

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-50142; File No. SR-NYSE-2004-27)

August 3, 2004

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of a Proposed Rule Change and Amendments No. 1 and 2 thereto by the New York Stock Exchange, Inc. Relating to the Trading Pursuant to Unlisted Trading Privileges of iShares MSCI Index Funds and the S&P Europe 350 Index Fund

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on June 15, 2004, the New York Stock Exchange, Inc. (“NYSE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission” or “SEC”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. On July 23, 2004, the NYSE filed Amendment No. 1 to the proposed rule change.³ On August 3, 2004, the NYSE filed Amendment No. 2 to the proposed rule change.⁴ The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons and is approving the proposal, as amended, on an accelerated basis.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See letter from Darla C. Stuckey, Corporate Secretary, NYSE, to Nancy J. Sanow, Assistant Director, Division of Market Regulation (“Division”), Commission, dated July 21, 2004 (“Amendment No. 1”). In Amendment No. 1, the NYSE, among other things, corrected the name of the iShares MSCI Emerging Markets Fund and also corrected the name of the underlying index for the iShares Pacific ex-Japan Fund.

⁴ See letter from Darla C. Stuckey, Corporate Secretary, NYSE, to Nancy J. Sanow, Assistant Director, Division, Commission, dated August 3, 2004 (“Amendment No. 2”). In Amendment No. 2, the NYSE withdrew its request to trade pursuant to unlisted trading privileges the iShares MSCI Emerging Markets Fund and made representations regarding the compliance of the funds with the listing standards.

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

The New York Stock Exchange, Inc. (the “Exchange” or the “NYSE”) proposes to trade pursuant to unlisted trading privileges the following iShares Index Funds,⁵ which are Investment Company Units (“ICUs”) under Section 703.16 of the Exchange Listed Company Manual: shares issued by iShares Trust: iShares MSCISM EAFE and iShares S&P Europe 350; and shares issued by iShares Inc.: iShares MSCI Taiwan; iShares MSCI Pacific ex-Japan; iShares MSCI Brazil; iShares MSCI United Kingdom; iShares MSCI South Korea; iShares MSCI Singapore; iShares MSCI Germany; iShares MSCI Australia; iShares MSCI Mexico; iShares MSCI Hong Kong; iShares MSCI South Africa; and iShares MSCI Malaysia.⁶

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 NYSE included statements concerning the purpose of, and basis for, the proposed rule change, as amended, and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item III below. The NYSE 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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange has adopted listing standards applicable to ICUs, which are consistent with the listing criteria currently used by the American Stock Exchange, Inc. (“Amex”) and other exchanges, and trading standards pursuant to which the Exchange may trade ICUs on the

⁵ iShares is a registered trademark of Barclays Global Investors, N.A.

⁶ MSCI and MSCI Indices are registered service marks of Morgan Stanley & Co., Incorporated.

Exchange on an unlisted trading privileges (“UTP”) basis.⁷ The Exchange now proposes to trade pursuant to UTP and on the basis more fully set forth herein the following iShares Index Funds (“Funds”), which are ICUs under Section 703.16 of the Exchange Listed Company Manual: shares issued by iShares Trust: iShares MSCISM EAFE and iShares S&P Europe 350; and shares issued by iShares, Inc: iShares MSCI Taiwan; iShares MSCI Pacific ex-Japan; iShares MSCI Brazil; iShares MSCI United Kingdom; iShares MSCI South Korea; iShares MSCI Singapore; iShares MSCI Germany; iShares MSCI Australia; iShares MSCI Mexico; iShares MSCI Hong Kong; iShares MSCI South Africa; and iShares MSCI Malaysia.

a. Description of the Funds

The Funds are currently listed and traded on the Amex⁸ and trade on other securities

⁷ In 1996, the Commission approved Section 703.16 of the Listed Company Manual (“Manual”), which sets forth 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 for the listing and trading, or the trading pursuant to UTP, of ICUs under Section 703.16 of the Manual and Exchange Rule 1100. See Securities Exchange Act Release No. 43679 (December 5, 2000), 65 FR 77949 (December 13, 2000) (SR-NYSE-00-46).

⁸ The Funds (with the exception of the MSCISM EAFE and S&P Europe 350 Funds) were formerly known as World Equity Benchmark Shares or WEBS, and an initial series of WEBS, including the iShares MSCI United Kingdom, iShares MSCI Singapore (Free), iShares MSCI Germany, iShares MSCI Australia, iShares MSCI Mexico, iShares MSCI Hong Kong and iShares MSCI Malaysia Funds were initially approved for listing and trading on the Amex in 1996. See Securities Exchange Act Release No. 36947 (March 8, 1996), 61 FR 10606 (March 14, 1996) (SR-Amex-95-43) (“Amex WEBS Approval Order”). Additional WEBS series were approved for listing and trading in 2000, including iShares MSCI Brazil, iShares MSCI Taiwan, iShares MSCI South Africa and iShares MSCI South Korea. See Securities Exchange Act Release No. 42748 (May 2, 2000), 65 FR 30155 (May 10, 2000) (SR-Amex-98-49). iShares S&P Europe 350 and iShares MSCISM EAFE, issued by iShares Trust, were approved for Amex listing and trading in 2000 and 2001, respectively. See Securities Exchange Act Release Nos. 42786 (May 15, 2000), 65 FR 33586 (May 24, 2000) (SR-Amex-99-49) and 44700 (August 14, 2001), 66 FR 43927 (August 21, 2001) (SR-Amex-2001-34). The iShares MSCI Pacific ex-Japan, issued by iShares Trust, were approved for Amex listing and trading in 2001.

