

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-56983; File No. SR-NYSEArca-2007-128)

December 18, 2007

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1 Thereto, to List and Trade Shares of the iShares MSCI Japan Small Cap Index Fund

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 December 13, 2007, NYSE Arca, Inc. (“NYSE Arca” or “Exchange”), through its wholly owned subsidiary, NYSE Arca Equities, Inc. (“NYSE Arca Equities”), 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 December 18, 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 proposed rule change, as modified by Amendment No. 1 thereto, on an accelerated basis.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to list and trade shares (“Shares”) of the iShares MSCI Japan Small Cap Index Fund (“Fund”).³ The text of the proposed rule change is available at the Exchange’s principal office, the Commission’s Public Reference Room, and www.nyse.com.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ The Shares will be issued by iShares, Inc., an open-ended management investment company registered under the Investment Company Act of 1940 (15 U.S.C. 80a).

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 proposes to list and trade the Shares of the Fund under NYSE Arca Equities Rule 5.2(j)(3), the Exchange’s listing standards for Investment Company Units (“ICUs”).⁴ 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 aggregate in the Japanese market, as represented by the MSCI Japan Small Cap Index (the “Index”). The Index, which is designed to measure the small capitalization equity market performance in the Japanese market, consists of small capitalization stocks traded primarily on the Tokyo Stock Exchange.

NYSE Arca represents that the Shares meet each of the “generic” listing requirements of Commentary .01(a)(B) to NYSE Arca Equities Rule 5.2(j)(3) applicable to the listing of ICUs based on equity securities comprising international or global indexes, except for the requirement set forth in Commentary .01(a)(B)(2) to NYSE Arca Equities Rule 5.2(j)(3), which states that

⁴ An Investment Company Unit is a security that represents an interest in a registered investment company that holds securities comprising, or otherwise based on or representing an interest in, an index or portfolio of securities (or holds securities in another registered investment company that holds securities comprising, or otherwise based on or representing an interest in, an index or portfolio of securities). See NYSE Arca Equities Rule 5.2(j)(3)(A).

component stocks that, in the aggregate, account for at least 90% of the weight of the index each must have a minimum worldwide monthly trading volume during each of the last six months of at least 250,000 shares. The Exchange represents that, as of December 10, 2007, the component stocks comprising 88% of the weight of the Index traded at least 250,000 shares in each of the previous six months. Because the component stocks of the Index fall below the required minimum percentage in Commentary .01(a)(B)(2) to NYSE Arca Equities Rule 5.2(j)(3), the Exchange has filed the proposed rule change to obtain Commission approval to list and trade the Shares. The Exchange represents that, except for Commentary .01(a)(B)(2) to NYSE Arca Equities Rule 5.2(j)(3), the Shares currently satisfy all of the generic listing standards under NYSE Arca Equities Rule 5.2(j)(3) and further represents that the continued listing standards under NYSE Arca Equities Rule 5.5(g)(2) applicable to Investment Company Units shall apply to the Shares.

Detailed descriptions of the Fund, the Index (including the methodology used to determine the composition of the Index), investment objective of the Fund, management and structure of the Fund, procedures and payment requirements for creating and redeeming Shares, transaction fees and expenses, dividends, distributions, taxes, reports to be distributed to beneficial owners of the Shares, availability of information regarding the Shares, and calculation and dissemination of key values can be found in the Registration Statement⁵ or on the Web site for the Fund (www.ishares.com).

Availability of Information. The Exchange states that quotations and last-sale information regarding the Shares will be disseminated through the facilities of the Consolidated Tape Association (“CTA”). The Index value is calculated by Morgan Stanley Capital

⁵ See iShares, Inc.’s Registration Statement on Form N-1A, as amended through July 19, 2007 (File Nos. 33-97598 and 811-09102) (“Registration Statement”).

International, Inc. (“MSCI”), the Index provider, for each trading day in the applicable foreign exchange markets based on official closing prices in such exchange markets and publicly disseminates the Index values for the previous day’s close.⁶ MSCI or third-party major market data vendors will make available at least every 60 seconds an updated Index value when foreign trading market hours overlap with the Core Trading Session (9:30 a.m. to 4:15 p.m. Eastern Time or “ET”).⁷ When the foreign markets are closed during Exchange trading hours, the Fund will provide closing Index values on www.ishares.com. iShares, Inc. will cause to be made available daily the names and required number of shares of each of the securities to be deposited in connection with the issuance of the Fund’s Shares, as well as information relating to the required cash payment representing, in part, the amount of accrued dividends for the Fund.

