

Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the Amex. All submissions should refer to file number SR-Amex-2003-76 and should be submitted by September 23, 2003.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹¹

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-48398; File No. SR-Amex-2003-75]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the American Stock Exchange LLC Relating to Eight Series of the iShares Trust Based on a Specified Fixed Income Index

August 22, 2003.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on August 20, 2003, the American Stock Exchange LLC (the "Amex" or the "Exchange") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I, II, and III 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.

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

The Exchange proposes to list under Rule 1000A the following eight additional series of the iShares Trust ("Trust"), each a "New Fund": (1) iShares Lehman Short U.S. Treasury Bond Fund; (2) iShares Lehman 3-7 Year U.S. Treasury Bond Fund; (3) iShares Lehman 10-20 Year U.S. Treasury Bond Fund; (4) iShares Lehman U.S. Treasury Inflation Protected Securities Fund; (5) iShares

Lehman U.S. Credit Bond Fund; (6) iShares Lehman Intermediate U.S. Credit Bond Fund; (7) iShares Lehman Intermediate U.S. Government/Credit Bond Fund; and (8) iShares Lehman U.S. Aggregate Bond Fund.

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

In its filing with the Commission, the 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 IV below. The Amex 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

Purpose

Amex Rule 1000A provides standards for listing Index Fund Shares, which are securities issued by an open-end management investment company (open-end mutual fund) for Exchange trading. These securities are registered under the Investment Company Act of 1940 ("1940 Act") as well as the Exchange Act. The Commission previously approved amendments to Rule 1000A to accommodate the listing of Index Fund Shares based on an index of fixed income securities, and in particular, series of the iShares Trust based on indexes of fixed income securities.³

The Exchange proposes to list under Rule 1000A the following eight additional series of the iShares Trust ("Trust"), each a "New Fund": (1) iShares Lehman Short U.S. Treasury Bond Fund; (2) iShares Lehman 3-7 Year U.S. Treasury Bond Fund; (3) iShares Lehman 10-20 Year U.S. Treasury Bond Fund; (4) iShares Lehman U.S. Treasury Inflation Protected Securities Fund; (5) iShares Lehman U.S. Credit Bond Fund; (6) iShares Lehman Intermediate U.S. Credit Bond Fund; (7) iShares Lehman Intermediate U.S. Government/Credit Bond Fund; and (8) iShares Lehman U.S. Aggregate Bond Fund.

Each New Fund will hold certain fixed income securities ("Portfolio Securities") selected to correspond generally to the performance of a

specified U.S. bond index (each, an "Underlying Index"), as described in Exhibit A to the Rule 19b-4 filing. Each of the New Funds intends to qualify as a "regulated investment company" (a "RIC") under the Internal Revenue Code (the "Code").

Barclays Global Fund Advisors (the "Advisor" or "BGFA") is the investment adviser to each New Fund. The Advisor is registered under the Investment Advisers Act of 1940 (the "Advisers Act"). The Advisor is a 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. (the "Distributor"), a Pennsylvania corporation and broker-dealer registered under the Exchange Act, is the principal underwriter and distributor of Creation Unit Aggregations of iShares. The Distributor is not affiliated with the Exchange or the Advisor.

Administrator/Custodian/Fund Accountant/Transfer Agent/Dividend Disbursing Agent. The Trust has appointed Investors Bank & Trust Co. ("IBT") to act as administrator (the "Administrator"), custodian, fund accountant, transfer agent, and dividend disbursing agent for each of the New Funds. The performance of their duties and obligations will be conducted within the provisions of the 1940 Act and the rules thereunder. There is no affiliation between IBT and the Trust, the Advisor, or the Distributor.

a. Operation of the New Funds

The investment objective of each New Fund will be to provide investment results that correspond generally to the performance of its Underlying Index. In seeking to achieve its respective investment objective, each New Fund will utilize "passive" indexing investment strategies. Each New Fund may fully replicate its 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 ("Component Securities") of its Underlying Index, but it may not hold all of the Component Securities of its Underlying Index (as compared to a Fund that uses a replication strategy which invests in substantially all of the Component Securities in its Underlying Index in the same approximate proportions as in the

¹¹ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 46252 (July 24, 2002), 67 FR 49715 (July 31, 2002) ("Previous Approval Order").

Underlying Index).⁴ The representative sampling techniques that will be used by the Advisor to manage the New Funds do not differ from the representative sampling techniques it uses to manage the Funds that were the subject of the Commission's June 25, 2002 order under the 1940 Act relating to other series of the iShares Trust indexes of fixed income securities.⁵

When using a representative sampling strategy, the Advisor attempts to match the risk and return characteristics of a New Fund's portfolio to the risk and return characteristics of the Underlying Index. As part of this process, the Advisor subdivides each Underlying Index into smaller, more homogeneous pieces. These subdivisions are sometimes referred to as "cells." A cell will contain securities with similar characteristics. For fixed income indices, the Advisor generally divides the index according to the five parameters that determine a bond's risk and expected return: (1) Duration, (2) sector, (3) credit rating, (4) coupon, and (5) the presence of embedded options. When completed, all bonds in the index will have been assigned a cell. The Advisor then begins to construct the portfolio by selecting representative bonds from these cells. The representative sample of bonds chosen from each cell is designed to closely correlate to the duration, sector, credit rating, coupon, and embedded option characteristics of each cell. The characteristics of each cell when combined are, in turn, designed to closely correlate to the duration, sector, credit rating, coupon, and embedded option characteristics of the Underlying

Index as a whole. The Advisor may exclude less liquid bonds in order to create a more tradable portfolio and improve arbitrage opportunities.

