

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-50800; File No. SR-Amex-2004-85)

December 6, 2004

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change by the American Stock Exchange LLC to Trade the iShares FTSE/Xinhua China 25 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 October 20, 2004 the American Stock Exchange LLC (“Amex” 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 Commission is publishing this notice to solicit comments on the proposed rule change from interested persons and is approving the proposal on an accelerated basis.

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

The Amex proposes to trade, pursuant to unlisted trading privileges (“UTP”), shares of the iShares®FTSE/Xinhua China 25 Index Fund, which are Index Fund Shares under Amex Rule 1000A.

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 Amex included statements concerning the purpose of, and basis for, the proposed rule change 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 Amex has prepared summaries, set forth in Sections A, B, and C below, of

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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

Amex Rules 1000A et seq. provide standards for listing and trading Index Fund Shares, which are securities issued by an open-end management investment company (open-end mutual fund) for exchange trading. These securities are generally registered under the Investment Company Act of 1940, as amended (“Investment Company Act”), as well as the Act. Index Fund Shares are defined in Amex Rule 1000A as securities based on a portfolio of stocks or fixed income securities that seeks to provide investment results that correspond generally to the price and yield of a specified foreign or domestic stock index or fixed income securities index. The Exchange proposes to trade under Amex Rules 1000A et seq., pursuant to UTP, shares of the iShares®FTSE/Xinhua China 25 Index Fund (“Fund”),³ a series of the iShares Trust (“Trust”).⁴

³ iShares is a registered trademark of Barclays Global Investors, N.A.

⁴ The Trust is registered under the Investment Company Act. On January 22, 2003, the Trust filed with the Commission a Registration Statement for the Fund on Form N-1A under the Securities Act of 1933, as amended, and under the Investment Company Act (File Nos. 333-92935 and 811-09729) (as amended, the “Registration Statement”). On July 28, 2004, the Trust filed a Form N-1A to update certain Fund information. On September 8, 2004, the Trust filed with the Commission a Second Amended and Restated Application to Amend Orders under Sections 6(c) and 17(b) of the Investment Company Act for the purpose of exempting the Fund from various provisions of the Investment Company Act and the rules thereunder (the “Application”). See Barclays Global Fund Advisors, et al.; Notice of Application, Investment Company Act Release No. 26597 (September 14, 2004), 69 FR 56105 (September 17, 2004) (File No. 812-12936). The Application requested that the Commission amend a prior order received by the Advisor, the Trust and the Distributor on August 15, 2001, as amended (the “Prior Order”) to permit the Trust to offer three new International ETFs, including the Fund, and to permit the Fund, along with certain other International ETFs, to invest in certain depositary receipts, as described below. See also In the Matter of iShares Trust, et al., Investment Company Act Release No. 25111 (August 15, 2001) (File No. 812-12254); In

The Fund is listed and traded on the New York Stock Exchange, Inc. (“NYSE”)⁵ and traded in the over-the-counter market. The information below is intended to provide a description of how the Fund was created, operates and is traded.⁶

As set forth in detail below, the Fund will hold certain securities and other instruments selected to correspond generally to the performance of the FTSE/Xinhua China 25 Index (“Underlying Index”). The Fund was created to qualify as a “regulated investment company” (“RIC”) under the Internal Revenue Code (“Code”).⁷ Barclays Global Fund Advisors (“Advisor” or “BGFA”) is the investment advisor to the Fund. The Advisor is registered under the Investment Advisers Act of 1940. The Advisor is the wholly owned subsidiary of Barclays Global Investors, N.A. (“BGI”), a national banking association. BGI is an indirect subsidiary of Barclays Bank PLC of the United Kingdom. SEI Investments Distribution Co. (“Distributor”), a Pennsylvania corporation and broker-dealer registered under the Act, is the principal underwriter and distributor of Creation Unit Aggregations of iShares.⁸ The Distributor is not affiliated with the Exchange or the Advisor. The Trust has appointed Investors Bank & Trust Co. to act as

the Matter of iShares, Inc., et al., Investment Company Act Release No. 25623 (June 25, 2002); In the Matter of iShares Trust, et al., Investment Company Act Release No. 26006 (April 15, 2003) (relating to Prior Order).

On October 5, 2004, the Commission approved the Application. See Barclays Global Fund Advisors, et al., Investment Company Act Release No. 26626 (October 5, 2004) (“Amended Order”).

⁵ See Securities Exchange Act Release No. 50505 (October 8, 2004), 69 FR 61280 (October 15, 2004) (SR-NYSE-2004-55).

⁶ Much of the information in this filing was taken from the iShares Trust Prospectus dated October 4, 2004 (“Prospectus”), and Statement of Additional Information dated August 1, 2004 (as revised October 5, 2004) (“SAI”), as well as from the Web sites of the NYSE (<http://www.nyse.com>) and iShares (<http://www.iShares.com>). Fund information relating to NAV, returns, dividends, component stock holdings and the like is updated on a daily basis on these Web sites.

⁷ See also infra note 12.

⁸ See infra note 25 and accompanying text.

administrator (“Administrator”), custodian, fund accountant, transfer agent, and dividend disbursing agent for the Fund. The performance of the Administrator’s duties and obligations will be conducted within the provisions of the Investment Company Act and the rules thereunder. There is no affiliation between the Administrator and the Trust, the Advisor, or the Distributor.

FTSE/Xinhua Index Ltd. (“FXI”),⁹ the sponsor and compiler of the FTSE/Xinhua China 25 Index, is not affiliated with the Trust, the Administrator, the Distributor, or with the Advisor or its affiliates.¹⁰ The Fund is not sponsored, offered, or sold by FXI. FXI is not affiliated with a

⁹ FXI is a Hong Kong incorporated, joint venture company between FTSE, the global index company, and Xinhua Financial Network.

