

*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 No. SR-ISE-2008-01 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-ISE-2008-01. 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 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal office of the ISE. 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-ISE-2008-01 and should be submitted on or before February 6, 2008.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>12</sup>

**Florence E. Harmon,**  
*Deputy Secretary.*

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**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-57115; File No. SR-ISE-2007-103]

**Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change, as Modified by Amendment No. 1 Thereto, To Permit Trading Pursuant to Unlisted Trading Privileges of Shares of Eight Funds of the ProShares Trust**

January 8, 2008.

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 26, 2007, the International Securities Exchange, LLC ("Exchange" or "ISE") 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. On January 4, 2007, the Exchange filed Amendment No. 1 to the proposed rule change. This order provides notice of the proposed rule change, as amended, 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, pursuant to unlisted trading privileges ("UTP"), shares ("Shares") of the following eight funds of the ProShares Trust ("Trust"): (1) Short MSCI Emerging Markets ProShares; (2) Short MSCI Japan ProShares; (3) Short MSCI EAFE ProShares; (4) Short FTSE/Xinhua China 25 ProShares; (5) UltraShort MSCI Emerging Markets ProShares; (6) UltraShort MSCI Japan ProShares; (7) UltraShort MSCI EAFE ProShares; and (8) UltraShort FTSE/Xinhua China 25 ProShares (collectively, "Funds").

The text of the proposed rule change is available at the Exchange's principal office, on the Exchange's Web site (<http://www.ise.com>), 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, ISE 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 proposes to trade the Shares pursuant to UTP. The Commission has approved a proposal by the American Stock Exchange LLC ("Amex") to list and trade the funds.<sup>3</sup> The Exchange is submitting this filing because its current generic listing standards for exchange-traded funds ("ETFs") do not extend to ETFs where the investment objective corresponds to a specified multiple of the performance, or the inverse performance, of an index that underlies a Fund (each such index is referred to below as an "Underlying Index"), rather than merely mirroring the performance of the index. Currently, the Shares trade on the Amex and NYSE Arca.<sup>4</sup>

*Short Funds.* Certain Funds seek daily investment results, before fees and expenses, that correspond to the inverse or opposite of the daily performance (-100%) of the Underlying Indexes ("Short Funds"). If such a Fund is successful in meeting its objective, the net asset value ("NAV")<sup>5</sup> of the corresponding Shares should increase approximately as much (on a percentage basis) as the Underlying Index loses when the prices of the securities in the Underlying Index decline on a given day or, alternatively, should decrease approximately as much as the Underlying Index gains when prices in the Underlying Index rise on a given day. The Short Funds are: (1) Short MSCI Emerging Markets ProShares; (2) Short MSCI Japan ProShares; (3) Short MSCI EAFE ProShares; and (4) Short FTSE/Xinhua China 25 ProShares.

*UltraShort Funds*

Certain Funds seek daily investment results, before fees and expenses, that correspond to twice the inverse

<sup>3</sup> See Securities Exchange Act Release No. 56223 (August 8, 2007), 72 FR 45837 (August 15, 2007) (SR-Amex-2007-60).

<sup>4</sup> See Securities Exchange Act Release No. 56601 (October 2, 2007), 72 FR 51625 (October 10, 2007) (SR-NYSEArca-2007-79).

<sup>5</sup> NAV per Share of each Fund is computed by dividing the value of the net assets of such Fund (*i.e.*, the value of its total assets less total liabilities) by its total number of Shares outstanding. Expenses and fees are accrued daily and taken into account for purposes of determining NAV.

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

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

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

(– 200%) of the daily performance of the Underlying Indexes (“UltraShort Funds”). If such a Fund is successful in meeting its objective, the NAV of the corresponding Shares 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 approximately twice as much as the respective Underlying Index gains when such prices rise on a given day. The UltraShort Funds are: (5) UltraShort MSCI Emerging Markets ProShares; (6) UltraShort MSCI Japan ProShares; (7) UltraShort MSCI EAFE ProShares; and (8) UltraShort FTSE/Xinhua China 25 ProShares.