According to the Original Application, the representative sampling techniques used by the Advisor to manage fixed income funds do not materially differ from the representative sampling techniques it uses to manage equity funds. Due to the differences between bonds and equities, the Advisor analyzes different information—such as dividend payments instead of coupon rates, for example.

According to the Original Application, the New Funds' use of the representative sampling strategy is beneficial for a number of reasons. First, the Advisor can avoid bonds that are "expensive names" (*i.e.*, bonds that trade at perceived higher prices or lower yields because they are in short supply) but have the same essential risk, value, duration and other characteristics as less expensive names. Second, the use of representative sampling techniques permits the Advisor to exclude bonds that it believes will soon be deleted from the Underlying Index. Third, the Advisor can avoid holding bonds it deems less liquid than other bonds with similar characteristics. Fourth, the Advisor can develop a basket that is easier to construct and cheaper to trade, thereby potentially improving arbitrage opportunities.

From time to time, adjustments may be made in the portfolio of each New Fund in accordance with changes in the composition of the Underlying Index or to maintain RIC compliance. For example, if at the end of a calendar quarter a New Fund would not comply with the RIC diversification tests, the Advisor would make adjustments to the portfolio to ensure continued RIC status. The Exchange represents that the Advisor expects that each New Fund will have a tracking error relative to the performance of its respective Underlying Index of no more than five percent (5%).⁶ Each New Fund's investment objectives, policies and investment strategies will be fully disclosed in its Prospectus and Statement of Additional Information. Each New Fund (except the iShares Lehman U.S. Aggregate Bond Fund) will invest at least 90% of its assets in Component Securities of its respective Underlying Index. Each of these New

Funds may also invest up to 10% of its assets in bonds not included in its Underlying Index, but which the Advisor believes will help the New Fund track its Underlying Index, as well as in certain futures, options and swap contracts, cash and cash equivalents. For example, these New Funds may invest in securities not included in the relevant Underlying Index in order to reflect prospective changes in the relevant Underlying Index (such as future corporate actions and index reconstitutions, additions and deletions).

According to the Application, with respect to the iShares Lehman U.S. Aggregate Bond Fund (the "Lehman Aggregate Fund"), additional portfolio flexibility would benefit the Fund, while at the same time permitting it to closely track the performance of its Underlying Index. The Lehman Aggregate Fund will: (i) seek to track the performance of that portion of its Underlying Index comprised of U.S. Treasury securities, U.S. agency securities, corporate bonds, non-corporate bonds (*e.g.*, bonds issued by supra-national entities such as the International Monetary Fund), asset-backed securities, and commercial mortgage-backed securities (approximately 65% of the Underlying Index as of April 30, 2003) by investing a corresponding percentage of its net assets (*i.e.*, approximately 65%) in the Component Securities of its Underlying Index;⁷ and (ii) seek to track the performance of that portion of its Underlying Index invested in U.S. agency mortgage pass-through securities (approximately 35% of the Underlying Index as of April 30, 2003) by investing a corresponding percentage of its net assets (*i.e.*, approximately 35%) through TBA transactions (as defined below) on U.S. agency mortgage pass-through securities. Through the Lehman Aggregate Fund's direct investments in Component Securities of its Underlying Index and its investments in mortgage pass-through securities through TBA transactions as described above, the Lehman Aggregate Fund will have at least 90% of its net assets invested (i) in Component Securities of its Underlying Index and (ii) in investments that have economic characteristics that are substantially identical to the economic characteristics of the Component

⁴ The Trust, Advisor and Distributor ("Applicants") have filed with the Commission an Application for an Amended Order ("Application") under Sections 6(c) and 17(b) of the 1940 Act for the purpose of exempting the New Funds of the Trust from various provisions of the 1940 Act. (File No. 812-13003). A notice of the Application was issued in Investment Company Act Release No. 26151, August 15, 2003. The information provided in this Rule 19b-4 filing related to the New Funds is based on information included in the Application, which includes additional information regarding the Trust and the New Funds. The initial Application for additional series of the iShares Trust based on indexes of fixed income securities (File No 812-12390) is referred to herein as the "Original Application." The Original Application was approved in Investment Company Act Release No. 25622, June 25, 2002 ("Order"). See also, the Previous Approval Order, *supra* note 3, for additional information relating to series of the iShares Trust, as described in the Original Application.

⁵ See *In the Matter of iShares Trust, et al.*, Investment Company Act Release No. 25622 (June 25, 2002) (relating to the iShares 1-3 Year Treasury Index Fund, 7-10 Year Treasury Index Fund, 20+ Year Treasury Index Fund, Treasury Index Fund, Government/Credit Index Fund, Lehman Corporate Bond Fund and GSS InvesTop Corporate Bond Fund).

⁶ Telephone call among Mike Cavalier, Associate General Counsel, Amex; Marc McKayle, Special Counsel, Division of Market Regulation ("Division"), Commission; and Jennifer Lewis, Special Counsel, Division, Commission, on August 20, 2003.

