

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-54916; File No. SR-NYSE-2006-70)

December 11, 2006

Self-Regulatory Organizations; New York Stock Exchange LLC; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change and Amendment Nos. 1 and 2 Thereto Relating to iShares® Lehman Bond Funds

Pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 (the “Act”)² and Rule 19b-4 thereunder,³ notice is hereby given that on August 24, 2006 the New York Stock Exchange LLC (“NYSE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange submitted Amendment No. 1 to the proposed rule change on November 6, 2006.⁴ The Exchange submitted Amendment No. 1 to the proposed rule change on December 6, 2006.⁵ The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons and is approving the proposal on an accelerated basis.

¹ 15 U.S.C. 78s (b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

⁴ In Amendment No. 1, which supplemented the proposed rule change as filed, the Exchange, among other things, represented that less than 1% of the market value of the underlying indices consisted of Rule 144A securities; addressed the firewall procedures used by Lehman Brothers Inc.; explained why an independent calculation agent is not required for the covered products; provided the top-ten component weightings for each index; and clarified the applicability of trade halts.

⁵ In Amendment No. 2, which supplemented the proposed rule change as filed, the Exchange added disclosure to the purpose section of the filing and Exhibit 1 thereto (a) to note that the Funds (defined below) must comply with the federal securities laws, including that the securities accepted for deposit and those used to satisfy redemption requests are sold in transactions that would be exempt from the Securities Act of 1933 (“Securities Act”) and in compliance with the conditions of Rule 144A thereunder; and (b) to clarify how market capitalization is calculated for the Underlying Index (defined below) of each Fund.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to list and trade shares (“Shares” or “iShares”) of the following eight series of the iShares Trust (collectively, the “Funds”): (1) iShares[®] Lehman Short Treasury Bond Fund; (2) iShares Lehman 3-7 Year Treasury Bond Fund; (3) iShares Lehman 10-20 Year Treasury Bond Fund; (4) iShares Lehman 1-3 Year Credit Bond Fund; (5) iShares Lehman Intermediate Credit Bond Fund; (6) iShares Lehman Credit Bond Fund; (7) iShares Lehman Intermediate Government/Credit Bond Fund; and (8) iShares Lehman Government/Credit Bond Fund.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change, as amended. The text of those statements may be examined at the places specified in Item III below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1 Purpose

The Exchange has adopted listing standards applicable to Investment Company Units (“ICUs”) and trading standards pursuant to which the Exchange may either list and trade ICUs or trade such ICUs on the Exchange on an unlisted trading privileges (“UTP”) basis.⁶

⁶ In 1996, the Commission approved Section 703.16 of the NYSE Manual, which sets forth general the rules related to the listing of ICUs. See Securities Exchange Act Release No. 36923 (March 5, 1996), 61 FR 10410 (March 13, 1996) (SR-NYSE-95-23). In 2000, the Commission also approved the Exchange’s generic listing standards pursuant to Rule 19b-4(e) of the Act for listing and trading, or the trading pursuant to UTP, of ICUs under Section 703.16 of the Manual and NYSE Rule 1100. See Securities Exchange Act Release No. 43679 (December 5, 2000), 65 FR 77949 (December 13, 2000) (SR-NYSE-00-46). Such standards, however, did not contemplate

The Exchange now proposes to list and trade the following series of the iShares® Trust (the “Trust”)⁷ under Section 703.16 of the NYSE Listed Company Manual (the “Manual”) and the Exchange’s Rules 1100 et seq.: (1) iShares⁸ Lehman Short Treasury Bond Fund; (2) iShares Lehman 3-7 Year Treasury Bond Fund; (3) iShares Lehman 10-20 Year Treasury Bond Fund; (4) iShares Lehman 1-3 Year Credit Bond Fund; (5) iShares Lehman Intermediate Credit Bond Fund; (6) iShares Lehman Credit Bond Fund; (7) iShares Lehman Intermediate Government/Credit Bond Fund; and (8) iShares Lehman Government/Credit Bond Fund.

The Funds will be based on the following indexes, respectively: (1) Lehman Brothers Short U.S. Treasury Index; (2) Lehman Brothers 3-7 Year U.S. Treasury Index; (3) Lehman Brothers 10-20 Year U.S. Treasury Index; (4) Lehman Brothers 1-3 Year U.S. Credit Index; (5) Lehman Brothers Intermediate U.S. Credit Index; (6) Lehman Brothers U.S. Credit Index; (7) Lehman Brothers Intermediate U.S. Government/Credit Index; and (8) Lehman Brothers U.S. Government/Credit Index. The indexes are referred to herein collectively as “Indexes” or “Underlying Indexes.”

ICUs that are based on indexes containing fixed income securities, and thus the Exchange has filed this proposal to accommodate the products that are the subject of this proposal.

⁷ The Trust is registered under the Investment Company Act of 1940 (the “Investment Company Act”). 15 U.S.C. 80a. On July 19, 2006, the Trust filed with the Commission a Registration Statement for the Funds on Form N-1A under the Securities Act, 15 U.S.C. 77a, and under the Investment Company Act relating to the Funds (File Nos. 333-92935 and 811-09729) (the “Registration Statement”).

The Commission has issued orders granting relief requested by the Trust in its Applications for Orders under Sections 6(c) and 17(b) of the Investment Company Act for the purpose of exempting the Funds from various provisions of the Investment Company Act. See In the Matter of Barclays Global Fund Advisors, et al., Investment Company Act Release No. 25622 (June 22, 2002); In the Matter of Barclays Global Fund Advisors, et al., Investment Company Act Release No. 26175 (September 8, 2003); and In the Matter of Barclays Global Fund Advisors, et al., Investment Company Act Release No. 27417 (June 13, 2006).

⁸ iShares is a registered trademark of Barclays Global Investors, N.A.

Operation of the Funds⁹

Each Fund is an “index fund” that seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of a particular index (its “Underlying Index”) developed by Lehman.

Barclays Global Fund Advisors (“BGFA”), the investment adviser to each Fund (“Adviser”), is a subsidiary of Barclays Global Investors, N.A. (“BGI”). BGFA and its affiliates are not affiliated with the Index Provider. Investors Bank & Trust Company (“Investors Bank” or “IBT”) is the administrator, custodian and transfer agent for each Fund. SEI Investments Distribution Co. (“SEI”) serves as the Distributor of Creation Units (as described below) for each Fund on an agency basis. The Exchange states that SEI does not maintain a secondary market in shares of the Funds. The Exchange also notes that SEI has no role in determining the policies of any Fund or the securities that are purchased or sold by any Fund. Lehman Brothers, Inc. (“Lehman Brothers”) is the Index Provider. Lehman Brothers is not affiliated with the Trust, BGI, BGFA, Investors Bank, the Distributor, or the NYSE.

