



DIVISION OF
MARKET REGULATION

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

December 22, 2006

Mr. Benjamin J. Haskin, Esq.
Willkie Farr & Gallagher, LLP
1875 K Street, N.W.
Washington, DC 20006-1238

Re: *iShares Lehman Short Treasury Bond Fund, iShares Lehman 3-7 Year Treasury Bond Fund, iShares Lehman 10-20 Year Treasury Bond Fund, iShares Lehman 1-3 Year Credit Bond Fund, iShares Lehman Intermediate Credit Bond Fund, iShares Lehman Credit Bond Fund, iShares Lehman Intermediate Government/Credit Bond Fund, iShares Lehman Government/Credit Bond Fund and iShares Lehman MBS Fixed-Rate Bond Fund (File No. TP-07-24)*

Dear Mr. Haskin:

In your letter dated December 22, 2006,¹ as supplemented by conversations with the staff of the Division of Market Regulation (the "Staff"), the iShares Trust (the "Trust") on behalf of itself, any Exchange on which iShares of Index Funds may trade, and persons or entities engaging in transactions in iShares of Index Funds, requests exemptive, interpretive, or no-action advice regarding Section 11(d)(1) of the Exchange Act and Rules 10a-1, 10b-10, 10b-17, 11d1-2, 15c1-5 and 15c1-6 thereunder, Rules 101 and 102 of Regulation M, and Rule 200(g) of Regulation SHO, in connection with secondary market transactions in certain iShares of the Index Funds on an Exchange and the creation and redemption of Creation Unit Aggregations of iShares of the Index Funds.

The Trust is an open-end management investment company, organized as a Delaware business trust on December 16, 1999. Each of the Index Fund's iShares are expected to trade on the NYSE or on the Amex.² Each Index Fund issues and redeems iShares at their NAVs only in

¹ We have enclosed a photocopy of your letter. Each defined term in this letter has the same meaning as defined in your letter, unless we note otherwise.

² The NYSE's proposed rule change regarding the listing and trading of iShares of the Index Funds, other than iShares Lehman MBS Fixed-Rate Bond Fund, was approved by the Commission pursuant to Section 19(b) of the Exchange Act on December 11, 2006 (Securities Exchange Act Release No. 34-54916).

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aggregations of 100,000 iShares.³ Given the opportunities for arbitrage, it is not anticipated that any deviation between market price and NAV will be material.

Response:

These Index Funds are structurally identical to the initial series issued by the Trust and approved by the Commission as well as to certain subsequent funds issued by the Trust. Each Underlying Index that these Index Funds track is of sufficient size and represents liquid securities. Therefore, the relief afforded to the Trust in the TP 00-39 letter and in the TP-03-118 is extended to cover trading in the Index Funds, as described in those letters and subject to the same limitations and conditions.⁴ You did not request, and we do not grant, any relief from Rule 14e-5 in connection with these Funds.

Rule 200(g) of Regulation SHO provides that a broker-dealer must mark all sell orders of any equity security as "long," "short," or "short exempt." Rule 200(g)(2) requires that a short sale order must be marked "short exempt" if the seller is relying on an exception from the tick test of Rule 10a-1 of the Exchange Act or any short sale price test of any exchange or national securities association.

Accordingly, in conjunction with the exemption to permit sales of iShares without regard to the "tick" requirements of Rule 10a-1, on the basis of your representations and the facts presented, and without necessarily concurring in your analysis, the Staff will not recommend to the Commission enforcement action under Rule 200(g) of Regulation SHO if a broker-dealer marks "short," rather than "short exempt," a short sale that is effected in the iShares of the Index Funds, subject to the following conditions:

³ The iShares Lehman Short Treasury Bond Fund will track the Lehman Brothers Short U.S. Treasury Index; the iShares Lehman 3-7 Year Treasury Bond Fund will track the Lehman Brothers 3-7 Year U.S. Treasury Index; the iShares Lehman 10-20 Year Treasury Bond Fund will track the Lehman Brothers 10-20 Year U.S. Treasury Index; the iShares Lehman 1-3 Year Credit Bond Fund will track the Lehman Brothers 1-3 Year U.S. Credit Index; the iShares Lehman Intermediate Credit Bond Fund will track the Lehman Brothers Intermediate U.S. Credit Index; the iShares Lehman Credit Bond Fund will track the Lehman Brothers U.S. Credit Index; the iShares Lehman Intermediate Government/Credit Bond Fund will track the Lehman Brothers Intermediate U.S. Government/Credit Index; the iShares Lehman Government/Credit Bond Fund will track the Lehman Brothers U.S. Government/Credit Index; and the iShares Lehman MBS Fixed-Rate Bond Fund will track the Lehman Brothers MBS Fixed-Rate Index.

