

### III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- (A) By order approve such proposed rule change, as amended, or
- (B) Institute proceedings to determine whether the proposed rule change, as amended, should be disapproved.

### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change, as amended, 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-CHX-2004-38 on the subject line.

#### *Paper Comments*

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 100 F Street, NE., Washington, DC 20549-9303.

All submissions should refer to File No. SR-CHX-2004-38. 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 will also be available for inspection and copying at

the principal office of the CHX. 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 No. SR-CHX-2004-38 and should be submitted on or before December 9, 2005.

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

**Jonathan G. Katz,**  
Secretary.

[FR Doc. E5-6380 Filed 11-17-05; 8:45 am]

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-52756; File No. SR-NASD-2005-119]

### Self-Regulatory Organizations; National Association of Securities Dealers, Inc.; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change and Amendment No. 1 Thereto Relating to the Listing and Trading of Strategic Total Return Securities<sup>SM</sup> Linked to the CBOE Nasdaq-100 BuyWrite Index

November 9, 2005.

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 September 30, 2005, the National Association of Securities Dealers, Inc. ("NASD"), through its subsidiary, The Nasdaq Stock Market, Inc. ("Nasdaq"), filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by Nasdaq. On October 14, 2005, Nasdaq filed Amendment No. 1 to the proposed rule change.<sup>3</sup> The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons and is approving the proposal on an accelerated basis.

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

Nasdaq proposes to list and trade Strategic Total Return Securities<sup>SM</sup> ("STRS" or "Notes"), the return on

which is based upon the CBOE Nasdaq-100 BuyWrite Index ("BXN Index" or "Index") and issued by Morgan Stanley. The text of the proposed rule change is available on the NASD's Web site (<http://www.nasdaq.com>), at the principal offices of the Nasdaq, 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, Nasdaq 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. Nasdaq 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

Nasdaq proposes to list and trade the Notes. The Notes provide for a return based upon the BXN Index.

##### Description of Notes

The Notes are non-convertible debt issued by Morgan Stanley that are due on October 30, 2011 and have a principal amount and issue price of \$10. The Notes will trade as a single, exchange-listed security. However, the principal amount is initially reduced by underwriting commissions of 1.20%, so that the Notes, in fact, are initially valued at \$9.88, which is known as the initial net entitlement value ("Initial NEV"). Additional fees of 2% each year reduce the Net Entitlement Value ("NEV"). Because the initial NEV is 1.20% less than the issue price of the securities and because the 2% per annum adjustment amount reduces the NEV over the term of the securities, the BXN Index must increase for the investor to receive an amount upon sale, exchange, redemption or at maturity equal to the issue price for each security. Thus, unlike ordinary debt, the Notes have no guaranteed return of principal and do not pay interest.<sup>4</sup>

The payout on the Notes upon exchange, upon redemption, or at

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

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

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

<sup>3</sup> Amendment No. 1 replaced the original filing in its entirety.

<sup>4</sup> Telephone conference between Jonathan Cayne, Associate General Counsel, Nasdaq, and Ronsha Butler, Special Attorney, Division of Market Regulation ("Division"), Commission, on November 8, 2005 (relating to additional descriptive material about the Notes provided in prospectus supplement).

maturity will be based on the applicable NEV of the securities determined on a valuation date, as compared to the Initial NEV.

For each trading day, the NEV is equal to \$9.88 (e.g., the Initial NEV) multiplied by the ratio of the BXN Index closing value on that trading day over

the closing value of the Index on the pricing date ("Initial BXN Index Value") minus the Adjustment Amount<sup>5</sup> as of that trading day. In other words:

$$NEV_T = NEV_{T-1} * \left( \frac{BXN_T}{BXN_{T-1}} \right) - \text{Adjustment Amount}$$

where

T = each trading day

BXN<sub>T</sub> = the closing value of the BXN Index on T

The Notes are cash-settled in U.S. dollars and do not give the holder any right to receive a portfolio security, dividend payments or any other ownership right or interest in the portfolio or index of securities comprising the Index. The Commission has previously approved the listing of options on, and other securities the performance of which have been linked to or based on similar and parallel buy-write indexes.<sup>6</sup>