exchanges⁹ and in the over-the-counter market. NYSE currently trades the iShares MSCI Japan Index Fund pursuant to UTP.¹⁰ The information below is intended to provide a description of how the Funds were created and are traded.¹¹

The shares of the Funds are issued by iShares, Inc., except for iShares MSCISM EAFE and S&P Europe 350, which are issued by iShares Trust. iShares, Inc. and iShares Trust are open-ended management investment companies. Each Fund seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the applicable underlying index. The Funds utilize representative sampling to invest in a representative sample of securities in the applicable underlying index. Barclays Global Fund Advisors (“BGFA”), a subsidiary of Barclays Global Investors, N.A. (“BGI”), is the investment advisor for each Fund. BGI is a wholly owned indirect subsidiary of Barclays Bank PLC of the United Kingdom. BGFA and its affiliates are not affiliated with the index providers (MSCI and Standard & Poor’s). Investors Bank and Trust Company serves as administrator, custodian and transfer agent for the Funds, and SEI Investments Distribution Co. is distributor for the Funds. The distributor is not affiliated with the NYSE or BGFA.

See Securities Exchange Act Release No. 44900 (October 25, 2001), 66 FR 55712 (November 2, 2001)(Amex 2001-45)(collectively “Listing Approval Orders”).

⁹ See, e.g., Securities Exchange Act Release No. 39117 (September 22, 1997), 62 FR 50973 (September 29, 1997) (SR-CHX-96-14) (approving the UTP trading of WEBS).

¹⁰ See Securities Exchange Act Release No. 46298 (August 1, 2002), 67 FR 51614 (August 8, 2002) (SR-NYSE-2002-27).

¹¹ Much of the information in this filing was taken from the Prospectuses and Statements of Additional Information of iShares, Inc. dated as of July 1, 2004, the Prospectus of iShares Trust MSCISM EAFE, dated as of April 14, 2004, the Prospectus of iShares S&P Europe 350, dated as of August 1, 2004, and from the Websites of the Amex (www.amex.com) and iShares (www.iShares.com). Fund information relating to net asset value (“NAV”), returns, dividends, component stock holdings and the like is updated on a daily basis on the websites. Telephone Conversation between Michael Cavalier, Assistant General Counsel, NYSE, and Elizabeth MacDonald, Attorney, Division, July 30, 2004.

iShares, Inc. and iShares Trust, as applicable, will issue and redeem the shares of the Funds only in aggregations of substantial size, which varies for the various Funds but is at least 50,000 shares (each aggregation a "Creation Unit").¹² The size of the applicable Creation Unit Aggregation is set forth in the Fund's prospectus and ranges from approximately \$450,000 to approximately \$7 million. The Funds issue and sell shares of the Index Funds through SEI Investments Distribution Co., the Distributor and principal underwriter, on a continuous basis at the net asset value per share next determined after an order to purchase iShares in Creation Unit size aggregations is received in proper form. Creation Unit Aggregations may be purchased only by or through a participant that has entered into a participant agreement with the Distributor ("Authorized Participant"). Each Participant must be a Depository Trust Company ("DTC") participant. iShares are traded on the Exchange like other equity securities by professionals, as well as retail and institutional investors.

Creation Unit Aggregations generally will be issued in exchange for an in-kind deposit of securities and cash. An Index Fund also may sell Creation Unit Aggregations on a "cash only" basis in limited circumstances.¹³ An investor wishing to make an in-kind purchase of a Creation Unit Aggregation from an Index Fund will have to transfer to the Fund a "Portfolio Deposit" consisting of (a) a portfolio of securities that has been selected by Barclays Global Fund Advisors ("Advisor") to correspond generally to the price and yield performance of the relevant underlying index ("Deposit Securities"), (b) a cash payment equal per Creation Unit Aggregation to the dividends accrued on the Portfolio Securities of the Index Fund since the last dividend payment on the Portfolio Securities, net of expenses and liabilities (the "Dividend Equivalent Payment"), and (c) an amount equal to the difference between (i) the "NAV" per Creation Unit

¹² See supra note 11.

¹³ See "Information Circular" Section, below.