In addition, the Indicative Optimized Portfolio Value or “IOPV” on a per-Share basis will be calculated by an independent third party and disseminated through the facilities of the CTA at least every 15 seconds during the Core Trading Session.⁸ The Exchange states that, because the

⁶ The Exchange notes that, 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 n.18 (August 9, 2005) (SR-NYSE-2005-41) (describing the procedures which must be in place to prevent the improper sharing of information). The Exchange represents that MSCI has implemented procedures to prevent the misuse of material, non-public information regarding changes to component stocks in the MSCI, in accordance with the requirements of Commentary .01(b)(1) to NYSE Arca Equities Rule 5.2(j)(3).

⁷ See NYSE Arca Equities Rule 7.34.

⁸ The Exchange states that there is an overlap in trading hours between the foreign and U.S. markets for the Fund and the foreign market that trades securities in the underlying Index. Therefore, the IOPV calculator will update the IOPV at least every 15 seconds to reflect price changes in the applicable foreign market and convert such prices into U.S. dollars based on the currency exchange rate. When the foreign market is closed and the U.S. markets are open, the IOPV will be updated at least every 15 seconds to reflect changes in currency exchange rates after the foreign market closes.

Fund utilizes a representative sampling strategy, the IOPV likely will not reflect the value of all securities included in the Index or necessarily reflect the precise composition of the current portfolio of securities held by the Fund at a particular moment. The Exchange notes that the IOPV disseminated during the Core Trading Session should not be viewed as a real-time update of the NAV of the Fund, which is calculated only once a day.

The Fund administrator, State Street Bank and Trust Company, will calculate the net asset value or “NAV” for the Fund once a day on each day that the New York Stock Exchange LLC is open for trading, generally at 4:00 p.m. ET. The NAV will also be available to the public on www.ishares.com, from the Fund distributor by means of a toll-free phone number, and to participants of the National Securities Clearing Corporation.

Information with respect to recent NAV, number of Shares outstanding, estimated cash amount and total cash amount per Creation Unit Aggregation,⁹ and other data with respect to the Fund will also be disseminated prior to the opening of the Core Trading Session on a daily basis by means of CTA and Consolidated Quote High Speed Lines. In addition, the Web site for the Fund will contain the following information, on a per-Share basis: (1) the prior business day’s NAV, the mid-point of the bid-ask price at the time of calculation of such NAV (“Bid/Ask Price”),¹⁰ and a calculation of the premium or discount of such price against such NAV; and (2) data in chart format displaying the frequency distribution of discounts and premiums of the Bid/Ask Price against the NAV, within appropriate ranges, for each of the four previous calendar quarters. Finally, the Exchange states that MSCI’s Web site at www.msctibarra.com will make

⁹ See Registration Statement, *supra* note 5 (providing the definition of Creation Unit Aggregation and the procedures for purchasing and redeeming Shares).

¹⁰ The Bid-Ask Price of the Fund is determined using the highest bid and lowest offer on the Exchange as of the time of calculation of the Fund’s NAV.

available the components of the Index, and the holdings of the Fund will be available at www.ishares.com. The Exchange represents that the information on the Fund Web site will be available to all market participants at the same time.

Trading Rules and Halts. 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 Shares will trade on the Exchange from 4:00 a.m. to 8:00 p.m. ET in accordance with NYSE Arca Equities Rule 7.34. The Exchange represents that it has appropriate rules to facilitate transactions in the Shares during all trading sessions, including rules governing trading halts, as provided in NYSE Arca Equities Rule 5.5(g)(2)(b).

Surveillance. The Exchange intends to utilize its existing surveillance procedures applicable to ICUs to monitor trading in the Shares. The Exchange represents that these procedures, which focus on detecting when securities trade outside their normal patterns, 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 further represents that it may obtain information via the Intermarket Surveillance Group ("ISG") from other exchanges that are members or affiliate members of ISG.¹¹ The Exchange states that it has a general policy prohibiting the distribution of material, non-public information by its employees.

Information Bulletin. Prior to the commencement of trading, the Exchange will inform

¹¹ The Exchange notes that the Tokyo Stock Exchange, which is the exchange on which the stocks comprising the Index are primarily traded, is an affiliate member of ISG. The Exchange further notes that one or more of the securities comprising the Index may trade on exchanges that are not members or affiliate members of ISG, and the Exchange may not have in place comprehensive surveillance sharing agreements with such exchanges.