Beginning in October 2008, upon at least 10 but not more than 30 days notice to the holders, Morgan Stanley may redeem the Notes each quarter on certain dates specified in the prospectus ("Exchange Date"). In addition, prior to October 2008, Morgan Stanley may redeem the Notes for mandatory exchange on any Exchange Date if the NEV (which is a value calculated as described in the above paragraph) equals or is less than \$2.00 on any trading day. Furthermore, during the period from January 2006 to July 2011,

a holder may exchange the Notes each quarter on certain specified dates for an amount of cash for each security equal to the NEV, plus accrued but unpaid interim payments, subject to a minimum of at least 10,000 Notes. The payout on the Notes upon exchange, upon redemption, or at maturity will be based on the applicable NEV of the securities determined on a valuation date, as compared to the Initial NEV. The payout on the Notes upon exchange, upon redemption, or at maturity will be based on the applicable NEV of the securities determined on a valuation date as compared to the Initial NEV.

#### Description of the Index

The BXN Index<sup>7</sup> is a benchmark index designed to measure the performance of a hypothetical "buy-write"<sup>8</sup> strategy on the Nasdaq-100 Index.<sup>9</sup> Developed by the CBOE in cooperation with Nasdaq, the Index was initially announced in 2005.<sup>10</sup> The CBOE developed the BXN Index in response to requests by options portfolio managers that the CBOE provide an objective benchmark for evaluating the performance of buy-write strategies, one

of the most popular option trading strategies. In addition, the BXN Index could provide investors with a straightforward indicator of the risk-reducing character of options.

The BXN Index is a passive total return index based on (1) buying a portfolio consisting of the component stocks of the Nasdaq-100, and (2) "writing" (or selling) near-term Nasdaq-100 call options with the closest out-of-the-money strike price, generally on the third Friday of each month. This strategy consists of a hypothetical portfolio consisting of a "long" position indexed to the Nasdaq-100 on which are deemed sold a succession of one-month, at-the-money call options on the Nasdaq-100 listed on the CBOE. Dividends paid on the component stocks underlying the Nasdaq-100 and the dollar value of option premium deemed received from the sold call options are functionally "reinvested" in the covered Nasdaq-100 portfolio.

The value of the BXN Index on any given date will equal: (1) The value of the BXN Index on the previous day, multiplied by (2) the daily rate of return<sup>11</sup> on the covered Nasdaq-100

<sup>5</sup> On any trading day, the Adjustment Amount is 2% multiplied by NEV on the previous trading day multiplied by the number of calendar days since the previous calculation of NEV divided by 365.

<sup>6</sup> The BXN Index is similar to Chicago Board Options Exchange's ("CBOE") BXM and BXD indexes, which are buy-writes on the S&P 500 and the Dow Jones Industrial Average, respectively. The Commission has previously, on multiple occasions, approved the listing and trading of notes linked to the BXM and BXD indexes. See Securities Exchange Act Release Nos. 51966, (July 1, 2005), 70 FR 40069 (July 12, 2005) (approving an exception to the requirement in the American Stock Exchange LLC ("Amex") "generic" listing standards pursuant to Rule 19b-4(e) for index-linked notes that index values be disseminated at least every 15 seconds, thereby allowing the listing and trading of notes linked to the BXM and BXD even though the BXM and BXD values are not so disseminated); 51840 (June 14, 2005), 70 FR 35468 (June 20, 2005) (approving the listing and trading of JPMorgan Chase notes linked to the BXD Index); 51634 (April 29, 2005), 70 FR 24138 (May 6, 2005) (approving the listing and trading of Wachovia notes linked to the BXM Index); 51426 (March 23, 2005), 70 FR 16315 (March 30, 2005) (approving the listing and trading of Morgan Stanley notes linked to the BXM Index); and 50719 (November 22, 2004), 69 FR 69644 (November 30, 2004) (approving the listing and trading of Morgan Stanley notes linked to the BXM Index).