¹⁰ Although FXI is not an affiliated person, or an affiliated person of an affiliated person of the Advisor, an employee of Barclays Global Investors, North Asia Limited (“BGIL”), an affiliate of the Advisor, currently serves as one of the 18 members of the FTSE/Xinhua Index Committee. Telephone conversation between Marija Willen, Associate General Counsel, Amex, and Natasha Cowen, Attorney, Division, Commission, on November 26, 2004. The FTSE/Xinhua Index Committee provides practitioner input into the construction of the FTSE/Xinhua indices and independent oversight to ensure that relevant index construction rules are being followed. The role of the Index Committee is to review the appropriateness of existing Underlying Index rules, to provide oversight to ensure that Underlying Index rules are properly followed and to recommend changes to the rules in response to changes in the underlying market that the Underlying Index seeks to represent. Input from persons or experts (*i.e.*, practitioners) who have applicable industry knowledge of the underlying market the Underlying Index seeks to represent helps ensure that the published Underlying Index rules and the implementation of such rules adequately reflect current developments in the underlying market. Any such input would be provided in accordance with the published Underlying Index rules and methodology. The index compilation functions of FXI and the FTSE/Xinhua Index Committee are, and will remain, completely separate and independent of the portfolio management functions of BGFA. FXI and the FTSE/Xinhua Index Committee have adopted policies that prohibit the dissemination and use of confidential and proprietary information about the Underlying Index and have instituted procedures designed to prevent the improper dissemination and use of such information. The BGIL employee on the FTSE/Xinhua Index Committee is not and will not be involved in the operations of the Advisor or the Fund, and is and will not be involved in any capacity with the Fund’s Board of Trustees. BGI and BGIL have adopted policies that limit the use of confidential and proprietary information about portfolio management decisions to those persons whose duties require and permit them to have access to such information and have

broker or dealer.

(a) Operation of the Fund¹¹

The investment objective of the Fund is to provide investment results that correspond generally to the price and yield performance of the Underlying Index. In seeking to achieve its investment objective, the Fund utilizes “passive” indexing investment strategies. The Fund may fully replicate the Underlying Index, but currently intends to use a “representative sampling” strategy to track its Underlying Index. A Fund utilizing a representative sampling strategy generally will hold a basket of the component securities of its Underlying Index (“Component Securities”), but it may not hold all of the Component Securities. The Application states that the representative sampling techniques to be used by the Advisor to manage the Fund do not differ from the representative sampling techniques it uses to manage the funds that were the subject of the Prior Order.

From time to time, adjustments may be made in the portfolio of the Fund in accordance with changes in the composition of the Underlying Index or to maintain compliance with

instituted procedures designed to prevent the improper dissemination and use of such information. BGIL and BGFA are separate legal entities and do not share employees, office space, trading floors or portfolio management systems.

¹¹ The information provided herein is based on information included in the Application and the Prior Order. While the Advisor manages the Fund, the Fund’s Board of Directors has overall responsibility for the Fund’s operations. The composition of the Board is, and would be, in compliance with the requirements of Section 10 of the Investment Company Act. The Fund is subject to and must comply with Section 303A.06 of the NYSE Listed Company Manual, which requires that the Fund have an audit committee that complies with Rule 10A-3 of the Act. 17 CFR 240.10A-3. Section 803(a) of the Amex Company guide imposes the same requirement on Index Fund Shares listed and traded on the Amex pursuant to Amex Rule 1000A *et seq.* Telephone conversation between Marija Willen, Associate General Counsel, Amex, and Natasha Cowen, Attorney, Division, Commission, on November 26, 2004.

requirements applicable to a RIC under the Code.¹² For example, if at the end of a calendar quarter a Fund would not comply with the RIC diversification tests, the Advisor would make adjustments to the portfolio to ensure continued RIC status.

The Underlying Index is a theoretical financial calculation while the Fund is an actual investment portfolio. The performance of the Fund and the Underlying Index will vary somewhat due to transaction costs, market impact, corporate actions (such as mergers and spin-offs) and timing variances. It is expected that, over time, the correlation between the Fund's

¹² In order for the Fund to qualify for tax treatment as a RIC, it must meet several requirements under the Code. Among these is a requirement that, at the close of each quarter of the Fund's taxable year, (1) 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 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 Fund's assets and not greater than 10% of the outstanding voting securities of such issuer; and (2) not more than 25% of the value of its total assets may be invested in securities of any one issuer, or two or more issuers that are controlled by the Fund (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 Advisor 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 an iShares fund's underlying index itself is not RIC compliant, the Advisor generally employs a representative sampling indexing strategy (as described in the Prospectus) in order to achieve the fund's investment objective. The Prospectus also gives the Fund 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 Underlying Index or in American Depositary Receipts ("ADRs") and Global Depositary Receipts ("GDRs") representing such securities.

performance and that of the 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.” The Fund’s investment objectives, policies, and investment strategies are fully disclosed in the Prospectus and SAI.

The Fund will not concentrate its investments (i.e., hold 25% or more of its assets) in a particular industry or group of industries, except that the Fund will concentrate its investments to approximately the same extent that the 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.

The Fund will at all times invest at least 80% of its assets in Component Securities and in depositary receipts representing Component Securities (“Depositary Receipts”)¹³ and at least half of the remaining 20% of its assets in Component Securities, Depositary Receipts, or stocks included in the Chinese market, but not included in the Underlying Index. To the extent the Fund invests in ADRs, they will be listed on a national securities exchange or Nasdaq. Other Depositary Receipts will be listed on a foreign exchange. The Fund will not invest in any unlisted Depositary Receipts or any listed Depositary Receipts that the Advisor deems to be illiquid or for which pricing information is not readily available.¹⁴ The Fund may also invest up

¹³ For the purposes of this order, “Depositary Receipts” are ADRs and GDRs.

¹⁴ In addition, the Exchange understands that all Depositary Receipts must be sponsored (with the exception of certain pre-1984 ADRs that are listed but unsponsored because they were grandfathered). Telephone conversation between Marija Willen, Associate General Counsel, Amex, and Ira Brandriss, Assistant Director, Lisa Jones, Special

to 10% of its assets in certain futures, options, and swap contracts and cash and cash equivalents, including money market funds advised by the Advisor¹⁵ and other exchange traded funds (including other iShares funds).¹⁶ For example, the Fund may invest in securities not included in the Underlying Index to reflect prospective changes in the Underlying Index (such as future corporate actions and index reconstitutions, additions, and deletions).

The Fund intends to hold all of the securities in the Underlying Index that are listed on the Hong Kong Stock Exchange. The Fund does not intend to hold any B-shares which are listed on Chinese markets and included in the Underlying Index.¹⁷ The Exchange understands that the Fund does not currently intend to invest in Depositary Receipts but reserves the flexibility to do so.¹⁸ As with the existing iShares funds, BGFA represents that the expected tracking error of the Fund relative to the performance of its Underlying Index will be no more than 5%.

