

transactions, in each instance as described in *Exhibit A* to NYSE-2003-39. The ETFs intend to qualify as a "regulated investment company" (the "RIC") under the Internal Revenue Code (the "Code").

Barclays Global Fund Advisors (the "Advisor" or the "BGFA") is the investment advisor to the ETFs. The Advisor is registered under the Investment Advisers Act of 1940 (the "Advisers Act"). The Advisor is the wholly owned subsidiary of Barclays Global Investors, N.A. (the "BGI"), a national banking association. BGI is an indirect subsidiary of Barclays Bank PLC of the United Kingdom.

SEI Investments Distribution Co. (the "Distributor"), a Pennsylvania corporation and broker-dealer registered under the Act, is the principal underwriter and distributor of Creation Unit Aggregations of iShares. The Distributor is not affiliated with the Exchange or the Advisor.

Administrator/Custodian/Fund Accountant/Transfer Agent/Dividend Disbursing Agent. The Trust has appointed Investors Bank & Trust Co. (the "IBT") to act as administrator (the "Administrator"), custodian, fund accountant, transfer agent, and dividend disbursing agent for the ETFs. The performance of their duties and obligations will be conducted within the provisions of the Advisers Act and the rules thereunder. There is no affiliation between IBT and the Trust, the Advisor or the Distributor.

a. *Operation of the ETFs.* The investment objective of each ETF will be to provide investment results that correspond generally to the performance of its Underlying Index. In seeking to achieve its investment objective, the ETFs will utilize "passive" indexing investment strategies. Each ETF may fully replicate its Underlying Index, but currently intends to use a "representative sampling" strategy to track its Underlying Index. A Fund utilizing a representative sampling strategy generally will hold a basket of the component securities (the "Component Securities") of its Underlying Index, but it may not hold all of the Component Securities of its Underlying Index (as compared to an ETF that uses a replication strategy which invests in substantially all of the Component Securities in its Underlying Index in the same appropriate proportions as in the Underlying Index).⁷ The representative sampling

techniques that will be used by the Advisor to manage the Aggregate Bond Fund and the TIPS do not differ from the representative sampling techniques it uses to manage the Funds that were the subject of the Commission's June 25, 2002 order under the 1940 Act relating to other series of the iShares Trust indexes of fixed income securities.⁸

When using a representative sampling strategy, the Advisor attempts to match the risk and return characteristics of an ETF's portfolio to the risk and return characteristics of the Underlying Index. As part of this process, the Advisor subdivides each Underlying Index into smaller, more homogenous pieces. These subdivisions are sometimes referred to as "cells." A cell will contain securities with similar characteristics. For fixed income indices, the Advisor generally divides the index according to the five parameters that determine a bond's risk and expected return: (1) Duration, (2) Sector, (3) Credit Rating, (4) Coupon, and (5) the presence of embedded options. When completed, all bonds in the index will have been assigned a cell. The Advisor then begins to construct the portfolio by selecting representative bonds from these cells. The representative sample of bonds chosen from each cell is designed to closely correlate to the duration, sector, credit rating, coupon and embedded option characteristics of each cell. The characteristics of each cell when combined are, in turn, designed to closely correlate to the duration, sector, credit rating, coupon and embedded option characteristics of the Underlying Index as a whole. The Advisor may exclude less liquid bonds in order to create a more tradable portfolio and improve arbitrage opportunities.

According to the Original Application, the representative sampling techniques used by the

Investment Company Act of 1940 ("1940") for the purpose of exempting the ETFs from various provisions of the 1940 Act. (File No. 812-13003). A notice of Application was issued in Investment Company Act Release No. 26151, August 5, 2003. The information provided herein relating to the Funds is based on information regarding the Trust and the Funds/ See Investment Company Act Release No. 25622 (June 25, 2002) for the approval of the initial Application for additional series of the iShares Trust based on indexes of fixed income securities (the "Original Application").

⁸ Telephone conversation between Janet Kissane, Milbank, Tweed, Hadley & McCloy LLP, Counsel for NYSE, and Florence Harmon, Senior Special Counsel, Division, Commission dated December 2, 2003. See in the Matter of iShares Trust, et al., Investment Company Act Release; No. 25622 (June 25, 2002) (relating to the iShares 1-3 Year Treasury Index Fund, 7-10 Year Treasury Index Fund, 20+ Year Treasury Index Fund, Treasury Index Fund, Government/Credit Index Fund, Lehman Corporate Bond Fund and GSSInvesTop Corporate Bond Fund).

Advisor to manage fixed income funds do not materially differ from the representative sampling techniques it uses to manage equity funds. Due to the differences between bonds and equities, the Advisor analyzes different information, (e.g., coupon rates instead of dividend payments).

According to the Original Application, the ETFs' use of the representative sampling strategy is beneficial for a number of reasons. First, the Advisor can avoid bonds that are "expensive names" (i.e., bonds that trade at perceived higher prices or lower yields because they are in short supply) but have the same essential risk, value, duration and other characteristics as less expensive names. Second, the use of representative sampling techniques permits the Advisor to exclude bonds that it believes will soon be deleted from the Underlying Index. Third, the Advisor can avoid holding bonds it deems less liquid than other bonds with similar characteristics. Fourth, the Advisor can develop a basket that is easier to construct and cheaper to trade, thereby potentially improving arbitrage opportunities.

From time to time, adjustments may be made in the portfolio of each ETF in accordance with changes in the composition of the Underlying Index or to maintain compliance with requirements applicable to a RIC under the Code. For example, if at the end of a calendar quarter an ETF would not comply with the RIC diversification tests, the Advisor would make adjustments to the portfolio to ensure continued RIC status. The Exchange represents that the Advisor⁹ expects that each Fund will have a tracking error relative to the performance of its respective Underlying Index of no more than five percent (5%). Each ETF's investment objectives, policies and investment strategies will be fully disclosed in its prospectus ("Prospectus") and statement of additional information ("SAI"). The TIPS Fund will invest at least 90% of its assets in Component Securities of its Underlying Index. The TIPS Fund may also invest up to 10% of its assets in bonds not included in its Underlying Index, but which the Advisor believes will help the TIPS Fund track its Underlying Index, as well as in certain futures, options and swap contracts, cash and cash equivalents. For example, the TIPS Fund may invest in securities not included in the Underlying Index in order to reflect prospective changes in the Underlying Index (such as future corporate actions and index

⁷ The Trust, Advisor and Distributor (the "Applicants") have filed with the Commission an Application for an Amended Order (the "Application") under sections 6(c) and 17(b) of the

⁹ See *supra* note 3.