Access to the current portfolio composition of each Fund is currently available through the Trust’s Web site (<http://www.proshares.com>).<sup>6</sup> The Underlying Indexes are identified in the filing authorizing Amex to list and trade the Funds (“Original Filing”).<sup>7</sup> The Original Filing states that Amex would disseminate for each Fund on a daily basis by means of Consolidated Tape Association (“CTA”) and CQ High Speed Lines information with respect to an Indicative Intra-Day Value (“IIV”), quotations for and last-sale information concerning the Shares, the recent NAV, the number of Shares outstanding, and the estimated cash amount and total cash amount per Creation Unit. Amex will make available on its Web site the daily trading volume, closing price, NAV, and final dividend amounts, if any, to be paid for each Fund. The NAV of each Fund is calculated and determined each business day at the close of regular trading, typically 4 p.m. Eastern Time (“ET”). The NAV would be calculated and disseminated at the same time to all market participants.<sup>8</sup>

<sup>6</sup>The Trust’s Web site is publicly accessible at no charge and contains 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 current and three immediately preceding 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 informs investors that the Trust’s Web site has information about the premiums and discounts at which the Fund’s Shares have traded.

<sup>7</sup> See *supra* note 3.

<sup>8</sup> The Original Filing states that if the IIV is not disseminated as required, Amex would halt trading in the Shares of the Funds. If Amex halts trading for this reason, then ISE would halt trading in the Shares immediately, as set forth in ISE Rule 2123(e).

The Original Filing states that the daily closing index value and the percentage change in the daily closing index value for each Underlying Index would be publicly available on various Web sites such as <http://www.bloomberg.com>. The Original Filing further states that data regarding each Underlying Index is also available from the respective index provider to subscribers. According to the Original Filing, several independent data vendors package and disseminate index data in various value-added formats.

The Original Filing states that the value of each Underlying Index is updated intra-day on a real-time basis as its individual component securities change in price, and the intra-day value of each Underlying Index is disseminated at least every 15 seconds throughout Amex’s trading day by Amex or another organization authorized by the relevant Underlying Index provider. The IIV is updated to reflect changes in currency exchange rates and is published via the facilities of the CTA on a 15-second delayed basis during ISE’s trading hours.

To provide updated information relating to each Fund for use by investors, professionals, and persons wishing to create or redeem Shares, Amex disseminates through the facilities of the CTA and CQ High Speed Lines information: (1) Continuously throughout Amex’s trading day, the market value of a Share; and (2) at least every 15 seconds throughout Amex’s trading day, the IIV as calculated by Amex.

Shares would trade on ISE from 9:30 a.m. ET until 4:15 p.m. ET. ISE will halt trading in the Shares of a Fund under the conditions specified in ISE Rules 702, 703, and 2123. The conditions for a halt include a regulatory halt by the listing market. UTP trading in the Shares will also be governed by provisions of ISE Rule 2123 relating to temporary interruptions in the calculation or wide dissemination of the IIV or the value of the Underlying Index. Additionally, ISE may cease trading the Shares if other unusual conditions or circumstances exist which, in the opinion of ISE, makes further dealings on ISE detrimental to the maintenance of a fair and orderly market. ISE will also follow any procedures with respect to trading halts as set forth in ISE rules.

Prior to the commencement of trading, the Exchange will inform Equity Electronic Access Members (“Equity EAM”) in a Regulatory Information Circular (“RIC”) of the special characteristics and risks associated with trading the Shares. Specifically, the RIC will discuss the

following: (1) The procedures for purchases and redemptions of Shares in Creation Unit Aggregations (and that Shares are not individually redeemable); (2) ISE Rule 2123(l), which imposes a duty of due diligence on Equity EAMs to learn the essential facts relating to every customer prior to trading the Shares; (3) how information regarding the IIV is disseminated; (4) the requirement that Equity EAMs deliver a written description to investors purchasing Shares prior to or concurrently with a transaction; and (5) trading information. In addition, the RIC will reference that the Fund is subject to various fees and expenses described in the Registration Statement. The RIC will also discuss any exemptive, no-action, and/or interpretive relief granted by the Commission from the Act and rules under the Act. The RIC will also disclose that the NAV for the Shares will be calculated after 4 p.m. ET each trading day.