The Exchange states that BGFA uses a “passive” or indexing approach to try to achieve each Fund’s investment objective. Unlike many investment companies, the Funds do not try to “beat” the indexes they track and do not seek temporary defensive positions when markets decline or appear overvalued.

Each of the iShares Lehman Short Treasury Bond Fund, iShares Lehman 3-7 Year Treasury Bond Fund, and iShares Lehman 10-20 Year Treasury Bond Fund (the “Treasury

⁹ The Exchange notes that the information provided herein is based on information included in the Registration Statement. While the Adviser (defined above) would manage the Funds, the Funds’ Board of Directors would have overall responsibility for the Funds’ operations. Further, the composition of the Board is, and would be, in compliance with the requirements of Section 10 of the Investment Company Act. The Funds are subject to and must comply with Section 303A.06 of the Manual, which requires that the Funds have an audit committee that complies with Rule 10A-3 under the Act.

Funds”) generally will invest at least 90% of its assets in the bonds of its Underlying Index and at least 95% of its assets in U.S. government bonds. Each Treasury Fund also may invest up to 10% of its assets in U.S. government bonds not included in its Underlying Index, but which BGFA believes will help the Fund track its Underlying Index. For example, a Treasury Fund may invest in bonds not included in its Underlying Index in order to reflect changes in its Underlying Index (such as reconstitutions, additions, and deletions). Each Treasury Fund also may invest up to 5% of its assets in repurchase agreements collateralized by U.S. government obligations and in cash and cash equivalents, including shares of money market funds affiliated with BGFA.

Each of the iShares Lehman 1-3 Year Credit Bond Fund, iShares Lehman Intermediate Credit Bond Fund, and iShares Lehman Credit Bond Fund (the “Credit Bond Funds”), and iShares Lehman Intermediate Government/Credit Bond Fund and iShares Lehman Government/Credit Bond Fund (the “Government/Credit Bond Funds”) will invest at least 90% of its assets in the securities of its Underlying Index. Each Credit Bond Fund and Government/Credit Bond Fund may invest the remainder of its assets in securities not included in its Underlying Index, but which BGFA believes will help the Fund track its Underlying Index. For example, a Credit Bond Fund or Government/Credit Bond Fund may invest in bonds not included in its Underlying Index in order to reflect changes in its Underlying Index (such as reconstitutions, additions and deletions). Each Credit Bond Fund or Government/Credit Bond Fund also may invest its other assets in futures, options and swap contracts, cash and cash equivalents, including money market funds advised by BGFA.

BGFA uses a Representative Sampling indexing strategy. “Representative Sampling” involves investing in a representative sample of bonds in the relevant Underlying Index, which

has a similar investment profile as the relevant Underlying Index. Bonds selected have aggregate investment characteristics (based on market capitalization and industry weightings), fundamental characteristics (such as return variability, earnings valuation, duration, maturity, or credit ratings and yield) and liquidity measures similar to those of the relevant Underlying Index. Funds that use Representative Sampling generally do not hold all of the bonds that are included in the relevant Underlying Index.

BGFA expects that, over time, the correlation between each Fund's performance and that of its Underlying Index, before fees and expenses, will be 95% or better. A correlation percentage of 100% would indicate perfect correlation. Any correlation percentage of less than 100% is called "tracking error." The Exchange states that a Fund using a Representative Sampling indexing strategy can be expected to have a greater tracking error than a Fund using a Replication indexing strategy.¹⁰

A Fund will not concentrate its investments (i.e., hold 25% or more of its total assets), in a particular industry or group of industries, except that a Fund will concentrate its investments to approximately the same extent that its Underlying Index is so concentrated. For purposes of this limitation, securities of the U.S. government (including its agencies and instrumentalities), repurchase agreements collateralized by U.S. government securities, and securities of state or municipal governments and their political subdivisions are not considered to be issued by members of any industry.

From time to time, adjustments may be made in the portfolio of the Funds in accordance with changes in the composition of the Underlying Indexes or to maintain compliance with requirements applicable to a regulated investment company ("RIC") under the Internal Revenue

¹⁰ Replication is an indexing strategy in which a Fund invests in substantially all of the securities in its Underlying Index in approximately the same proportions as in the Underlying Index.

Code (“Code”).¹¹ For example, if at the end of a calendar quarter a Fund would not comply with the RIC diversification tests, the Adviser would make adjustments to the portfolio to ensure continued RIC status.

The Exchange states that an index is a theoretical financial calculation, while each Fund is an actual investment portfolio. The performance of the Funds and the Underlying Indexes will vary somewhat due to transaction costs, market impact, corporate actions (such as mergers and spin-offs), and timing variances. The Funds’ investment objectives, policies, and investment strategies will be fully disclosed in their prospectus and statement of additional information (“SAI”).

¹¹ In order for the Funds to qualify for tax treatment as a RIC, they must meet several requirements under the Code. Among these is a requirement that, at the close of each quarter of the Funds’ taxable year, (1) at least 50% of the market value of the Funds’ total assets must be represented by cash items, U.S. government securities, securities of other RICs and other securities, with such other securities limited for the purpose of this calculation with respect to any one issuer to an amount not greater than 5% of the value of the Funds’ assets and not greater than 10% of the outstanding voting securities of such issuer; and (2) not more than 25% of the value of their total assets may be invested in securities of any one issuer, or two or more issuers that are controlled by the Funds (within the meaning of Section 851(b)(4)(B) of the Code) and that are engaged in the same or similar trades or business (other than U.S. government securities of other RICs).

“Other securities” of an issuer are considered qualifying assets only if they meet the following conditions:

The entire amount of the securities of the issuer owned by the company is not greater in value than 5% of the value of the total assets of the company; and the entire amount of the securities of such issuer owned by the company does not represent more than 10% of the outstanding voting securities of such issuer.

Under the second diversification requirement, the “25% diversification limitation,” a company may not invest more than 25% of the value of its assets in any one issuer or two issuers or more that the taxpayer controls.