⁷ With respect to this portion of its portfolio, the Lehman Aggregate Fund may invest up to 10% of its portfolio in bonds not included in its Underlying Index, but which the Adviser believes will help the Lehman Aggregate Fund track its Underlying Index, as well as in certain futures, options and swap contracts, cash and cash equivalents.

Securities of its Underlying Index (*i.e.*, TBA transactions).

According to the Application, the Lehman Aggregate Fund needs the investment flexibility to engage in TBA transactions as described above primarily because approximately 35% of the securities in the Lehman Aggregate Fund's Underlying Index are expected to be pools of U.S. agency mortgage pass-through securities.⁸ As discussed below, it is easier to trade and obtain intra-day prices of TBAs than it is to trade and obtain intra-day prices of specific pools of mortgage pass-through securities. The readily available information about intra-day pricing of TBAs and the ease with which they can be traded should make it easier to create and redeem Creation Unit Aggregations and help maintain the efficiency of the Fund's arbitrage mechanism.

The Application states that, although the market for mortgage pass-through securities is extremely deep and liquid, it is impractical to trade mortgage pass-through securities on a pool-by-pool basis, particularly when large dollar amounts are involved. For this reason, the vast majority of mortgage pools are traded using "to-be-announced" or "TBA transactions." A "TBA transaction" essentially is a purchase or sale of a pass-through security for future settlement at an agreed upon date.⁹ It

⁸ As used herein, the term "U.S. agency mortgage pass-through security" or "mortgage pass-through security" refers to a category of pass-through securities backed by pools of mortgages and issued by one of several U.S. Government-sponsored enterprises: the Government National Mortgage Association ("GNMA"), Federal National Mortgage Association ("FNMA") or Federal Home Loan Mortgage Corporation ("FHLMC"). In the basic pass-through structure, mortgages with similar issuer, term and coupon characteristics are collected and aggregated into a pool. The pool is assigned a CUSIP number and undivided interests in the pool are traded and sold as pass-through securities. The holder of the security is entitled to a *pro rata* share of principal and interest payments (including unscheduled prepayments) from the pool of mortgage loans. The portion of the Lehman U.S. Aggregate Index representing the mortgage pass-through segment of the U.S. investment grade bond market is comprised of multiple pools of mortgage pass-through securities.

⁹ "TBA" refers to a mechanism for the forward settlement of agency mortgage pass-through securities, and not to a separate type of mortgage-backed security. TBA trades generally are conducted in accordance with widely-accepted "Good Delivery" guidelines published by The Bond Market Association. The Good Delivery guidelines facilitate transactions in mortgage pass-through securities by establishing commonly observed terms and conditions for execution, settlement and delivery. In a TBA trade, the buyer and seller decide on general trade parameters, such as agency, coupon, term to maturity, settlement date, par amount, and price. The actual pools delivered are determined two days prior to settlement date. TBA transactions promote efficient pricing because the Good Delivery guidelines permit only a small variance between the face amount of the pools

has been estimated that 90% of mortgage pass-through securities (as measured by total dollar volume) are executed as TBA trades.¹⁰ TBA transactions increase the liquidity and pricing efficiency of transactions in mortgage pass-through securities since they permit similar mortgage pass-through securities to be traded interchangeably pursuant to commonly observed settlement and delivery requirements.

The Lehman Aggregate Fund intends to use TBA transactions to acquire and maintain exposure to that portion of the Lehman U.S. Aggregate Index comprised of pools of mortgage pass-through securities in either of two ways. First, and more commonly, the Lehman Aggregate Fund will enter into TBA agreements and "roll over" such agreements prior to the settlement date stipulated in such agreements. This type of TBA transaction is commonly known as a "TBA roll." In a "TBA roll" the Lehman Aggregate Fund generally will sell the obligation to purchase the pools stipulated in the TBA agreement prior to the stipulated settlement date and will enter into a new TBA agreement for future delivery of pools of mortgage pass-through securities. Second, and less frequently, the Lehman Aggregate Fund will enter into TBA agreements and settle such transactions on the stipulated settlement date by actual receipt or delivery of the pools of mortgage pass-through securities stipulated in the TBA agreement. Since intra-day prices of TBA agreements are more readily available than intra-day prices on specific mortgage pools and because mortgage pools tend to be less liquid than TBA agreements, the use of TBA agreements should help maintain the efficiency of the Fund's arbitrage mechanism. The Lehman Aggregate Fund will accept actual delivery of mortgage pools only when the Adviser believes it is in the best interests of the Lehman Aggregate Fund and its shareholders to do so. In determining whether to accept actual delivery of mortgage pools, the Adviser will consider, among other things, the potential impact of such acceptance on the efficiency of the Lehman Aggregate Fund's arbitrage mechanism and the

actually delivered and the nominal agreed upon amount. Intra-day and end-of-day pricing of TBAs is available from multiple pricing sources, such as Bloomberg and Tradeweb. The Bond Market Association publishes standard notification and settlement dates for TBA trades specifying uniform settlement dates for specific classes of securities. The most active trading market for TBA trades is usually for next-month settlement. *See generally TBAs: To-Be-Announced Mortgage Securities Transactions*, The Bond Market Association (1999).

¹⁰ *Id.* at 3.