<sup>7</sup> Morgan Stanley and Nasdaq have entered into a non-exclusive license agreement providing for the use of the Index by Morgan Stanley in connection with the Notes. Nasdaq is not responsible for and will not participate in the issuance of the Notes.

<sup>8</sup> A "buy-write" is a conservative options strategy in which an investor buys a stock or portfolio and writes call options on the stock or portfolio. This strategy is also known as a "covered call" strategy. A buy-write strategy provides option premium income to cushion decreases in the value of an equity portfolio, but will underperform stocks in a rising market. A buy-write strategy tends to lessen overall volatility in a portfolio.

<sup>9</sup> The BXN Index consists of a long position in the component securities of the Nasdaq-100 Index and options on the Nasdaq-100 Index. The Commission has approved the listing of numerous securities linked to the performance of the Nasdaq-100 Index as well as options on the Nasdaq-100 Index. See, e.g., Securities Exchange Act Release Nos. 50916 (December 22, 2004), 69 FR 78508 (December 30, 2004) (approving the listing and trading of Performance Leveraged Upside Securities based on the value of the Nasdaq-100 Index); 48065 (June 19, 2003), 68 FR 38414 (June 27, 2003) (approving the listing and trading of Performance Leveraged Upside Securities based on the value of the Nasdaq-100 Index); 45429 (February 11, 2002), 67 FR 7438 (February 19, 2002) (approving the listing and trading of Enhanced Return Notes Linked to the Nasdaq-100 Index); 45024 (November 5, 2001), 66 FR 56872 (November 13, 2001) (approving the

listing and trading of Enhanced Return Notes Linked to the Nasdaq-100 Index); 44913 (October 9, 2001), 66 FR 52469 (October 15, 2001) (approving the listing and trading of Performance Leveraged Upside Securities based upon the performance of the Nasdaq-100 Index); 43000 (June 30, 2000), 65 FR 42409 (July 10, 2000) (approving the listing and trading of options based upon one-tenth of the value of the Nasdaq-100 Index); 41119 (February 26, 1999), 64 FR 11510 (March 9, 1999) (approving the listing and trading of Portfolio Depositary Receipts based on the Nasdaq-100 Index); and 33428 (January 5, 1994), 59 FR 1576 (January 11, 1994) (approving the listing and trading of options on the Nasdaq-100 Index).

As of the close of business on September 30, 2005, the adjusted market capitalization of the securities included in the Index ranged from a high of \$178 billion to a low of \$3 billion. As of the same date, the average daily trading volume for these same securities since the beginning of 2005 ranged from a high of 67 million shares to a low of 450,000 shares.

<sup>10</sup> See supra note 6.

<sup>11</sup> The daily rate of return on the covered Nasdaq-100 portfolio is based on (a) the change in the closing value of the stocks in the Nasdaq-100 portfolio, (b) the value of ordinary cash dividends on the stocks underlying the Nasdaq-100 that are trading "exdividend" on that date (that is, when transactions in the stock on an organized securities

portfolio on that date. Thus, the daily change in the BXN Index reflects the daily changes in value of the covered Nasdaq-100 portfolio, which consists of the Nasdaq-100 (including dividends) and the component Nasdaq-100 option. The daily closing price of the BXN Index is calculated and disseminated by the CBOE on its Web site at <http://www.cboe.com> and via the Options Pricing and Reporting Authority ("OPRA") at the end of each trading day. The value of the Nasdaq-100 Index is disseminated at least once every fifteen (15) seconds throughout the trading day. Nasdaq believes that the intraday dissemination of the Nasdaq-100 Index along with the ability of investors to obtain real-time, intraday Nasdaq-100 call option pricing provides sufficient transparency regarding the BXN Index.<sup>12</sup> In addition, as indicated above, the value of the BXN Index is calculated once every trading day, thereby providing investors with a daily value of such "hypothetical" buywrite options strategy on the Nasdaq-100.