⁴ See letter from James A. Brigagliano, Assistant Director, Division of Market Regulation to Kathleen Moriarty, Carter, Ledyard & Milburn, dated May 16, 2000, File No. TP 00-39. See also letter from James A. Brigagliano, Assistant Director, Division of Market Regulation to Jack P. Drogen, Esq., Morgan, Lewis & Bockius LLP, dated September 25, 2003, File No. TP 03-118.

- i. For each exempt short sale, the various market centers that execute such sales have instituted procedures to “mask” the short sale character of the transaction so that they are executed as short exempt;
- ii. Such market centers monitor on a regular basis to confirm that any such product or transaction continues to meet the conditions for the exemptive relief and re-institute the price test for any product or transaction that fails to satisfy such conditions;
- iii. A broker-dealer executing exempt short sales will mark such sales as “short,” and in no event will such sales be marked “long;” and
- iv. The market centers will maintain an audit trail of all such trade executions, which is capable of being produced and subject to review upon request by the Commission and other appropriate regulatory authorities.

As discussed in a telephone conversation,⁵ we are treating your request for relief under Section 11(d)(1) of the Exchange Act, and Rules 10b-10, 11d1-2, 15c1-5, and 15c1-6 thereunder, as a request that the Staff confirm that it will not recommend enforcement action to the Commission if a broker-dealer treats shares of Treasury/MBS Funds, for purposes of the relief from Section 11(d)(1) and Rules 10b-10, 11d1-2, 15c1-5, and 15c1-6 provided in the Letter re: Derivative Products Committee of the Securities Industry Association (November 21, 2005) (“Class Relief Letter”), as shares of a Qualifying ETF (as defined in the Class Relief Letter).

Based on the facts and representations set forth in your letter, in particular, the nature of the assets in the Treasury/MBS Funds, and without necessarily agreeing with your analysis, the Staff will not recommend enforcement action to the Commission if a broker-dealer treats shares of Treasury/MBS Funds, for purposes of the relief from Section 11(d)(1) of the Exchange Act and Rules 10b-10, 11d1-2, 15c1-5, and 15c1-6 thereunder provided in the Class Relief Letter, as shares of a Qualifying ETF. Accordingly, with respect to shares of Treasury/MBS Funds, to the extent that a broker-dealer satisfies the other conditions in the Class Relief Letter, it could rely on the exemptive and no-action relief contained therein.

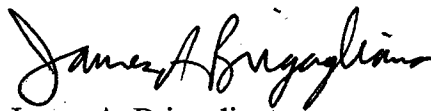
The foregoing exemptions from Rules 10a-1, 10b-17 and Rules 101 and 102 of Regulation M, and no-action position taken under Rule 200(g) of Regulation SHO and Section 11(d)(1) of the Exchange Act, and Rules 10b-10, 11d1-2, 15c1-5, and 15c1-6 thereunder, are based solely on your representations and the facts presented to the Staff, and are strictly limited to the application of those rules to transactions involving iShares of the Index Funds under the circumstances described above and in your letter. Such transactions should be discontinued, pending presentation of the facts for our consideration, in the event that any material change occurs with respect to any of those facts or representations. Moreover, the foregoing exemptions from Rules 10a-1, 10b-17, and Rules 101 and 102 of Regulation M, and no-action position taken under Rule 200(g) of Regulation SHO, are subject to the condition that such transactions in iShares of the Index Funds, any Component Security, or any related securities, are not made for the purpose of creating actual or apparent active trading in, or raising or otherwise affecting the price of, such securities.

⁵ Telephone conversation between Matthew A. Daigler and Benjamin J. Haskin on December 22, 2006.