Aggregation of the Index Fund and (ii) the sum of (I) the Dividend Equivalent Payment and (II) the total aggregate market value per Creation Unit Aggregation of the Deposit Securities (the "Balancing Amount," and, together with the Dividend Equivalent Payment, the "Cash Component"). The Balancing Amount serves the function of compensating for differences, if any, between the NAV per Creation Unit Aggregation and the value of the Deposit Amount. The Deposit Amount is the sum of (a) the Dividend Equivalent Payment and (b) the market value per Creation Unit Aggregation of the Deposit Securities. If the Balancing Amount is a positive number (i.e., the NAV per Creation Unit Aggregation of the Index Fund exceeds that of the Deposit Amount), the Balancing Amount will be paid to the Fund by the Creator. If the Balancing Amount is a negative number (i.e., the NAV per Creation Unit Aggregation of the Index Fund is less than that of the Deposit Amount) the creator will receive cash in an amount equal to the differential.

Each Index Fund reserves the right to permit or require the substitution of an amount of cash or the substitution of any security to replace any Deposit Security that may be unavailable or unavailable in sufficient quantity for delivery to iShares, Inc., or which may be ineligible for trading by an Authorized Participant or the investor on whose behalf the Authorized Participant is acting.

It is anticipated that the deposit of Deposit Securities and the Cash Component in exchange for iShares will be made primarily by institutional investors, arbitrageurs, and the Exchange specialist. Creation Units are separable upon issuance into identical shares that are listed and traded on the American Stock Exchange. iShares will be traded on the Exchange by professionals as well as institutional and retail investors.

Individual iShares will not be redeemable. iShares will only be redeemable in Creation

Unit Aggregations through each Index Fund. To redeem, an investor will have to accumulate enough iShares to constitute a Creation Unit Aggregation. An investor redeeming a Creation Unit Aggregation generally will receive (a) a portfolio of Portfolio Securities in effect on the date the request for redemption is made ("Redemption Securities"), which may not be identical to the Deposit Securities applicable to the purchase of Creation Unit Aggregations, and (b) a "Cash Redemption Payment," consisting of an amount calculated in the same manner as the Cash Component, although the actual amounts may differ if the Redemption Securities are not identical to the Deposit Securities. To the extent that the Redemption Securities have a value greater than the NAV of the iShares being redeemed, the redeeming beneficial owner must make compensating cash payment to the Fund equal to the differential between the value of the Redemption Securities and the NAV of the iShares being redeemed. An investor may receive the cash equivalent of a Redemption Security in certain circumstances, such as where a redeeming entity is restrained by regulation or policy from transacting in the Redemption Security. An Index Fund may redeem Creation Unit Aggregations in cash in limited circumstances, such as when it is impossible to effect deliveries of Redemption Securities in the applicable jurisdiction.¹⁴

The Funds may make periodic distributions of dividends from net investment income, including net foreign currency gains, if any, in an amount approximately equal to accumulated dividends on securities held by the Fund during the applicable period, net of expenses and liabilities for such period. The final dividend amount for each Fund is the amount of dividends to be paid by a Fund for the appropriate period (usually annually). The final dividend amount is also disseminated by the Funds to Bloomberg and other sources. The Funds will not make the

¹⁴ See "Information Circular" Section, below.

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.

b. MSCI and S&P Indexes

The MSCI Indexes are calculated by MSCI for each trading day in the applicable foreign exchange markets based on official closing prices in such exchange markets. For each trading day, MSCI publicly disseminates the MSCI Index values for the previous day's close. The S&P Europe 350 Index is calculated by Standard & Poor's ("S&P"), and is publicly disseminated by S&P for the previous day's close. The Indexes are reported periodically in major financial publications, and the intra-day values of the Indexes, disseminated every 15 seconds throughout the trading day, are available through vendors of financial information as further described in the Listing Approval Orders.

The underlying indexes for the Funds are market capitalization weighted. As stated in the iShares, Inc. prospectus, effective May 31, 2002, all single-country MSCI indices are free-float weighted, *i.e.*, companies are included in the indices at the value of their free public float (free float multiplied by price). MSCI defines "free float" as total shares excluding shares held by strategic investors such as governments, corporations, controlling shareholders and management, and shares subject to foreign ownership restrictions.

With respect to the S&P Europe 350 Index, S&P announced on March 1, 2004 that it intends to shift its major indexes to "float-adjusted" market capitalization weights. That is, the value of the Index will be calculated by, for each component, multiplying the number of shares in the public float of the component by the price per share of the component. The result is then

divided by the divisor. Thus, the "float adjusted" market capitalization methodology will exclude blocks of stocks that do not trade from the weighting determination for a stock in the index.

c. Funds' Assets and Industry Concentration

Barclays Global Investors ("BGI") has made certain representations to the Exchange regarding the percentage of fund assets that certain Funds will invest in component securities in the underlying indexes for such Funds and the maximum percentage of fund assets that such Funds may invest in American Depositary Receipts ("ADRs").¹⁵

BGI has represented that each of the following Funds will invest at all times at least ninety percent (90%) of their total assets in component securities that are represented in the underlying index for such Fund: iShares MSCISM EAFE Index Fund; iShares S&P Europe 350 Index Fund; iShares MSCI Pacific ex-Japan Index Fund; iShares MSCI United Kingdom Index Fund; iShares MSCI Germany Index Fund; iShares MSCI Australia Index Fund; iShares MSCI Mexico Index Fund; iShares MSCI Hong Kong Index Fund; iShares MSCI Singapore Index Fund; and iShares MSCI Malaysia Index Fund. Each of these Funds will invest not more than ten percent (10%) of fund assets in ADRs that are not included in the component securities of their underlying index.