Compliance with the above referenced RIC asset diversification requirements are monitored by the Adviser and any necessary adjustments to portfolio issuer weights will be made on a quarterly basis or as necessary to ensure compliance with RIC requirements. When a Fund’s Underlying Index itself is not RIC compliant, the Adviser generally employs a representative sampling indexing strategy (as described in the Funds’ prospectus) in order to achieve the Fund’s investment objective. The Funds’ prospectus also gives the Funds additional flexibility to comply with the requirements of the Code and other regulatory requirements and to manage future corporate actions and index changes in smaller markets by investing a percentage of fund assets in securities that are not included in the Fund’s Underlying Index.

Description of the Funds and the Underlying Indexes¹²

The iShares Lehman Short Treasury Bond Fund seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the short-term sector of the U.S. Treasury market as defined by the Lehman Brothers Short U.S. Treasury Index. This Index measures the performance of public obligations of the U.S. Treasury that have a remaining maturity of between 1 and 12 months, are rated investment grade, and have more than \$250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non-convertible. Excluded from the Index are certain special issues, such as flower bonds, targeted investor notes (“TINs”), and state and local government series bonds (“SLGs”), and coupon issues that have been stripped from assets that are already included in the Index. As of May 31, 2006, there were 43 issues included in the Index. The Index, as for each of the Underlying Indexes, is market capitalization weighted,¹³ and the securities in the Index are updated (as described below) on the last calendar day of each month.

The iShares Lehman 3-7 Year Treasury Bond Fund seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the intermediate-term sector of the U.S. Treasury market as defined by the Lehman Brothers 3-7

¹² For each of the Funds, a Fund’s investment objective and its Underlying Index may be changed without shareholder approval. In such case, the Exchange would be obligated to file for approval of listing and trading such derivative product pursuant to Section 19(b)(1) of the Act (15 U.S.C. 78s (b)(1)) as a proposed rule change, which must be approved by the Commission, to permit continued listing and trading of the derivative product. See Telephone conference between Florence Harmon, Senior Special Counsel, Division of Market Regulation, Commission, and Michael Cavalier, Assistant General Counsel, NYSE, on November 17, 2006.

¹³ The Exchange states that the market capitalization of each Underlying Index’s bond component is calculated by multiplying the price of the bond (accounting for accrued interest) by the par amount outstanding. For investment grade corporate debt, Lehman utilizes trader marked prices and a multi-dealer pricing matrix. For U.S. Treasuries and certain government related bonds, Lehman marks the bonds on a daily basis. For both categories of bonds, multiple pricing sources are also used to verify pricing determinations. See Amendment No. 2, supra note 5.

Year U.S. Treasury Index. This Index measures the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to 3 years and less than 7 years, are rated investment grade, and have \$250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non-convertible. Excluded from the Index are certain special issues, such as flower bonds, TINs, and SLGs, and coupon issues that have been stripped from assets that are already included in the Index. As of May 31, 2006, there were 36 issues included in the Index.

The iShares Lehman 10-20 Year Treasury Bond Fund seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the long-term sector of the U.S. Treasury market as defined by the Lehman Brothers 10-20 Year U.S. Treasury Index. This Index measures the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to 10 years and less than 20 years, are rated investment grade, and have \$250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non-convertible. Excluded from the Index are certain special issues, such as flower bonds, TINs, and SLGs, and coupon issues that have been stripped from assets that are already included in the Index. As of May 31, 2006, there were 22 issues included in the Index.

The iShares Lehman 1-3 Year Credit Bond Fund seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the investment-grade credit sector of the U.S. bond market as defined by the Lehman Brothers 1-3 Year U.S. Credit Index. This Index measures the performance of investment-grade corporate debt and sovereign, supranational, local authority, and non-U.S. agency bonds¹⁴ that are U.S. dollar denominated and

¹⁴ “Local authority” bonds are U.S. municipal securities. “Non-U.S. agency bonds” are issued by foreign government sponsored entities from developed nations but are not backed by the full faith

have a remaining maturity of greater than or equal to 1 year and less than 3 years, are rated investment grade, and have more than \$250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non-convertible. Excluded from the Index are structured notes with embedded swaps or other special features, private placements, floating rate securities, and Eurobonds. As of May 31, 2006, there were 601 issues included in the Index.¹⁵

The iShares Lehman Intermediate Credit Bond Fund seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the investment-grade credit sector of the U.S. bond market as defined by the Lehman Brothers Intermediate U.S. Credit Index. This Index measures the performance of investment-grade corporate debt and sovereign, supranational, local authority, and non-U.S. agency bonds that are U.S. dollar denominated and have a remaining maturity of greater than or equal to 1 year and less than 10 years, are rated investment grade, and have more than \$250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non-convertible. Excluded from the Index are structured notes with embedded swaps or other special features, private placements, floating rate securities, and Eurobonds. As of May 31, 2006, there were 2,193 issues included in the Index.¹⁶

and credit of the foreign government. See Telephone conference between Florence Harmon, Senior Special Counsel, Division of Market Regulation, Commission, and Michael Cavalier, Assistant General Counsel, NYSE, on November 20, 2006 (“November 20 Telephone Conference”).

¹⁵ Regarding the top ten holdings in the Lehman Brothers 1-3 Year U.S. Credit Index, the top ten holdings constitute 8.3% of the Index, with the largest holding constituting 1%. See Amendment No. 1, supra note 4.

¹⁶ Regarding the top ten holdings in the Lehman Brothers Intermediate U.S. Credit Index, the top ten holdings constitute 2.6% of the Index, with the largest holding constituting 0.3%. See Amendment No. 1, supra note 4.

The iShares Lehman Intermediate Government/Credit Bond Fund seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the investment-grade credit sector of the U.S. bond market and the total U.S. Treasury market as defined by the Lehman Brothers Intermediate U.S. Government/Credit Index. This Index measures the performance of U.S. dollar denominated U.S. Treasuries, investment-grade government-related (i.e., U.S. and foreign agencies, sovereign, supranational, and local authority) debt, and investment-grade U.S. corporate securities that have a remaining maturity of greater than or equal to 1 year and less than 10 years, are rated investment grade, and have more than \$250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non-convertible. Excluded from the Index are certain special issues, such as flower bonds, TINs, and SLGs, and coupon issues that have been stripped from assets that are already included in the Index. Also excluded from the Index are structured notes with embedded swaps or other special features, private placements, floating rate securities, and Eurobonds. As of May 31, 2006, there were 3,021 issues included in the Index.¹⁷