Lehman Aggregate Fund's ability to track its Underlying Index. For these reasons, the Adviser believes that the ability to invest a significant portion of the Lehman Aggregate Fund's assets through TBA transactions and to maintain such exposure through the use of TBA rolls would increase the liquidity and pricing efficiency of the Lehman Aggregate Fund's portfolio. In addition, since holding a TBA position exposes the holder to substantially identical market and economic risks as holding a position in a corresponding pool of mortgage pass-through securities, the Adviser believes that the use of TBA transactions as described herein should permit the Lehman Aggregate Fund to closely track the performance of its Underlying Index.

The use of TBA transactions is not intended to help the Lehman Aggregate Fund outperform its Underlying Index, but rather to increase pricing efficiency while at the same time maintaining the Lehman Aggregate Fund's exposure to its Underlying Index.¹¹

b. Issuance of Creation Unit Aggregations

The issuance of Creation Unit Aggregations will operate, except as noted below, in a manner identical to that of the Funds described in the Previous Approval Order, and in the Original Application. The only difference between the creation process for the New Funds and that of the Funds that are the subject of the Order involves the Lehman Aggregate Fund (discussed below).

1. *In General.* Shares of each New 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 New Funds will issue and redeem iShares only in Creation Unit Aggregations.¹² 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 anticipated price at which the iShares will initially trade is approximately \$100.

The NAV per share of each New Fund is determined as of the close of the regular trading session on the Amex on each day that the Amex is open. The Trust sells Creation Unit Aggregations of

¹¹ Telephone call between Mike Cavalier, Associate General Counsel, Amex; and Florence Harmon, Senior Special Counsel, Division, Commission, on August 22, 2003.

¹² Generally, each Creation Unit Aggregation will consist of 50,000 or more iShares and the estimated initial value per Creation Unit Aggregation will be approximately \$5 million.

each New Fund only on business days at the next determined NAV of each New Fund.

Creation Unit Aggregations will be issued by each Fund in exchange for the in-kind deposit of a portfolio securities designated by the Advisor to correspond generally to the price and yield performance of the New Fund's Underlying Index (the "Deposit Securities"). Purchasers will generally be required to deposit a specified cash payment in the manner more fully described in the Application. Creation Unit Aggregations will be redeemed by each New Fund in exchange for portfolio securities of the New Fund ("Fund Securities") and a specified cash payment in the manner more fully described herein. 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.

The Distributor will act on an agency basis and will be the Trust's principal underwriter for the iShares in Creation Unit Aggregations of each New Fund. All orders to purchase iShares in Creation Unit Aggregations must be placed with the Distributor by or through an authorized participant ("Authorized Participant"). Authorized Participants, which are required to be Depository Trust Company ("DTC") participants, must enter into a participant agreement with the Distributor. The Distributor will transmit such orders to the applicable New Fund and furnish to those placing orders confirmation that the orders have been accepted. The Distributor may reject any order that is not submitted in proper form. The Distributor will be responsible for delivering the prospectus to those persons creating iShares in Creation Unit Aggregations and for maintaining records of both the orders placed with it and the confirmations of acceptance furnished by it. In addition, the Distributor will maintain a record of the instructions given to the Trust to implement the delivery of iShares.

2. *In-Kind Deposit of Portfolio Securities.* Payment for Creation Unit Aggregations placed through the Distributor will be made by the purchasers generally by an in-kind deposit with the New Fund of the Deposit Securities together with an amount of cash (the "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 New 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. The deposit of the requisite Deposit Securities and the Balancing Amount are collectively referred to herein as a "Portfolio Deposit."

The Advisor will make available to the market through the National Securities Clearing Corporation (the "NSCC") on each Business Day, prior to the opening of trading on the Amex (currently 9:30 a.m. eastern time), the list of the names and the required number of shares of each Deposit Security included in the current Portfolio Deposit (based on information at the end of the previous Business Day) for the relevant New Fund. The Portfolio Deposit will be applicable to a New Fund (subject to any adjustments to the Balancing Amount, as described below) in order to effect purchases of Creation Unit Aggregations of the New Fund until such time as the next-announced Portfolio Deposit composition is made available.

The identity and number of shares of the Deposit Securities required for the Portfolio Deposit for each New 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 the relevant Underlying Index. These adjustments will reflect changes, known to the Advisor to be in effect by the time of determination of the Deposit Securities, in the composition of the Underlying Index being tracked by the relevant New Fund, or resulting from rebalance or additions or deletions to the relevant Underlying Index. In addition, the Trust reserves the right with respect to each New Fund to permit or require the substitution of an amount of cash (*i.e.*, a "cash in lieu" amount) to be added to the Balancing Amount to replace any Deposit Security: (1) that may be unavailable or not available in sufficient quantity for delivery to the Trust upon the purchase of iShares in Creation Unit Aggregations, or (2) that may not be eligible for trading by an Authorized Participant or the investor on whose behalf the Authorized Participant is acting.