Barclays Global Investors has further represented that each of the following Funds will invest at all times at least eighty percent (80%) of their total assets in component securities that are represented in the underlying index for such Fund and at least half of the remaining twenty percent (20%) of their assets in such stocks or in stocks included in the relevant market but not in

¹⁵ See letter from W. John McGuire, Morgan, Lewis & Bockius, to Michael Cavalier, Assistant General Counsel, NYSE, dated August 2, 2004, attached as Exhibit A. to Amendment No. 2.

the index: iShares MSCI Brazil Index Fund; iShares MSCI South Korea Index Fund; iShares MSCI Taiwan Index Fund; and iShares MSCI South Africa Index Fund. Each of these Funds will invest not more than twenty percent (20%) of fund assets in ADRs that are not included in the component securities of their underlying index.

Finally, Barclays Global Investors has represented that each of the ADRs in which these Funds will invest shall be listed on a national securities exchange or quoted on the Nasdaq National Market®. Currently, the underlying indexes do not contain ADRs. To the extent the Funds invest in ADRs, these ADRs will be subject to the 10% and 20% levels described above.¹⁶

As of August 2, 2004, the market capitalization of the securities included in the various Funds ranged from a high of \$203,594 million to a low of \$118 million. As of August 2, 2004, the average daily trading volume for these same securities for the last 30 days ranged from a high of 3,131,225,000 (for one component that constituted 3.65% of the net assets of the Fund) to a low of 100,000 (for one component that constituted 0.12% of the net assets of the Fund). As of June 30, 2004, the ten most heavily weighted component securities of the various Funds ranged from 23.46% (Samsung Electronics Co. Ltd. (“Samsung”) in South Korea Fund) to 1.80%.¹⁷

iShares, Inc. and iShares Trust will cause to be made available daily the names and required number of shares of each of the securities to be deposited in connection with the issuance of the Funds’ shares in Creation Unit size aggregations for the Funds, as well as information relating to the required cash payment representing, in part, the amount of accrued dividends for the Funds. This information will be made available to the Funds’ Advisor and to any National Securities Clearing Corporation (“NSCC”) participant requesting such information.

¹⁶ Telephone Conversation between Michael Cavalier, Assistant General Counsel, NYSE, and Florence Harmon, Senior Special Counsel, Division, August 3, 2004.

¹⁷ Id.

In addition, other investors can request such information directly from the Funds' distributor. The NAV for the Funds will be calculated directly by the Funds' administrator. The NAV will also be available to the public on www.iShares.com, from the Fund distributor by means of a toll-free number, and to NSCC participants through data made available from the NSCC.

As disclosed in the Funds' prospectus, each of the iShares MSCI Mexico Index, iShares MSCI Singapore Index and iShares MSCI South Korea Index Funds has the following concentration policy: With respect to the two most heavily weighted industries or groups of industries in its underlying index, the Fund will invest in securities (consistent with its investment objective and other investment policies) so that the weighting of each such industry or group of industries in the Fund does not diverge by more than 10% from the respective weighting of such industry or group of industries in its underlying index. An exception to this policy is that if investment in the stock of a single issuer would account for more than 25% of the Fund, the Fund will invest less than 25% of its net assets in such stock and will reallocate the excess to stock(s) in the same industry or group of industries, and/or to stock(s) in another industry or group of industries, in its underlying index. Each Fund will evaluate these industry weightings at least weekly, and at the time of evaluation will adjust its portfolio composition to the extent necessary to maintain compliance with the above policy.

Each of the iShares MSCI Australia Index, iShares MSCI Brazil Index, iShares MSCI Hong Kong Index, iShares MSCI Malaysia Index, iShares MSCI Pacific ex-Japan Index, iShares MSCI South Africa Index, iShares MSCI Taiwan Index and iShares MSCI United Kingdom Index Funds will not concentrate its investments (i.e., hold 25% or more of its total assets in the stocks of a particular industry or group of industries), except that, to the extent practicable, the

Fund will concentrate to approximately the same extent that its underlying index concentrates in the stocks of such particular industry or group of industries.

For the iShares MSCI EAFE Index Fund and iShares S&P Europe 350 Index Fund, 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.

Each Fund will maintain regulated investment company compliance, which requires, among other things, that, at the close of each quarter of the Fund's taxable year, not more than 25% of its total assets may be invested in the securities of any one issuer. In order for a Fund to qualify for tax treatment as a regulated investment company, it must meet several requirements under the Internal Revenue Code. Among these is the requirement that, at the close of each quarter of the Fund's taxable year, (a) at least 50% of the market value of the Fund's total assets must be represented by cash items, U.S. government securities, securities of other regulated investment companies and other securities, with such other securities limited for purposes of this calculation in respect of any one issuer to an amount not greater than 5% of the value of the Fund's assets and not greater than 10% of the outstanding voting securities of such issuer, and (b) not more than 25% of the value of its total assets may be invested in the securities of any one issuer.