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

Counsel, and Natasha Cowen, Attorney, Division of Market Regulation (“Division”), Commission, on November 10, 2004.

¹⁵ See In the Matter of Master Investment Portfolio, et al., Investment Company Act Release No. 25158 (September 18, 2001).

¹⁶ The Fund, as well as any existing iShares fund, is permitted to invest in shares of another iShares fund to the extent that such investment is consistent with the Fund’s investment objective, registration statement, and any applicable investment restrictions.

¹⁷ See infra note 23.

¹⁸ Telephone conversation between Marija Willen, Associate General Counsel, Amex, and Ira Brandriss, Assistant Director, Lisa Jones, Special Counsel, and Natasha Cowen, Attorney, Division, Commission, on November 10, 2004.

(b) Description of the Fund and the Underlying Index (FTSE/Xinhua China 25 Index)

FXI is a Hong Kong incorporated, joint venture company between FTSE, the global index company, and Xinhua Financial Network (“XFN”). The company was created to facilitate the development of real-time indices for the Chinese market that can be used as performance benchmarks and as a basis for derivative trading and index tracking funds. FTSE is an independent company whose sole business is the creation and management of indices and associated data services. FTSE originated as a joint venture between the Financial Times and the London Stock Exchange. FTSE calculates over 60,000 indices daily, including more than 600 real-time indices. XFN is an independent financial information provider that focuses on China’s markets. XFN is based in Hong Kong and Beijing.

Index Description

The Underlying Index is designed to represent the performance of the largest companies in the mainland China equity market that are available to international investors. The Underlying Index includes 25 of the largest and most heavily traded Chinese companies. Component Securities are weighted based on the free-float adjusted total market value of their shares, so that securities with higher total market values generally have a higher representation in the Underlying Index. Component Securities are screened for liquidity and weightings are capped to avoid over-concentration in any one stock. The inception date of the Underlying Index was March 2001.

As of October 29, 2004, the Underlying Index’s top three holdings were BOC Hong Kong (Holdings), PetroChina, and China Mobile and the Underlying Index’s top three industries

were oil and gas, telecommunications services, and banks.¹⁹

As of October 29, 2004,²⁰ the FTSE/Xinhua China 25 Index components had a total market capitalization of approximately \$302 billion and a float-adjusted market capitalization of approximately \$47 billion.²¹ The average total market capitalization was approximately \$12.1 billion and the average float-adjusted market capitalization was approximately \$1.9 billion. The ten largest constituents represented approximately 59.8% of the Underlying Index weight. The five highest weighted stocks, which represented 39.7% of the Underlying Index weight, had an average daily trading volume in excess of 31.4 million shares during the past two months. All of the Component Securities traded at least 250,000 shares in each of the previous six months.

Index Methodology

Component Selection Criteria. The FTSE/Xinhua China 25 Index is rule-based and is monitored by a governing committee. The FTSE/Xinhua China 25 Index Committee (“Index Committee”) is responsible for conducting the quarterly review of constituents of the Underlying Index and for making changes to the Underlying Index in accordance with the Underlying Index procedures.²²

¹⁹ Information on Underlying Index constituents was attached to the proposed rule change as Exhibit A, available at the places specified in Item III below.

²⁰ The information below updates information provided by Amex in the proposed rule change as filed, pursuant to a telephone conversation between Marija Willen, Associate General Counsel, Amex, and Natasha Cowen, Attorney, Division, Commission, on November 16, 2004.

²¹ Float-adjusted market capitalization includes shares available in the market for public investment, and reflects free-float adjustments to the Underlying Index in accordance with FTSE’s free float rules. Additional information regarding FTSE’s free float adjustment methodology is available on <http://www.ftse.com>.

²² See also supra note 10.

Eligibility. Each Component Security will be a current constituent of the FTSE All-World Index. All classes of equity securities in issue are eligible for inclusion in the Underlying Index subject to conforming with free-float and liquidity restrictions. H shares, Red Chip shares and B shares are eligible for inclusion in the Underlying Index.²³ As of September 24, 2004, only one Component Security was B shares (approximately 1% of the Underlying Index). FXI expects to eventually eliminate B shares from the Underlying Index.

Float-Adjusted Market Capitalization. When calculating a company's index weights, individual constituents' shares held by governments, corporations, strategic partners, or other control groups are excluded from the company's shares outstanding. Shares owned by other companies are also excluded regardless of whether such companies are Underlying Index constituents.

²³ "H" Shares – H shares are shares of companies incorporated in China and listed and traded on the Hong Kong Stock Exchange. They are quoted and traded in Hong Kong and U.S. dollars. Like other securities trading on the Hong Kong Stock Exchange, there are no restrictions on who can trade H shares.

"Red Chip" Shares – Red Chip shares are shares of companies incorporated in Hong Kong and trade on the Hong Kong Stock Exchange. They are quoted in Hong Kong dollars. Red Chip companies may be substantially owned directly or indirectly by the Chinese Government and have the majority of their business interests in mainland China.

H shares and Red Chip shares trade on the Hong Kong Stock Exchange, typically on a T+2 basis, through a central book-entry system that effectively guarantees settlement of exchange trades by broker-dealers.

"B" Shares - B shares are shares of companies incorporated in China and trade on either the Shanghai or Shenzhen stock exchanges. They are quoted in U.S. dollars on the Shanghai Stock Exchange and Hong Kong dollars on the Shenzhen Stock Exchange. They can be traded by non-residents of the People's Republic of China and also residents of the People's Republic of China with appropriate foreign currency dealing accounts. There is no true "delivery versus payment" settlement for B shares. B shares settle in the local markets and cash settles subsequently in foreign depositaries or local banks.

Where a foreign investment limit exists at the sector or company level, the constituent's weight will reflect either the foreign investment limit or the percentage float, whichever is the more restrictive.²⁴

Stocks are screened to ensure there is sufficient liquidity to be traded. Factors in determining liquidity include the availability of current and reliable price information and the level of trading volume relative to shares outstanding. Value traded and float turnover are also analyzed on a monthly basis to ensure ample liquidity. Fundamental analysis is not part of the selection criteria for inclusion or exclusion of stocks from the Underlying Index. The financial and operating conditions of a company are not analyzed.