The Lehman Aggregate Fund may invest in and hold mortgage pass-through securities on a TBA basis. Since a TBA transaction is essentially an agreement for future settlement of a mortgage security, it is not possible to accept TBAs as part of the Portfolio

Deposit. Instead, the Fund will designate the mortgage pass-through TBAs to be included in a Portfolio Deposit just as it would any other Deposit Securities of a Portfolio Deposit, and will accept "cash in lieu" of delivery of the designated mortgage pass-through TBAs. The Lehman Aggregate Fund will then enter into TBA agreements included as Deposit Securities in the Portfolio Deposit.¹³ According to the Application, this will substantially minimize the Lehman Aggregate Fund's transaction costs, enhance operational efficiencies and otherwise reduce any operational issues which the acceptance of pools of mortgage pass-through securities might otherwise present.¹⁴

c. Availability of Information Regarding iShares and Underlying Indices

On each Business Day, the list of names and amount of each treasury security, government security or corporate bond constituting the current Deposit Securities of the Portfolio

¹³ Prior to settlement of such TBA transactions, the "cash in lieu" portion of the Portfolio Deposit will be invested in cash equivalents, including money market mutual funds, and such investments, along with cash and other liquid assets identified by BGFA, will be segregated on the books and records of the Fund or its Custodian in accordance with section 18 of the 1940 Act and Investment Company Act Release 10666. Since the price of a TBA transaction includes an assumed rate of return on the cash held in anticipation of settlement, the Fund's investment in cash equivalents prior to settlement is not expected to have a material impact on potential tracking error or the Fund's ability to track its Underlying Index. In addition, since the interest or dividends that the Fund accrues on a daily basis on its investment in cash equivalents will be relatively small and will be included as part of the Cash Component published on a daily basis according to the procedures currently used for the Index Funds, Applicants expect that such dividends and interest will be reflected in the secondary market trading price of iShares of the Fund. The Commission's June 25, 2002 order relating to fixed income funds of the iShares Trust (Investment Company Act Release No. 45622) permits acceptance of a "cash-in lieu" amount to replace Deposit Securities that are unavailable for delivery or for other reasons. In addition, prior iShares orders expressly permit "cash-only purchases of Creation Unit Aggregations" where the Adviser believes such transactions would "substantially minimize * * * transactional costs or would enhance * * * operational efficiencies." See Investment Company Act Release No. 24452 (May 12, 2000).

¹⁴ Intra-day and end-of-day pricing of TBAs is available from multiple pricing sources, such as Bloomberg and Tradeweb. In addition, the fungible nature of TBAs and commonly observed execution and settlement procedures create significant pricing efficiencies and market liquidity for TBAs. TBAs typically trade at very narrow spreads on transactions of up to \$300 million or more. Since intra-day pricing of TBAs is readily available and the market for mortgage pass-through TBAs is extremely liquid, the designation of TBAs in the Portfolio Deposit and their inclusion as Fund Securities should make pricing of the Fund and the Deposit Amount more efficient and transparent, thus increasing arbitrage efficiency.

Deposit and the Balancing Amount effective as of the previous Business Day will be made available. An amount per iShare representing the sum of the estimated Balancing Amount effective through and including the previous Business Day, plus the current value of the Deposit Securities, on a per iShare basis (the "Intra-day Optimized Portfolio Value" or "IOPV") will be calculated by an independent third party (such as Bloomberg L.P.) ("Bloomberg") every 15 seconds during the AMEX's regular trading hours and disseminated every 15 seconds by such third party and by AMEX on AMEX's Consolidated Tape B. The IOPV will be updated throughout the day to reflect changing bond prices, as well as TBA prices, using multiple prices from independent third party pricing sources. Information about the intra-day prices for the Deposit Securities of each Fund is readily available to the marketplace.¹⁵ Applicants represent (i) that IOPV will be calculated by an independent third party; (ii) that IOPV will be calculated using prices obtained from multiple independent third-party pricing sources (such as broker-dealers) throughout the day; and (iii) that IOPV will be calculated in accordance with pre-determined criteria and set parameters so that an individual bond "price" based on an analysis of multiple pricing sources is obtained for each security in a Portfolio Deposit.¹⁶ Closing prices of the New Funds' Deposit Securities are readily available from published or other public sources, such as the Trace Reporting and Compliance Engine (commonly known as "TRACE"), or on-line client-based information services provided by Credit Suisse First Boston, Goldman Sachs, Lehman Brothers, Merrill Lynch, IDC, Bridge, Bloomberg,

¹⁵ Authorized Participants and other market participants have a variety of ways to access the intra-day security prices that form the basis of the Fund's IOPV calculation. For example, intra-day prices for treasury securities, agency securities and TBAs are available from Bloomberg, the Trace Reporting and Compliance Engine (commonly known as "TRACE") and TradeWeb. Intra-day prices for inflation protected public obligations of the U.S. Treasury ("TIPS") are available from Bloomberg and Tradeweb. Intra-day prices of callable agency securities are expected to be available from TradeWeb in July or sometime shortly thereafter. Intra-day prices of corporate bonds are available from TRACE. In addition, intra-day prices for each of these securities are available by subscription or otherwise to Authorized Participants and clients of major U.S. broker-dealers (such as Credit Suisse First Boston, Goldman Sachs and Lehman Brothers).

¹⁶ For example, Bloomberg Generic Prices could be used. Bloomberg Generic Prices are current prices on individual bonds as determined by Bloomberg using a proprietary automated pricing program that analyzes multiple bond prices contributed to Bloomberg by third-party price contributors (such as broker-dealers).

Tradeweb, and other pricing services commonly used by bond mutual funds.¹⁷

The Lehman Indices will not be calculated or disseminated intra-day. The value and return of each Lehman Index is calculated and disseminated each business day, at the end of the day, by Lehman Brothers.