The Exchange believes that these requirements and policies prevent any Index Fund from being excessively weighted in any single security or small group of securities and significantly reduce concerns that trading in an Index Fund could become a surrogate for trading in unregistered securities.

d. Tracking Error

According to the Funds' prospectus, Barclays Global Fund Advisors expect 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 figure of 100% would indicate perfect correlation. Any correlation of less than 100% is called "tracking error." A Fund using a representative sampling strategy (which all of the Funds utilize) can be expected to have a greater tracking error than a Fund using a replication strategy. Replication is a 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.

The Funds have chosen to pursue a representative sampling strategy that, by its very nature, entails some risk of tracking error. (It should also be noted that Fund expenses, the timing of cash flows, and other factors all contribute to tracking error.) The Web site for the Funds, www.iShares.com, contains detailed information on the performance and the tracking error for each Fund.

e. Availability of Information Regarding Funds

As indicated in the Listing Approval Orders, the Web site for the Funds, www.iShares.com, will contain the prior business day's NAV and the reported closing price, and a calculation of the premium or discount of such price against NAV; and data in chart format

displaying the frequency distribution of discounts and premiums of the daily closing price against the NAV.¹⁸

As stated above and in the Listing Approval Orders, the value of each underlying index will be updated intra-day on a real time basis as individual component securities of that index change in price. The intra-day values of the indexes will be disseminated every 15 seconds throughout the trading day by organizations authorized by the index providers and are available through major financial information vendors.

To provide current Fund pricing information, Amex disseminates through the facilities of the Consolidated Tape Association an “indicative optimized portfolio value” (the “Value”) for the Funds as calculated by Bloomberg, L.P. The Value will be disseminated every fifteen seconds during regular Amex trading hours of 9:30 a.m. to 4:00 p.m. New York time. The Value likely will not reflect the value of all securities included in the applicable indexes. In addition, the Value will not necessarily reflect the precise composition of the current portfolio of securities held by the Funds at a particular moment. The Value disseminated during Amex trading hours should not be viewed as a real-time update of the NAV of the Funds, which is calculated only once a day. It is expected, however, that during the trading day the Value will closely approximate the value per share of the portfolio of securities for the Funds except under unusual circumstances.

For iShares MSCI South Korea, Singapore, Malaysia, Taiwan, Hong Kong, Australia and Pacific ex-Japan Funds, there is no overlap in trading hours between the foreign and U.S. markets. Therefore, for each of these Funds, the Value calculator will utilize closing prices (denominated in the applicable foreign currency) in the principal foreign market for securities in

¹⁸ Telephone Conversation between Michael Cavalier, Assistant General Counsel, NYSE, and Florence Harmon, Senior Special Counsel, Division, August 3, 2004.

the applicable Fund's portfolio and convert the price to U.S. dollars. This Value will be updated every 15 seconds during Amex trading hours to reflect changes in currency exchange rates between the U.S. dollar and the applicable foreign currency. The Value will also include the estimated cash component for each Fund.

For iShares MSCISM EAFE, S&P Europe 350, Brazil, United Kingdom, Germany, Mexico and South Africa Funds, there is an overlap in trading hours between the foreign and U.S. markets. Therefore, the Value calculator will update the applicable Value every 15 seconds to reflect price changes in the applicable foreign market or markets and convert such prices into U.S. dollars based on the currency exchange rate. When the foreign market or markets are closed but U.S. markets are open, the Value will be updated every 15 seconds to reflect changes in currency exchange rates after the foreign market closes. The Value will also include the applicable cash component for each Fund.

f. Information Circular

In connection with the trading of the Funds, the Exchange will inform Exchange members and member organizations in an Information Circular of certain characteristics of certain Funds, as discussed below. The circular will discuss the special characteristics and risks of trading this type of security. Specifically, the circular, among other things, will discuss what the Funds are, how they are created and redeemed, the requirement that members and member firms deliver a prospectus or Product Description to investors purchasing shares of the Fund prior to or concurrently with the confirmation of a transaction, applicable Exchange rules, dissemination information, trading information and the applicability of suitability rules

(including NYSE Rule 405).¹⁹ The circular 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, 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.

Local restrictions on transfers of securities to and between certain types of investors exist in South Korea, Malaysia, Taiwan and Brazil. These restrictions currently preclude “in kind” creations and redemptions of creation units of iShares MSCI South Korea, Malaysia, Taiwan and Brazil Index Funds. Creations and redemptions of creation units of the iShares MSCI South Korea, Malaysia, Taiwan and Brazil Index Funds therefore involve “for cash” transfers. In such cases, a Fund will charge creation and redemption fees intended to offset the transfer and other transaction costs incurred by the Fund, including market impact expenses (primarily associated with creation units for cash), related to investing in or disposing of the basket of securities held by the Fund.