The iShares Lehman Credit Bond Fund seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the investment-grade credit sector of the U.S. bond market as defined by the Lehman Brothers U.S. Credit Index. This Index measures the performance of investment-grade corporate debt and sovereign, supranational, local authority, and non-U.S. agency bonds that are U.S. dollar denominated and have a remaining maturity of greater than or equal to 1 year, are rated investment grade, and

¹⁷ Regarding the top ten holdings in the Lehman Brothers Intermediate U.S. Government/Credit Index, the top ten holdings constitute 6.9% of the Index, with the largest holding constituting 1.1%. See Amendment No. 1, supra note 4.

have more than \$250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non-convertible. Excluded from the Index are structured notes with embedded swaps or other special features, private placements, floating rate securities, and Eurobonds. As of May 31, 2006, there were 2,996 issues included in the Index.¹⁸

The iShares Lehman Government/Credit Bond Fund seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the investment-grade U.S. government and U.S corporate securities of the U.S. bond market as defined by the Lehman Brothers U.S. Government/Credit Index. This Index measures the performance of U.S. dollar denominated U.S. Treasuries, investment-grade government-related (i.e., U.S. and foreign agencies, sovereign, supranational and local authority) debt, and investment-grade U.S. corporate securities that have a remaining maturity of greater than or equal to 1 year, are rated investment grade, and have more than \$250 million or more of outstanding face value. In addition, the securities must be denominated in U.S. dollars and must be fixed rate and non-convertible. Excluded from the index are certain special issues, such as flower bonds, TINs, and SLGs, and coupon issues that have been stripped from assets that are already included in the index. Also excluded from the index are structured notes with embedded swaps or other special features, private placements, floating rate securities, and Eurobonds. As of May 31, 2006 there were 3,935 issues included in the Index.¹⁹

¹⁸ Regarding the top ten holdings in the Lehman Brothers U.S. Credit Index, the top ten holdings constitute 2.3% of the Index, with the largest holding constituting 0.4%. See Amendment No. 1, supra note 4.

¹⁹ Regarding the top ten holdings in the Lehman Brothers U.S. Government/Credit Index, the top ten holdings constitute 5.7% of the Index, with the largest holding constituting 0.8%. See Amendment No. 1, supra note 4.

The Exchange represents that, as of September 29, 2006, less than one percent of the market value of the Underlying Indexes for each of the Funds consisted of Rule 144A securities, and no Rule 144A securities were included in the Lehman Short Treasury Index; Lehman 3-7 Year Treasury Index; and Lehman 10-20 Year Treasury Index.²⁰

Index Provider

The Index Provider for each Fund, Lehman Brothers, is a broker-dealer. Therefore, appropriate firewalls must exist around the personnel who have access to information concerning changes and adjustments to an index and the trading personnel of the broker-dealer. Lehman Brothers has represented to the Exchange that it will (1) implement and maintain procedures designed to prevent the misuse and dissemination, in violation of applicable laws, rules and regulations, of material non-public information relating to the Indexes licensed by BGI; and (2) periodically check the application of such procedures, including the application of such procedures as they relate to those persons directly responsible for changes in the composition or calculation of the relevant Index.²¹

The Exchange notes that, while there is not an independent calculation agent for the Indexes, the securities included in the Indexes are U.S. government, U.S. credit and investment-

²⁰ See Amendment No. 1, supra note 4. Rule 144A(b) under the Securities Act provides that “[a]ny dealer who offers or sells securities in compliance with the conditions set forth in paragraph (d) of this section shall be deemed not to be a participant in a distribution of such securities within the meaning of section 4(3)(C) of the Act and not to be an underwriter of such securities within the meaning of section 2(11) of the Act, and such securities shall be deemed not to have been offered to the public within the meaning of section 4(3)(A) of the Act.” 17 CFR 230.144A. Among the conditions to be met in paragraph (d) is that the “securities are offered or sold only to a qualified institutional buyer or to an offeree or purchaser that the seller and any person acting on behalf of the seller reasonably believe is a qualified institutional buyer.” Id.

²¹ See November 20 Telephone Conference, supra note 14.

grade corporate debt issues that are traded in highly liquid, transparent markets and subject to multiple pricing sources, as described below.²²

For each of the Indexes, the applicable Index constituents are reset on the last business day of each month and remain static throughout the month. The universe of Index constituents adjust for securities that become ineligible for inclusion in an Index during the month (e.g., because of downgrades or called bonds) or for issues that are newly eligible (e.g., up-grades or newly issued bonds) on the last business day of each month. The Indexes are valued using end of day bid side prices, as marked by Lehman Brothers. Intra-month cash flows contribute to monthly returns, but they are not reinvested during the month and do not earn a reinvestment return. Total returns are calculated based on the sum of price changes, gain/loss on repayments of principal, and coupon received or accrued, expressed as a percentage of beginning market value. The Indexes are calculated once a day and are available from major data vendors.

The Exchange states that Lehman Brothers has represented to BGI that, in calculating the Indexes, it utilizes multiple contributor sources to verify bond prices.²³ The primary price for each security is analyzed and compared to other third-party pricing sources through both statistical routines and scrutiny by the Lehman Brothers research staff. Significant discrepancies are researched and corrected, as necessary.

Net Asset Value

The Exchange states that, as with other open-end investment companies, iShares will be issued at the net asset value (“NAV”) per share next determined after an order in proper form is received. Investors Bank calculates the NAV for each Fund once daily Monday through Friday generally as of the regularly scheduled close of business of the NYSE (normally 4:00 p.m.,

²² See Amendment No. 1, supra note 4.

²³ See id.

Eastern Time) on each day that the NYSE is open for trading, based on prices at the time of closing, provided that (a) any assets or liabilities denominated in currencies other than the U.S. dollar shall be translated into U.S. dollars at the prevailing market rates on the date of valuation, as quoted by one or more major banks or dealers that makes a two-way market in such currencies (or a data service provider based on quotations received from such banks or dealers); and (b) U.S. fixed-income assets may be valued as of the announced closing time for trading in fixed-income instruments on any day that the Bond Market Association announces an early closing time. The NAV of each Fund is calculated by dividing the value of the net assets of such Fund (i.e., the value of its total assets less total liabilities) by the total number of outstanding shares of the Fund, generally rounded to the nearest cent. In calculating a Fund's NAV, a Fund's investments are generally valued using market valuations. In the event that current market valuations are not readily available or such valuations do not reflect current market values, the affected investments will be valued using fair value pricing pursuant to the pricing policy and procedures approved by the Trust's Board of Trustees. The frequency with which a Fund's investments are valued using fair value pricing is primarily a function of the types of securities and other assets in which the Fund invests pursuant to its investment objective, strategies and limitations.