Each New Fund will make available through NSCC on a daily basis the names and required number of shares of each of the Deposit Securities in a Creation Unit Aggregation, as well as information regarding the Balancing Amount. The NAV for each New Fund will be calculated and disseminated daily. The Amex also intends to disseminate a variety of data with respect to each New Fund on a daily basis by means of CTA and CQ High Speed Lines; information with respect to recent NAV, shares outstanding, estimated cash amount and total cash amount per Creation Unit Aggregation will be made available prior to the opening of the Amex. In addition, the Web site for the Trust, which will be publicly accessible at no charge, will contain the following information, on a per iShare basis, for each New Fund: (a) the prior Business Day's NAV and the mid-point of the bid-ask price¹⁸ at the time of calculation of such NAV ("Bid/Ask Price"), and a calculation of the premium or discount of such price against such NAV; and (b) data in chart format displaying the frequency distribution of discounts and premiums of the Bid/Ask Price against the NAV, within appropriate ranges, for each of the four previous calendar quarters.¹⁹

¹⁷ Applicants understand that Credit Suisse First Boston, Goldman Sachs, Lehman Brothers, Merrill Lynch, IDC, Bridge, and Bloomberg provide prices for each type of Deposit Security. Tradeweb provides prices for each type of Deposit Security except mortgage backed securities and corporate bonds. TRACE provides prices for corporate bonds.

¹⁸ The Bid-Ask Price of a New Fund is determined using the highest bid and lowest offer on the Exchange as of the time of calculation of each New Fund's NAV.

¹⁹ The secondary market for Treasury securities is a highly organized over-the-counter market. Many dealers, and particularly the primary dealers, make markets in Treasury securities. Trading activity takes place between primary dealers, non-primary dealers, and customers of these dealers, including financial institutions, non-financial institutions and individuals. Increasingly, trading in Treasury securities occurs through automated trading systems.

The primary dealers are among the most active participants in the secondary market for Treasury securities. The primary dealers and other large market participants frequently trade with each other, and most of these transactions occur through an interdealer broker. The interdealer brokers provide primary dealers and other large participants in the Treasury market with electronic screens that display the bid and offer prices among dealers and allow trades to be consummated.

d. Redemption of iShares

Creation Unit Aggregations of each New Fund will be redeemable at the NAV next determined after receipt of a request for redemption. Creation Unit Aggregations of each New Fund will be redeemed principally in-kind, together with a balancing cash payment (although, as described below, Creation Unit Aggregations may sometimes be redeemed for cash). The value of each New Fund's redemption payments on a Creation Unit Aggregation basis will equal the NAV per the appropriate number of iShares of such New 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 New Fund. Redemption orders must be placed by or through an Authorized Participant.

Creation Unit Aggregations of any New 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 (the "Creation List") and which a

Quote and trade information regarding Treasury securities is widely available to market participants from a variety of sources. The electronic trade and quote systems of the dealers and interdealer brokers are one such source. Groups of dealers and interdealer brokers also furnish trade and quote information to vendors such as Bloomberg, Reuters, Bridge, Moneyline Telerate, and CQG. GovPX, for example, is a consortium of leading government securities dealers and subscribers that provides market data from leading government securities dealers and interdealer brokers to market data vendors and subscribers. Trade Web, another example, is a consortium of 18 primary dealers that, in addition to providing a trading platform, also provides market data direct to subscribers or to other market data vendors.

Real-time price quotes for corporate and non-corporate debt securities are available to institutional investors via proprietary systems such as Bloomberg, Reuters and Dow Jones Telerate. Additional analytical data and pricing information may also be obtained through vendors such as Bridge Information Systems, Muller Data, Capital Management Sciences, Interactive Data Corporation and Barra.

Retail investors have access to free intra-day bellwether quotes. The Bond Market Association provides links to price and other bond information sources on its investor Web site at www.investinginbonds.com. In addition, the transaction prices and volume data for the most actively-traded bonds on the exchanges are published daily in newspapers and on a variety of financial Web sites.

Closing corporate and non-corporate bond prices are also available through subscription services (e.g., IDC, Bridge) that provide aggregate pricing information based on prices from several dealers, as well as subscription services from broker-dealers with a large bond trading operation, such as Lehman Brothers and Goldman, Sachs & Co.

redeemer will receive from the New Fund (the "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 Portfolio Deposit.²⁰

In addition, just as the Balancing Amount is delivered by the purchaser of Creation Unit Aggregations to the New 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 New 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.

e. Clearance and Settlement

The Deposit Securities and Fund Securities of each New Fund will settle via free delivery through the Federal Reserve System for U.S. Government securities and the DTC for corporate securities and non-corporate securities (other than U.S. Government securities). The iShares will settle through the DTC. The Custodian will monitor the movement of the Deposit Securities and will instruct the movement of the iShares only upon validation that the Deposit Securities have settled correctly or that required collateral is in place.