For Funds that effect creations and/or redemptions only for cash (i.e., iShares MSCI South Korea, Malaysia, Taiwan and Brazil), it is possible that portfolio securities transactions by iShares, Inc. in the relevant local markets for those Funds could affect the prices of those portfolio securities at the times those Funds’ NAVs are calculated.

The NAV for the iShares MSCI Malaysia, South Korea and Taiwan Index Funds will be calculated every day that the American Stock Exchange is open for trading, normally as of

¹⁹ The Commission has issued an order (“Order”) granting the Funds an exemption from Section 24(d) of the Investment Company Act of 1940. See, e.g., Investment Company Act Release No. 25623 (June 25, 2002). Any Product Description used in reliance on the Section 24(d) exemptive order will comply with all representations made and all conditions contained in the Application for the Order.

11a.m. (Eastern Time). This is in contrast to the other Funds, for which the NAV is normally calculated at 4:00 p.m. (Eastern Time).

g. Other Issues

i. Surveillance Procedures

The Exchange intends to utilize its existing surveillance procedures applicable to Investment Company Units to monitor trading in the Funds. The Exchange represents that these procedures are adequate to monitor Exchange trading of the Funds.²⁰

ii. 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 ETF 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 NAV 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.

iii. Trading Hours

The trading hours for the Funds on the Exchange will be 9:30 a.m. to 4:00 p.m., except for iShares MSCISM EAFE and iShares S&P Europe 350, which will trade until 4:15 p.m.

²⁰ Telephone Conversation between Michael Cavalier, Assistant General Counsel, NYSE, and Florence Harmon, Senior Special Counsel, Division, August 3, 2004.

iv. Due Diligence

The Exchange represents that the Information Circular 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 Exchange Rule 405.

2. Statutory Basis

The Exchange believes that the proposed rule change, as amended, is consistent with Section 6 of the Act²¹ in general and furthers the objectives of Section 6(b)(5)²² in particular in that it is designed to prevent fraudulent and manipulative acts and practices, promote just and equitable principles of trade, remove impediments to and perfect the mechanisms of a free and open market and a national market system, and, in general, 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 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.

²¹ 15 U.S.C. 78f(b).

²² 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 an e-mail to rule-comments@sec.gov. Please include File Number SR-NYSE-2004-27 on the subject line.

Paper comments:

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609.

All submissions should refer to File Number SR-NYSE-2004-27. 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 the filing also will 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-2004-27 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

IV. Commission's Findings and Order Granting Accelerated Approval of 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, and, in particular, with the requirements of Section 6(b)(5) of the Act.²³ The Commission believes that the Exchange's proposal to trade the Funds pursuant to UTP will provide investors with a convenient way of participating in foreign securities markets and can produce added benefits to investors through the increased competition between other markets trading the product. Specifically, the Commission believes that NYSE's proposal should help provide investors with increased flexibility in satisfying their investment needs, by allowing them to purchase and sell at negotiated prices throughout the trading day securities that replicate the performance of several portfolios of stock,²⁴ and by increasing the availability of the Fund as an investment tool. Accordingly, as discussed below, the rule proposal is consistent with the requirements of Section 6(b)(5) that Exchange rules facilitate transactions in securities, remove impediments to, and perfect the mechanism of a free and open market and a national market system, and, in general, protect investors and the public interest, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.²⁵

²³ 15 U.S.C. 78f(b)(5).

²⁴ The Commission notes that unlike typical open-end investment companies, where investors have the right to redeem their fund shares on a daily basis, investors in the Funds can redeem them in creation unit size aggregations only.

²⁵ In approving this rule, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

As the Commission noted in greater detail in the order approving iShares (formally "World Equity Benchmark Securities" or "WEBS") for listing and trading on Amex,²⁶ the estimated cost of an individual iShares, such as the Funds, should make it attractive to individual retail investors who wish to hold a security replicating the performance of a portfolio of foreign stocks. The Commission also notes that the Funds should provide investors with several advantages over standard open-end investment companies; in particular, investors can trade the Funds continuously throughout the day in secondary markets at negotiated prices.²⁷ In contrast, Investment Company Act of 1940 ("Investment Company Act") Rule 22c-1²⁸ limits holders and prospectus holders of open-end management investment company shares to purchasing or redeeming securities of the fund based on the NAV of the securities held by the fund as designated by the board of directors. Thus, the Funds should allow investors to respond quickly to market changes through intra-day trading opportunities, expand the opportunity for retail investors to engage in hedging strategies, and reduce transaction costs for trading a portfolio of stocks. The Commission notes that, under the proposed rule change, the benefits of the Fund

²⁶ See Amex WEBS Approval Order, supra note 8. The Commission hereby incorporates by reference the discussion and rationale for approving WEBS provided in the Amex WEBS Approval Order.

²⁷ The Commission believes that the Funds will not trade at a material discount or premium in relation to their NAV, because of potential arbitrage opportunities. See Amex WEBS Approval Order, supra note 8. The mere potential for arbitrage should keep the market price of shares of the Funds comparable to their NAVs; therefore, arbitrage activity likely will not be significant.

