

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-52178; File No. SR-NYSE-2005-41]

### Self-Regulatory Organizations; New York Stock Exchange, Inc.; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change and Amendment No. 1 Thereto Relating to iShares(r) MSCI EAFE Growth Fund and iShares MSCI EAFE Value Fund

July 29, 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 June 16, 2005 the New York Stock Exchange, Inc. ("NYSE" or "Exchange") filed with the Securities and Exchange Commission ("Commission" or "SEC") the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. On July 29, 2005, NYSE filed Amendment No. 1 to the proposed rule filing.<sup>3</sup> The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons and is approving the proposal on an accelerated basis.

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

The NYSE proposes to list and trade the iShares® MSCI EAFE Value Index Fund and iShares MSCI EAFE Growth Index Fund (collectively, the "Funds"),<sup>4</sup> both exchange traded funds, which are a type of Investment Company Unit ("ICU").

#### 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. The text of these statements may be examined at the places specified in Item III, below, and is set forth in Sections A, B, and C below.

#### A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

##### 1. Purpose

The Exchange has adopted listing standards applicable to ICUs which are consistent with the listing criteria currently used by other national securities exchanges, and trading standards pursuant to which the Exchange may either list and trade ICUs, or trade such ICUs on the Exchange on an unlisted trading privileges ("UTP") basis.<sup>5</sup>

The Exchange now proposes to list and trade under Section 703.16 of the NYSE Listed Company Manual ("Manual") and NYSE Rule 1100 *et seq.* shares of the Funds, each a series of the iShares Trust (the "Trust").<sup>6</sup> Because the Funds invest in non-U.S. securities

<sup>5</sup> In 1996, the Commission approved Section 703.16 of the NYSE Listed Company Manual ("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 listing and trading, or the trading pursuant to UTP, of ICUs under Section 703.16 of the Manual and NYSE Rule 1100. See Securities Exchange Act Release No. 43679 (December 5, 2000), 65 FR 77949 (December 13, 2000) (SR-NYSE-00-46).

<sup>6</sup> The Trust is registered under the Investment Company Act of 1940 (15 U.S.C. 80a) (the "Investment Company Act"). On April 15, 2005, the Trust filed with the Commission a Registration Statement for the Funds on Form N-1A under the Securities Act of 1933 (15 U.S.C. 77a), and under the Investment Company Act relating to the Funds (File Nos. 333-92935 and 811-09729) (as amended, the "Registration Statement").

On March 3, 2004, the Trust filed with the Commission an Amended and Restated Application for an Amended Order under Sections 6(c) and 17(b) of the Investment Company Act and on September 8, 2004, the Trust filed with the Commission a Second Amended and Restated Application to Amend Orders under Sections 6(c) and 17(b) of the Investment Company Act, for the purpose of exempting the Fund from various provisions of the Investment Company Act and the rules thereunder (the "Application"). Applicants requested that the Commission amend a prior order received by the Advisor, the Trust and the Distributor on August 15, 2001, as amended (the "Prior Order"). On October 5, 2004, the SEC acted on the Application by approving an order amending certain prior orders under Section 6(c) of the Investment Company Act for an exemption from Sections 2(a)(32), 5(a)(1), 22(d) and 22(e) of the Investment Company Act and Rule 22c-1 under the Investment Company Act, and under Sections 6(c) and 17(b) of the Investment Company Act for an exemption from Sections 17(a)(1) and (a)(2) thereof. Investment Company Act Release No. 26626 (October 5, 2004) ("Amended Order"). See also In the Matter of iShares Trust, *et al.*, Investment Company Act Release No. 25111 (August 15, 2001) as amended by *In the Matter of iShares, Inc., et al.*, Investment Company Act Release No. 25623 (June 25, 2002) and *In the Matter of iShares Trust, et al.*, Investment Company Act Release No. 26006 (April 15, 2003). The Amended Order permits the Trust to offer the Funds and permits the Funds to invest in certain depositary receipts.

not listed on a national securities exchange or the Nasdaq Stock Market, the Funds do not meet the "generic" listing requirements of Section 703.16 of the Manual applicable to listing of ICUs (permitting listing in reliance upon Rule 19b-4(e) under the Act and cannot be listed without a filing pursuant to Rule 19b-4 under the Act).<sup>7</sup> Therefore, to list the Funds (or trade pursuant to UTP), the Exchange must file, and obtain Commission approval of, a proposed rule change pursuant to Rule 19b-4 under the Act.<sup>8</sup>

As set forth in detail below, the Funds will hold certain securities ("Component Securities") selected to correspond generally to the performance of the MSCI EAFE Value Index and the MSCI EAFE Growth Index (the "Underlying Indexes").<sup>9</sup> Each Fund intends to qualify as a "regulated investment company" (a "RIC") under the Internal Revenue Code (the "Code"). Barclays Global Fund Advisors (the "Advisor" or "BGFA") is the investment advisor to the Funds. The Advisor is registered under the Investment Advisers Act of 1940.<sup>10</sup> The Advisor is the wholly owned subsidiary of Barclays Global Investors, N.A. ("BGI"), a national banking association. BGI is an indirect subsidiary of Barclays Bank PLC of the United Kingdom. SEI Investments Distribution Co. ("SEI" or "Distributor"), a Pennsylvania corporation and broker-dealer registered under the Act, is the principal underwriter and distributor of Creation Unit Aggregations of iShares (see "Issuance of Creation Units Aggregations," below). The Distributor is not affiliated with the Exchange or the Advisor. The Trust has appointed Investors Bank & Trust Co. ("IBT") to act as administrator ("Administrator"), custodian, fund accountant, transfer agent, and dividend disbursing agent for the Funds. The Exchange expects that performance of the Administrator's duties and obligations will be conducted within the provisions of the Investment Company Act and the rules thereunder. There is no affiliation between the Administrator and the Trust, the Advisor or the Distributor. MSCI, the sponsor and compiler of the Underlying Indexes, is not affiliated

<sup>7</sup> 17 CFR 240.19b-4.

<sup>8</sup> *Id.*

<sup>9</sup> Each Underlying Index for the MSCI EAFE Value and Growth Index Fund is a subset of the MSCI EAFE Index. The MSCI EAFE Index is an Underlying Index of an index fund of the Trust subject to the Prior Order. At present, the iShares MSCI EAFE Index Fund trades on the Exchange pursuant to UTP. Securities Exchange Act Release No. 50142 (August 3, 2004), 69 FR 48539 (August 10, 2004) (SR-NYSE-2004-27).

<sup>10</sup> 15 U.S.C. 80b.

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

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

<sup>3</sup> In Amendment No. 1, the Exchange clarified and supplemented certain aspects of its proposal. Amendment No. 1 supplements the information provided in various sections, as indicated, of the Exchange's Form 19b-4.