Investments that may be valued using fair value pricing include, but are not limited to:

(i) an unlisted security related to corporate actions; (ii) a restricted security (i.e., one that may not be publicly sold without registration under the Securities Act); (iii) a security whose trading has been suspended or which has been delisted from its primary trading exchange; (iv) a security that is thinly traded; (v) a security in default or bankruptcy proceedings for which there is no current market quotation; (vi) a security affected by currency controls or restrictions; and (vii) a security

affected by a significant event (i.e., an event that occurs after the close of the markets on which the security is traded but before the time as of which the Fund's NAV is computed and that may materially affect the value of the Fund's investments). Examples of events that may be "significant events" are government actions, natural disasters, armed conflict, acts of terrorism, and significant market fluctuations.

Continuous Distribution

Shares of the Funds will be issued on a continuous offering basis in groups of 50,000 to 100,000 iShares (as specified for each Fund), or multiples thereof. These "groups" of shares are called "Creation Unit Aggregations" (also, "Creation Units"). The anticipated price at which the iShares will initially trade is approximately \$100. The Funds will issue and redeem iShares only in Creation Unit Aggregations.²⁴

The Shares that trade in the secondary market are "created" at NAV by market makers, large investors, and institutions (known as "Authorized Participants") only in Creation Unit Aggregations. Each "creator" enters into an authorized participant agreement ("Participant Agreement") with SEI, the Funds' distributor, which is subject to acceptance by the transfer agent, and then deposits into the applicable Fund a portfolio of bonds closely approximating the holdings of the Fund and a specified amount of cash in exchange for a specified number of Creation Units.

Similarly, Shares can only be redeemed in a specified number of Creation Units, principally in-kind for a portfolio of bonds held by a Fund and a specified amount of cash. Except when aggregated in Creation Units, shares are not redeemable. The prices at which

²⁴ A Creation Unit Aggregation of 50,000 iShares would have an estimated initial value of approximately \$5,000,000.

creations and redemptions occur are based on the next calculation of NAV after an order is received in a form described in the Participant Agreement.

Creations and redemptions must be made through a firm that is a Depository Trust Company (“DTC”) participant and has the ability to clear through the Federal Reserve System. Information about the procedures regarding creation and redemption of Creation Units (including the cut-off times for receipt of creation and redemption orders) is included in the SAI. Each Fund will impose a purchase transaction fee and a redemption transaction fee to offset transfer and other transaction costs associated with the issuance and redemption of Creation Units of shares.

All orders to purchase and redeem iShares in Creation Unit Aggregations must be placed through an Authorized Participant. An Authorized Participant must be either a “Participating Party,” *i.e.*, a broker-dealer or other participant in the clearing process through the National Securities Clearing Corporation (“NSCC”) Continuous Net Settlement System (the “Clearing Process”), a clearing agency that is registered with the Commission, or a DTC participant, and in each case, must enter into a Participant Agreement.²⁵

Issuance of Creation Unit Aggregations

The Trust issues and sells Shares of each Fund only in Creation Unit Aggregations on a continuous basis through the Distributor, without a sales load, at the NAV next determined after receipt, on any business day (any day the NYSE is open for trading), of an order in proper form.

The consideration for purchase of Creation Unit Aggregations of a Fund generally consists of the in-kind deposit of a designated portfolio of securities (the “Deposit Securities”),

²⁵ Such participant, if not registered as a broker-dealer, must be exempt from being (or otherwise not required to be) registered as a broker-dealer. See November 20 Telephone Conference, supra note 14.

which constitutes a substantial replication, or a portfolio sampling representation, of the securities involved in the relevant Fund's Underlying Index ("Fund Securities") and an amount of cash (the "Cash Component") computed as described below. Together, the Deposit Securities and the Cash Component constitute the "Fund Deposit," which represents the minimum initial and subsequent investment amount for a Creation Unit Aggregation of any Fund.

The Cash Component is sometimes also referred to as the "Balancing Amount." The function of the cash component is to compensate for any differences between the NAV per Creation Unit Aggregation and the Deposit Amount (as defined below). The Cash Component is an amount equal to the difference between the NAV of the shares (per Creation Unit Aggregation) and the "Deposit Amount" is an amount equal to the market value of the Deposit Securities. If the Cash Component is a positive number (i.e., the NAV per Creation Unit Aggregation exceeds the Deposit Amount), the creator will deliver the Cash Component. If the Cash Component is a negative number (i.e., the NAV per Creation Unit Aggregation is less than the Deposit Amount), the creator will receive the Cash Component. Computation of the Cash Component excludes any stamp duty or other similar fees and expenses payable upon transfer of beneficial ownership of the Deposit Securities, which are the sole responsibility of the Authorized Participant.

BGFA, through the NSCC, makes available on each business day, prior to the opening of business on the Exchange (currently 9:30 a.m., Eastern Time), the list of the names and the required number of shares (subject to possible amendments or corrections) of each Deposit Security to be included in the current Fund Deposit (based on information at the end of the previous business day) for each Fund.

Such Deposit Securities are applicable, subject to any adjustments as described below, in order to effect creations of Creation Unit Aggregations of a given Fund until such time as the next-announced composition of the Deposit Securities is made available. The identity and number of shares of the Deposit Securities required for a Fund Deposit for each Fund changes as rebalancing adjustments, corporate action events, and interest payments on underlying bonds are reflected from time to time by BGFA with a view to the investment objective of the relevant Fund. The composition of the Deposit Securities may also change in response to adjustments to the weighting or composition of the component securities of the relevant Underlying Index.

In addition, the Trust reserves the right to permit or require the substitution of an amount of cash (a “cash in lieu” amount) to be added to the Cash Component to replace any Deposit Security that may not be available in sufficient quantity for delivery or that may not be eligible for transfer through the systems of DTC for corporate bonds or the Federal Reserve System for U.S. Treasury securities. The Trust also reserves the right to permit or require a “cash in lieu” amount where the delivery of the Deposit Security by the Authorized Participant would be restricted under the securities laws or where the delivery of the Deposit Security to the Authorized Participant would result in the disposition of the Deposit Security by the Authorized Participant becoming restricted under the securities laws, or in certain other situations. The adjustments described above will reflect changes known to BGFA on the date of announcement to be in effect by the time of delivery of the Fund Deposit, in the composition of the Underlying Index being tracked by the relevant Fund or resulting from certain corporate actions.