Index Maintenance and Issue Changes. The Index Committee is responsible for undertaking the review of the Underlying Index and for approving changes of constituents in accordance with the Underlying Index rules and procedures. The FTSE Global Classification Committee is responsible for the industry classification of constituents of the Underlying Index within the FTSE Global Classification System. The FTSE Global Classification Committee may approve changes to the FTSE Global Classification System and Management Rules. FXI appoints the Chairman and Deputy Chairman of the Index Committee. The Chairman chairs meetings of the Committee and represents the Committee in outside meetings. Adjustments to reflect a major change in the amount or structure of a constituent company's issued capital will be made before the start of the Underlying Index calculation on the day on which the change takes effect. Adjustments to reflect less significant changes will be implemented before the start of the Underlying Index calculation on the day following the announcement of the change. All

²⁴ The Exchange understands that there are no foreign ownership limits with the current constituents to the FTSE/Xinhua China 25 Index and that, as such, the percentage float will be used.

adjustments are made before the start of the Underlying Index calculations on the day concerned, unless market conditions prevent this.

A company will be inserted into the Underlying Index at the periodic review if it rises to 15th position or above when the eligible companies are ranked by full market value before the application of any investibility weightings. A company in the Underlying Index will be deleted at the periodic review if it falls to 36th position or below when the eligible companies are ranked by full market value before the application of any investibility weightings. Any deletion to the Underlying Index will simultaneously entail an addition to the Underlying Index in order to maintain 25 Underlying Index constituents at all times.

Revisions to the Float Adjustments. The Underlying Index is reviewed quarterly for changes in free float. These reviews will coincide with the quarterly reviews undertaken of the Underlying Index as a whole. Implementation of any changes will be after the close of the Underlying Index calculation on the third Friday in January, April, July, and October.

Quarterly Index Rebalancing. The quarterly review of the Underlying Index constituents takes place in January, April, July, and October. Any constituent changes will be implemented on the next trading day following the third Friday of the same month of the review meeting. Details of the outcome of the review and the dates on which any changes are to be implemented will be published as soon as possible after the Index Committee meeting has concluded.

Index Availability. The Underlying Index is calculated in real-time and published every minute during the Underlying Index period (09:15 –16:00 Local Hong Kong Time) or (17:15 – 24:00 U.S. Pacific Daylight Time). It is available real-time directly from FTSE and from the following vendors: Reuters, Bloomberg, Telekurs, FTID and LSE/Proquote. The end of day Underlying Index value is distributed at 16:15 (Local Hong Kong Time). Daily values will also

be made available to the Financial Times Asia edition and other major newspapers and will be available at the FTSE Index Services Web site: <http://www.ftse.com>. The Underlying Index uses Hong Kong Stock Exchange trade prices and Reuters real-time spot currency rates. A total return index value that takes into account reinvested dividends is published daily at the end of day. The Underlying Index is not calculated on days that are holidays in Hong Kong.

The daily closing Underlying Index value, historical values, constituents' weighting, constituents' market capitalization and daily percentage changes are publicly available from <http://www.ftsexinhua.com>. All corporate actions and rules relating to the management of the Underlying Index are also available from the Web site.

Exchange Rates and Pricing. The Underlying Index uses Reuters real-time foreign exchange spot rates and local stock exchange real-time security prices. The Underlying Index is calculated in Hong Kong Dollars. Non-Hong Kong Dollar denominated constituent prices are converted to Hong Kong Dollars to calculate the Underlying Index. The Reuters foreign exchange rates and Hong Kong Stock Exchange prices received at the closing time of the Underlying Index are used to calculate the final Underlying Index levels.

(c) Issuance of iShares in Creation Unit Aggregations

The Application states that the issuance and redemption of Creation Unit Aggregations will operate in a manner identical to that of the funds that are the subject of the Prior Order.

(i) In General. Shares of the Fund (the "iShares") will be issued on a continuous offering basis in groups of 50,000 or more. These "groups" of shares are called "Creation Unit Aggregations." The Fund will issue and redeem iShares only in Creation Unit Aggregations.²⁵

²⁵ Each Creation Unit Aggregation consists of 50,000 or more iShares.

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.

The NAV per share of the Fund is determined as of the close of the regular trading session on the NYSE on each day that the NYSE is open. The Trust sells Creation Unit Aggregations of the Fund only on business days at the next determined NAV of the Fund. Creation Unit Aggregations generally will be issued by the Fund in exchange for the in-kind deposit of equity securities designated by the Advisor to correspond generally to the price and yield performance of the Fund’s Underlying Index (“Deposit Securities”) and a specified cash payment. Creation Unit Aggregations generally will be redeemed by the Fund in exchange for portfolio securities of the Fund (“Fund Securities”) and a specified cash payment. Fund Securities received on redemption may not be identical to Deposit Securities deposited in connection with creations of Creation Unit Aggregations for the same day.

All orders to purchase 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, a clearing agency that is registered with the SEC, or a Depository Trust Company (“DTC”) participant (“DTC Participant”), and in each case, must enter into a Participant Agreement. The Exchange understands that the Fund is currently imposing transaction fees in connection with creation and redemption transactions.²⁶

(ii) In-Kind Deposit of Portfolio Securities. Payment for Creation Unit Aggregations will be made by the purchasers generally by an in-kind deposit with the Fund of the Deposit

²⁶ Telephone conversation between Marija Willen, Associate General Counsel, Amex, and Ira Brandriss, Assistant Director, Lisa Jones, Special Counsel and Natasha Cowen, Attorney, Division, Commission, on November 10, 2004.

Securities together with an amount of cash (“Balancing Amount”) specified by the Advisor in the manner described below. The Balancing Amount is an amount equal to the difference between (1) the NAV (per Creation Unit Aggregation) of the Fund and (2) the total aggregate market value (per Creation Unit Aggregation) of the Deposit Securities (such value referred to herein as the “Deposit Amount”). The Balancing Amount serves the function of compensating for differences, if any, between the NAV per Creation Unit Aggregation and that of the Deposit Amount.²⁷ The deposit of the requisite Deposit Securities and the Balancing Amount are collectively referred to herein as a “Fund Deposit.” The Advisor will make available to NSCC participants²⁸ through the NSCC on each business day, prior to the opening of trading on the NYSE (currently 9:30 a.m. Eastern Standard Time), the list of the names and the required number of shares of each Deposit Security included in the current Fund Deposit (based on information at the end of the previous business day) for the Fund. The Fund Deposit will be applicable to the Fund (subject to any adjustments to the Balancing Amount, as described below) in order to effect purchases of Creation Unit Aggregations of the Fund until such time as the next-announced Fund Deposit composition is made available.