its ETP Holders¹² in an Information Bulletin (“Bulletin”) of the special characteristics and risks associated with trading the Shares. Specifically, the Bulletin will discuss: (1) the procedures for purchases and redemptions of Shares in Creation Unit Aggregations (and that Shares are not individually redeemable); (2) NYSE Arca Equities Rule 9.2(a), which imposes a duty of due diligence on its ETP Holders to learn the essential facts relating to every customer prior to trading the Shares; (3) how information regarding the IOPV is disseminated; (4) the risks involved in trading the shares during the Opening and Late Trading Sessions when an updated IOPV will not be calculated or publicly available; (5) the requirement that ETP Holders deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction; and (6) trading information. In addition, the Bulletin will reference that the Fund is subject to various fees and expenses described in the Registration Statement and will also discuss any exemptive, no-action, or interpretive relief granted by the Commission from provisions of the Act and the rules thereunder. The Bulletin will also disclose that the NAV for the Shares will be calculated after 4:00 p.m. ET each trading day.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,¹³ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹⁴ in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanism

¹² See NYSE Arca Equities Rule 1.1 (defining ETP Holder as a registered broker or dealer that is a sole proprietorship, partnership, corporation, limited liability company, or other organization in good standing that has been issued an Equity Trading Permit or “ETP”).

¹³ 15 U.S.C. 78f(b).

¹⁴ 15 U.S.C. 78f(b)(5).

of a free and open market and a national market system.

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

The Exchange does not believe that the proposed rule change will 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 states that 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. Please include File Number SR-NYSEArca-2007-128 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-2007-128. 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 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-2007-128 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 consideration, 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.¹⁵ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,¹⁶ which requires that the rules of a national securities exchange be 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.

¹⁵ 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).

¹⁶ 15 U.S.C. 78f(b)(5).

Although NYSE Arca Equities Rule 5.2(j)(3) permits the Exchange to list and trade ICUs, the Shares do not meet all of the generic listing requirements¹⁷ under such rule because the components of the Index do not meet the requirements of Commentary .01(a)(B)(2) to NYSE Arca Equities Rule 5.2(j)(3). Commentary .01(a)(B)(2) to NYSE Arca Equities Rule 5.2(j)(3) requires that, upon the initial listing of any series of ICUs pursuant to Rule 19b-4(e) under the Act, component stocks that, in the aggregate, account for at least 90% of the weight of the Index or portfolio, must each have a minimum worldwide trading volume during each of the last six months of at least 250,000 shares. According to the Exchange, as of December 10, 2007, those component stocks comprising the Index that individually exceed the minimum worldwide monthly trading volume of 250,000 shares during each of the previous six months, in the aggregate, accounted for only 88% of the weight of the Index. Such percentage misses the minimum required threshold by 2%, and therefore the Shares cannot be listed and traded pursuant to the generic listing standards of NYSE Arca Equities Rule 5.2(j)(3).

The Commission believes, however, that the listing and trading of the Shares is consistent with the Act. The Commission notes that, based on the Exchange's representations, the Shares otherwise meet all of the other applicable generic listing standards under NYSE Arca Equities Rule 5.2(j)(3). The Commission further notes that it has previously approved the listing and

¹⁷ The generic listing requirements under NYSE Arca Equities Rule 5.2(j)(3) permit the listing and trading of ICUs pursuant to Rule 19b-4(e) under the Act (17 CFR 240.19b-4(e)). Rule 19b-4(e) provides that the listing and trading of a new derivative securities product by a self-regulatory organization ("SRO") shall not be deemed a proposed rule change, pursuant to Rule 19b-4(c)(1), if the Commission has approved, pursuant to Section 19(b) of the Act, the SRO's trading rules, procedures, and listing standards for the product class that would include the new derivatives securities product, and the SRO has a surveillance program for the product class.

trading of derivative securities products based on indices that were composed of stocks that did not meet certain quantitative generic listing criteria by only a slight margin.¹⁸

The Commission also finds that the proposal is consistent with Section 11A(a)(1)(C)(iii) of the Act,¹⁹ 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 and last-sale information for the Shares will be disseminated through the facilities of the CTA. MSCI or third-party major market data vendors will make available at least every 60 seconds an updated Index value during the Exchange's Core Trading Session. In addition, an independent third-party calculator will calculate and disseminate the IOPV through the facilities of the CTA at least every 15 seconds during the Exchange's Core Trading Session. Further, the Fund's Web site will disseminate information relating to the NAV and the Bid/Ask Price for the Shares, as well as the specific holdings of the Fund.

The Commission believes that the proposed rule change is reasonably designed to promote fair disclosure of information that may be necessary to appropriately price the Shares.

¹⁸ See, e.g., Securities Exchange Act Release Nos. 55953 (June 25, 2007), 72 FR 36084 (July 2, 2007) (SR-NYSE-2007-46) (approving the listing and trading of shares of the HealthShares™ Orthopedic Repair exchange-traded fund where the component stocks comprising the index that individually exceeded the minimum worldwide monthly trading volume of 250,000 shares during each of the last six months accounted, in the aggregate, for 86.2% of the weight of the index) and 56695 (October 24, 2007), 72 FR 61413 (October 30, 2007) (SR-NYSEArca-2007-111) (approving the listing and trading of shares Shares of the HealthShares™ Ophthalmology exchange-traded fund where the component stocks comprising the index that individually exceeded the minimum worldwide monthly trading volume of 250,000 shares during each of the last six months accounted, in the aggregate, for only 88.2% of the weight of the index).