<sup>4</sup> iShares is a registered trademark of Barclays Global Investors, N.A.

with the Trust, the Administrator, the Distributor, or with the Advisor or its affiliates. The Funds are not sponsored, offered, or sold by MSCI.

(a) *Operation of the Funds.*<sup>11</sup> The investment objective of the Funds will be to provide investment results that correspond generally to the price and yield performance of the Underlying Index. In seeking to achieve their investment objective, the Funds will utilize "passive" indexing investment strategies. The Funds may fully replicate their respective Underlying Index, but currently intend to use a "representative sampling" strategy to track the applicable Underlying Index. A Fund utilizing a representative sampling strategy generally will hold a basket of the Component Securities of its Underlying Index, but it may not hold all of the Component Securities of its Underlying Index. The Application states that the representative sampling techniques that will be used by the Advisor to manage the Funds do not differ from the representative sampling techniques it uses to manage the funds that were the subject of the Prior Order. (See note 6, *supra*.)

From time to time, adjustments may be made in the portfolio of the Funds in accordance with changes in the composition of the Underlying Indexes or to maintain compliance with requirements applicable to a RIC under the Code.<sup>12</sup> For example, if at the end

<sup>11</sup> The Exchange states that the information provided herein is based on information included in the Application, Prior Order and the Prior Application. (See note 6, *supra*.) While the Advisor would manage the Funds, the Funds' Board of Directors would have overall responsibility for the Funds' operations. The composition of the Board is, and would be, in compliance with the requirements of Section 10 of the Investment Company Act. The Funds are subject to and must comply with Section 303A.06 of the Manual, which requires that the Funds have an audit committee that complies with SEC Rule 10A-3, 17 CFR 240.10A-3.

<sup>12</sup> In order for the Funds to qualify for tax treatment as a RIC, they must meet several requirements under the Code. Among these is a requirement that, at the close of each quarter of the Funds' taxable year, (i) at least 50% of the market value of the Funds' total assets must be represented by cash items, U.S. government securities, securities of other RICs and other securities, with such other securities limited for the purpose of this calculation with respect to any one issuer to an amount not greater than 5% of the value of the Funds' assets and not greater than 10% of the outstanding voting securities of such issuer; and (ii) not more than 25% of the value of their total assets may be invested in securities of any one issuer, or two or more issuers that are controlled by the Funds (within the meaning of Section 851(b)(4)(B) of the Code) and that are engaged in the same or similar trades or business (other than U.S. government securities of other RICs).

Compliance with the above referenced RIC asset diversification requirements are monitored by the Advisor, and any necessary adjustments to portfolio issuer weights will be made on a quarterly basis or as necessary to ensure compliance with RIC

of a calendar quarter, a Fund would not comply with the RIC diversification tests, the Advisor would make adjustments to the portfolio to ensure continued RIC status.

The Exchange states that an index is a theoretical financial calculation while each Fund is an actual investment portfolio. The performance of the Funds and the Underlying Indexes will vary somewhat due to transaction costs, market impact, corporate actions (such as mergers and spin-offs) and timing variances. As stated in the Application, it is expected that, over time, the correlation between each Fund's performance and that of its respective Underlying Index, before fees and expenses, will be 95% or better. A figure of 100% would indicate perfect correlation. Any correlation of less than 100% is called "tracking error." Thus, the Funds are expected to have a tracking error relative to the performance of the applicable Underlying Index of no more than 5%.<sup>13</sup> The Funds' investment objectives, policies and investment strategies will be fully disclosed in their prospectus ("Prospectus") and statement of additional information ("SAI"). The Funds' board of directors reviews the tracking error of the Funds on a quarterly basis and, based upon its review, will consider whether any action might be appropriate.

The Funds will not concentrate their investments (*i.e.*, hold 25% or more of their assets) in a particular industry or group of industries, except that the Funds will concentrate their investments to approximately the same extent that the respective Underlying Index is so concentrated. For purposes of this limitation, securities of the U.S. Government (including its agencies and instrumentalities), repurchase agreements collateralized by U.S. Government securities, and securities of the United States government and their political subdivisions are not considered to be issued by members of any industry.

requirements. When an iShares Fund's Underlying Index itself is not RIC compliant, the Advisor generally employs a representative sampling indexing strategy (as described in the Funds' prospectus) in order to achieve the Fund's investment objective. The Funds' prospectus also gives the Funds additional flexibility to comply with the requirements of the Code and other regulatory requirements and to manage future corporate actions and index changes in smaller markets by investing a percentage of fund assets in securities that are not included in the Fund's Underlying Index or in American Depositary Receipts and Global Depositary Receipts representing such securities.

<sup>13</sup> The Web site for the Funds, [www.iShares.com](http://www.iShares.com), contains detailed information on the performance and the tracking error for each Fund.

Each of the MSCI EAFE Value and Growth Index Funds (i) will invest at least 90% of its assets in Component Securities of its respective Underlying Index and in Depositary Receipts (defined below) representing such securities and (ii) may invest up to 10% of its assets in certain futures, options and swap contracts, cash and cash equivalents, including money market mutual funds advised by BGFA,<sup>14</sup> other exchange-traded funds, including other iShares Funds,<sup>15</sup> and stocks not included in the Underlying Index but which the Advisor believes will help the Fund track its Underlying Index. For example, each of these Funds may invest in securities not included in the relevant Underlying Index in order to reflect prospective changes in the relevant Underlying Index (such as future corporate actions and index reconstitutions, additions, and deletions).

To the extent the Funds invest in American Depositary Receipts,<sup>16</sup> they will be listed on a national securities exchange or Nasdaq, and to the extent the Funds invest in other Depositary Receipts, they will be listed on a foreign exchange. The Funds will not invest in any unlisted Depositary Receipts or any listed Depositary Receipts that the Advisor deems to be illiquid or for which pricing information is not readily available. In addition, all Depositary Receipts must be sponsored (with the exception of certain pre-1984 ADRs that are listed and unsponsored because they are grandfathered).

The Exchange believes that these requirements and policies prevent the Funds from being excessively weighted in any single security or small group of securities and significantly reduce concerns that trading in the Funds could become a surrogate for trading in unregistered securities.

(b) *Description of the Funds and the Underlying Indexes. Index Description.* The Funds' Underlying Indexes, the MSCI EAFE Growth Index and MSCI EAFE Value Index, are subsets of the

<sup>14</sup> *In the Matter of Master Investment Portfolio, et al.*, Investment Company Act Release No. 25158 (September 18, 2001).

<sup>15</sup> The Fund, as well as any existing iShares Fund, is permitted to invest in shares of another iShares Fund to the extent that such investment is consistent with the Fund's investment objective, its Registration Statement, and any applicable investment restrictions.

<sup>16</sup> For the purposes of this proposed rule filing, "Depositary Receipts" are American Depositary Receipts ("ADRs"), Global Depositary Receipts ("GDRs"), and Euro Depositary Receipts ("EDRs") (collectively, "Depositary Receipts"). Telephone conversation between Florence Harmon, Senior Special Counsel, Division of Market Regulation, Commission, and Michael Cavalier, Assistant General Counsel, NYSE, on July 7, 2005.