As with the settlement of domestic ETF transactions outside of the NSCC Continuous Net Settlement System (the "CNS System"), (i) iShares of the New Funds and corporate and non-corporate securities (other than U.S. government securities) will clear and settle through DTC, and (ii) U.S. government securities

and cash will clear and settle through the Federal Reserve system. More specifically, creation transactions will settle as follows. On settlement date (T + 3) an Authorized Participant will transfer Deposit Securities that are corporate and non-corporate bonds (other than U.S. government securities) through DTC to a DTC account maintained by the New Funds' Custodian, and Deposit Securities that are U.S. government securities, together with any Balancing Amount, to the Custodian through the Federal Reserve system. Once the Custodian has verified the receipt of all of the Deposit Securities (or in the case of failed delivery of one or more bonds, collateral in the amount of 105% or more of the missing Deposit Securities) and the receipt of any Balancing Amount, the Custodian will notify the Distributor and the Advisor. The Fund will issue Creation Unit Aggregations of iShares and the Custodian will deliver the iShares to the Authorized Participant through DTC. DTC will then credit the Authorized Participant's DTC account. The clearance and settlement of redemption transactions essentially reverses the process described above. After the Trust has received a redemption request in proper form and the Authorized Participant transfers Creation Unit Aggregations of iShares to the New Funds' Custodian through DTC, the Trust will cause the Custodian to initiate procedures to transfer the requisite Fund Securities and any Cash Redemption Payment, through the Federal Reserve system.

iShares of the New Funds will be debited or credited by the Custodian directly to the DTC accounts of the Authorized Participants. With respect to domestic equity-based ETFs using the CNS System, Creation Unit Aggregations of iShares are deposited or charged to the Authorized Participants' DTC accounts through the CNS System. Since creation/redemption transactions for iShares of the New Funds will not clear and settle through the CNS System, the failed delivery of one or more Deposit Securities (on a create) or one or more Fund Securities (on a redemption) will not be facilitated by the CNS System. Therefore, Authorized Participants will be required to provide

collateral to cover the failed delivery of Deposit Securities in connection with an "in-kind" creation of iShares. In case of a failed delivery of one or more Deposit Securities, the New Funds will hold the collateral until the delivery of such Deposit Security. The New Funds will be protected from failure to receive the Deposit Securities because the Custodian will not effect the Fund's side of the transaction (the issuance of iShares) until the Custodian has received confirmation of receipt of the Authorized Participant's incoming Deposit Securities (or collateral for failed Deposit Securities) and Balancing Amount. In the case of redemption transactions, the New Funds will be protected from failure to receive Creation Unit Aggregations of iShares because the Custodian will not new effect the New Fund's side of the transaction (the delivery of Fund Securities and the Cash Redemption Payment) until the Transfer Agent has received confirmation of receipt of the Authorized Participant's incoming Creation Unit Aggregations. In order to simplify the transfer agency process and align the settlement of iShares of the New Funds with the settlement of the Deposit Securities and Fund Securities, Applicants plan to settle transactions in U.S. Government securities, corporate bonds, non-corporate bonds and iShares on the same T + 3 settlement cycle. Amex represents that according to the Application, the clearance and settlement process will not affect the arbitrage of Shares in the New Fund.²¹

f. Dividends and Distributions

Dividends from net investment income will be declared and paid to Beneficial Owners of record at least annually by each New Fund. Certain of the New Funds may pay dividends, if any, on a quarterly or more frequent basis. Distributions of realized securities gains, if any, generally will be declared and paid once a year, but each New Fund may make distributions on a more frequent basis to comply with the distribution requirements of the Internal Revenue Code and consistent with the 1940 Act.

Dividends and other distributions on iShares of each New Fund will be distributed on a pro rata basis to Beneficial Owners of such iShares. Dividend payments will be made through the Depository and the DTC Participants to Beneficial Owners then

²⁰ Investors redeeming Creation Unit Aggregations of the Lehman Aggregate Fund will receive cash for any Portfolio Securities that are mortgage pass-through TBAs.

²¹ Telephone call among Mike Cavalier, Associate General Counsel, Amex; Marc McKayle, Special Counsel, Division, Commission; and Jennifer Lewis, Special Counsel, Division, Commission, on August 20, 2003.

of record with amounts received from each New Fund.

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

g. Other Issues

1. Criteria for Initial and Continued Listing. iShares are subject to the criteria for initial and continued listing of Index Fund Shares in Rule 1002A. It is anticipated that a minimum of two Creation Units (100,000 iShares) will be required to be outstanding at the start of trading. This minimum number of iShares required to be outstanding at the start of trading will be comparable to requirements that have been applied to previously listed series of Portfolio Depository Receipts and Index Fund Shares.

The Exchange believes that the proposed minimum number of iShares outstanding at the start of trading is sufficient to provide market liquidity and to further the Trust's objective to seek to provide investment results that correspond generally to the price and yield performance of the Index.

2. Original and Annual Listing Fees. The Amex original listing fee applicable to the listing of the New Funds is \$5,000 for each Fund. In addition, the annual listing fee applicable to the Funds under Section 141 of the Amex *Company Guide* will be based upon the year-end aggregate number of outstanding iShares in all funds of the Trust listed on the Exchange.

3. 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 priced 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. See Release No. 34-29063, note 9, (SR-Amex-90-31) regarding Exchange designation of equity derivative securities as eligible for such treatment under Amex Rule 154, Commentary .04(c).

4. Rule 190. Rule 190, Commentary .04 applies to Index Fund Shares listed on the Exchange, including iShares. Commentary .04 states that nothing in 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.