The Exchange intends to utilize its existing surveillance procedures applicable to equities to monitor trading in the Shares. The Exchange represents that these procedures are adequate to properly monitor Exchange trading of the Shares in all trading sessions and to deter and detect violations of Exchange rules. The Exchange’s current trading surveillance focuses on detecting securities trading outside their 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. Additionally, the Exchange may obtain information via the Intermarket Surveillance Group (“ISG”) from other exchanges that are members or affiliates of the ISG.<sup>9</sup> The Exchange also has a general policy prohibiting the distribution of material, non-public information by employees.

## 2. Statutory Basis

The statutory basis under the Act for this proposed rule change is found in Section 6(b)(5),<sup>10</sup> in that the proposed rule change is designed to promote just and equitable principles of trade, remove impediments to and perfect the mechanisms of a free and open market and a national market system, and, in general, to protect investors and the public interest.

<sup>9</sup> For a list of the current members and affiliate members of ISG, see <http://www.isgportal.com>.

<sup>10</sup> 15 U.S.C. 78f(b)(5).

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

The proposed rule change does not 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

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any unsolicited written comments from members or other interested parties.

### 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-ISE-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.

All submissions should refer to File Number SR-ISE-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 a.m. and 3 p.m.

Copies of such filing also will be available for inspection and copying at the principal office of ISE. 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-ISE-2007-103 and should be submitted on or before February 6, 2008.

### 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>11</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,<sup>12</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>13</sup> which permits an exchange to trade, pursuant to UTP, a security that is listed and registered on another exchange.<sup>14</sup> The Commission notes that it previously approved the listing and trading of the Shares on Amex.<sup>15</sup> The Commission also finds that the proposal is consistent with Rule 12f-5 under the Act,<sup>16</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

<sup>11</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>12</sup> 15 U.S.C. 78f(b)(5).

<sup>13</sup> 15 U.S.C. 78l(f).

<sup>14</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>15</sup> See *supra* note 3.

<sup>16</sup> 17 CFR 240.12f-5.

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.

Further, the Commission believes that the proposal is consistent with Section 11A(a)(1)(C)(iii) of the Act,<sup>17</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 continuously throughout ISE's trading day through the facilities of the CTA. Furthermore, the IIV, updated to reflect changes in currency exchange rates, is calculated by Amex and published via the facilities of the CTA and the Consolidated Quotation System on a 15-second delayed basis throughout ISE's trading hours. As mentioned above, Amex's Web site provides information relating to the value of the Shares such as the prior business day's closing NAV, the reported closing price, and the daily trading volume. The Commission also believes that the Exchange's trading halt rules are reasonably designed to prevent trading in the Shares when transparency is impaired. If the listing market halts trading when the IIV is not being calculated or disseminated, the Exchange would halt trading in the Shares pursuant to ISE Rule 2123(e). The Exchange has represented that it would follow the procedures with respect to trading halts set forth in ISE Rules 702, 703, and 2123.

The Commission notes that, if the 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 believes that its surveillance procedures are adequate to properly monitor Exchange trading of the Shares in all trading sessions and to deter and detect violations of Exchange rules.

2. Prior to the commencement of trading, the Exchange would inform EAMs in a RIC of the special characteristics and risks associated with trading the Shares.

<sup>17</sup> 15 U.S.C. 78k-1(a)(1)(C)(iii).

3. ISE would require its members to deliver a prospectus or product description to investors purchasing the Shares prior to or concurrently with a transaction in the Shares.

This approval order is based on these representations.