The identity and number of shares of the Deposit Securities required for the Fund Deposit for the Fund will change from time to time. The composition of the Deposit Securities may change in response to adjustments to the weighting or composition of the Component Securities. In addition, the Trust reserves the right to permit or require the substitution of an amount of cash

²⁷ Where the NAV (per Creation Unit Aggregation) of the Fund exceeds the Deposit Amount, the purchaser pays the corresponding Balancing Amount to the Fund. Where, by contrast, the Deposit Amount exceeds the NAV (per Creation Unit Aggregation) of the Fund, the Balancing Amount is paid by the Fund to the purchaser. Telephone conversation between Marija Willen, Associate General Counsel, Amex, and Natasha Cowen, Attorney, Division, Commission, on November 23, 2004.

²⁸ Telephone conversation between Marija Willen, Associate General Counsel, Amex, and Natasha Cowen, Attorney, Division, Commission, on November 16, 2004.

— i.e., a “cash in lieu” amount — to be added to the Balancing Amount to replace any Deposit Security that may not be available in sufficient quantity for delivery or that may not otherwise be eligible for transfer. 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 the Advisor 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 or resulting from certain corporate actions.

(d) Availability of Information Regarding iShares and the Underlying Index

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, per outstanding share of the Fund, 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 (“Intraday Optimized Portfolio Value” or “IOPV”) is currently calculated by an independent third party (“Value Calculator”), such as Bloomberg L.P., every 15 seconds during the NYSE’s regular trading hours and disseminated every 15 seconds on the Consolidated Tape.

The IOPV reflects the current value of the Deposit Securities and the Balancing Amount. The IOPV also reflects changes in currency exchange rates between the U.S. dollar and the applicable home foreign currency.

Since the Fund will utilize a representative sampling strategy, the IOPV may not reflect the value of all securities included in the Underlying Index. In addition, the IOPV does not necessarily reflect the precise composition of the current portfolio of securities held by the Fund at a particular point in time. Therefore, the IOPV on a per Fund share basis disseminated during the NYSE's trading hours should not be viewed as a real-time update of the NAV of the Fund, which is calculated only once a day. While the IOPV disseminated by the NYSE at 9:30 a.m. Eastern Standard Time is expected to be generally very 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 the Fund may diverge from the Deposit Securities values during any trading day. In such case, the IOPV will not precisely reflect the value of the Fund 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 the 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 Advisor).

The Exchange believes that dissemination of the IOPV based on the Deposit Securities provides additional information regarding the Fund that is not otherwise available to the public and is useful to professionals and investors in connection with Fund shares trading on the Exchange or the creation or redemption of Fund shares. Since the trading hours of the Hong Kong Stock Exchange do not overlap with regular trading hours in the U.S., it is expected that the Value Calculator, when calculating IOPV, will utilize closing prices (in applicable foreign currency prices) in the principal foreign market for the securities in the Fund portfolio (i.e., the Hong Kong Stock Exchange), and convert the prices to U.S. dollars.

In addition, FTSE will be disseminating a value for the Underlying Index once each trading day, based on closing prices on the Hong Kong Stock Exchange. The NAV for the Fund will be calculated and disseminated daily. The Fund NAV will be calculated by Investors Bank and Trust (“IBT”). IBT will also disseminate the information to BGI, SEI, and others. The Fund NAV will be published in a number of places, including <http://www.iShares.com> and on the Consolidated Tape.

The Underlying Index currently uses the Reuters foreign exchange rate at the close of the index (4:00 p.m. Hong Kong Time) to compute final Underlying Index values. The Fund uses Reuters/WM foreign exchange rates at 4:00 p.m. London Time. There will also be disseminated a variety of data with respect to the Fund on a daily basis by means of CTA and CQ High Speed Lines, which will be made available prior to the opening of trading on the NYSE. 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 NYSE. 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 the Fund: (a) the prior business day’s NAV and the mid-point of the bid-ask price at the time of calculation of such NAV (“Bid/Ask Price”),²⁹ 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.

²⁹ The Bid-Ask Price of the Fund is determined using the highest bid and lowest offer on the NYSE as of the time of calculation of the Fund’s NAV.

The closing prices of the Fund's Deposit Securities are readily available from, as applicable, the relevant exchanges, automated quotation systems, published or other public sources in the relevant country, or on-line information services such as Bloomberg or Reuters. The exchange rate information required to convert such information into U.S. dollars is also readily available in newspapers and other publications and from a variety of on-line services.

(e) Redemption of iShares

Creation Unit Aggregations of the Fund will be redeemable at the NAV next determined after receipt of a request for redemption. Creation Unit Aggregations of the Fund generally will be redeemed in-kind, together with a balancing cash payment (although, as described below, Creation Unit Aggregations may sometimes be redeemed for cash). The value of the Fund's redemption payments on a Creation Unit Aggregation basis will equal the NAV per the appropriate number of iShares of the Fund. Owners of iShares may sell their iShares in the secondary market, but must accumulate enough iShares to constitute a Creation Unit Aggregation in order to redeem through the Fund. Redemption orders must be placed by or through an Authorized Participant.

Creation Unit Aggregations of the Fund generally will be redeemable on any business day in exchange for Fund Securities and the Cash Redemption Payment (defined below) in effect on the date a request for redemption is made. The Advisor will publish daily through NSCC the list of securities which a creator of Creation Unit Aggregations must deliver to the Fund ("Creation List") and which a redeemer will receive from the Fund ("Redemption List"). The Creation List is identical to the list of the names and the required numbers of shares of each Deposit Security included in the current Fund Deposit.

In addition, just as the Balancing Amount is delivered by the purchaser of Creation Unit Aggregations to the Fund, the Trust will also deliver to the redeeming beneficial owner in cash the “Cash Redemption Payment.” The Cash Redemption Payment on any given business day will be an amount calculated in the same manner as that for the Balancing Amount, although the actual amounts may differ if the Fund Securities received upon redemption are not identical to the Deposit Securities applicable for creations on the same day. To the extent that the Fund Securities have a value greater than the NAV of iShares being redeemed, a cash payment equal to the differential is required to be paid by the redeeming beneficial owner to the Fund. The Trust may also make redemptions in cash in lieu of transferring one or more Fund Securities to a redeemer if the Trust determines, in its discretion, that such method is warranted due to unusual circumstances. An unusual circumstance could arise, for example, when a redeeming entity is restrained by regulation or policy from transacting in certain Fund Securities, such as the presence of such Fund Securities on a redeeming investment banking firm’s restricted list.