5. Prospectus Delivery. 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 iShares. The Applicants have filed with the Division of Investment Management a separate request for an exemptive order granting relief from certain prospectus delivery requirements under section 24(d) of the 1940 Act. (Investment Company Act Release No. 25595, May 29, 2002). Any product description used in reliance on a Section 24(d) exemptive order will comply with all representations made therein and all conditions thereto.

6. Trading Halts. In addition to other factors that may be relevant, the Exchange may consider factors such as those set forth in 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 securities underlying the index; or (2) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present.²² In addition, trading in iShares will be halted if the circuit breaker parameters under Amex Rule 117 have been reached.

7. Suitability. Prior to commencement of trading, the Exchange will issue an Information Circular informing members and member organizations of the characteristics of the Funds and of applicable Exchange rules, as well as of

the requirements of Amex Rule 411 (Duty to Know and Approve Customers).

8. Purchases and Redemptions in Creation Unit Size. In the Information Circular referenced above, members and member organizations will be informed that procedures for purchases and redemptions of iShares in Creation Unit Size are described in the Fund prospectus and Statement of Additional Information, and that iShares are not individually redeemable but are redeemable only in Creation Unit Size aggregations or multiples thereof.

9. Surveillance. Exchange surveillance procedures applicable to trading in the proposed iShares are comparable to those applicable to other Index Fund Shares currently trading on the Exchange. The Exchange represents that its surveillance procedures are adequate to properly monitor the trading of the New Funds. If the issuer or a broker-dealer is responsible for maintaining (or has a role in maintaining), or calculating the Underlying Index, it would be required to erect and maintain a "Fire Wall" in a form satisfactory to the Exchange to prevent the flow of information regarding the Underlying Index from the index production personnel and index calculation personnel to the sales and trading personnel. The Exchange will implement surveillance procedures to monitor and prevent the misuse of material, non-public information in connection with the indices.²³

10. Hours of Trading/Minimum Price Variation. The New Funds will trade on the Amex until 4:15 p.m. (eastern time). The minimum price variation for quoting will be \$.01.

Statutory Basis

The Exchange believes that the proposed rule change is consistent with section 6(b) of the Exchange Act,²⁴ in general, and furthers the objectives of section 6(b)(5) of the Exchange Act,²⁵ in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transaction in securities, and, in general to protect investors and the public interest.

²³ Telephone call among Mike Cavalier, Associate General Counsel, Amex; Marc McKayle, Special Counsel, Division, Commission; and Jennifer Lewis, Special Counsel, Division, Commission, on August 20, 2003.

²⁴ 15 U.S.C. 78f(b).

²⁵ 15 U.S.C. 78f(b)(5).

²² See Amex Rule 918C.

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. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory agency consents, the Commission will:

- A. by order approve the proposed rule change, or
- B. institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposal is consistent with the Exchange Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange

Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the Amex. All submissions should refer to File No. SR-Amex-2003-75 and should be submitted by September 23, 2003.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.²⁶

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 03-22234 Filed 8-29-03; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-48396; File No. SR-BSE-2003-12]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment No. 1 Thereto by the Boston Stock Exchange, Inc. Relating to Its Transaction and Floor Operations Fee Schedules

August 22, 2003.

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 July 1, 2003, the Boston Stock Exchange, Inc. ("BSE" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the BSE. On August 5, 2003, the BSE filed an amendment to the proposal.³ The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

The BSE proposes to amend its Floor Operations Fees and Transaction Fees schedules. The text of the proposed rule change is below. Proposed new language is italicized; proposed deletions are in brackets.

* * * * *

FLOOR OPERATION FEES

(1) Occupancy/Technology Occupancy Fee	\$500.00 per post per month.
Specialist/Floor Trader Technology Fee	\$500.00 per BEACON terminal per month.
Floor Broker Technology Fee	\$100.00 per BEACON terminal per month.
Security Routing Fee	\$500.00 per month per BEACON user-ID that has stocks routed to it.
Floor Facility Fee	\$250.00 per person that regularly accesses the trading floor.
Electronic Trading Permit Fee	\$1,000.00 per trader trading from a remote location per month.
(2) Specialist Post Clearing and Cashiering Post Cashiering Fee	\$750.00 per specialist book for first 3 books per firm. \$100.00 per specialist book for any books in excess of 3 per firm.
Clearing Fee	\$.05 per trade.
(3) Specialist Trade Processing Fees/Credits Pre-Opening Trades	No Charge.
Trades in CTA Securities ranked 1,001 and greater	No Charge (BSE executions only).
Round lot	\$.50 per order.
Odd Lot Trades (includes CSI Issues)	\$.05 per order (\$400 maximum per account).
Trading Account Trades	\$1.50 per order.

²⁶ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See letter from John Boese, Vice President Legal and Compliance, BSE, to Ms. Nancy Sanow, Assistant Director, Division of Market Regulation, Commission, dated August 14, 2003 ("Amendment No. 1"). In Amendment No. 1, the BSE added purpose language that elaborates on the overarching

purpose of the rulefiling, inserted purpose language to clarify that the rulefiling will apply solely to BSE members, and provided purpose language that describes the necessity of the fee change to offset systems related expenses incurred by the Exchange in providing facilities for its member firms to provide layoff services to the BSE specialist community. For purposes of calculating the 60-day

abrogation period, the Commission considers the period to have commenced on August 5, 2003.