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These exemptions and no-action positions are subject to modification or revocation if at any time the Commission of Staff determines that such action is necessary or appropriate in furtherance of the purposes of the Exchange Act. In addition, persons relying on these exemptions and no-action positions are directed to the anti-fraud and anti-manipulation provisions of the Exchange Act, particularly Sections 9(a), 10(b), and Rule 10b-5 thereunder. Responsibility for compliance with these and other provisions of the federal or state securities laws must rest with persons relying on these exemptions and no-action positions. The Staff expresses no view with respect to other questions that the proposed transactions may raise, including, but not limited to, the adequacy of disclosure concerning, and the applicability of federal and state laws to, the proposed transactions.

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



James A. Brigagliano
Acting Associate Director

WILLKIE FARR & GALLAGHER_{LLP}

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December 22, 2006

Mr. James A. Brigagliano
Acting Associate Director, Trading Practices and Processing
Division of Market Regulation
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Ms. Catherine McGuire
Chief Counsel
Division of Market Regulation
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Re: Request for Exemptive, Interpretive and No-Action Relief from Rules 10a-1 and 10b-17 and Rules 101 and 102 of Regulation M and Rule 200(g) of Regulation SHO promulgated under the Securities Exchange Act of 1934: iShares Lehman Short Treasury Bond Fund, iShares Lehman 3-7 Year Treasury Bond Fund, iShares Lehman 10-20 Year Treasury Bond Fund, iShares Lehman 1-3 Year Credit Bond Fund, iShares Lehman Intermediate Credit Bond Fund, iShares Lehman Credit Bond Fund, iShares Lehman Intermediate Government/Credit Bond Fund, iShares Lehman Government/Credit Bond Fund and iShares Lehman MBS Fixed-Rate Bond Fund; and

Additional Request for Exemptive, Interpretive and No-Action Relief from Section 11(d)(1) of the Securities Exchange Act of 1934, as amended, and Rules 10b-10; 11d1-2; 15c1-5; and 15c1-6 promulgated under the Securities Exchange Act of 1934 for certain of the Funds

Dear Mr. Brigagliano and Ms. McGuire:

The iShares Trust (the "Trust") is an open-end management investment company which was organized as a Delaware business trust on December 16, 1999. The Trust has registered over 92 investment series and plans to offer yet more series in the future (each, a "Fund" and collectively the "Funds"). The shares of each Fund are referred to herein as "iShares."

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The Trust currently lists iShares of each existing Fund on a national securities exchange (an "Exchange") registered with the Securities and Exchange Commission (the "Commission"). The market prices of exchange-traded iShares may vary from their net asset values ("NAVs"). Each Fund issues and redeems iShares at their NAVs only in aggregations of a specified number of iShares, as further discussed below. Given the opportunities for arbitrage, it is not anticipated that any deviation between market price and NAV will be material.

In connection with the secondary market trading of those iShares currently offered by the Trust, the Trust on behalf of itself, the applicable Exchange, and persons or entities engaging in transactions in iShares (collectively, the "Applicants"), as the case may be, previously requested that the Commission and its staff (the "Staff") grant the appropriate exemptive, interpretive and no-action relief from Section 11(d)(1) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), Rules 10a-1, 10b-10, 14e-5, 10b-17, 11d1-2, 15c1-5 and 15c1-6 under the Exchange Act, and Rules 101 and 102 of Regulation M under the Exchange Act and Rule 200(g) of Regulation SHO under the Exchange Act, in connection with secondary market transactions in iShares and the creation or redemption of Creation Unit Aggregations (as defined below in Part II.A.) of iShares.¹ Certain of the Index Funds, as defined below, intend to rely on the 1934 Act Class Relief Letters, as defined below, and therefore are not requesting relief from all of the provisions of the Exchange Act and rules promulgated thereunder set out above. Except for the relief requested herein with respect to Rule 200(g) of Regulation SHO, the relief requested in this letter is substantially similar to the exemptive, interpretive or no-action relief granted by the Commission and Staff through a series of letters.² In addition, the relief requested in this letter with respect to Rule 200(g) of Regulation SHO is identical to that granted by the

¹ See Letter from James A. Brigagliano, Division of Market Regulation to Jack P. Drogin, dated August 4, 2005, File No. TP-05-88, for the iShares MSCI EAFE Growth Index Fund and iShares MSCI EAFE Value Index Fund ("MSCI EAFE Letter").

