sup> The Commission notes that it previously approved the listing and trading of the Shares on Amex and, with the exception of iShares MSCI South Africa, subsequently NYSE.<sup>14</sup> The Commission also finds that the proposal is consistent with Rule 12f-5 under the Act,<sup>15</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>16</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

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<sup>12</sup> 15 U.S.C. 78l(f).

<sup>13</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>14</sup> See supra notes 3 and 4.

<sup>15</sup> 17 CFR 240.12f-5.

<sup>16</sup> 15 U.S.C. 78k-1(a)(1)(C)(iii).

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 Consolidated Quotation System. Furthermore, MSCI updates the applicable IOPV every 15 seconds to reflect price changes of the Index components in the principal foreign markets, and converts such prices into U.S. dollars based on the current currency exchange rate. When the foreign market or markets are closed but Amex or NYSE is open for trading, the IOPV will be updated every 15 seconds to reflect changes in currency exchange rates. NYSE Arca Rule 7.34 describes the situations when the Exchange would halt trading when the IOPV or the value of the Index underlying one of the Funds is not calculated or widely available.

The Commission notes that, if the Shares of any of the Funds 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's surveillance procedures are adequate to monitor the trading of the Shares.
2. In connection with the trading of the Shares, the Exchange would inform ETP Holders in an Information Circular of the special characteristics and risks associated with trading the Shares.
3. The Information Circular would inform participants of the prospectus or product delivery requirements applicable to the Shares.

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 that the listing and trading of the iShares MSCI South Africa on Amex and the others Shares on NYSE is consistent with the Act. The Commission presently is not aware of any regulatory issue that should cause it to revisit these earlier findings or would preclude the trading of the 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 the Shares.

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>17</sup> that the proposed rule change (SR-NYSEArca-2006-32) is approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>18</sup>

Jill M. Peterson  
Assistant Secretary

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<sup>17</sup> 15 U.S.C. 78s(b)(2).

<sup>18</sup> 17 CFR 200.30-3(a)(12).