²⁸ 17 CFR 270.22c-1. Investment Company Act Rule 22c-1 generally provides that a registered investment company issuing a redeemable security, its principal underwriter, and dealers in that security may sell, redeem, or repurchase the security only at a price based on the NAV next computed after receipt of an investor's request to purchase, redeem, or resell. The NAV of an open-end management investment company generally is computed once daily Monday to Friday as designated by the investment company's board of directors. The Commission granted WEBS an exemption from this provision to allow them to trade in the secondary market at negotiated prices. See Amex WEBS Approval Order, supra note 8.

will now be available to investors trading on NYSE, and believes that the addition of their trading on NYSE pursuant to UTP could produce added benefits to investors through the increased competition.

The Commission notes that, although the value of the Funds is based on the value of the securities and cash held in the Funds, the shares of the Funds are not leveraged instruments. The shares of the Funds are essentially equity securities that represent an interest in a portfolio of stocks designed to reflect substantially the applicable MSCI Indexes. Accordingly, it is appropriate to regulate the Funds in a manner similar to other equity securities. Nonetheless, the Commission believes that the unique nature of the Funds raise certain disclosure, trading, and other issues that need to be addressed. The remainder of this section addresses these issues, although they are discussed in greater detail in the Amex Listing Approval Orders, where the Commission approved WEBS, later known as iShares, for trading as a new product.

A. Trading of the Fund on NYSE Pursuant to UTP

The Commission notes that, pursuant to Rule 12f-5 under the Act,²⁹ prior to trading a particular class or type of security pursuant to UTP, NYSE must have listing standards and trading rules comparable to those of the primary market on which the security is listed. The Commission finds that adequate rules and procedures exist to govern the trading of the Fund on NYSE, pursuant to UTP. Fund shares will be deemed equity securities subject to NYSE's rules governing the trading of equity securities. Accordingly, the Exchange's existing general rules that currently apply to the trading of equity securities will also apply to the Fund. In addition,

²⁹ [17 CFR 240.12f-5](#).

Section 703.16 of the NYSE's Manual and Exchange Rule 1100³⁰ which contain listing and delisting criteria to accommodate the trading of Units, will apply to the trading of the Fund.³¹ Moreover, the market capitalization and liquidity of the Fund components is such that an adequate level of liquidity exists in each iShares series to allow for the maintenance of fair and orderly markets. Also, the Fund components will not be highly concentrated such that the Funds become surrogates for trading unregistered foreign securities.³² The delisting criteria allow the Exchange to consider the suspension of trading and the delisting of a series of Units, including suspending trading in the Fund traded on the Exchange pursuant to UTP, if an event were to occur that made further dealings in such securities inadvisable. This will give the Exchange flexibility to suspend trading in the Fund if circumstances warrant such action. Accordingly, the Commission believes that NYSE's equity rules in general, and Section 703.16 of the Manual and Exchange Rule 1100 in particular, provide adequate safeguards to prevent manipulative acts and practices and to protect investors and the public interest.³³

³⁰ The Commission approved generic rules for the listing and trading of ICUs on NYSE in 2000. [See Securities Exchange Act Release No. 43679 \(December 5, 2000\), 65 FR 77949 \(December 13, 2000\)](#).

³¹ The Commission notes the listing and delisting criteria is similar to those adopted by Amex to trade WEBS/iShares.

³² The Commission notes that Samsung, a component in the South Korea Fund, constitutes 23.46% of the Fund. Should this weighting increase to above 25%, or other material deviations occur from the characteristics described herein and in the Listing Approval Orders, the Funds would not be in compliance with the listing and trading standards approved by the Commission. The Commission also notes, however, that Samsung is a foreign private issuer that submits to the Commission, on a current basis, the material required by Rule 12g3-2(b). 17 CFR 240.12g3-2(b).

³³ The Commission also believes that the proposed rule change should help protect investors and the public interest, and help perfect the mechanisms of a national market system, in that it will allow for the trading of the Fund on NYSE pursuant to UTP, making the Fund more broadly available to the investing public.

B. Disclosure

The Commission believes that NYSE's proposal should provide for adequate disclosure to investors relating to the terms, characteristics, and risks of trading the Fund. All investors in the Fund, including those purchasing the Fund on NYSE pursuant to UTP, will receive a prospectus or a Product Description³⁴ regarding the product. The prospectus or Product Description will address the special characteristics of the Fund, including a statement regarding their redeemability and method of creation, and that Fund shares are not individually redeemable.

The Commission notes that the Exchange has represented that it will also distribute an information circular to all NYSE members prior to the commencement of trading of the Fund explaining the unique characteristics and risks of the Fund. The circular will note, for example, Exchange responsibilities including that before an Exchange member, member organization, or employee 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 Exchange Rule 405.³⁵ The circular will also address members' responsibility to deliver a prospectus or product description to all investors purchasing the Fund, as well as highlight the characteristics of the Fund, including that Fund shares are only redeemable in Creation Unit size aggregation and that local restrictions may cause certain Funds to effect creations and redemptions for cash.³⁶

³⁴ See Investment Company Act Release No. 25623 (June 25, 2002).

³⁵ See Amendment No. 2.