² See MSCI EAFE Letter and Letters from James A. Brigagliano, Division of Market Regulation to: (1) Jack P. Drogin, dated October 8, 2004, File No. TP-04-33, for the FTSE/Xinhua China 25 Index Fund and September 26, 2003, File No. TP-03-118, for the iShares Lehman U.S. Treasury Inflation Protected Securities Fund and iShares Lehman U.S. Aggregate Bond Fund (this letter did not seek relief under Rule 14e-5); (2) W. John McGuire, dated July 25, 2002, File No. TP02-81, for the iShares 1-3 Year Treasury Index Fund, iShares 7-10 Year Treasury Index Fund, iShares 20+ Year Treasury Index Fund, iShares Treasury Index Fund, iShares Government/Credit Index Fund, iShares Lehman Corporate Bond Fund and iShares Goldman Sachs InvesTop Corporate Bond Fund (this letter did not seek relief under Rule 14e-5); (3) Donald R. Crawshaw, dated October 26 2001, File No. TP01-236, for the iShares, Inc. MSCI Index Funds (ACFE, ACW, EMF, EMLA, Europe, Pacific, and Israel); (4) W. John McGuire, dated October 19, 2001, File No. TP02-07, for the iShares S&P Latin America 40 Index Fund and the iShares S&P/Tokyo Stock Price Index ("TOPIX") Index Fund; (5) W. John McGuire, dated August 15, 2001, File No. TP01-160, for the iShares MSCI EAFE Index Fund; (6) W. John McGuire, dated July 10, 2001, File No. TP01-161, for the iShares Goldman Sachs Technology Industry Multimedia Networking, Goldman Sachs Technology Industry Semiconductor, Goldman Sachs Technology Industry Software, Russell Midcap, Russell Midcap Growth, and Russell Midcap Value Index Funds; (7) Liza M. Ray, dated March 13, 2001, File No. TP01-106, for the iShares Goldman Sachs Technology Index Fund; (8) James T. McHale, dated February 1, 2001, File No. TP01-60, for the iShares Cohen & Steers Realty Majors and the Nasdaq Biotechnology Index Funds; (9) Mary Joan Hoene, dated September 5, 2000, File No. TP00-135 and December 1, 2000, File No. TP01-16, respectively for the iShares S&P 100 and S&P Global 100 Index Funds; and (10) Kathleen H. Moriarty, dated May 16, 2000, File No. TP00-39 for 35 iShares Funds.

Commission and Staff in a recent no-action letter.³ Further, the Applicants believe that with the exception of the Treasury/MBS Funds, as defined below, the Index Funds will satisfy each and every condition set forth in the responses to certain request letters submitted by the Securities Industry Association and others⁴ and hence will meet the definition of a “Qualifying ETF,” entitled to rely upon the 1934 Act Class Relief Letters granting relief from Section 11(d)(1) of the Exchange Act and Rules 10b-10, 11d1-2, 15c-5 and 15c-6 under the Exchange Act. Since the Treasury/MBS Funds do not meet the definition of a “Qualifying ETF,” they are not entitled to rely upon the 1934 Act Class Relief Letters. However, the Treasury/MBS Funds can satisfy the terms and conditions for the relief requested herein required by the Commission and the Staff under letters granting such relief that were issued prior to the issuance of the 1934 Act Class Relief Letters.

The Trust now seeks relief from Rules 10a-1 and 10b-17 and Rules 101 and 102 of Regulation M and Rule 200 of Regulation SHO under the Exchange Act,⁵ as discussed below, for nine additional series:

- iShares Lehman Short Treasury Bond Fund,
- iShares Lehman 3-7 Year Treasury Bond Fund,
- iShares Lehman 10-20 Year Treasury Bond Fund (together with iShares Lehman Short Treasury Bond Fund, iShares Lehman 3-7 Year Treasury Bond Fund and iShares Lehman MBS Fixed-Rate Bond Fund, the “Treasury/MBS Funds”),
- iShares Lehman 1-3 Year Credit Bond Fund,
- iShares Lehman Intermediate Credit Bond Fund,
- iShares Lehman Credit Bond Fund,
- iShares Lehman Intermediate Government/Credit Bond Fund,
- iShares Lehman Government/Credit Bond Fund, and
- iShares Lehman MBS Fixed-Rate Bond Fund

³ See Letter from James A. Brigagliano, Division of Market Regulation to Kathleen H. Moriarty, dated March 9, 2005 for Vanguard Emerging Markets Stock Index Fund, et al.