(f) Dividends and Distributions

Dividends from net investment income will be declared and paid to beneficial owners of record at least annually by the Fund. Distributions of realized securities gains, if any, generally will be declared and paid once a year, but the Fund may make distributions on a more frequent basis to comply with the distribution requirements of the Code and consistent with the Investment Company Act.

Dividends and other distributions on iShares of the Fund will be distributed on a pro rata basis to beneficial owners of such iShares. Dividend payments will be made through the DTC and the DTC Participants to beneficial owners then of record with amounts received from the Fund.

The Trust currently does not intend to make the DTC book-entry Dividend Reinvestment Service (“Service”) available for use by beneficial owners for reinvestment of their cash proceeds, but certain individual brokers may make the Service available to their clients. The SAI will inform investors of this fact and direct interested investors to contact such investor’s broker to ascertain the availability and a description of the Service through such broker. The SAI will also caution interested beneficial owners that they should note that each broker may require investors to adhere to specific procedures and timetables in order to participate in the Service and such investors should ascertain from their broker such necessary details. iShares acquired pursuant to the Service will be held by the beneficial owners in the same manner, and subject to the same terms and conditions, as for original ownership of iShares.

Beneficial owners of iShares will receive all of the statements, notices, and reports required under the Investment Company Act and other applicable laws. They will receive, for example, annual and semi-annual reports, written statements accompanying dividend payments, proxy statements, annual notifications detailing the tax status of distributions, IRS Form 1099-DIVs, etc. 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.

(g) Other Issues

(1) Stop and Stop Limit Orders. Amex Rule 154, Commentary .04(c) provides that stop and stop limit orders to buy or sell a security (other than an option, which is covered by Amex Rule 950(f) and Commentary thereto) the price of which is derivatively based upon another security or index of securities, may with the prior approval of a Floor Official, be elected

by a quotation, as set forth in Commentary .04(c) (i-v). The Exchange has designated Index Fund Shares, including iShares, as eligible for this treatment.³⁰

(2) Rule 190. Amex Rule 190, Commentary .04 applies to Index Fund Shares listed on the Exchange, including iShares. Commentary .04 states that nothing in Amex Rule 190(a) should be construed to restrict a specialist registered in a security issued by an investment company from purchasing and redeeming the listed security, or securities that can be subdivided or converted into the listed security, from the issuer as appropriate to facilitate the maintenance of a fair and orderly market.

(3) Prospectus Delivery. The Commission has granted the Trust an exemption from certain prospectus delivery requirements under Section 24(d) of the Investment Company Act.³¹ 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 Circular to Exchange members and member organizations, will inform members and member organizations, prior to commencement of trading, of the prospectus or product description delivery requirements applicable to the Fund.

(4) Information Circular. The Exchange will distribute an information circular to its members in connection with the trading of the Fund (“Information Circular”). The Information Circular will discuss the special characteristics and risks of trading this type of security. Specifically, the Information Circular will discuss, among other things, what the Fund is, how

³⁰ See Securities Exchange Act Release No. 29063 (April 10, 1991), 56 FR 15652 (April 17, 1991) (SR-Amex-90-31) (regarding Exchange designation of equity derivative securities as eligible for such treatment under Amex Rule 154, Commentary .04(c)).

³¹ See In the Matter of iShares, Inc., et al., Investment Company Act Release No. 25623 (June 25, 2002).

Fund shares are created and redeemed, the requirement that members and member firms deliver a prospectus or product description to investors purchasing shares of the Fund before, or concurrently with, the confirmation of a transaction, applicable Exchange rules, dissemination information, trading information and the applicability of suitability rules (including Amex Rule 411). The Information 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.

(5) Trading Halts. In addition to other factors that may be relevant, the Exchange may consider factors such as those set forth in Amex Rule 918C(b) in exercising its discretion to halt or suspend trading in Index Fund Shares, including iShares. These factors would include, but are not limited to, (1) the extent to which trading is not occurring in stocks underlying the index; or (2) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present.³² In addition, trading in iShares will be halted if the circuit breaker parameters under Amex Rule 117 have been reached.

(6) Suitability. Prior to commencement of trading, the Exchange will issue an Information Circular informing members and member organizations of the characteristics of the iShares and of applicable Exchange rules, as well as of the requirements of Amex Rule 411 (Duty to Know and Approve Customers).

(7) Purchases and Redemptions in Creation Unit Aggregations. In the Information Circular members and member organizations will be informed that procedures for purchases and redemptions of iShares in Creation Unit Aggregations are described in the Prospectus and SAI,

³² See Amex Rule 918C.

and that iShares are not individually redeemable but are redeemable only in Creation Unit Aggregations or multiples thereof.

(8) Surveillance. The Exchange represents that its surveillance procedures are adequate to properly monitor the trading of the iShares. Specifically, the Amex will rely on its existing surveillance procedures governing Index Fund Shares, which have been deemed adequate under the Act. The Exchange is able to obtain information regarding trading in both the Fund shares and the Component Securities by its members on any relevant market; in addition, the Exchange may obtain trading information via the Intermarket Surveillance Group (“ISG”) from other exchanges who are members or affiliates of the ISG, including, by way of example, the Hong Kong Stock Exchange.

(9) Hours of Trading/Minimum Price Variation. The Fund will trade on the Exchange until 4:15 p.m. (Eastern Standard Time). The minimum price variation for quoting will be \$.01.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act³³ in general, and furthers the objectives of Section 6(b)(5)³⁴ in particular, in that it is 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.

³³ 15 U.S.C. 78f(b).

³⁴ 15 U.S.C. 78f(b)(5).

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.

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

No written comments were solicited or received with respect to the proposed rule change.

III. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change 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 email to rule-comments@sec.gov. Please include File No. SR-Amex-2004-85 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 No. SR-Amex-2004-85. 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, 450 Fifth Street, NW, Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of the Amex. 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 No. SR-Amex-2004-85 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

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.³⁵ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,³⁶ which requires, among other things, that the Exchange's rules promote just and equitable principles of trade and facilitate transactions in securities, and, in general, protect investors and the public interest.³⁷

³⁵ In approving this proposal, the Commission has considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

³⁶ 15 U.S.C. 78f(b)(5).