Fund Deposits must be delivered through the Federal Reserve System (for cash and government securities) and through DTC (for corporate securities) by an Authorized Participant. The Fund Deposit transfer must be ordered by the DTC Participant in a timely fashion so as to

ensure the delivery of the requisite number of Deposit Securities through DTC to the account of the Fund by no later than 3:00 p.m., Eastern Time, on the Settlement Date. The “Settlement Date” for all Funds is generally the third business day after the Transmittal Date.

A purchase transaction fee is imposed for the transfer and other transaction costs of the Funds associated with the issuance of Creation Units of shares. The fee is a single charge and will be the same regardless of the number of Creation Units purchased by an investor on the same day in the amount specified in the Funds’ prospectus or SAI.

Redemptions of Creation Unit Aggregations

Shares may be redeemed only in Creation Unit Aggregations at their NAV next determined after receipt of a redemption request in proper form by a Fund only on a business day. A Fund will not redeem shares in amounts less than Creation Unit Aggregations.

Beneficial owners must accumulate enough shares in the secondary market to constitute a Creation Unit Aggregation in order to have such shares redeemed by the Trust.

With respect to each Fund, BGFA, through the NSCC, makes available immediately prior to the opening of business on the NYSE (currently 9:30 a.m., Eastern Time) on each business day, the identity of the fund securities that will be applicable (subject to possible amendment or correction) to redemption requests received in proper form on that day. Fund Securities received on redemption may not be identical to Deposit Securities that are applicable to creations of Creation Unit Aggregations.

Unless cash redemptions are available or specified for a Fund, the redemption proceeds for a Creation Unit Aggregation generally consist of Fund Securities - as announced on the business day of the request for redemption received in proper form - plus cash in an amount equal to the difference between the NAV of the shares being redeemed, as next determined after

a receipt of a request in proper form, and the value of the Fund Securities (the “Cash Redemption Amount”), less a redemption transaction fee. A redemption transaction fee is imposed to offset transfer and other transaction costs that may be incurred by the Funds. The fee is a single charge and will be as set forth in the Funds’ prospectus and SAI, and is the same regardless of the number of Creation Units redeemed by an investor on the same day. Investors will also bear the costs of transferring the Fund Securities from the Trust to their account or on their order. Investors who use the services of a broker or other such intermediary may be charged a fee for such services. The standard creation and redemption fee for each Fund is \$500; however, as stated in the Fund’s Registration Statement, if a Creation Unit is purchased or redeemed outside the usual process through NSCC or for cash, a variable fee may be charged up to four times the standard creation or redemption fee.

Compliance with Securities Laws - Creations and Redemptions; Rule 144A Securities²⁶

The Exchange represents that the statutory prospectus for the Funds will state that the Funds must comply with the federal securities laws in accepting securities for deposits and satisfying redemptions with redemption securities, including that the securities accepted for deposits and the securities used to satisfy redemption requests are sold in transactions that would be exempt from registration under the Securities Act.

The Exchange further represents that the Funds must comply with the federal securities laws in accepting Deposit Securities and satisfying redemptions with Fund Securities, including that the Deposit Securities and Fund Securities are sold in transactions that would be exempt from registration under the Securities Act. In accepting Deposit Securities and satisfying redemptions with Fund Securities that are restricted securities eligible for resale pursuant to Rule

²⁶ See Amendment No. 2, supra note 5.

144A under the Securities Act, the Funds will comply with the conditions of Rule 144A, including in satisfying redemptions with such Rule 144A eligible restricted Fund Securities. The prospectus for the Funds will also state that “An Authorized Participant that is not a Qualified Institutional Buyer (“QIB”) will not be able to receive Fund Securities that are restricted securities eligible for resale under Rule 144A.”

Availability of Information Regarding iShares and Each Underlying Index

As stated above, on each business day, the list of names and amount of each security constituting the current Deposit Securities of the Fund 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 in U.S. dollars, on a per iShare basis (the “Intraday Optimized Portfolio Value” or “IOPV”) will be calculated by an independent third party that is a major market data vendor (the “Value Calculator”), such as Bloomberg L.P., at least every 15 seconds²⁷ during the Exchange’s regular trading hours and disseminated at least every 15 seconds on the Consolidated Tape.

Because the Funds will utilize a representative sampling strategy, the Exchange states that the IOPV may not reflect the value of all securities included in the Underlying Indexes. In addition, the IOPV does not necessarily reflect the precise composition of the current portfolio of securities held by the Funds at a particular point in time. Therefore, the Exchange states that the IOPV on a per Fund share basis disseminated during the Exchange’s trading hours should not be viewed as a real time update of the NAV of the Funds, which is calculated only once a day. While the IOPV disseminated by the Exchange at 9:30 a.m. is expected to be generally very

²⁷ See November 20 Telephone Conference, supra note 14.

close to the most recently calculated Fund NAV on a per Fund share basis, it is possible that the value of the portfolio of securities held by each Fund may diverge from the Deposit Securities values during any trading day. In such case, the IOPV will not precisely reflect the value of each Fund's portfolio. However, during the trading day, the IOPV can be expected to closely approximate the value per Fund share of the portfolio of securities for each Fund except under unusual circumstances (e.g., in the case of extensive rebalancing of multiple securities in a Fund at the same time by the Adviser).

The IOPV will be updated throughout the day to reflect changing bond prices, using multiple prices from independent third party pricing sources. Information about the intra-day prices for the Deposit Securities of each Fund is readily available to the marketplace.²⁸ The Exchange represents that the Adviser has represented 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.²⁹ The Exchange states that closing prices of the Funds' Deposit Securities are readily available from published or other public sources, such as the

²⁸ The Exchange states that Authorized Participants and other market participants have a variety of ways to access the intra-day security prices that form the basis of the Funds' IOPV calculation. For example, intra-day prices for treasury securities and agency securities are available from Bloomberg, TradeWeb, ABS[®] and TRACE. 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, Goldman Sachs, and Lehman Brothers).

²⁹ For example, the Exchange states that 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).