⁴ See Letter from the Derivatives Products Committee of the Securities Industry Association, dated August 26, 2005, and the response letter from Catherine McGuire, Chief Counsel, Division of Market Regulation, to Georgia Bullitt, et al., dated November 21, 2005, (collectively, the “Class Exemption Letter”) with respect to an extension of relief granted in prior letters to exchange-traded funds and certain broker-dealers from Section 11(d)(1) and Rules 10b-10, 11d1-2, 15c-5 and 15c-6. See also Letter from James A. Brigagliano, Assistant Director, Division of Market Regulation, to Ira Hammerman, Senior Vice President and General Counsel to the Securities Industries Association dated July 18, 2005 granting relief with respect to Rule 10a-1 in riskless principal transactions; letter from James A. Brigagliano, Assistant Director, Division of Market Regulation to Ira Hammerman, Senior Vice President and General Counsel to the Securities Industry Association, dated January 3, 2005 (collectively the “SIA Relief Letters”) and the letter from James A. Brigagliano, Assistant Director, Division of Market Regulation, dated August 17, 2001 to Claire P. McGrath of the AMEX for a recital of the conditions for the ETF “class exemption” (“AMEX Class Relief Letter”), together with the Class Exemption Letters and the SIA Relief Letters, referred to herein as the “1934 Act Class Relief Letters”).

⁵ However, in this case, please note that the Trust is not seeking relief under Rule 14e-5.

The Trust seeks additional relief from Section 11(d)(1) of the Exchange Act and Rules 10b-10, 11d1-2, 15c-5 and 15c-6 under the Exchange Act for the Treasury/MBS Funds.

Each of the nine listed Funds is referred to as an "Index Fund," and together they are referred to as the "Index Funds."⁶ The Trust filed post-effective amendment number 47 with the Commission on July 19, 2006 in order to register the Index Funds and their iShares under the 1940 Act and the Securities Act of 1933, as amended ("Securities Act").⁷ The Trust is listing the iShares of the Index Funds on the New York Stock Exchange ("NYSE") in accordance with Rule 703.16 and 1100 and the American Stock Exchange (the "Amex" and together with the NYSE, the "Exchanges") in accordance with Rule 1000A.⁸

The Trust notes the creation and issuance by an investment company of shares or units that individually trade on an Exchange, but that in large aggregations can be purchased from and redeemed with the issuing investment company is no longer novel. The Commission has in the past ten years considered and approved many such proposals. Some of these exchange-traded products have been trading publicly for years, and the Trust is not aware of any abuses associated with them. Indeed, several of the products have been so embraced by investors that they routinely are among the highest volume securities on the exchanges on which they trade.⁹

⁶ There are no material differences between the form of organization of the Index Funds and that of other series of the Trust for which the Commission and Staff have previously granted exemptive, interpretive and no-action relief. *See supra* footnote 2. Each are series' of the same Delaware business trust, which is organized as a registered investment company.

⁷ *See* iShares Trust Forms 485APOS, File No. 333-92935 (July 19, 2006). The Commission has issued orders granting relief requested by the Trust in its Applications for Orders under Sections 6(c) and 17(b) of the 1940 Act for the purpose of exempting the Funds from various provisions of the 1940 Act. *See In the Matter of Barclays Global Fund Advisors, et al.*, Investment Company Act Release No. 25622 (June 22, 2002); *In the Matter of Barclays Global Fund Advisors, et al.*, Investment Company Act Release No. 26175 (September 8, 2003); and *In the Matter of Barclays Global Fund Advisors, et al.*, Investment Company Act Release No. 27417 (June 13, 2006).

