

should be accompanied by proof of service on applicants, in the form of an affidavit, or for lawyers, a certificate of service. Hearing requests should state the nature of the writer's interest, the reason for the request, and the issues contested. Persons who wish to be notified of a hearing may request notification by writing to the Commission's Secretary.

ADDRESSES: Secretary, Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. Applicants, c/o Barry A. Mendelson, The Vanguard Group, Inc., P.O. Box 2600, Valley Forge, PA 19482.

FOR FURTHER INFORMATION CONTACT: Stacy L. Fuller, Senior Counsel, or Michael W. Mundt, Senior Special Counsel, at 202-942-0564 (Division of Investment Management, Office of Investment Company Regulation).

SUPPLEMENTARY INFORMATION: The following is a summary of the application. The complete application may be obtained for a fee at the Commission's Public Reference Branch, 450 Fifth Street, NW., Washington, DC 20549-0102 (telephone 202-942-8090).

Applicants' Representations

1. The Trust is an open-end management investment company registered under the Act and organized as a Delaware statutory trust. The Trust currently has three series ("Existing Funds"). Each Existing Fund currently offers separate classes of shares for retail and institutional investors (such classes of shares collectively, "Conventional Shares"). In the future, the Trust or another registered open-end management investment company may offer other series ("Future Funds," and together with Existing Funds, "Funds"). Any Future Fund will (a) be advised by VGI or an entity controlled by or under common control with VGI and (b) comply with the terms and conditions of any order granted pursuant to the application.

2. VGI is a Pennsylvania corporation that is wholly and jointly owned by 35 investment companies, and the series thereof (each, a "Vanguard Fund" and collectively, the "Vanguard Fund Complex"). VGI is registered as an investment adviser under the Investment Advisers Act of 1940 and as a transfer agent under the Securities Exchange Act of 1934 ("Exchange Act"). VGI provides each Vanguard Fund, with corporate management, administrative, and transfer agency services at cost. VGI also provides advisory services at cost to certain Vanguard Funds, including each of the Existing Funds. VMC, a wholly owned subsidiary of VGI, is registered as a broker-dealer under the Exchange

Act. VMC provides all distribution and marketing services to the Vanguard Funds, including each of the Existing Funds.

3. Each Existing Fund seeks to track as closely as possible the performance of an international equity securities index (each, a "Target Index").¹ In seeking to track their Target Indexes, the Existing Funds use a replication strategy, pursuant to which each Existing Fund holds each of the component securities in the Target Index in about the same proportion as represented in the Target Index itself. Future Funds may use the replication strategy or a representative sampling strategy, pursuant to which they would hold a representative sample of the component securities in the relevant Target Index that resembles the full Target Index in terms of industry weightings, market capitalization, price/earnings ratio, dividend yield and other characteristics.² Applicants state that, measured over virtually any period, the difference between the performance of an Existing Fund and the performance of its Target Index rarely exceeds one percentage point per annum and in almost all cases is significantly less. Applicants expect that, in the future, the Funds will track the relevant Target Indexes with a similar degree of precision, and have a tracking error of less than 5% per annum. No entity that creates, compiles, sponsors or maintains a Target Index will be an affiliated person, as defined in section 2(a)(3) of the Act, or an affiliated person of an affiliated person, of the Trust, VGI, VMC, or any promoter of the Trust.

4. Applicants state that a small percentage of investors frequently trade in and out of the Existing Funds, often as part of a market timing strategy, and that to meet these investors' redemption requests, a Fund must buy and sell portfolio securities. Applicants state that such purchases and sales of portfolio securities are detrimental in

that they can increase a Fund's realization of capital gains, increase expenses, and hinder a Fund's ability to achieve its investment objective of tracking the relevant Target Index as closely as possible. Applicants further state that the Existing Funds have adopted policies designed to deter these investors but that such policies have been insufficient.

5. Each Fund proposes to create VIPER (Vanguard Index Participation Equity Receipts) Shares, a class of shares that would be listed on an Exchange and trade in the secondary market at negotiated prices. Applicants state that, by creating an exchange-traded class of shares, the Funds will offer short-term investors an attractive means of investing in the Funds.³ Applicants further assert that offering VIPER Shares will benefit holders of Conventional Shares by reducing the portfolio disruption and transaction costs caused by market timing activity.

6. Except in connection with the Conversion Privilege (as defined below) or the liquidation of a Fund (or of the VIPER Share class of a Fund), the Funds will issue VIPER Shares only in Creation Units, aggregations of a specified number of shares ranging from 20,000 to 250,000 shares. The price of a Creation Unit will range from \$500,000 to \$30,000,000.⁴ Orders to purchase Creation Units must be placed with VMC by or through an "Authorized Participant," which is a Depository Trust Company ("DTC") participant that has executed a participant agreement with VMC. Creation Units will be issued in exchange for an in-kind deposit of securities and cash ("Creation Deposit"). The Creation Deposit will consist of a basket of securities selected by VGI from among the securities contained in the Fund's portfolio ("Deposit Securities"),⁵ and a cash

³ Applicants expect VIPER Shares to appeal to short-term investors because they can be bought and sold continuously throughout the day at market price rather than at net asset value ("NAV"), which is calculated only once per day at the close of trading on the New York Stock Exchange ("NYSE"). Transactions in Conventional Shares will continue to be priced at NAV.

⁴ A Fund may require investors to purchase a minimum number of Creation Units.

⁵ Applicants state that, for Funds holding fewer than approximately one thousand portfolio securities, the Deposit Securities typically will be identical to the Fund's portfolio. For Funds holding more than that number of portfolio securities, VGI will select a subset of the Fund's portfolio using a representative sampling strategy, similar to that discussed above. American Depositary Receipts ("ADRs") will not be component securities of a Target Index and Authorized Participants will not be able, on their own initiative, to substitute the ADR of a Deposit Security in place of the actual Deposit Security. However, Applicants may include one or more ADRs in a list of Deposit Securities

¹ The Target Indexes are the Select Emerging Markets Free Index, Morgan Stanley Capital International Europe Index, and the Morgan Stanley Capital International Pacific Index. Each Fund reserves the right to substitute a different index for the Target Index that it currently tracks. Any substitute index will measure the same general market as the current Target Index. Investors will receive notification of any such substitution.

² Each Fund will invest at least 90% of its assets in the component securities of its Target Index but may invest up to 10% of its assets in convertible securities, stock and index futures, options on stock and index futures, swap agreements, cash investments, forward foreign currency investments, foreign currency exchange contracts, and other instruments not inconsistent with the investment policies described in its registration statement, which VGI believes will help the Fund to track its Target Index.