³⁶ The Commission notes that the information circular should also discuss exemptive relief granted by the Commission from certain rules under the Act. The applicable rules are: Rule 10a-1; 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.

C. Dissemination of the Fund Portfolio and Underlying Index Information

The Commission believes that since Amex is disseminating the Values for the various WEBS/iShares series, investors will be provided with timely and useful information concerning the value of iShares, on a per iShares basis. The Commission notes that the information is disseminated through facilities of the CTA and reflects the currently available information concerning the value of the assets comprising the deposit securities. The information is disseminated every fifteen seconds during the hours of 9:30 a.m. to 4 p.m. Eastern Standard Time and will be available to all investors, irrespective of where the transaction is executed. In addition, because the value is expected to closely track the applicable iShares series, the Commission believes the Values will provide investors with adequate information to determine the intra-day value of a given iShares series, such as the Funds.³⁷ In the Amex WEBS Approval Order, the Commission noted that it expected Amex to monitor the disseminated Value, and if Amex determines that the Value does not closely track applicable WEBS/iShares series, it will arrange to disseminate an adequate alternative. Information about the Funds' performance, including tracking error and NAV, is publicly available at www.iShares.com. The Commission also notes that the intra-day index values are disseminated every 15 seconds by various sources; however, there may be no overlap in trading hours between the foreign and U.S. markets for certain Funds.

D. Surveillance

The Commission notes that NYSE has represents that its surveillance procedures are

³⁷ In addition, the Amex WEBS Approval Order states that the statement of additional information ("SAI") to the preliminary prospectus states that each series will calculate its NAV per share at the close of the regular trading session for the Amex on each day that the Amex is open for business. NAV generally will be based on the last quoted sales price on the exchange where the security primarily is traded. See Amex WEBS Approval Order, supra note 8.

adequate to address concerns associated with the listing and trading of such securities, including any concerns associated with specialists purchasing and redeeming Creation Units. The Exchange has represented that its surveillance procedures should allow it to identify situations where specialists purchase or redeem Creation Units to ensure compliance with NYSE Rule 460.10, which requires that such purchases or redemptions facilitate the maintenance of a fair and orderly market in the subject security.³⁸

E. Specialists

The Commission finds that it is consistent with the Act to allow a specialist registered in a security issued by an Investment Company to purchase or redeem the listed security from the issuer as appropriate to facilitate the maintenance of a fair and orderly market in that security. The Commission believes that such market activities should enhance liquidity in such security and facilitate a specialist's market making responsibilities. In addition, because the specialist only will be able to purchase and redeem Fund shares on the same terms and conditions as any other investor (and only at the NAV), and Creation transactions must occur through the distributor and not directly with the issuer, the Commission believes that concerns regarding potential abuse are minimized. As noted above, the Exchange's surveillance procedures also should ensure that such purchases are only for the purpose of maintaining fair and orderly markets, and not for any other improper or speculative purposes. Finally, the Commission notes that its approval of this aspect of the Exchange's rule proposal does not address any other

³⁸ The Commission notes that, in the Amex WEBS Approval Order, it discussed the concerns raised when a broker-dealer is involved in the development, maintenance, and calculation of a stock index upon which a product such as WEBS is based. Adequate procedures to prevent the misuse of material, non-public information regarding changes to component stocks in an MSCI Index have been adopted and should help to address concerns raised by Morgan Stanley's involvement in the management of the Indices. See also the "firewall" requirements under Section 703.16 of the NYSE's Manual.

requirements or obligations under the federal securities laws that may be applicable.³⁹

F. Accelerated Approval

After careful review, the Commission finds 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 pursuant to section 19(b)(2) of the Act.⁴⁰ The Commission finds that this proposal is similar to several approved instruments currently listed and traded on the Exchange. Accordingly, the Commission finds that the listing and trading of the Fund on a UTP basis is consistent with the Act, and promotes just and equitable principles of trade, fosters cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, and, in general, protects investors and the public interest.⁴¹ The Commission further finds that accelerated approval will enable the Exchange to begin listing and trading the Fund on the Exchange on a UTP basis immediately. Therefore, the Commission finds good cause, consistent with Section 19(b)(2) of the Act,⁴² to approve the proposal and Amendment Nos. 1 and 2 thereto on an accelerated basis.

³⁹ The Commission notes that with respect to iShares, broker-dealers and other persons are cautioned in the prospectus and/or the Fund's SAI that some activities on their part may, depending on the circumstances, result in their being deemed statutory underwriters and subject them to the prospectus delivery and liability provision of the Securities Act of 1933.

⁴⁰ 15 U.S.C. 78s(b)(2).

⁴¹ 15 U.S.C. 78f(b)(5).

⁴² 15 U.S.C. 78s(b)(2).

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,⁴³ that the proposed rule change (SR-NYSE-2004-27) and Amendments No. 1 and 2 thereto are hereby approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁴⁴

Jill M. Peterson
Assistant Secretary

⁴³ 15 U.S.C. 78s(b)(2).

⁴⁴ 17 CFR 200.30-3(a)(12).