⁸ The Index Funds do not meet certain of the "generic" listing standards of NYSE Rule 703.16. The NYSE has filed a proposed rule change to permit it to list and trade iShares in each of the Index Funds, other than iShares Lehman MBS Fixed-Rate Bond Fund, which has been approved. *See* Securities Exchange Act Release No. 34-54916 (December 11, 2006). The Amex is currently preparing and intends to file a proposed rule change to permit it to list and trade iShares in the iShares Lehman MBS Fixed-Rate Bond Fund.

If the iShares also trade on the Nasdaq Stock Market, Inc. pursuant to unlisted trading privileges, such trading will be conducted pursuant to self-regulatory organization rules that have become effective pursuant to Exchange Act Section 19(b).

⁹ The Commission has previously granted to the Amex exemptive and no-action relief under Rules 10a-1; 10b-6; 10b-7; 10b-10; 14e-5 (formerly 10b-13); 10b-17; 11d1-2; 15c1-5; and 15c1-6 under the Exchange Act with respect to the trading of SPDRs and MidGap SPDRsTM; Select Sector SPDRsTM, and The Nasdaq-100 Trust(SM). *See* letter from Nancy J. Sanow, Assistant Director, Division of Market Regulation to James F. Duffy, Senior Vice President and General Counsel, Amex, dated January 22, 1993 (regarding SPDRs); letter from Nancy J. Sanow, Assistant Director, Division of Market Regulation to - James F. Duffy, Executive Vice President and General Counsel, Amex, dated April 21, 1995 (regarding MidCap SPDRs); letters dated December 14, 1998 and December 22, 1998, respectively, from Larry E. Bergman, Senior

I. Parties

A. The Index Funds

Each Index Fund seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of a different benchmark index (each an “Underlying Index”). Each Index Fund intends to qualify as a “regulated investment company” for purposes of the Internal Revenue Code. The nine different Index Funds, along with their Underlying Indices, are:

<u>Index Fund</u>	<u>Index</u>
iShares Lehman Short Treasury Bond Fund	Lehman Brothers Short U.S. Treasury Index
iShares Lehman 3-7 Year Treasury Bond Fund	Lehman Brothers 3-7 Year U.S. Treasury Index
iShares Lehman 10-20 Year Treasury Bond Fund	Lehman Brothers 10-20 Year U.S. Treasury Index
iShares Lehman 1-3 Year Credit Bond Fund	Lehman Brothers 1-3 Year U.S. Credit Index
iShares Lehman Intermediate Credit Bond Fund	Lehman Brothers Intermediate U.S. Credit Index
iShares Lehman Credit Bond Fund	Lehman Brothers U.S. Credit Index
iShares Lehman Intermediate Government/Credit Bond Fund	Lehman Brothers Intermediate U.S. Government/Credit Index

Associate Director, Division of Market Regulation and James A. Brigagliano; Assistant Director, Division of Market Regulation, to Stuart M. Straus, Gordon, Altman, Butowsky, Weitzen, Shalov (each regarding Select Sector SPDRs); letter from James A. Brigagliano, Assistant Director, Division of Market Regulation to James F. Duffy, Executive Vice President and Counsel, Amex, dated March 3, 1999 (regarding Nasdaq-100). The Commission also granted similar exemptive or no-action relief to The CountryBaskets(SM) Index Fund, Inc. with respect to the trading of CountryBaskets(SM), *see* letter from Nancy J. Sanow, Assistant Director, Division of Market Regulation to Michael Simon, Milbank, Tweed, Hadley & McCloy, dated March 22, 1996, and letter from Nancy J. Sanow, Assistant Director, Division of Market Regulation to Tuuli-Ann Ristkok, Donovan Leisure Newton & Irvine and Stephen K. West, Sullivan & Cromwell, dated March 22, 1996, and Foreign Fund, Inc. with respect to the trading of World Equity Benchmark Shares™ (now called iShares MSCJ), *see* letter from Nancy J. Sanow, Assistant Director, Division of Market Regulation to Donald R. Crawshaw, Sullivan & Cromwell, dated April 17, 1996, and letter from James A. Brigagliano, Division of Market Regulation to Donald R. Crawshaw, Esq. dated May 10, 2000. The Commission granted to the Amex similar exemptive and no-action relief, including relief under Rule 101 of Regulation M. *See* letter from Larry B. Bergman, Senior Associate Director, Division of Market Regulation to James F. Duffy, Amex, dated January 9, 1998 (regarding DIAMONDS(SM)) and letter from James A. Brigagliano, Assistant Director, Division of Market Regulation to Claire P. McGrath, Esq., dated August 17, 2001. The Commission has also granted similar exemptive and no-action relief to the StreetTracks Series Trust, *see* letter from James A. Brigagliano, Assistant Director, Division of Market Regulation to Stuart M. Strauss, Esq. dated September 26, 2000, the Vanguard Index Funds with respect to VIPERS, *see* letter from James A. Brigagliano, Assistant Director, Division of Market Regulation to Kathleen H. Moriarty, Esq. dated May 21, 2001, and the ETE Advisors Trust with respect to the trading of FITRS, *see* letter from James A. Brigagliano, Assistant Director, Division of Market Regulation to Mary Joan Hoene, Esq. dated November 1, 2002.