NYSE's Automated Bond System (ABS[®]), the Trace Reporting and Compliance Engine ("TRACE"), or on-line client-based information services provided by Credit Suisse, Goldman Sachs, Lehman Brothers, IDC, Merrill Lynch, Reuters, Bloomberg, TradeWeb, and other pricing services commonly used by bond mutual funds.³⁰

The Exchange also intends to disseminate 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, there will be disseminated, through major market data vendors, a value for the Underlying Indexes once each trading day, based on closing prices in the relevant market. The NAV for each Fund will be calculated and disseminated daily. The Funds' NAV will be calculated by IBT. IBT will disseminate the information to BGI, SEI, and others. The Funds' NAV will be published in a number of places, including www.iShares.com and on the Consolidated Tape.

In addition, the Web site 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 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. The Exchange states that the Adviser for

³⁰ The Exchange understands that Credit Suisse, Goldman Sachs, Lehman Brothers, Merrill Lynch, IDC, Reuters, Bloomberg, and TradeWeb provide prices for each type of Deposit Security. ABS[®] and TRACE provide prices for corporate bonds. See also Telephone conference between Florence Harmon, Senior Special Counsel, Division of Market Regulation, Commission, and Michael Cavalier, Assistant General Counsel, NYSE, on November 21, 2006 (authorizing removal from this proposed rule change of language in which the Funds disclaim responsibility for IOPV calculation).

the Funds has represented to the Exchange that the Funds will make the NAV for the Fund Shares available to all market participants at the same time.³¹

Dividends and Distributions

Dividends will be paid out to investors at least monthly by the Funds and may be paid out on a more frequent basis. Distributions of net capital gains, if any, will be distributed to investors annually. Dividends and other distributions on iShares of the Funds will be distributed on a pro rata basis to beneficial owners of such iShares. Dividend payments will be made through the Depository and to the DTC Participants to beneficial owners then of record with amounts received from the Fund.

The Exchange represents that the Trust currently does not intend to 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. The Shares 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 the Funds.

Beneficial owners of the Funds will receive all of the statements, notices, and reports required under the Investment Company Act and other applicable laws. They will receive, for

³¹ See November 20 Telephone Conference, supra note 14.

example, annual and semi-annual reports, written statements accompanying dividend payments, proxy statements, annual notifications detailing the tax status of distributions, and IRS Form 1099-DIVs. Because the Trust's records reflect ownership of iShares by DTC only, the Trust will make available applicable statements, notices, and reports to the DTC Participants who, in turn, will be responsible for distributing them to the beneficial owners.

Other Issues

- (a) Criteria for Initial and Continued Listing. The Shares are subject to the criteria for initial and continued listing of ICUs in Section 703.16 of the Manual. A minimum of 100,000 iShares for each Fund will be required to be outstanding at the start of trading. This minimum number of shares of each Fund 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 shares of each Fund outstanding at the start of trading is sufficient to provide market liquidity and to further the Funds' investment objective to seek to provide investment results that correspond generally to the price and yield performance of the Underlying Index.
- (b) Original and Annual Listing Fees. The original listing fees applicable to the Shares of the Funds for listing on the Exchange is \$5,000 for each Fund, and the continuing fees would be \$2,000 for each Fund.
- (c) Stop and Stop Limit Orders. Commentary .30 to NYSE Rule 13 provides that stop and stop limit orders in an ICU 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 last 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 ICUs generally.

- (d) NYSE Rule 460.10. NYSE Rule 460.10 generally precludes certain business relationships between an issuer and the specialist in the issuer's securities. Exceptions in the Rule permit specialists in Fund shares 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 Fund shares. A specialist may acquire a position in excess of 10% of the outstanding issue of a Fund's Shares, provided, however, that a specialist registered in a security issued by an investment company may purchase and redeem the ICU 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.
- (e) Prospectus Delivery.³² The Commission has granted the Trust an exemption from certain prospectus delivery requirements under Section 24(d) of the Investment Company Act.³³ The Exchange states that 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 Exchange, in an Information Memo to Exchange members and member organizations, will inform members and member organizations, prior to commencement of trading of the Shares, of the

³² See Amendment No. 1, supra note 4.

³³ See In the Matter of iShares, Inc., et al., Investment Company Act Release No. 25623 (June 25, 2002).

prospectus or product description delivery requirements applicable to the Shares of the Funds and will refer members and member organizations to NYSE Rule 1100(b), which requires that members and member organizations provide to purchasers a written description of the terms and characteristics of the securities not later than the time of a confirmation of the first transaction is delivered to the purchaser. There is not currently a product description available for the Funds. Therefore, the Information Memo will also advise members and member organizations that delivery of a prospectus to customers in lieu of a product description would satisfy the requirements of NYSE Rule 1100(b).

- (f) Information Memo. The Exchange will distribute an Information Memo to its members in connection with the trading of the iShares. The Memo will discuss the special characteristics and risks of trading this type of security. Specifically, the Information Memo, among other things, will discuss what the Funds are, how the Funds' shares are created and redeemed, prospectus or Product Description delivery requirements applicable to the Funds, applicable NYSE rules, dissemination information, trading information and the applicability of suitability rules (including NYSE Rule 405). The Information Memo will also discuss exemptive, no-action and interpretive relief granted by the Commission from Section 11(d)(1) and certain rules under the Act, including Rule 10a-1, Regulation SHO, Rule 10b-10, Rule 14e-5, Rule 10b-17, Rule 11d1-2, Rules 15c1-5 and 15c1-6, and Rules 101 and 102 of Regulation M under the Act.
- (g) Trading Halts. In order to halt the trading of the Shares of the Funds, 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 the Funds' shares is subject to trading halts caused by extraordinary market volatility pursuant to NYSE Rule 80B. If the end-of-day Index value or the intraday IOPV³⁴ applicable to a Fund is not being disseminated as required, the Exchange may halt trading during the day in which the interruption to the dissemination of the Index value or IOPV occurs. If the interruption to the dissemination of the Index value or intraday IOPV persists past the trading day in which it occurred, the Exchange will halt trading no later than the beginning of the trading day following the interruption.³⁵

- (h) Due Diligence. The Exchange represents that the Information Memo to members will note, for example, Exchange responsibilities including that before an Exchange member, member organization, or employee thereof recommends a transaction in the Funds, a determination must be made that the recommendation is in compliance with all applicable Exchange and federal rules and regulations, including due diligence obligations under NYSE Rule 405.
- (i) Purchases and Redemptions in Creation Unit Size. In the Memo referenced above, members and member organizations will be informed that procedures for purchases and redemptions of shares of the Funds in Creation Unit Size are described in the Funds' prospectus and SAI, and that shares of the Funds are not individually redeemable but are redeemable only in Creation Unit Size aggregations or multiples thereof.

³⁴ See November 20 Telephone Conference, supra note 14.