The Commission finds good cause for approving this proposal before the 30th 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 Shares on Amex is consistent with the Act. Additionally, the Commission has approved the trading of the Shares pursuant to UTP on another national securities exchange.<sup>18</sup> The Commission presently is not aware of any regulatory issue that should cause it to revisit those 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>19</sup> that the proposed rule change (SR-ISE-2007-103), as modified by Amendment No. 1 thereto, be, and it hereby is, approved on an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>20</sup>

**Florence E. Harmon,**  
Deputy Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-57127; File No. SR-ISE-2007-112]

### Self-Regulatory Organizations; International Securities Exchange, LLC; Notice of Filing of a Proposed Rule Change, as Modified by Amendment No. 1 Thereto, Relating to Obvious Errors

January 10, 2008.

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 November 29, 2007, the International Securities Exchange, LLC (“ISE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been substantially prepared by the Exchange. On January 4, 2008, the ISE 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 amend its Obvious Error rule to address “Catastrophic Errors.” The text of the proposed rule change is available at the Exchange, the Commission’s Public Reference Room, and <http://www.ise.com>.

#### 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

The Exchange states that the purpose of the proposed rule change is to amend ISE Rule 720 (the “Obvious Error Rule”) to address certain extreme circumstances. In particular, the Exchange proposes to add criteria for identifying “Catastrophic Errors” and making adjustments when Catastrophic Errors occur, as well as a streamlined procedure for reviewing actions taken in these extreme circumstances.

The Exchange notes that, currently under the Obvious Error Rule, trades that result from an Obvious Error may be adjusted or busted according to objective standards. Under the rule, whether an Obvious Error has occurred is determined by comparing the execution price to the theoretical price of the option. The rule requires that

members notify ISE Market Control within a short time period following the execution of a trade (five minutes for market makers and 20 minutes for Electronic Access Members (“EAMs”)) if they believe the trade qualifies as an Obvious Error. Trades that qualify for adjustment are adjusted under the rule to a price that matches the theoretical price plus or minus an adjustment value, which is \$.15 if the theoretical value is under \$3 and \$.30 if the theoretical value is at or above \$3. By adjusting trades above or below the theoretical price, the rule assesses a “penalty” in that the adjustment price is not as favorable as what the party making the error would have received had it not made the error.

In formulating the Obvious Error Rule, the Exchange has weighed carefully the need to assure that one market participant is not permitted to receive a wind-fall at the expense of another market participant that made an Obvious Error, against the need to assure that market participants are not simply being given an opportunity to reconsider poor trading decisions. The Exchange states that, while it believes that the Obvious Error Rule strikes the correct balance in most situations, in some extreme situations, members may not be aware of errors that result in very large losses within the time periods required under the rule. In this type of extreme situation, ISE believes members should be given more time to seek relief so that there is a greater opportunity to mitigate very large losses and reduce the corresponding large wind-falls. However, to maintain the appropriate balance, the Exchange believes members should only be given more time when the execution price is much further away from the theoretical price than is required for Obvious Errors, and that the adjustment “penalty” should be much greater, so that relief is only provided in extreme circumstances.<sup>3</sup>

Accordingly, the Exchange proposes to amend the Obvious Error Rule to address “Catastrophic Errors.” Under the proposed rule, Members will have until 8:30 a.m. Eastern Time on the day following the trade to notify Market Control of a potential Catastrophic Error. For trades that take place in an expiring series on expiration Friday, Members must notify Market Control of a potential Catastrophic Error by 5 p.m. Eastern Time that same day. Once a

<sup>18</sup> See Securities Exchange Act Release No. 56601 (October 2, 2007), 72 FR 51625 (October 10, 2007) (SR-NYSEArca-2007-79).

<sup>19</sup> *Id.*

<sup>20</sup> 17 CFR 200.30-3(a)(12).

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

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

<sup>3</sup> The Exchange does not believe the type of extreme situation that is covered by the proposed rule would occur in the normal course of trading. Rather, this type of situation could potentially occur as a result of, for example, an error in a member’s quotation system that causes a market maker to severely misprice an option.