

date, assuming the Custodian has verified receipt of the Creation Unit Aggregations, the Custodian will transfer Fund Securities that are corporate and non-corporate bonds to the Authorized Participant through DTC and Fund Securities that are U.S. government securities, together with any Cash Redemption Payment, through the Federal Reserve system.

iShares of the Funds will be debited or credited by the Custodian directly to the DTC accounts of the Authorized Participants. With respect to domestic equity-based ETFs using the CNS System, Creation Unit Aggregations of iShares are deposited or charged to the Authorized Participants' DTC accounts through the CNS System. Since creation/redemption transactions for iShares of the Funds will not clear and settle through the CNS System, the failed delivery of one or more Deposit Securities (on a create) or one or more Fund Securities (on a redemption) will not be facilitated by the CNS System. Therefore, Authorized Participants will be required to provide collateral to cover the failed delivery of Deposit Securities in connection with an "in-kind" creation of iShares. In case of a failed delivery of one or more Deposit Securities, the Funds will hold the collateral until the delivery of such Deposit Security. The Funds will be protected from failure to receive the Deposit Securities because the Custodian will not effect the Fund's side of the transaction (the issuance of iShares) until the Custodian has received confirmation of receipt of the Authorized Participant's incoming Deposit Securities (or collateral for failed Deposit Securities) and Balancing Amount. In the case of redemption transactions, the Funds will be protected from failure to receive Creations Unit Aggregations of iShares because the Custodian will not new effect the Funds' side of the transaction (the delivery of Fund Securities and the Cash Redemption Payment) until the Transfer Agent has received confirmation of receipt of the Authorized Participant's incoming Creation Unit Aggregations.

The Exchange represents that according to the Application and the Advisor, the clearance and settlement process will not affect the arbitrage of iShares of the Funds.

f. Dividends and Distributions.

Dividends from net investment income will be declared and paid to Beneficial Owners of record at least annually by each Fund. Certain of the Funds may pay dividends, if any, on a quarterly or more frequent basis. Distributions of realized securities 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 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 amounts 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 Investment Company Units in Section 703.16 of the Manual. It is anticipated that a minimum of two Creation Units (100,000 iShares) will be required to be outstanding at the start of trading on the NYSE. 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 investment Company Units.

The NYSE 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 Underlying Index.

2. Original and Annual Listing Fees.

The NYSE's original listing fees that would be applicable to each Fund if listed on the Exchange is \$5,000, and the continuing fees would be \$2,000. The TIPS Fund will list on the NYSE.

3. Stop and Stop Limit Orders.

Commentary .30 to NYSE Rule 13 provides that stop and stop limit orders in an Investment Company Unit 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 list 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 Investment Company Units generally, including fixed income ETFs.

4. NYSE Rule 460.10. NYSE Rule 460.10 generally precludes certain business relationships between an issuer and specialist in the issuer's securities. Exceptions in the Rule permit specialists in ETF shares, including fixed income ETFs, 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 ETF shares. A specialist may acquire a position in excess of 10% of the outstanding issue of the ETF 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.

5. Prospectus Delivery. The Commission has granted the Trust an exemption from certain prospectus delivery requirements under section 24(d) of the 1940 Act.³⁰ Any product description used in reliance on a section 24(d) exemptive order will comply with all representations made therein and all conditions thereto. The NYSE, in an Information Circular 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.

6. Trading Halts. In order to halt the trading of an ETF, 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 ETF shares is subject to trading halts caused by extraordinary market volatility pursuant to NYSE Rule 80B.

³⁰ See Investment Company Act Release No. 25623 (June 25, 2002).