As noted above, the Index is not calculated or disseminated continuously throughout the trading day. Instead, the CBOE calculates the value of the Index shortly after the close.<sup>13</sup> In addition, CBOE will disseminate daily an updated value of the amount investors would receive for the Notes if exchanged or redeemed ("Indicative Value"). The Indicative Value equals the performance of the Index less fees and other adjustment amounts, if any. The Indicative Value is calculated by the CBOE after the close of trading and after the BXN is calculated for use by investors during the next trading day. It is designed to provide investors with a daily reference value of the adjusted

exchange or trading system no longer carry the right to receive that dividend or distribution) as measured from the close in trading on the previous day and (c) the change in the market price of the call option.

<sup>12</sup> Call options on the Nasdaq-100 are traded on the CBOE, and both last sale and quotation information for the call options are disseminated in real-time through OPRA. Nasdaq states that the value of the BXN can be readily approximated as a function of observable market prices throughout the trading day. In particular, such a calculation would require information on the current price of the Nasdaq-100 Index and specific nearest-to-expiration call and put options on that Index. These components trade in highly liquid markets, and real-time prices are available continuously throughout the trading day from a number of sources including Bloomberg and the CBOE.

<sup>13</sup> The Commission previously approved the listing and trading of notes linked to similar CBOE indexes (BXM and BXD) that are not disseminated every 15 seconds. The Commission also recently approved an exception to the 15-second requirement in the Amex "generic" listing standards for notes linked to these indexes. *See* supra note 7.

Index. The Indicative Value may not reflect the precise value of the Notes.

As stated below, in the event the calculation and dissemination of the Index is discontinued, Nasdaq will consult with the Commission and will prohibit the continued listing of the Notes unless otherwise authorized by the Commission.<sup>14</sup>

#### *Listing and Trading Rules*

Under NASD Rule 4420(f), Nasdaq may approve for listing and trading innovative securities that cannot be readily categorized under traditional listing guidelines.<sup>15</sup> Nasdaq proposes to list and trade Notes based on the BXN Index under NASD Rule 4420(f).

The Notes, which will be registered under Section 12 of the Act, will initially be subject to Nasdaq's listing criteria for other securities under NASD Rule 4420(f). Specifically, under NASD Rule 4420(f)(1):

(A) The issuer shall have assets in excess of \$100 million and stockholders' equity of at least \$10 million.<sup>16</sup> In the case of an issuer which is unable to satisfy the income criteria set forth in Rule 4420(a)(1), Nasdaq generally will require the issuer to have the following: (i) Assets in excess of \$200 million and stockholders' equity of at least \$10 million; or (ii) assets in excess of \$100 million and stockholders' equity of at least \$20 million;

(B) There must be a minimum of 400 holders of the security; provided, however, that if the instrument is traded in \$1,000 denominations, there must be a minimum of 100 holders;

(C) For equity securities designated pursuant to this paragraph, there must be a minimum public distribution of 1,000,000 trading units;

(D) The aggregate market value/principal amount of the security will be at least \$4 million.

In addition, Morgan Stanley satisfies the listed marketplace requirement set forth in NASD Rule 4420(f)(2).<sup>17</sup> Lastly, pursuant to NASD Rule 4420(f)(3), prior

<sup>14</sup> Prior to such change in the manner in which the Index is calculated, or in the event of any Index substitution, Nasdaq will file a proposed rule change pursuant to Rule 19b-4, which must be approved by the Commission prior to continued listing and trading in the Notes.

<sup>15</sup> *See* Securities Exchange Act Release No. 32988 (September 29, 1993); 58 FR 52124 (October 6, 1993).

<sup>16</sup> Morgan Stanley satisfies this listing criterion.

<sup>17</sup> NASD Rule 4420(f)(2) requires issuers of securities designated pursuant to this paragraph to be listed on The Nasdaq National Market or the New York Stock Exchange, Inc. ("NYSE") or be an affiliate of a company listed on The Nasdaq National Market or the NYSE; provided, however, that the provisions of NASD Rule 4450 will be applied to sovereign issuers of "other" securities on a case-by-case basis.

to the commencement of trading of the Notes, Nasdaq will distribute a circular to members providing guidance regarding compliance responsibilities and requirements, including suitability recommendations, and highlighting the special risks and characteristics of the Notes. In particular, Nasdaq will advise members recommending a transaction in the Notes to: (1) Determine that such transaction is suitable for the customer; and (2) 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.