MSCI EAFE Index. The MSCI EAFE Index, in turn, is a composite of certain MSCI single country equity indices.<sup>17</sup>

Constituents of the MSCI EAFE Index include securities from Europe, Australasia (Australia and Asia), and the Far East. Each Underlying Index generally represents approximately 50% of the free float-adjusted market capitalization of the MSCI EAFE Index and consists of those securities classified by MSCI as most representing the growth or value style, respectively. Securities classified as growth style generally tend to have higher forecasted growth rates, lower book value to price ratios, lower forward earnings to price ratios and lower dividend yields than securities representing the value style. Securities classified as value style generally tend to have higher book value to price ratios, higher forward earnings to price ratios, higher dividend yields and lower forecasted growth rates than securities representing the growth style. MSCI uses a specialized framework to attribute both value and growth style characteristics to each security within the MSCI EAFE Index. Each security is evaluated based on certain value factors and growth factors, which are then used to calculate a value score and growth score. Based upon these two scores, MSCI determines the extent to which each security is assigned to the value or growth style. It is possible for a single security to have representation in both the value and growth style indices; however, no more than 100% of a security's float-adjusted market capitalization will be included within the combined style framework.<sup>18</sup>

<sup>17</sup> Thus, the Underlying Indexes are subsets of various MSCI single country equity indices, each representing approximately 50% of the free float adjusted market capitalization of each underlying single country equity index and consists of those securities classified by MSCI as most representing the value style or growth style, respectively. The MSCI single country standard equity indices target an 85% free float-adjusted market representation level within each industry group, within each country. According to MSCI, the security selection process within each industry group is based on the careful analysis of (i) each company's business activities and the diversification that its securities would bring to the index, (ii) the size (based on free float-adjusted market capitalization) and liquidity of the securities of the company; and (iii) the estimated free float for the company and its individual share classes. MSCI targets for inclusion the most sizable and liquid securities in an industry group. MSCI generally does not consider securities with inadequate liquidity, and/or securities that do not have an estimated free float greater than 15%. Exceptions to this general rule are made only in significant cases, where exclusion of a security of a large company would compromise the index's ability to fully and fairly represent the characteristics of the underlying market.

<sup>18</sup> The Underlying Indexes are compiled by Morgan Stanley Capital International ("MSCI"). MSCI is a partially owned subsidiary of Morgan Stanley. When a broker-dealer, or a broker-dealer's

Therefore, the combined market capitalization of the value and growth style indices would be equivalent to the market capitalization of the MSCI EAFE.<sup>19</sup> The Funds' top portfolio holdings can be found at <http://www.iShares.com>.

MSCI defines the free float of a security as the proportion of shares outstanding that are deemed to be available for purchase in the public equity markets by international investors. In practice, limitations on free float available to international investors include: (i) Strategic and other shareholdings not considered part of available free float; and (ii) limits on share ownership for foreigners.

As of March 31, 2005, the MSCI EAFE Growth Index's top three holdings were the Vodafone Group, GlaxoSmithKline, Novartis. Its top three industries were Financials, Energy and Consumer Discretionary.

As of March 31, 2005, the MSCI EAFE Growth Index components had a total market capitalization of approximately \$4.4 trillion.<sup>20</sup> The average total market capitalization was approximately \$7.3 billion. The 10 largest constituents represented approximately 21.2% of the index weight. The five highest weighted stocks, which represented 13.2% of the index weight, had an average daily trading volume in excess of 347 million shares during the past two months. 99.3% of the component stocks traded at least 250,000 shares in each of the previous six months.

As of March 31, 2005, the MSCI EAFE Value Index's top three holdings were HSBC Holdings (GB), BP and Nestle. Its

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. The Exchange states that MSCI has implemented procedures to prevent the misuse of material, non-public information regarding changes to component stocks in the MSCI EAFE Value and Growth Indices and has provided Commission staff with a letter filed under the Freedom of Information Act, 5 U.S.C. 552, describing such procedures. Telephone conversation between Florence Harmon, Senior Special Counsel, Division of Market Regulation, Commission, and Michael Cavalier, Assistant General Counsel, NYSE, on July 7, 2005.

<sup>19</sup> Telephone conversation between Florence Harmon, Senior Special Counsel, Division of Market Regulation, Commission, and Michael Cavalier, Assistant General Counsel, NYSE, on July 7, 2005. Additionally, the MSCI EAFE Index is a capitalization-weighted index that aims to capture 85% of the publicly available, total market capitalization of European, Australian, and Far Eastern markets. *Id.*, on July 29, 2005.

<sup>20</sup> As of June 30, 2005, both the MSCI EAFE Value and Growth Indices continued to each have a total market capitalization of over \$4.4 trillion, and both Indices each contained over 600 component securities. See Exhibit A to Amendment No. 1.

top three industries were Financials, Energy, and Consumer Discretionary.

As of March 31, 2005, the MSCI EAFE Value Index components had a total market capitalization of approximately \$4.5 trillion. The average total market capitalization was approximately \$7.5 billion. The ten largest constituents represented approximately 21.2% of the index weight. The five highest weighted stocks, which represented 13.6% of the Index weight, had an average daily trading volume in excess of 191 million shares during the past two months. 99.9% of the component stocks traded at least 250,000 shares in each of the previous six months.

Additional information regarding the Funds' holdings is available at <http://www.iShares.com>.<sup>21</sup>

(c) *Changes to the Underlying Indexes for the Funds.* As described in the SAI for the Funds, overall index maintenance can be described by three broad categories of implementation of changes: (i) Annual full country index reviews, conducted on a fixed annual timetable, that systematically re-assess the various dimensions of the equity universe for all countries; (ii) quarterly index reviews, aimed at promptly reflecting other significant market events; and (iii) ongoing event-related changes, such as mergers and acquisitions, which generally are rapidly implemented in the indices as they occur.<sup>22</sup>

Potential changes in the status of countries (stand-alone, emerging, or developed) follow their own separate timetables. These changes are normally implemented in one or more phases at the regular annual full country index review and quarterly index review dates.

The annual full country index review for all the MSCI single country standard equity indices is carried out once every 12 months and implemented as of the close of the last business day of May. The implementation of changes resulting from a quarterly index review occurs only on three dates throughout the year: as of the close of the last business day of February, August, and November. Any single country indices may be impacted at the quarterly index review. MSCI Index additions and deletions due to quarterly index rebalancings are announced at least two weeks in advance.

<sup>21</sup> Telephone conversation between Florence Harmon, Senior Special Counsel, Division of Market Regulation, Commission, and Michael Cavalier, Assistant General Counsel, NYSE, on July 7, 2005.

<sup>22</sup> See MSCI Standard Index Series Methodology, available at <http://www.msci.com>.