³⁷ Pursuant to Section 6(b)(5) of the Act, the Commission must predicate approval of exchange trading for new products upon a finding that the introduction of the product is in the public interest. Such a finding would be difficult with respect to a product that served no investment, hedging or other economic function, because any benefits that might be derived by market participants would likely be outweighed by the potential for

The Commission believes that the Amex's proposal should advance the public interest by providing investors with increased flexibility in satisfying their investment needs and by allowing them to purchase and sell Fund shares at negotiated prices throughout the business day that generally track the price and yield performance of the targeted Underlying Index.³⁸

Furthermore, the Commission believes that the proposed rule change raises no issues that have not been previously considered by the Commission. The Fund is similar in structure and operation to exchange-traded index funds that the Commission has previously approved for listing and trading on national securities exchanges under Section 19(b)(2) of the Act.³⁹ In addition, as noted above, the Commission has previously approved a substantially similar proposed rule change submitted by the NYSE to list and trade the iShares.⁴⁰

The stocks included in the Underlying Index are among the stocks with the highest liquidity and market capitalization in the Chinese markets. Further, with respect to each of the following key issues, the Commission believes that the Fund satisfies established standards.

A. Fund Characteristics

The Commission believes that the proposed Fund is reasonably designed to provide investors with an investment vehicle that substantially reflects in value the performance of the

manipulation, diminished public confidence in the integrity of the markets, and other valid regulatory concerns.

³⁸ The Commission notes that, as is the case with similar previously approved exchange traded funds, investors in the Fund can redeem shares in Creation Unit Aggregations only. See, e.g., Securities Exchange Act Release No. 43679 (December 5, 2000), 65 FR 77949 (December 13, 2000) (File No. SR-NYSE-00-46); Securities Exchange Act Release No. 50189 (August 12, 2004); 69 FR 51723 (August 20, 2004) (File No. SR-Amex-2004-05).

³⁹ 15 U.S.C. 78s(b)(2).

⁴⁰ See Securities Exchange Act Release No. 50505 (October 8, 2004), 69 FR 61280 (October 15, 2004) (SR-NYSE-2004-55).

Underlying Index.⁴¹ Moreover, the Commission finds that, although the value of the Fund's shares will be derived from and based on the value of the securities and cash held in the Fund, the Fund is not leveraged. Accordingly, the level of risk involved in the purchase or sale of Fund shares is similar to the risk involved in the purchase or sale of traditional common stock, with the exception that the pricing mechanism for shares in the Fund is based on a portfolio of securities. The Commission notes that the Fund will at all times invest at least 80% of its assets in Component Securities and in Depositary Receipts and at least half of the remaining 20% of its assets in Component Securities, Depositary Receipts, or in stocks included in the Chinese market, but not included in the Underlying Index.⁴² As noted above, the Fund will use a

⁴¹ The FTSE/Xinhua China 25 Index is a free float-adjusted market capitalization weighted index that is designed to represent the performance of the largest companies in the mainland China equity market that are available to international investors. As of October 29, 2004, its constituents had a total market capitalization of approximately \$302 billion and a float-adjusted market capitalization of approximately \$47 billion.

The Commission notes that although one employee of an affiliate of the Advisor serves on the FTSE/Xinhua Index Committee and provides input to help ensure that the published index rules and the implementation of such rules adequately reflect current developments in the underlying market, such employee is not and will not be involved in the operations of the Advisor or the Fund or be involved in any capacity with the Fund's Board of Trustees. Moreover, the index compilation functions of FXI and the FTSE/Xinhua Index Committee are, and will remain, completely separate and independent of the portfolio management functions of BGFA. FXI and the FTSE/Xinhua Index Committee have adopted policies that prohibit the dissemination and use of confidential and proprietary information about the Underlying Index and have instituted procedures designed to prevent the improper dissemination and use of such information. BGI and BGIL have adopted policies that limit the use of confidential and proprietary information about portfolio management decisions to those persons whose duties require and permit them to have access to such information and have instituted procedures designed to prevent the improper dissemination and use of such information.

⁴² The Exchange states that, to the extent the Fund invests in Depositary Receipts, any ADRs will be listed on a national securities exchange or Nasdaq. Other Depositary Receipts will be listed on a foreign exchange. The Fund will not invest in any unlisted Depositary Receipts or any listed Depositary Receipts that the Advisor deems to be illiquid or for which pricing information is not readily available. The Fund currently intends to hold all of the securities in the Underlying Index that are listed on the Hong Kong Stock Exchange.

representative portfolio sampling strategy to attempt to track its Underlying Index. Although a representative sampling strategy entails some risk of tracking error, the Advisor will seek to minimize tracking error. It is expected that the Fund will have a tracking error relative to the performance of its Underlying Index of no more than 5%.

The Advisers to the Fund may attempt to reduce tracking error by using a variety of investment instruments, including futures contracts, repurchase agreements, options, swaps and currency exchange contracts; however, these instruments will not constitute more than 10% of the Fund's assets.⁴³

The Commission believes that the market capitalization and liquidity of the Component Securities is such that an adequate level of liquidity exists so that the Fund shares should not be susceptible to manipulation.⁴⁴ Also, the Commission does not believe that the Fund will be so highly concentrated such that it becomes a surrogate for trading unregistered foreign securities on the Exchange.

While the Commission believes that these requirements should help to reduce concerns that the Fund could become a surrogate for trading in a single or a few unregistered stocks, if the Fund's characteristics changed materially from the characteristics described herein, the Fund would not be in compliance with standards approved herein, and the Commission would expect the Amex to file a proposed rule change pursuant to Rule 19b-4 of the Act. In addition, the

⁴³ See discussion under Section II.A.1(a) "Operation of the Fund" above.

⁴⁴ The Exchange understands that as of October 29, 2004, the ten largest constituents represented approximately 59.8% of the index weight. The 5 highest weighted stocks, which represented 39.7% of the index weight, had an average daily trading volume in excess of 31.4 million shares during the past two months. All of the Component Securities traded at least 250,000 shares in each of the previous six months.