iShares Lehman Government/Credit Bond Fund	Lehman Brothers U.S. Government/Credit Index
iShares Lehman MBS Fixed-Rate Bond Fund	Lehman Brothers MBS Fixed-Rate Index

Each of the iShares Lehman Short Treasury Bond Fund, iShares Lehman 3-7 Year Treasury Bond Fund and iShares Lehman 10-20 Year Treasury Bond Fund (the "Treasury Funds") generally will invest at least 90% of its assets in the bonds of its Underlying Index and at least 95% of its assets in U.S. government bonds. Each Treasury Fund also may invest up to 10% of its assets in U.S. government bonds not included in its Underlying Index, but which Barclays Global Fund Advisors ("BGFA"), the investment adviser to each Fund, believes will help the Fund track its Underlying Index. For example, a Treasury Fund may invest in bonds not included in its Underlying Index in order to reflect changes in its Underlying Index (such as reconstitutions, additions and deletions). Each Treasury Fund also may invest up to 5% of its assets in repurchase agreements collateralized by U.S. government obligations and in cash and cash equivalents, including shares of money market funds affiliated with BGFA.

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

The iShares Lehman MBS Fixed-Rate Bond Fund will seek to track the performance of its Underlying Index by investing at least 90% of its assets in the securities of its Underlying Index and in investments that provide substantially similar exposure to securities in the Underlying Index. The Fund may invest the remainder of its assets in bonds not included in its Underlying Index, but which BGFA believes will help the Fund track its Underlying Index, as well as in certain futures, options and swap contracts, cash and cash equivalents, including money market funds advised by BGFA. As of May 31, 2006, approximately 100% of the bonds represented in the Underlying Index are U.S. agency mortgage pass-through securities. U.S. agency mortgage pass-through securities are securities issued by entities such as the Government National Mortgage Association ("GNMA") and the Federal National Mortgage Association ("FNMA") that are backed by pools of mortgages. Most transactions in mortgage pass-through securities occur through standardized contracts for future delivery in which the exact mortgage pools to be delivered are not specified until a few days prior to settlement. The Fund expects to enter into such contracts on a regular basis. The Fund, pending settlement of such contracts, will invest its assets in highly liquid short-term instruments, including shares of money market funds affiliated with BGFA.

The Underlying Indices. Each Index is market capitalization weighted and includes all of the securities that meet the index criteria for each Index. Each Index is made up exclusively of securities that are: (i) non-convertible, (ii) denominated in U.S. dollars, (iii) either rated investment grade or are U.S. treasury securities, (iv) fixed rate, and (v) have \$250 million or more of outstanding face value. Excluded from certain Indices are (a) certain special issues, such as flower bonds, targeted investor notes (“TINs”), and state and local government series bonds (“SLGs”), and coupon issues that have been stripped from assets that are already included in the Index or (b) structured notes with embedded swaps or other special features, private placements, floating rate securities and Eurobonds or (c) both (a) and (b). The constituents of each Index are updated on the last calendar day of each month.

