

According to the Application, this will substantially minimize the Aggregate Bond Fund's transaction costs, enhance operational efficiencies and otherwise reduce any operational issues which the acceptance of pools of mortgage pass-through securities might otherwise present.¹⁹

c. Availability of Information Regarding iShares and Underlying Indices. On each Business Day, the list of names and amount of each treasury security, government security or corporate bond constituting the current Deposit Securities of the Portfolio Deposit and the Balancing Amount effective as of the previous Business Day 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, on a per iShare basis (the "Intra-day Optimized Portfolio Value" or the "IOPV") will be calculated by independent third parties (such as Bloomberg) every 15 seconds

will be invested in cash equivalents, including money market mutual funds, and such investments, along with cash and other liquid assets identified by BGFA, will be segregated on the books and records of the Aggregate Bond Fund or its Custodian in accordance with Section 18 of the 1940 Act and Investment Company Act Release No. 10666. Since the price of a TBA transaction includes an assumed rate of return on the cash held in anticipation of settlement, the Aggregate Bond Fund's investment in cash equivalents prior to settlement is not expected to have a material impact on potential tracking error or the Aggregate Bond Fund's ability to track its Underlying Index. In addition, since the interest or dividends that the Aggregate Bond Fund accrues on a daily basis on its investment in cash equivalents will be relatively small and will be included as part of the Cash Component published on a daily basis according to the procedures currently used for the ICUs, Applicants expect that such dividends and interest will be reflected in the secondary market trading price of iShares of the Aggregate Bond Fund. The Commission's order relating to the Original Application permits acceptance of a "cash in lieu" amount to replace Deposit Securities that are unavailable for delivery or for other reasons. In addition, prior iShares orders expressly permit "cash-only purchases of Creation Unit Aggregations" where the Advisor believes such transactions would "substantially minimize * * * transaction costs or would enhance * * * operational efficiencies." See Investment Company Act Release No. 24452 (May 12, 2000).

¹⁹ Intra-day and end-of-day pricing of TBAs is available from multiple pricing sources, such as Bloomberg and TradeWeb. In addition, the fungible nature of TBAs and commonly observed execution and settlement procedures create significant pricing efficiencies and market liquidity for TBAs. TBAs typically trade at very narrow spreads on transactions of up to \$300 million or more. Since intra-day pricing of TBAs is readily available and the market for mortgage pass-through TBAs is extremely liquid, the designation of TBAs in the Portfolio Deposit and their inclusion as Fund Securities should make pricing of the Aggregate Bond Fund and the Deposit Amount more efficient and transparent, thus increasing arbitrage efficiency.

during the NYSE's regular trading hours and disseminated by the NYSE every 15 seconds on the Consolidated Tape.²⁰ The IOPV will be updated throughout the day to reflect changing bond prices, as well as TBA prices, using multiple prices from independent third party pricing sources. Information about the intra-day prices for the Deposit Securities of the each Fund is readily available to the marketplace.²¹ Applicants represent that (1) IOPV will be calculated by an independent third party; (2) IOPV will be calculated using prices obtained from multiple independent third-party pricing sources (such as broker-dealers) throughout the day; and (3) IOPV will be calculated in accordance with pre-determined criteria and set parameters so that an individual bond "price" based on an analysis of multiple pricing sources is obtained for each security in the Portfolio Deposit.²² Closing prices of the ETFs' Deposit Securities are readily available from published or other public sources, such as the NYSE's Automated Bond System (ABS®), the Trace Reporting and Compliance Engine ("TRACE"), or on-line client-based information services provided by Credit Suisse First Boston, Goldman Sachs, Lehman Brothers, IDC, Merrill Lynch, Bridge, Bloomberg, TradeWeb and other pricing services commonly used by bond mutual funds.²³

²⁰ Telephone conversation between Janet Kissane, Milbank, Tweed, Hadley & McCloy LLP, Counsel for NYSE, and Florence Harmon, Senior Special Counsel, Division, Commission dated December 4, 2003.

²¹ Authorized Participants and other market participants have a variety of ways to access the intra-day security prices that form the basis of the ETF's IOPV calculation. For example, intra-day prices for treasury securities, agency securities and TBAs are available from Bloomberg, TradeWeb, ABS® and TRACE. Intra-day prices for inflation protected public obligations of the U.S. Treasury are available from Bloomberg and TradeWeb. Intra-day prices of callable agency securities are available from TradeWeb. Intra-day prices of corporate bonds are available from ABS® and TRACE. In addition, intra-day prices for each of these securities are available by subscription or otherwise to Authorized Participants and clients of major U.S. broker-dealers (such as Credit Suisse First Boston, Goldman Sachs and Lehman Brothers). See *supra* note 6.

²² For example, Bloomberg Generic Prices could be used. Bloomberg Generic Prices are current prices on individual bonds as determined by Bloomberg using a proprietary automated pricing program that analyzes multiple bond prices contributed to Bloomberg by third-party price contributors (such as broker-dealers).

²³ The Exchange understands that Credit Suisse First Boston, Goldman Sachs, Lehman Brothers, Merrill Lynch, IDC, Bridge and Bloomberg provide prices for each type of Deposit Security. TradeWeb provides prices for each type of Deposit Security except mortgage backed securities and corporate bonds. ABS® and TRACE provide prices for corporate bonds. Telephone conversation between Janet Kissane, Milbank, Tweed, Hadley & McCloy

The Indices underlying the Aggregate Bond Fund will not be calculated or disseminated intra-day because Lehman Brothers does not calculate or disseminate intra-day values for these indices. The value and return of the underlying Lehman Index is calculated and disseminated each business day, at the end of the day, by Lehman Brothers.²⁴

Each Fund will make available through NSCC on a daily basis the names and required number of shares of each of the Deposit Securities in a Creation Unit Aggregation, as well as information regarding the Balancing Amount. The NAV for each Fund will be calculated and disseminated daily. There will also be disseminated a variety of data with respect to each Fund on a daily basis by means of CTA and CQ High Speed Lines; 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 website for the Trust, which will be publicly accessible at no charge, will contain the following information, on a per iShare basis, for each Fund: (a) The prior Business Day's NAV and the mid-point of the bid-ask price²⁵ 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 (b) 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.²⁶

LLP, Counsel for NYSE, and Florence Harmon, Senior Special Counsel, Division, Commission dated December 4, 2003.

²⁴ Telephone conversation between Janet Kissane, Milbank, Tweed, Hadley & McCloy, LLP, Counsel for NYSE, and Florence Harmon, Senior Special Counsel, Division, Commission dated December 4, 2003.

²⁵ The Bid-Ask Price of each ETF is determined using the highest bid and lowest offer on the Exchange as of the time of calculation of each ETF's NAV.

²⁶ The secondary market for Treasury securities is a highly organized over-the-counter market. Many dealers, and particularly the primary dealers, make markets in Treasury securities. Trading activity takes place between primary dealers, non-primary dealers, and customers of these dealers, including financial institutions, non-financial institutions and individuals. Increasingly, trading in Treasury securities occurs through automated trading systems. See, "eCommerce in the Fixed-Income Markets: The 2001 Review of Electronic Transaction Systems," December 2001. This survey of electronic trading systems in the bond market was prepared by the staff of The Bond Market Association and is available through the Association's Web site: www.bondmarkets.com.

The primary dealers are among the most active participants in the secondary market for Treasury

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