(d) *Issuance of Creation Unit Aggregations*

The Exchange notes that, according to the Application, the issuance and redemption of Creation Unit Aggregations will operate in a manner identical to that of the funds that are the subject of the Prior Order.<sup>23</sup>

(i) *In General.* Shares of the Funds (the “iShares”) will be issued on a continuous offering basis in groups of 400,000 iShares, or multiples thereof.<sup>24</sup> These “groups” of shares are called “Creation Unit Aggregations.” The Funds will issue and redeem iShares only in Creation Unit Aggregations.<sup>25</sup>

As with other open-end investment companies, iShares will be issued at the net asset value (“NAV”) per share next determined after an order in proper form is received. The anticipated price at which the iShares will initially trade is approximately \$50.

The NAV per share of the Funds is determined as of the close of the regular trading session on the Exchange on each day that the Exchange is open. The Trust sells Creation Unit Aggregations of the Funds only on business days at the next determined NAV of the Funds. Creation Unit Aggregations generally will be issued by the Funds in exchange for the in-kind deposit of equity securities designated by the Advisor to correspond generally to the price and yield performance of the Fund’s Underlying Index (the “Deposit Securities”) and a specified cash payment. Creation Unit Aggregations generally will be redeemed by the Fund in exchange for portfolio securities of the Fund (“Fund Securities”) and a specified cash payment. Fund Securities received on redemption may not be identical to Deposit Securities deposited in connection with creations of Creation Unit Aggregations for the same day.

All orders to purchase iShares in Creation Unit Aggregations must be placed through an Authorized Participant. An Authorized Participant

must be either a “Participating Party,” *i.e.*, a broker-dealer or other participant in the clearing process through the National Securities Clearing Corporation (“NSCC”) Continuous Net Settlement System (the “Clearing Process”), a clearing agency that is registered with the SEC, or a Depository Trust Company (“DTC”) participant, and in each case, must enter into a Participant Agreement. The Funds impose a transaction fee in connection with the issuance and redemption of iShares to offset transfer and other transaction costs. The transaction fee in connection with the issuance and redemption of Creation Unit Aggregations of the Funds are estimated to be approximately between \$10,000 and \$15,000.

(ii) *In-Kind Deposit of Portfolio Securities.* Payment for Creation Unit Aggregations will be made by the purchasers generally by an in-kind deposit with the applicable Fund of the Deposit Securities together with an amount of cash (“Balancing Amount”) specified by the Advisor in the manner described below. The Balancing Amount is an amount equal to the difference between (1) the NAV (per Creation Unit Aggregation) of the Fund and (2) the total aggregate market value (per Creation Unit Aggregation) of the Deposit Securities (such value referred to herein as the “Deposit Amount”). The Balancing Amount serves the function of compensating for differences, if any, between the NAV per Creation Unit Aggregation and that of the Deposit Amount. The deposit of the requisite Deposit Securities and the Balancing Amount are collectively referred to herein as a “Fund Deposit.” The Advisor will make available to the market through the NSCC on each business day, prior to the opening of trading on the Exchange (currently 9:30 a.m. Eastern Time), the list of the names and the required number of shares of each Deposit Security included in the current Fund Deposit (based on information at the end of the previous business day) for each Fund. The Fund Deposit will be applicable to the relevant Fund (subject to any adjustments to the Balancing Amount, as described below) in order to effect purchases of Creation Unit Aggregations of such Fund until such time as the next-announced Fund Deposit composition is made available.

The identity and number of shares of the Deposit Securities required for the Fund Deposit for each Fund will change from time to time. The composition of the Deposit Securities may change in response to adjustments to the weighting or composition of the Component Securities in the Underlying

Index. In addition, the Trust reserves the right to permit or require the substitution of an amount of cash—*i.e.*, a “cash in lieu” amount—to be added to the Balancing Amount to replace any Deposit Security that may not be available in sufficient quantity for delivery or that may not otherwise be eligible for transfer. The Trust also reserves the right to permit or require a “cash in lieu” amount where the delivery of the Deposit Security by the Authorized Participant would be restricted under the securities laws or where the delivery of the Deposit Security to the Authorized Participant would result in the disposition of the Deposit Security by the Authorized Participant becoming restricted under the securities laws, or in certain other situations. The adjustments described above will reflect changes known to the Advisor on the date of announcement to be in effect by the time of delivery of the Fund Deposit, in the composition of the applicable Underlying Index or resulting from certain corporate actions.

(e) *Redemption of iShares.* Creation Unit Aggregations of the Funds will be redeemable at the NAV next determined after receipt of a request for redemption. Creation Unit Aggregations of the Funds generally will be redeemed in-kind, together with a balancing cash payment (although, as described below, Creation Unit Aggregations may sometimes be redeemed for cash). The value of the Funds’ redemption payments on a Creation Unit Aggregation basis will equal the NAV per the appropriate number of Fund shares. Owners of iShares may sell their iShares in the secondary market, but must accumulate enough iShares to constitute a Creation Unit Aggregation in order to redeem through the Fund. Redemption orders must be placed by or through an Authorized Participant. Creation Unit Aggregations of the Funds generally will be redeemable on any business day in exchange for applicable Fund Securities and the Cash Redemption Payment (defined below) in effect on the date a request for redemption is made. The Advisor will publish daily through NSCC the list of securities which a creator of Creation Unit Aggregations must deliver to the Fund (“Creation List”) and which a redeemer will receive from the Funds (“Redemption List”). The Creation List is identical to the list of the names and the required numbers of shares of each Deposit Security included in the current Fund Deposit.

In addition, just as the Balancing Amount is delivered by the purchaser of Creation Unit Aggregations to the Funds, the Trust will also deliver to the

<sup>23</sup> See *supra* note 6.

<sup>24</sup> The Exchange notes that, while this Creation Unit size is significantly larger than that of most other iShares Funds, the iShares Trust recently implemented a split for a number of iShares Funds, which began trading on a split-adjusted basis on June 9, 2005. The iShares MSCI EAFE Index Fund, for example, implemented a 3-for-1 split, and the size of a Creation Unit for that Fund increased from 200,000 iShares to 600,000 iShares as of June 9, 2005, in order to provide for a comparable post-split Creation Unit dollar value. The Exchange does not expect that the Creation Unit size for the Funds will adversely impact arbitrage opportunities and that the potential for arbitrage should keep the market price of shares of the Funds comparable to their net asset values.

