

gains, if any, generally will be declared and paid once a year, but each Fund may make distributions on a more frequent basis to comply with the distribution requirements of the Internal Revenue Code and consistent with the 1940 Act.

Dividends and other distributions on iShares of each Fund will be distributed on a pro rata basis to Beneficial Owners of such iShares. Dividend payments will be made through the Depository and the DTC Participants to Beneficial Owners then of record with amount received from each Fund.

The Trust will not make the DTC book-entry Dividend Reinvestment Service (the "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. iShares 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 iShares.

G. Other Issues

1. Criteria for Initial and Continued Listing

iShares are subject to the criteria for initial and continued listing of ICUs in PCXE Rule 5.2(j)(3) and PCXE Rule 5.5(g)(2), respectively. It is anticipated that a minimum of one Creation Unit (100,000 iShares) will be required to be outstanding at the start of trading. This minimum number of iShares 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 iShares outstanding at the start of trading is sufficient to provide market liquidity and to further the Trust's objective to seek to provide investment results that correspond generally to the price and yield performance of the Index.

2. Original and Annual Listing Fees

Because the ETFs will be traded on a UTP basis, the Exchange does not

presently assess original or annual listing fees that are applicable to the fixed income ETF rule filing. However, once the fixed income ETFs are listed, the Exchange will submit a rule filing to reflect the original and annual listing fees.

3. Stop and Stop Limit Orders

Notwithstanding that the value of the ETF is derivatively priced based upon another security or index of securities, a Stop Order or Limit Order to buy or sell an ETF will be handled as provided in PCXE Rule 7.31(l)²⁰ and PCXE Rule 7.31(n).²¹

4. Specialist Trading of ETFs

ArcaEx does not currently offer trading by specialists. However, ArcaEx does allow trading by Market Makers ("MMs") or Market Maker Authorized Traders ("MMATs").²² Nothing in the PCXE Rules should be construed to restrict a MM or MMAT in a security issued by an investment company from purchasing and redeeming the listed security, or securities that can be subdivided or converted into the listed security, from the issuer as appropriate to facilitate the maintenance of a fair and orderly market.

5. Prospectus Delivery/Disclosures

The Exchange represents that in an Information Circular to ETP Holders,²³ it will inform ETP Holders, prior to commencement of trading, of the prospectus or product description delivery requirements applicable to iShares. The Commission granted the Applicants' request for an exemptive order granting relief from a certain prospectus delivery requirement under Section 24(d) of the 1940 Act.²⁴ Any product description used in reliance of a Section 24(d) exemptive order will

²⁰ On the ArcaEx, a stop order to buy (sell) becomes a market order when a transaction in the security occurs on the Exchange or on another national securities exchange or association at or above (below) the stop price. Stop Order shall not have standing in any Order Process in the Arca Book and shall not be displayed.

²¹ On the ArcaEx, a stop limit order to buy (sell) becomes a limit order when a transaction in the security occurs on the Exchange or on another national securities exchange or association at or above (below) the stop price.

²² See PCXE Rule 1.1(u) and PCXE Rule 7.31(v) for the definition of "Market Maker" and "Market Maker Authorized Trader," respectively.

²³ An ETP Holder is a sole proprietorship, partnership, corporation, limited liability company or other organization in good standing that has been issued an ETP for effecting approved securities transactions on the ArcaEx. An ETP Holder must be a registered broker or dealer pursuant to Section 15 of the Exchange Act. See PCXE Rule 1.1(n) and PCXE Rule 1.1(m).

²⁴ See Investment Company Act Release No. 25623 (June 25, 2002).

comply with all representations made therein and all conditions thereto. The Information Circular will also remind ETP Holders of their obligations to provide all purchasers of a series of Units a written description of the term and characteristics of those securities at the time of the confirmation of the first transaction in such a series.

Additionally, ETP Holders will include such written description with any sales material relating to a series of Units that is provided to the customers or public.

6. Trading Halts

Any decision to halt trading of fixed income ETFs will be conducted in accordance with PCXE Rule 7.12, if circuit breaker parameters have been reached.

7. Suitability

Prior to the commencement of trading, the Exchange will issue an Information Circular informing ETP Holders of the characteristics of the fixed income ETFs and of the applicable PCXE rules, as well as the requirement of PCXE Rule 9.2(a) ("Diligence as to Accounts."). Rule 9.2(a) generally requires members to use due diligence to learn the essential facts relative to every customer.

8. Purchases and Redemptions in Creation Unit Size

The Exchange represents that in the Information Circular referenced above, ETP Holders will be informed that procedures for purchases and redemptions of iShares in Creation Unit Size are described in the Fund prospectus and SAI, and that iShares are not individually redeemable, but may be redeemed only in Creation Unit Size aggregations or multiples thereof.

9. Surveillance

The Exchange will implement written surveillance procedures for the ETFs that it trades. The Exchange intends to use its existing surveillance technology and procedures applicable to other ICUs currently trading on the Exchange.²⁵ The Exchange believes that these surveillance efforts will effectively monitor the trading of the Funds so as to ensure full compliance with Exchange rules and the federal securities laws.

The Exchange also recognizes that certain concerns are raised when a broker-dealer, such as Lehman or Goldman, is involved in the development and maintenance of a stock or bond index upon which an ETF

²⁵ PCXE currently trades a variety of ETFs.