The Notes will be subject to Nasdaq's continued listing criterion for other securities pursuant to NASD Rule 4450(c). Under this criterion, the aggregate market value or principal amount of publicly held units must be at least \$1 million. The Notes also must have at least two registered and active market makers, which is a continued listing requirement under NASD Rule 4310(c)(1). In addition, Nasdaq will commence delisting or removal proceedings with respect to the Notes (unless the Commission has approved the continued trading of the Notes) under any of the following circumstances:

(i) If the aggregate market value or the principal amount of the Notes publicly held is less than \$400,000;

(ii) If the value of the Index is no longer calculated or widely disseminated as described above in this filing; or

(iii) If such other event shall occur or condition exist which, in the opinion of Nasdaq, makes further dealings on Nasdaq inadvisable.

Nasdaq will also consider prohibiting the continued listing of the Notes if Morgan Stanley is not able to meet its obligations on the Notes. The Notes will be subject to the NASD's existing trading halt rules.

Since the Notes will be deemed equity securities for the purpose of NASD Rule 4420(f), the NASD and Nasdaq's existing equity trading rules will apply to the Notes. First, pursuant to NASD Rule 2310 and IM-2310-2, members must have reasonable grounds for believing that a recommendation to a customer regarding the purchase, sale or exchange of any security is suitable for such customer upon the basis of the facts, if any, disclosed by such customer as to his other security holdings and as to his financial situation and needs.<sup>18</sup> In

<sup>18</sup> NASD Rule 2310(b) requires members to make reasonable efforts to obtain information concerning a customer's financial status, a customer's tax status, the customer's investment objectives, and

addition, as previously described, Nasdaq will distribute a circular to members providing guidance regarding compliance responsibilities and requirements, including suitability recommendations, and highlighting the special risks and characteristics of the Notes. Furthermore, the Notes will be subject to the equity margin rules. Lastly, the regular equity trading hours of 9:30 a.m. to 4:00 p.m. will apply to transactions in the Notes.

#### *Surveillance*

Nasdaq represents that NASD's surveillance procedures are adequate to properly monitor the trading of the Notes. Specifically, NASD will rely on its current surveillance procedures governing equity securities, and will include additional monitoring on key pricing dates, such as redemption, call and maturity dates.<sup>19</sup>

Pursuant to Rule 10A-3 of the Act and Section 3 of the Sarbanes-Oxley Act of 2002, Pub. L. No. 107-204, 116 Stat. 745 (2002), Nasdaq will prohibit the initial or continued listing of any security of an issuer that is not in compliance with the requirements set forth therein.

Morgan Stanley will deliver a prospectus in connection with every purchase of the Notes. The procedure for the delivery of a prospectus will be the same as Morgan Stanley's current procedure involving primary offerings.

#### 2. Statutory Basis

Nasdaq believes that the proposed rule change is consistent with the provisions of Section 15A of the Act,<sup>20</sup> in general, and with Section 15A(b)(6) of the Act,<sup>21</sup> in particular, in that the proposal is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and, in general, to protect investors and the public interest.

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

Nasdaq does not believe that the proposed rule change will result in any burden on competition that is not

such other information used or considered to be reasonable by such member or registered representative in making recommendations to the customer.

<sup>19</sup> Telephone conference between Jonathan Cayne, Associate General Counsel, Nasdaq, and Ronessa Butler, Special Counsel, Division of Market Regulation, Commission, on November 8, 2005.

<sup>20</sup> 15 U.S.C. 78o-3.

<sup>21</sup> 15 U.S.C. 78o-3(6).

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 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-NASD-2005-119 on the subject line.

##### *Paper Comments*

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, Station Place, 100 F Street, NE., Washington, DC 20549-9303.