<sup>25</sup> Each Creation Unit Aggregation will have an estimated initial value of approximately \$20,000,000.

redeeming beneficial owner in cash the "Cash Redemption Payment." The Cash Redemption Payment on any given business day will be an amount calculated in the same manner as that for the Balancing Amount, although the actual amounts may differ if the Fund Securities received upon redemption are not identical to the Deposit Securities applicable for creations on the same day.<sup>26</sup> To the extent that the Fund Securities have a value greater than the NAV of iShares being redeemed, a cash payment equal to the differential is required to be paid by the redeeming beneficial owner to the applicable Fund. The Trust may also make redemptions in cash in lieu of transferring one or more Fund Securities to a redeemer if the Trust determines, in its discretion, that such method is warranted due to unusual circumstances. An unusual circumstance could arise, for example, when a redeeming entity is restrained by regulation or policy from transacting in certain Fund Securities, such as the presence of such Fund Securities on a redeeming investment banking firm's restricted list.

(f) *Availability of Information Regarding iShares and the Underlying Index.* On each business day, the list of names and amount of each security constituting the current Deposit Securities of the Fund Deposit and the Balancing Amount effective as of the previous business day, per outstanding share of each Fund, will be made available. An amount per iShare representing the sum of the estimated Balancing Amount effective through and including the previous business day, plus the current value of the Deposit Securities in U.S. dollars, on a per iShare basis (the "Intra-day Optimized Portfolio Value" or "IOPV") will be calculated by an independent third party (the "IOPV Calculator"), such as Bloomberg L.P., every 15 seconds during the Exchange's regular trading hours and disseminated every 15 seconds on the Consolidated Tape.

The IOPV reflects the current value of the Deposit Securities and the Balancing Amount. The IOPV also reflects changes in currency exchange rates between the U.S. dollar and the applicable home foreign currency.<sup>27</sup>

<sup>26</sup> See discussion under Section II.A.1(d)(ii) "In-Kind Deposit of Portfolio Securities," above.

<sup>27</sup> The IOPV ticker is available at [www.iShares.com](http://www.iShares.com) and Intra-day IOPV is publicly available utilizing this ticker through various financial Web sites such as <http://finance.yahoo.com>. Telephone conversation between Florence Harmon, Senior Special Counsel, Division of Market Regulation, Commission, and Michael Cavalier, Assistant General Counsel, NYSE, on July 7, 2005.

Since the Funds will utilize a representative sampling strategy, the IOPV may not reflect the value of all securities included in the Underlying Indexes. In addition, the IOPV does not necessarily reflect the precise composition of the current portfolio of securities held by the Funds at a particular point in time. Therefore, the IOPV on a per-Fund-share basis disseminated during the Exchange's trading hours should not be viewed as a real time update of the NAV of the Fund, which is calculated only once a day.

While the IOPV disseminated by the Exchange at 9:30 a.m. New York Time is expected to be generally very close to the most recently calculated Fund NAV on a per-Fund-share basis, it is possible that the value of the portfolio of securities held by each Fund may diverge from the Deposit Securities values during any trading day. In such case, the IOPV will not precisely reflect the value of each Fund's portfolio. However, during the trading day, the IOPV can be expected to closely approximate the value per Fund share of the portfolio of securities for each Fund, except under unusual circumstances (e.g., in the case of extensive rebalancing of multiple securities in a Fund at the same time by the Advisor).

The Exchange believes that dissemination of the IOPV based on the Deposit Securities provides additional information regarding the Funds that is not otherwise available to the public and is useful to professionals and investors in connection with Fund shares trading on the Exchange or the creation or redemption of Fund shares.

There is an overlap in trading hours between the foreign and U.S. markets with respect to the Funds. Therefore, the IOPV Calculator will update the applicable IOPV every 15 seconds to reflect price changes in the applicable foreign market or markets and convert such prices into U.S. dollars based on the currency exchange rate. When the foreign market or markets are closed but U.S. markets are open, the IOPV will be updated every 15 seconds to reflect changes in currency exchange rates after the foreign market closes. The IOPV will also include the applicable cash component for each Fund.

In addition, there will be disseminated a value for the Underlying Indexes once each trading day, based on closing prices in the relevant exchange market. In each MSCI Index, the prices used to calculate the MSCI Indices are the official exchange closing prices or those figures accepted as such. MSCI reserves the right to use an alternative pricing source on any given day.

To convert the foreign exchange closing price into U.S. dollars, MSCI uses the FX rates published by WM/Reuters at 4 p.m. London time. MSCI uses WM/Reuters rates for all developed and emerging markets. Exchange rates are taken daily at 4 p.m. London time by the WM Company and are sourced whenever possible from multi-contributor quotes on Reuters. Representative rates are selected for each currency based on a number of "snapshots" of the latest contributed quotations taken from the Reuters service at short intervals around 4 p.m. WM Reuters provides closing bid and offer rates. MSCI uses these rates to calculate the mid-point to 5 decimal places.

The NAV for the Fund will be calculated and disseminated daily. The Funds' NAV will be calculated by IBT. IBT will disseminate the information to BGI, SEI and others, including the NYSE. The Funds' NAV will be published in a number of places, including <http://www.iShares.com> and on the Consolidated Tape.<sup>28</sup>

The Exchange states that closing prices of the Funds' Deposit Securities are readily available from, as applicable, the relevant exchanges, automated quotation systems, published or other public sources in the relevant country, or on-line information services such as Bloomberg or Reuters. The exchange rate information required to convert such information into U.S. dollars is also readily available in newspapers and other publications and from a variety of on-line services.

(g) *Dividends and Distributions.* The Exchange notes that dividends are accrued daily from net investment income and will be declared and paid to beneficial owners of record at least annually by the Funds. Distributions of realized securities gains, if any, generally will be declared and paid once a year, but the Funds may make distributions on a more frequent basis to comply with the distribution requirements of the Code and consistent with the Investment Company Act.

Dividends and other distributions on iShares of the Funds will be distributed on a pro rata basis to beneficial owners of such iShares. Dividend payments will

<sup>28</sup> In addition, the Web site for the Trust, <http://www.iShares.com>, which will be publicly accessible at no charge, will contain the following information, such as: (i) The prior business day's NAV and the mid-point of the bid-ask price at the time of calculation of such NAV ("Bid/Ask Price"), and a calculation of the premium or discount of such price against such NAV; and (ii) 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.

be made through the DTC and the DTC Participants to beneficial owners then of record with amounts received from the Fund.

The Trust currently does not intend to make the DTC book-entry Dividend Reinvestment Service ("Service") available for use by beneficial owners for reinvestment of their cash proceeds, but certain individual brokers may make the Service available to their clients. The SAI will inform investors of this fact and direct interested investors to contact such investor's broker to ascertain the availability and a description of the Service through such broker. The SAI will also caution interested beneficial owners that they should note that each broker may require investors to adhere to specific procedures and timetables in order to participate in the Service and such investors should ascertain from their broker such necessary details. The Funds acquired pursuant to the Service will be held by the beneficial owners in the same manner, and subject to the same terms and conditions, as for original ownership of the Funds.