¹⁹ 15 U.S.C. 78k-1(a)(1)(C)(iii).

Under Rule 5.2(j)(3)(v), the Exchange is required to obtain a representation from iShares, Inc. that the NAV per Share will be calculated daily and made available to all market participants at the same time. In addition, the Exchange represents that the Web site disclosure of the information regarding the Shares and the portfolio composition of the Fund will be made to all market participants at the same time. The Exchange further represents that MSCI has procedures in place that comply with the requirements of Commentary .01(b)(1) to NYSE Arca Equities Rule 5.2(j)(3), which relates to restricted access of information concerning changes and adjustments to the Index.

The Commission further believes that the trading rules and procedures to which the Shares would be subject pursuant to this proposal are consistent with the Act. The Shares would trade as equity securities and be subject to NYSE Arca's rules governing the trading of equity securities. The Commission also believes that the Exchange's trading halt rules under NYSE Arca Equities Rule 5.5(g)(2)(b) are reasonably designed to prevent trading in the Shares when transparency is impaired.

In support of this proposal, the Exchange has made the following representations:

1. The Exchange would utilize its existing surveillance procedures applicable to ICUs to monitor trading of the Shares. The Exchange represents that such surveillance procedures are adequate to properly monitor the trading of the Shares. The Exchange may obtain trading information via the ISG from other exchanges that are members or affiliate members of ISG.²⁰
2. Prior to the commencement of trading, the Exchange will inform its ETP Holders in the Bulletin of the special characteristics and risks (including the risks involved

²⁰ See supra note 11.

in trading the shares during the Opening and Late Trading Sessions when an updated IOPV will not be calculated or publicly available) associated with trading the Shares. The Bulletin will discuss the procedures for purchases and redemptions of Shares, the Exchange's suitability requirements, information regarding the IOPV, and prospectus delivery requirements.

3. The Exchange represents that iShares, Inc. is required to comply with Rule 10A-3 under the Act²¹ for the initial and continued listing of the Shares.

This approval order is based on the Exchange's representations.

The Commission finds good cause, pursuant to Section 19(b)(2) of the Act,²² for approving the proposed rule change prior to the 30th day after the date of publication of notice in the Federal Register. The Commission notes that the Shares are substantially similar in structure, operation, and function to the shares of other exchange-traded funds, the shares of which are currently listed and trading in the marketplace.²³ As mentioned above, the Commission has previously approved the listing and trading of other derivative securities products based on indices that narrowly missed a quantitative generic listing criterion but satisfied all the others.²⁴ Given that the Shares comply with all of NYSE Arca's initial generic listing standards for ICUs (except for the one requirement of Commentary .01(a)(B)(2) to NYSE Arca Equities Rule

²¹ 17 CFR 240.10A-3.

²² 15 U.S.C. 78s(b)(2).

²³ See, e.g., Securities Exchange Release Nos. 52178 (July 29, 2005), 70 FR 46244 (August 9, 2005) (SR-NYSE-2005-41) (approving the listing and trading of shares of the iShares MSCI EAFE Growth Index Fund and the iShares MSCI EAFE Value Index Fund, the underlying indices of which are composed of non-U.S. component stocks) and 52761 (November 10, 2005), 70 FR 70010 (November 18, 2005) (SR-NYSE-2005-76) (approving the listing and trading of shares of a number of iShares foreign equity index funds).

²⁴ See supra note 18.

5.2(j)(3)) and would be subject to NYSE Arca's continued listing requirements for ICUs under NYSE Arca Equities Rule 5.5(g)(2), the listing and trading of the Shares does not appear to present any novel or significant regulatory issues. Therefore, the Commission believes that accelerating approval of this proposal should benefit investors by creating, without undue delay, additional competition in the market for such products. Accordingly, the Commission finds that there is good cause, consistent with Section 6(b)(5) of the Act,²⁵ to approve the proposed rule change, as modified by Amendment No. 1 thereto, on an accelerated basis.

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) under the Act,²⁶ that the proposed rule change (SR-NYSEArca-2007-128), 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.²⁷

Florence E. Harmon
Deputy Secretary

²⁵ 15 U.S.C. 78f(b)(5).

²⁶ 15 U.S.C. 78s(b)(2).

²⁷ 17 CFR 200.30-3(a)(12).