All submissions should refer to File Number SR-NASD-2005-119. 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 NASD. 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-NASD-2005-119 and

should be submitted on or before December 9, 2005.

#### IV. Commission's Findings and Order Granting Accelerated Approval of the Proposed Rule Change

Nasdaq requests that the Commission approve this filing on an accelerated basis since it raises no new or novel issues and will enable Nasdaq to accommodate the timetable of listing the Notes. In this regard, Nasdaq notes that the Commission has previously approved the listing of securities the performance of which has been linked to the Index.<sup>22</sup>

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 association, and, in particular, the requirements of section 15A of the Act.<sup>23</sup> Specifically, the Commission finds that the proposal is consistent with section 15(A)(b)(6) of the Act, which requires that the rules be designed to promote just and equitable principles of trade, foster cooperation and coordination with persons engaged in processing information with respect to and facilitating transactions in securities, as well as to remove impediments to and perfect the mechanism of a free and open market, and, in general, to protect investors and the public interest.<sup>24</sup>

In approving the product, the Commission recognizes that the Index is a passive total return index based on (1) buying a portfolio consisting of the component stocks of the Nasdaq-100, and (2) "writing" (or selling) near-term Nasdaq-100 call options, with the closest out-of-the-money strike price, generally on the third Friday of each month. Given the large trading volume and capitalization of the compositions of the stocks underlying the Index, the Commission believes that the listing and trading of the Notes that are linked to the BXN Index should not unduly impact the market for the underlying securities compromising the Nasdaq-100 or raise manipulative concerns.<sup>25</sup>

<sup>22</sup> See supra note 10.

<sup>23</sup> 15 U.S.C. 78o-3.

<sup>24</sup> In approving the proposed rule, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>25</sup> The issuer, Morgan Stanley, disclosed in the prospectus that the original issue price of the Notes includes commissions (and the secondary market prices are likely to exclude commissions) and Morgan Stanley's costs of hedging its obligations under the Notes. These costs could increase the initial value of the Notes, thus affecting the payment investors receive at maturity.

Moreover, the issuers of the underlying securities comprising the Nasdaq-100 are subject to reporting requirements under the Act, and all of the component stocks are either listed or traded on, or traded through the facilities of, U.S. securities markets.

The Commission also believes that any concerns that a broker-dealer, such as Morgan Stanley, or a subsidiary providing a hedge for the issuer, will incur undue position exposure are minimized by the size of the Notes issuance in relation to the net worth of Morgan Stanley.<sup>26</sup>

Finally, the Commission notes that the value of the Index will be calculated and disseminated by CBOE once every trading day after the close of trading. However, the Commission notes that the value of the Nasdaq-100 will be widely disseminated at least once every fifteen seconds throughout the trading day and that investors are able to obtain real-time call option pricing on the Nasdaq-100 Index during the trading day. Further, the Indicative Value, which will be calculated by the CBOE after the close of trading and after the CBOE calculates the BXN Index for use by investors the next trading day, is designed to provide investors with a daily reference value of the adjusted Index.

Further, the Commission notes that the Nasdaq has agreed to undertake to delist the Notes in the event that CBOE ceases to calculate and disseminate the Index, and Morgan Stanley is unable to arrange to have the BXN Index calculated and widely disseminated through a third party.

The Commission finds good cause for approving the proposed rule change prior to the 30th day after the date of publication of the notice of filing thereof in the **Federal Register**. Nasdaq has requested accelerated approval because

Additionally, the issuer discloses in the prospectus that the hedging activities of its affiliates, including selling call options on the Nasdaq-100, could affect the value of these call option during the half hour period in which their value is determined for purposes of inclusion in the BXN Index. Such hedging activity must, of course, be conducted in accordance with applicable regulatory requirements.