Beneficial owners of the Funds will receive all of the statements, notices, and reports required under the Investment Company Act and other applicable laws. They will receive, for example, annual and semi-annual reports, written statements accompanying dividend payments, proxy statements, annual notifications detailing the tax status of distributions, IRS Form 1099-DIVs, etc. Because the Trust's records reflect ownership of iShares by DTC only, the Trust will make available applicable statements, notices, and reports to the DTC Participants who, in turn, will be responsible for distributing them to the beneficial owners.

(h) Other Issues

(i) *Criteria for Initial and Continued Listing.* The Funds are subject to the criteria for initial and continued listing of ICUs in Section 703.16 of the Manual. A minimum of one Creation Unit (400,000 iShares) will be required to be outstanding at the start of trading. This minimum number of shares of each Fund required to be outstanding at the start of trading will be comparable to requirements that have been applied to previously traded series of ICUs.

The Exchange believes that the proposed minimum number of shares of each Fund outstanding at the start of trading is sufficient to provide market liquidity and to further each Fund's investment objective to seek to provide investment results that correspond generally to the price and yield performance of its Underlying Index.

(ii) *Original and Annual Listing Fees.* The original listing fees applicable to the Funds for listing on the Exchange is \$5,000 for each Fund, and the annual continuing listing fees will be \$2,000 for each Fund.

(iii) *Stop and Stop Limit Orders.* Commentary .30 to NYSE Rule 13 provides that stop and stop limit orders in an ICU shall be elected by a quotation, but specifies that if the electing bid on an offer is more than 0.10 points away from the last sale and is for the specialist's dealer account, prior Floor Official approval is required for the election to be effective. This rule applies to ICUs generally.

(iv) *Rule 460.10.* Rule 460.10 generally precludes certain business relationships between an issuer and the specialist or its affiliates in the issuer's securities.<sup>29</sup> Exceptions in the Rule permit specialists in Fund shares to enter into Creation Unit transactions through the Distributor to facilitate the maintenance of a fair and orderly market. A specialist Creation Unit transaction may only be effected on the same terms and conditions as any other investor, and only at the net asset value of the Fund shares. A specialist may acquire a position in excess of 10% of the outstanding issue of the Funds' shares, provided, however, that a specialist registered in a security issued by an investment company may purchase and redeem the investment company unit or securities that can be subdivided or converted into such unit, from the investment company as appropriate to facilitate the maintenance of a fair and orderly market in the subject security in accordance with the terms of Rule 460.10.<sup>30</sup>

(v) *Prospectus Delivery.* The Commission has granted the Trust an exemption from certain prospectus delivery requirements under Section 24(d) of the Investment Company Act.<sup>31</sup> Any product description used in reliance on the Section 24(d) exemptive order will comply with all representations made therein and all conditions thereto. The Exchange, in an Information Memo to Exchange members and member organizations, will inform members and member

organizations, prior to commencement of trading, of the prospectus or product description delivery requirements applicable to the Funds and will refer members and member organizations to NYSE Rule 1100(b). The Information Memo will also advise members and member organizations that delivery of a prospectus to customers in lieu of a product description would satisfy the requirements of Rule 1100(b).

(vi) *Information Memo.* The Exchange will distribute an Information Memo to its members in connection with the trading of the Funds. The Memo will discuss the special characteristics and risks of trading this type of security. Specifically, the Memo, among other things, will discuss what the Funds are, how the Funds' shares are created and redeemed, the requirement that members and member firms deliver a prospectus or product description to investors purchasing shares of the Funds prior to or concurrently with the confirmation of a transaction, applicable Exchange rules, dissemination information, trading information and the applicability of suitability rules (including NYSE Rule 405). The memo will also discuss exemptive, no-action and interpretive relief granted by the Commission from Section 11(d)(1) and certain rules under the Act.

(vii) *Trading Halts.* In order to halt the trading of the Funds, the Exchange may consider, among other things, factors such as the extent to which trading is not occurring in underlying security(s) and whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present. In addition, trading in the Funds' shares is subject to trading halts caused by extraordinary market volatility pursuant to NYSE Rule 80B.

(viii) *Due Diligence.* The Exchange represents that the Information Memo to members will note, for example, Exchange responsibilities including that before an Exchange member, member organization, or employee thereof recommends a transaction in the Funds, a determination must be made that the recommendation is in compliance with all applicable Exchange and federal rules and regulations, including due diligence obligations under NYSE Rule 405 (Diligence as to Accounts).

(ix) *Purchases and Redemptions in Creation Unit Size.* In the Memo referenced above, members and member organizations will be informed that procedures for purchases and redemptions of shares of the Funds in Creation Unit Size are described in the Funds' Prospectus and SAI, and that shares of the Funds are not individually redeemable but are redeemable only in

<sup>29</sup> Telephone conversation between Florence Harmon, Senior Special Counsel, Division of Market Regulation, Commission, and Michael Cavalier, Assistant General Counsel, NYSE, on July 7, 2005.

<sup>30</sup> Telephone conversation between Florence Harmon, Senior Special Counsel, Division of Market Regulation, Commission, and Michael Cavalier, Assistant General Counsel, NYSE, on July 29, 2005 (as to specific terms of Rule 460.10).

<sup>31</sup> 15 U.S.C. 80a-24. See *In the Matter of iShares, Inc., et al.*, Investment Company Act Release No. 25623 (June 25, 2002).

Creation Unit size aggregations or multiples thereof.

(x) *Surveillance*. The Exchange will utilize its existing surveillance procedures applicable to ICUs to monitor trading in the Funds. The Exchange believes that these procedures are adequate to monitor Exchange trading of the Funds.

The Exchange states that its surveillance procedures applicable to trading in the proposed iShares are comparable to those applicable to other ICUs currently trading on the Exchange. The Exchange represents that its surveillance procedures, which the Exchange has filed with the Commission, are adequate to properly monitor the trading of the Funds. The Exchange's current trading surveillances focus 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. The Exchange is able to obtain information regarding trading in both the Fund shares and the component securities through NYSE members, in connection with such members' proprietary or customer trades, on any relevant market on which such members may trade; in addition, the Exchange may obtain trading information via the Intermarket Surveillance Group ("ISG") from other exchanges who are members or affiliates of the ISG.

(xi) *Hours of Trading/Minimum Price Variation*. The Funds will trade on the Exchange until 4:15 p.m. (Eastern time) each business day. The minimum price variation for quoting will be \$.01.

### 1. Statutory Basis

NYSE believes that the proposed rule change is consistent with Section 6(b)(5) of the Act<sup>32</sup> requiring that an exchange have rules that are designed, among other things, 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*

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 has neither solicited nor received written comments on the proposed rule change.

### III. 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-NYSE-2005-41 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-NYSE-2005-41. 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 NYSE. 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-NYSE-2005-41 and should be submitted on or before August 30, 2005.

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

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>33</sup> In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act<sup>34</sup> and will promote just and equitable principles of trade, and facilitate transactions in securities, and, in general, protect investors and the public interest.