³⁵ See Amendment No. 1, supra note 4.

- (j) Surveillance. Exchange surveillance procedures applicable to trading in the proposed iShares are comparable to those applicable to other ICUs currently trading on the Exchange. The Exchange represents that its surveillance procedures are adequate to properly monitor the trading of the Shares of the Funds.
- (k) Hours of Trading/Minimum Price Variation. The Funds will trade on the Exchange until 4:15 p.m. (Eastern Time). The minimum price variation for quoting will be \$.01.

2. Statutory Basis

NYSE believes that the proposed rule change is consistent with Section 6(b)(5) of the Act³⁶ requiring that an exchange have rules that are designed, among other things, to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to, and perfect the mechanism of a free and open market and, in general, to protect investors and the public interest.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change, as amended, will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

The Exchange has neither solicited nor received written comments on the proposed rule change, as amended.

³⁶ 15 U.S.C. 78f(b)(5).

III. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change, as amended, is consistent with the Act.

Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>);
or
- Send e-mail to rule-comments@sec.gov. Please include File Number SR-NYSE-2006-70 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NYSE-2006-70. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the NYSE. All comments received will be posted without change; the Commission does not edit personal

identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NYSE-2006-70 and should be submitted on or before [insert date 21 days from date of publication in the Federal Register].

IV. Commission's Findings and Order Granting Accelerated Approval of the Proposed Rule Change

After careful consideration, the Commission finds that the proposed rule change, as amended, is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.³⁷ In particular, the Commission finds that the proposed rule change, as amended, is consistent with the requirements of Section 6(b)(5) of the Act,³⁸ which requires, among other things, that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

A. Surveillance

The NYSE has represented that it has appropriate surveillance procedures in place that are designed to monitor the trading of the proposed Shares. The Exchange represents that these surveillance procedures applicable to trading in the proposed Shares are comparable to those applicable to other ICUs currently trading on the Exchange, and provide the Exchange with the means to detect and deter manipulation of the Shares.³⁹ The Commission also notes that certain concerns are raised when a broker-dealer, such as Lehman Brothers, is involved in the

³⁷ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

³⁸ 15 U.S.C. 78f(b)(5).

³⁹ The Commission notes that NYSE specialists are required to provide daily trading information to the Exchange on Form 81. See NYSE Rule 104A.50.

development, maintenance, and calculation of an index upon which an exchange traded fund is based. The Exchange has represented that Lehman Brothers has represented that it has in place procedures to prevent the misuse of material, non-public information relating to the Indexes. The Commission believes that these procedures should help to minimize concerns raised by Lehman Brothers' involvement in the management of the Indexes.

B. Dissemination of Information

The Commission believes that sufficient venues exist for obtaining reliable information so that investors in the Funds can monitor the value of the Underlying Indexes and securities held by each Fund.

A value for the Underlying Indexes will be disseminated once each trading day, based on closing prices in the relevant market.⁴⁰ In addition, the NAV for each Fund will be calculated and disseminated daily, and will be published in a number of places, including www.iShares.com and on the Consolidated Tape. The Commission notes that the Exchange will receive a representation from the Advisor to the Funds that the NAV will be calculated and made available to all market participants at the same time.

Further, an IOPV, calculated by an independent third party, will be updated and disseminated throughout the day on the Consolidated Tape to reflect changing bond prices. Additionally, information about the intra-day prices for the Deposit Securities of each Fund is available. For example, intra-day prices for treasury securities and agency securities are available from Bloomberg, TradeWeb, ABS[®] and TRACE. Intra-day prices of callable agency securities are available from TradeWeb. Intra-day prices of corporate bonds are available from

⁴⁰ Closing prices of the Funds' Deposit Securities are available from sources such as ABS[®], TRACE, and on-line client-based information services provided by broker-dealers and other information providers.

ABS[®], and TRACE. In addition, intra-day prices for these securities are available by subscription or otherwise to Authorized Participants and clients of major U.S. broker-dealers. If the Underlying Index values or IOPV is not disseminated as described, the Exchange may halt trading during the day in which the interruption occurs. If the interruption persists past the trading day in which it occurred, the Exchange will halt trading no later than the beginning of the trading day following the interruption. The Commission believes that the trading halt rules, together with the NAV dissemination requirements, will facilitate transparency, reduce the potential for an unfair informational advantage with respect to the Shares, and diminish the potential for manipulation.

C. Listing and Trading

The Commission finds that the Exchange's rules and procedures for the listing and trading of the Shares are consistent with the Act. The Shares will be subject to NYSE rules governing the trading of equity securities, including, among others, rules governing trading halts, customer suitability requirements, and the election of stop and stop limit orders. In addition, the Shares are subject to the criteria for initial and continued listing of ICUs in Section 703.16 of the NYSE Manual. The Commission believes that the listing and delisting criteria for the Shares of the Funds should help to maintain a minimum level of liquidity and, therefore, minimize the potential for manipulation of the Shares. Finally, the Commission notes that the Information Memo will inform members about the terms, characteristics, and risks in trading the Shares, including their prospectus delivery obligations.

Accelerated Approval

NYSE has requested that the Commission find good cause for approving the proposed rule change, as amended, prior to the thirtieth day after the date of publication of notice thereof in the Federal Register. The Commission notes that the proposal is consistent with the NYSE's listing and trading standards, and the Commission has previously approved similar products.⁴¹ Based on the above, the Commission finds good cause to accelerate approval of the proposed rule change, as amended.

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act⁴² that the proposed rule change, as amended, (SR-NYSE-2006-70) is hereby approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁴³

Nancy M. Morris
Secretary

⁴¹ See Securities Exchange Act Release Nos. 48881 (December 4, 2003), 68 FR 69739 (December 15, 2003) (SR-NYSE-2003-39) (relating to the iShares Lehman U.S. Aggregate Bond Fund and iShares Lehman TIPS Bond Fund); and 46299 (August 1, 2002), 67 FR 51907 (August 9, 2002) (SR-NYSE-2002-26) (relating to the iShares 1-3 Year Treasury Index Fund, iShares 7-10 Year Treasury Index Fund, iShares 20+ Year Treasury Index Fund, iShares Treasury Index Fund, iShares Government/Credit Index Fund, iShares Lehman Corporate Bond Fund, and iShares Goldman Sachs Corporate Bond Fund).

⁴² 15 U.S.C. 78s(b)(2).

⁴³ 17 CFR 200.30-3(a)(12).