<sup>26</sup> See Securities Exchange Act Release Nos. 44913 (October 9, 2001), 66 FR 52469 (October 15, 2001) (order approving the listing and trading of notes whose return is based on the performance of the Nasdaq-100 Index) (SR-NASD-2001-73); 44483 (June 27, 2001), 66 FR 35677 (July 6, 2001) (order approving the listing and trading of notes whose return is based on a portfolio of 20 securities selected from the Amex Institutional Index) (File No. SR-Amex-2001-40); and 3774 (September 27, 1996), 61 FR 52480 (October 7, 1996) (order approving the listing and trading of notes whose return is based on a weighted portfolio of healthcare/biotechnology industry securities) (SR-Amex-96-27).

this product is similar to several other instruments currently listed and traded on the Nasdaq.<sup>27</sup> Additionally, the Notes will be listed pursuant to Nasdaq's existing hybrid security listing standards as described above. Therefore, the Commission finds good cause, consistent with section 19(b)(2) of the Act,<sup>28</sup> to approve the proposal on an accelerated basis.

Accordingly, the Commission believes there is good cause, consistent with Sections 15A(b)(6) and 19(b)(2) of the Act,<sup>29</sup> to approve the proposal, on an accelerated basis.

## V. Conclusion

*It is therefore ordered*, pursuant to section 19(b)(2) of the Act,<sup>30</sup> that the proposed rule change (SR-NASD-2005-119) is hereby approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>31</sup>

**Jonathan G. Katz,**  
*Secretary.*

[FR Doc. E5-6386 Filed 11-17-05; 8:45 am]

**BILLING CODE 8010-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-52761; File No. SR-NYSE-2005-76]

### Self-Regulatory Organizations; New York Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to iShares® Index Funds of iShares Trust and iShares, Inc.

November 10, 2005.

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 28, 2005, the New York Stock Exchange, Inc. ("NYSE" 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 prepared by the NYSE. The Exchange filed the proposed rule change as a "non-controversial" rule change under Rule 19b-4(f)(6) under the Act,<sup>3</sup> which renders the proposal effective upon filing with the Commission. The

<sup>27</sup> See supra note 10.

<sup>28</sup> 15 U.S.C. 78f(b)(5) and 78s(b)(2).

<sup>29</sup> 15 U.S.C. 78o3(b)(6) and 78s(b)(2).

<sup>30</sup> 15 U.S.C. 78s(b)(2).

<sup>31</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> 17 CFR 240.19b-4(f)(6).

Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The NYSE proposes to list and trade the following iShares® Index Funds, which are Investment Company Units ("ICUs") under section 703.16 of the Exchange Listed Company Manual: iShares MSCI<sup>SM</sup> Brazil Index Fund, iShares MSCI Hong Kong Index Fund, iShares MSCI Japan Index Fund, iShares MSCI Malaysia Index Fund, iShares MSCI Singapore Index Fund, iShares MSCI South Korea Index Fund, iShares MSCI Taiwan Index Fund, iShares MSCI United Kingdom Index Fund, and iShares S&P Europe 350 Index Fund.<sup>4</sup>

### 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 NYSE 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 NYSE 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, Proposed Rule Change

##### 1. Purpose

The NYSE notes that it has adopted listing standards applicable to ICUs, which are consistent with the listing criteria currently used by other exchanges, and trading standards pursuant to which the Exchange may trade ICUs on the Exchange, including on an unlisted trading privileges ("UTP") basis.<sup>5</sup> The Exchange now proposes to list the following iShares Index Funds ("Funds"), which are ICUs, under section 703.16 of the Exchange

<sup>4</sup> MSCI and MSCI Indices are registered service marks of Morgan Stanley & Co., Incorporated.

<sup>5</sup> In 1996, the Commission approved section 703.16 of the Listed Company Manual, which sets forth the rules related to the listing of ICUs. See Securities Exchange Act Release No. 36923, March 5, 1996; 61 FR 10410, March 13, 1996 (SR-NYSE-95-23). In 2000, the Commission also approved the Exchange's generic listing standards for the listing and trading, or the trading pursuant to UTP, of ICUs under Section 703.16 of the Listed Company Manual and Exchange Rule 1100. See Securities Exchange Act Release No. 43679, December 5, 2000; 65 FR 77949, December 13, 2000 (SR-NYSE-00-46).