The Commission believes that the NYSE's proposal should advance the public interest by providing investors with increased flexibility in satisfying their investment needs and by allowing them to purchase and sell Fund shares at negotiated prices throughout the business day that generally track the price and yield performance of the targeted Underlying Index.<sup>35</sup>

Furthermore, the Commission believes that the proposed rule change raises no issues that have not been previously considered by the Commission. The Fund is similar in structure and operation to exchange-traded index funds that the Commission has previously approved for listing and trading on national securities exchanges under Section 19(b)(2) of the Act.<sup>36</sup> Further, with respect to each of the following key issues, the Commission believes that the Fund satisfies established standards.

#### *A. Fund Characteristics*

Similar to other previously-approved, exchange-listed index fund shares, the Commission believes that the proposed Funds are reasonably designed to provide investors with an investment vehicle that substantially reflects in value the performance of the respective Underlying Index and will provide investors with an alternative to trading a range of securities on an individual basis. The estimated cost of individual shares in the Fund, approximately \$50,

<sup>33</sup> In approving this proposal, the Commission has considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>34</sup> 15 U.S.C. 78f(b)(5).

<sup>35</sup> The Commission notes that, as is the case with similar previously approved exchange traded funds, investors in the Fund can redeem shares in Creation-Unit-size aggregations only. See, e.g., Securities Exchange Act Release Nos. 43679 (December 5, 2000), 65 FR 77949 (December 13, 2000) (File No. SR-NYSE-00-46); 50505 (October 8, 2004), 69 FR 61280 (October 15, 2004) (File No. SR-NYSE-2004-55); 50189 (August 12, 2004), 69 FR 51723 (August 20, 2004) (File No. SR-Amex-2004-05).

<sup>36</sup> 15 U.S.C. 78s(b)(2).

<sup>32</sup> 15 U.S.C. 78f(b)(5).



should make them attractive to individual retail investors who wish to hold a security representing the performance of a portfolio of stocks. In addition, investors will be able to trade shares in the Fund continuously throughout the business day in secondary market transactions at negotiated prices.<sup>37</sup> Accordingly, the proposed Fund will allow investors to: (1) Respond quickly to market changes through intra-day trading opportunities; (2) engage in hedging strategies similar to those used by institutional investors; and (3) reduce transaction costs for trading a portfolio of securities.

Moreover, the Commission finds that, although the value of the Fund's shares will be derived from and based on the value of the securities and cash held in the Fund, the Fund is not leveraged. Accordingly, the level of risk involved in the purchase or sale of Fund shares is similar to the risk involved in the purchase or sale of traditional common stock, with the exception that the pricing mechanism for shares in the Fund is based on a portfolio of securities.

The Commission notes that the MSCI EAFE Value and Growth Index Funds (i) will invest at least 90% of its assets in Component Securities of its respective Underlying Index and in Depositary Receipts (defined above) representing such securities and (ii) may invest up to 10% of its assets in certain futures, options and swap contracts, cash and cash equivalents, including money market mutual funds advised by BGFA,<sup>38</sup> other exchange-traded funds, including other iShares Funds,<sup>39</sup> and stocks not included in the Underlying Index but which the Advisor believes will help the Fund track its Underlying Index.<sup>40</sup> It is expected that the Fund will have a tracking error relative to the performance of its Underlying Index of no more than 5%. As described above, each Index generally represents approximately 50% of the free float-

<sup>37</sup> Because of the potential arbitrage opportunities, the Commission believes that Fund shares will not trade at a material discount or premium in relation to their NAV.

<sup>38</sup> *In the Matter of Master Investment Portfolio, et al.*, Investment Company Act Release No. 25158 (September 18, 2001).

<sup>39</sup> The Fund, as well as any existing iShares Fund, is permitted to invest in shares of another iShares Fund to the extent that such investment is consistent with the Fund's investment objective, registration statement, and any applicable investment restrictions.

<sup>40</sup> The Commission notes that the Funds may invest in sponsored ADRs and other Depositary Receipts, but will not invest in any unlisted depositary receipts or any listed depositary receipts that the Advisor deems to be illiquid or for which pricing information is not readily available. See note 16 *supra*.

adjusted market capitalization of the MSCI EAFE Index, itself consisting of various MSCI EAFE country indices, and consists of those securities classified by MSCI as most representing the growth or value style.

Given the market capitalization and liquidity of the Underlying Indexes and Funds' Component Securities, the Commission does not believe that the Fund shares should be susceptible to manipulation.<sup>41</sup>

The Exchange further represents that the Fund will not concentrate its investments in any particular industry or group of industries, except to the extent that the Underlying Index concentrates in the stocks of a particular industry or industries. Because each Fund's Underlying Index is broad-based and well diversified, the Commission does not believe that the Fund will be so highly concentrated such that it becomes a surrogate for trading unregistered foreign securities on the Exchange.

While the Commission believes that these requirements should help to reduce concerns that the Fund could become a surrogate for trading in a single or a few unregistered stocks, if the Fund's characteristics changed materially from the characteristics described herein, the Fund would not be in compliance with the listing and trading standards approved herein, and the Commission would expect the NYSE to file a proposed rule change pursuant to Rule 19b-4 of the Act.

#### B. Disclosure

The Exchange represents that it will circulate an information memo detailing applicable prospectus and product description delivery requirements. The memo will also discuss exemptive, no-action and interpretive relief granted by the Commission from certain rules under the Act. The memo also will address NYSE members' responsibility to deliver a prospectus or product description to all investors (in accordance with NYSE Rule 1100(b)) and highlight the characteristics of the Funds. The memo will also remind members of their suitability obligations,

<sup>41</sup> The Exchange states that as of March 31, 2005, the ten largest constituents represented approximately 21.2% of the index weight for both the MSCI EAFE Growth Index and the MSCI EAFE Value Index. The 5 highest weighted stocks, which represented 13.2% of the MSCI EAFE Growth Index weight and 13.6% of the MSCI EAFE Value Index weight, had an average daily trading volume in excess of 347 million shares and 191 million, respectively, during the past two months. 99.3% of the MSCI EAFE Growth Index and 99.9% of the MSCI EAFE Value Index of the component stocks traded at least 250,000 shares in each of the previous 6 months. Both Indices each contain over 600 component securities.

including NYSE Rule 405 (Diligence as to Accounts).<sup>42</sup> For example, the information memo will also inform members and member organizations that Fund shares are not individually redeemable, but are redeemable only in Creation-Unit-size aggregations or multiples thereof as set forth in the Fund Prospectus and SAI.<sup>43</sup> The Commission believes that the disclosure included in the information memo is appropriate and consistent with the Act.

#### C. Dissemination of Fund Information

With respect to pricing, once each day, the NAV for the Fund will be calculated and disseminated by IBT, to various sources, including the NYSE, and made available on <http://www.iShares.com> and the Consolidated Tape.<sup>44</sup> Also, during the Exchange's regular trading hours, the IOPV Calculator will determine and disseminate every 15 seconds the IOPV for each Fund. The IOPV will reflect price changes in the applicable foreign market or markets and changes in currency exchange rates.