Exchange has represented that it will immediately notify the Commission if the Exchange becomes aware of any changes made in the Fund and not represented herein.⁴⁵

B. Disclosure

The Exchange represents that it will circulate the Information Circular detailing applicable prospectus and product description delivery requirements. The Information Circular also will address members' responsibility to deliver a prospectus or product description to all investors and highlight the characteristics of the Funds. The Information Circular will also remind members and member organizations of their suitability obligations, including the requirements of Amex Rule 411. For example, the Information Circular will also inform members that Fund shares are not individually redeemable, but are redeemable only in Creation Unit Aggregations or multiples thereof as set forth in the Prospectus and SAI.⁴⁶

C. Dissemination of Fund Information

With respect to pricing, each day, the NAV for the Fund will be calculated and disseminated by IBT to various sources and made available on <http://www.iShares.com> and on the Consolidated Tape.⁴⁷

During each day the Amex is open for business, the Exchange states that the IOPV of the Underlying Index will be disseminated at regular intervals (every 15 seconds) on the

⁴⁵ Telephone conversation between Marija Willen, Associate General Counsel, Amex, and Ira Brandriss, Assistant Director, Lisa Jones, Special Counsel and Natasha Cowen, Attorney, Division, Commission, on November 10, 2004.

⁴⁶ See discussion under Section II.A.1(a) "Operation of the Fund," above. The Exchange has represented that the Information Circular will also discuss exemptive, no-action, and interpretive relief granted by the Commission from certain rules under the Act.

⁴⁷ The Underlying Index currently uses the Reuters foreign exchange rate at the close of the index (4:00 p.m. Hong Kong Time) to compute final index values. The Fund intends to use Reuters/WM foreign exchange rates at 4:00 p.m. London Time.

Consolidated Tape. The IOPV will be updated throughout the Exchange trading day to reflect fluctuations in exchange rates between the U.S. dollar and the applicable home foreign currency. The Underlying Index value is available real-time directly from FTSE and from the following vendors: Reuters, Bloomberg, Telekurs, FTID and LSE/Proquote. An end of day closing value for the Underlying Index is available on <http://www.ftsexinhua.com>, along with other Underlying Index information such as historical values, composition and component weighting. The Commission believes that this information will help an investor to determine whether, and to what extent, iShares may be selling at a premium or a discount to NAV.

There will also be disseminated a variety of data with respect to the Fund on a daily basis by means of CTA and CQ High Speed Lines, which will be made available prior to the opening of trading on the NYSE. 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 NYSE. 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 the Fund: (a) the prior business day's NAV and the mid-point of the Bid-Ask Price⁴⁸ at the time of calculation of such NAV, 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 closing prices of the Fund's Deposit Securities are available from, as applicable, the relevant exchanges, automated quotation systems, published or other public sources in the

⁴⁸ The Bid-Ask Price of the Fund is determined using the highest bid and lowest offer on the NYSE as of the time of calculation of the Fund's NAV.

relevant country, or on-line information services such as Bloomberg or Reuters. The exchange rate information required to convert such information into U.S. dollars is also readily available in newspapers and other publications and from a variety of on-line services. In addition, the Commission notes that the iShares Web site is and will be publicly accessible at no charge, and will contain the Fund's NAV as of the prior business day, the Bid-Asked Price, and a calculation of the premium or discount of the Bid-Asked Price in relation to the closing NAV.⁴⁹

The Exchange also represents that it will halt trading if the dissemination of the Fund's value ceases and there is no readily available source for obtaining such information.⁵⁰

Based on the representations made in the proposal, the Commission believes that pricing and other important information about the Fund is adequate and consistent with the Act.

D. Trading

The Commission further finds that adequate rules and procedures exist to govern trading of the Fund's shares, pursuant to UTP. Fund shares will be traded pursuant to UTP under Amex Rule 1000A and, unless Amex Rules 1000A et seq. stipulate otherwise, are subject to all Amex rules applicable to trading on the Exchange, including, among others, rules governing trading halts.⁵¹

⁴⁹ Additional information available to investors will include data for a period covering at least the four previous calendar quarters (or the life of a Fund, if shorter) indicating how frequently the Fund's shares traded at a premium or discount to NAV based on the Bid-Asked Price and closing NAV, and the magnitude of such premiums and discounts; the Prospectus and two most recent reports to shareholders; and other quantitative information such as daily trading volume.

⁵⁰ Telephone conversation between Marija Willen, Associate General Counsel, Amex, and Ira Brandriss, Assistant Director, Lisa Jones, Special Counsel and Natasha Cowen, Attorney, Division, Commission, on November 10, 2004.

⁵¹ In order to halt the trading of the Fund, the Exchange may consider, among others, factors including: (1) the extent to which trading is not occurring in underlying

E. Surveillance

The Exchange represents that it will rely on its existing surveillance procedures governing Index Fund Shares currently trading on the Exchange. The Exchange also represents that it is able to obtain information from the NYSE or any third party regarding trading in both the Fund shares and the Component Securities by its members or member organizations on any relevant market. In addition, the Exchange represents that it may obtain trading information via the ISG from other exchanges who are members or affiliates of the ISG, including, by way of example, the Hong Kong Stock Exchange.

F. Accelerated Approval

The Exchange has requested that the Commission approve the proposed rule change on an accelerated basis. The Commission finds good cause, pursuant to Section 19(b)(2) of the Act,⁵² for approving the proposed rule change prior to the thirtieth day after the date of publication of notice in the Federal Register. The Commission has previously approved a substantially similar proposed rule change submitted by the NYSE to list and trade the iShares⁵³ and does not believe that the proposed rule change raises novel regulatory issues. Consequently, the Commission believes that it is appropriate to permit investors to benefit from the ability to trade these products on the Amex as soon as possible. Accordingly, the Commission finds that

⁵² securities; or (2) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present. In addition, trading in Fund shares will be halted if the circuit breaker parameters under Amex Rule 117 have been reached. 15 U.S.C. 78s(b)(2).

⁵³ See Securities Exchange Act Release No. 50505 (October 8, 2004), 69 FR 61280 (October 15, 2004) (SR-NYSE-2004-55).

there is good cause, consistent with Section 6(b)(5) of the Act,⁵⁴ to approve the proposal on an accelerated basis.

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (SR-Amex-2004-85), is hereby approved on an accelerated basis.⁵⁵

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁵⁶

Jill M. Peterson

Assistant Secretary

⁵⁴ 15 U.S.C. 78s(b)(5).

⁵⁵ 15 U.S.C. 78s(b)(2).

⁵⁶ 17 CFR 200.30-3(a)(12).