The Commission notes that a variety of additional information about each Fund will be readily available. Information with respect to recent NAV, shares outstanding, estimated cash amount and total cash amount per Creation Unit Aggregation will be made available prior to the opening of the Exchange. In addition, the Web site for the Trust, <http://www.iShares.com>, which will be publicly accessible at no charge, will contain the following information, on a per iShare basis, for the Fund: (1) The prior business day's NAV and the mid-point of the bid-ask price<sup>45</sup> at the time of calculation of such NAV ("Bid/Ask Price"), 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

<sup>42</sup> NYSE Rule 405 generally requires that members use due diligence to learn the essential facts relative to every customer, order or account accepted.

<sup>43</sup> See discussion under Section II.A.1(a) "Operation of Fund," above. The Exchange has represented that the information memo will also discuss exemptive, no-action, and interpretive relief granted by the Commission from certain rules under the Act.

<sup>44</sup> The index currently uses the Reuters foreign exchange rate at the close of the index (4 p.m. London Time) to compute final index values. The Fund intends to use Reuters/WM foreign exchange rates at 4:00 p.m. London Time.

<sup>45</sup> 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.



quarters. Also, the closing prices of the Fund's Deposit Securities are available from, as applicable, the relevant exchanges, automated quotation systems, published or other public sources in the relevant country, or on-line information services such as Bloomberg or Reuters. The exchange rate information required to convert such information into U.S. dollars is also readily available in newspapers and other publications and from a variety of on-line services.

Based on the representations made in the NYSE proposal, the Commission believes that pricing and other important information about the Fund is adequate and consistent with the Act.

#### D. Listing and Trading

The Commission finds that adequate rules and procedures exist to govern the listing and trading of the Fund's shares. Fund shares will be deemed equity securities subject to NYSE rules governing the trading of equity securities, including, among others, rules governing trading halts,<sup>46</sup> responsibilities of the specialist, account opening and customer suitability requirements,<sup>47</sup> and the election of stop and stop limit orders.

In addition, the Exchange states that iShares are subject to the criteria for initial and continued listing of ICUs in Section 703.16 of the NYSE Manual. The Commission believes that the listing and delisting criteria for Fund shares should help to ensure that a minimum level of liquidity will exist in the Fund to allow for the maintenance of fair and orderly markets. Accordingly, the Commission believes that the rules governing the trading of Fund shares provide adequate safeguards to prevent manipulative acts and practices and to protect investors and the public interest.

As noted above, the NYSE expects to require that a minimum of one Creation Units (400,000 iShares) will be required to be outstanding at the start of trading. The Commission believes that this minimum number is sufficient to help

<sup>46</sup> In order to halt the trading of the Fund, the Exchange may consider, among others, factors including: (i) The extent to which trading is not occurring in stocks underlying the index; or (ii) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present. In addition, trading in Fund shares is subject to trading halts caused by extraordinary market volatility pursuant to NYSE Rule 80B.

<sup>47</sup> Prior to commencement of trading, the Exchange states that it will issue an Information Memo informing members and member organizations of the characteristics of the Fund and of applicable Exchange rules, as well as of the requirements of NYSE Rule 405 (Diligence as to Accounts).

to ensure that a minimum level of liquidity will exist at the start of trading.<sup>48</sup>

#### E. Surveillance

The Commission finds that NYSE's surveillance procedures are reasonably designed to monitor the trading of the proposed iShares, including concerns with specialists purchasing and redeeming Creation Units. The NYSE represents that its surveillance procedures applicable to trading in the proposed iShares are comparable to those applicable to other ICUs currently trading on the Exchange. The Exchange also represents that its surveillance procedures are adequate to properly monitor the trading of the Funds. The Exchange is also able to obtain information regarding trading in both the Fund shares and the Component Securities by its members on any relevant market; in addition, the Exchange may obtain trading information via the Intermarket Surveillance Group ("ISG") from other exchanges who are members or affiliates of the ISG.

As stated, when a broker-dealer, or a broker-dealer's affiliate such as MSCI, is involved in the development and maintenance of a stock index upon which a product such as iShares is based, the broker-dealer or its affiliate should have procedures designed specifically to address the improper sharing of information. The Commission notes that MSCI has implemented procedures to prevent the misuse of material, non-public information regarding changes to component stocks in the MSCI EAFE Value and Growth Indices. The Commission believes that the information barrier procedures put in place by MSCI address the unauthorized transfer and misuse of material, non-public information.

#### F. Accelerated Approval

The Commission finds good cause, pursuant to Section 19(b)(2) of the Act,<sup>49</sup> for approving the proposed rule change, as amended, prior to the thirtieth day after the date of publication of notice in the **Federal Register**. The Commission notes that the proposal is consistent with the listing and trading standards in NYSE Rule 703.16 (ICUs), and the Commission has previously approved similar products based on foreign indices.<sup>50</sup> The Funds

<sup>48</sup> This minimum number of shares required to be outstanding at the start of trading is comparable to requirements that have been applied to previously listed series of ICUs.

<sup>49</sup> 15 U.S.C. 78s(b)(2).

<sup>50</sup> See *supra* note 35. See also, e.g., Securities Exchange Act Release Nos. 44990 (October 25,

are substantially identical in structure to other iShares Funds based on foreign stock indexes, including the iShares MSCI EAFE Index Fund, which have an established and active trading history on the NYSE and other exchanges. The Commission does not believe that the proposed rule change, as amended, raises novel regulatory issues.

Consequently, the Commission believes that it is appropriate to permit investors to benefit from the flexibility afforded by trading these products as soon as possible.

Accordingly, the Commission finds that there is good cause, consistent with Section 6(b)(5) of the Act,<sup>51</sup> to approve the proposal on an accelerated basis.

#### V. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (SR-NYSE-2005-41), is hereby approved on an accelerated basis.<sup>52</sup>

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>53</sup>

**Jill M. Peterson,**

*Assistant Secretary.*

[FR Doc. E5-4274 Filed 8-8-05; 8:45 am]

**BILLING CODE 8010-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-52188; File No. SR-NYSE-2005-53]

### Self-Regulatory Organizations; New York Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Extend for Additional Six Months the Pilot Program Permitting a Floor Broker To Use an Exchange Authorized and Provided Portable Telephone on the Exchange Floor

August 1, 2005.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("the Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on July 22, 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

2001), 66 FR 56869 (November 13, 2001) (SR-Amex-2001-45); 42748 (May 2, 2000), 65 FR 30155 (May 10, 2000) (SR-Amex-98-49); and 36947 (March 8, 1996), 61 FR 10606 (March 14, 1996) (SR-Amex-95-43).

<sup>51</sup> 15 U.S.C. 78s(b)(5).

<sup>52</sup> 15 U.S.C. 78s(b)(2).

<sup>53</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.