Index Valuation. Each Index is valued using end of day bid side prices, as marked by Lehman Brothers. Intra-month cash flows contribute to monthly returns, but they are not reinvested during the month and do not earn a reinvestment return. Total returns are calculated based on the sum of price changes, gain/loss on repayments of principal, and coupons received or accrued, expressed as a percentage of beginning market value. The value of each Index will be updated on a real-time basis and disseminated once each trading day.

The Individual Index Funds

iShares Lehman Short Treasury Bond Fund. This Fund shall be invested and reinvested primarily in a portfolio of fixed income securities with the objective of approximating the total rate of return of the short-term sector of the United States Treasury market as defined by the Lehman Brothers U.S. Treasury Index. The Index includes all publicly issued, U.S. treasury securities that have a remaining maturity of between 1 and 12 months. As of May 31, 2006, there were 43 issues included in the Index and the profile of the Index was as follows:

Index Capitalization And Concentration	Total Index Market Capitalization	USD 917,874,000
	Number of Constituents	43
	Percent in Ten Largest Constituents	33.4%
Index Characteristics	Duration	0.39
	Yield to Worst	4.99
	Average Coupon	1.73
	Average maturity	0.40
Sector Weightings	US Treasury Securities	100%

iShares Lehman 3-7 Year Treasury Bond Fund. This Fund shall be invested and reinvested primarily in a portfolio of fixed income securities with the objective of approximating the total rate of return of the intermediate-term sector of the United States Treasury market as defined by the Lehman Brothers 3-7 Year U.S. Treasury Index. The Index includes all publicly issued, U.S. treasury securities that have a remaining maturity of greater than or equal to 3 years and less than 7 years. As of May 31, 2006, there were 36 issues included in the Index and the profile of the Index was as follows:

Index Capitalization And Concentration	Total Index Market Capitalization	USD 550,233,782
	Number of Constituents	37
	Percent in Ten Largest Constituents	36.2%

Index Characteristics	Duration	3.88
	Yield to Worst	4.77
	Average Coupon	N/A
	Average maturity	N/A

Sector Weightings	US Treasury Securities	100%
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iShares Lehman 10-20 Year Treasury Bond Fund. This Fund shall be invested and reinvested primarily in a portfolio of fixed income securities with the objective of approximating the total rate of return of the long-term sector of the United States Treasury market as defined by the Lehman Brothers 10-20 Year U.S. Treasury Index. The Index includes all publicly issued, U.S. treasury securities that have a remaining maturity of greater than or equal to 10 years and less than 20 years. As of May 31, 2006, there were 22 issues included in the Index and the profile of the Index was as follows:

Index Capitalization And Concentration	Total Index Market Capitalization	USD 316,468,912
	Number of Constituents	23
	Percent in Ten Largest Constituents	59.9%

Index Characteristics	Duration	9.37
	Yield to Worst	4.96
	Average Coupon	7.80
	Average maturity	14.66

Sector Weightings	US Treasury Securities	100%
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iShares Lehman 1-3 Year Credit Bond Fund. This Fund shall be invested and reinvested primarily in a portfolio of fixed income securities with the objective of approximating the total rate of return of the investment grade credit sector of the United States bond market as defined by the Lehman Brothers 1-3 Year U.S. Credit Index. The Index includes investment grade U.S. credit securities that have a remaining maturity of greater than or equal to 1 year and less than 3 years. As of May 31, 2006, there were 601 issues included in the Index and the profile of the Index was as follows:

Index Capitalization And Concentration	Total Index Market Capitalization	USD 367,908,170
	Number of Constituents	565
	Percent in Ten Largest Constituents	9.2%

Index Characteristics	Duration	1.85
	Yield to Worst	5.32
	Average Coupon	4.93

	Average maturity	2.00
Sector Weightings	Corporate	69.94%
	Non-Corporate	30.06%

iShares Lehman Intermediate Credit Bond Fund. This Fund shall be invested and reinvested primarily in a portfolio of fixed income securities with the objective of approximating the total rate of return of the investment grade credit sector of the United States bond market as defined by the Lehman Brothers Intermediate U.S. Credit Index. The Index includes investment grade U.S. credit securities that have a remaining maturity of greater than or equal to 1 year and less than 10 years. As of May 31, 2006, there were 2,193 issues included in the Index and the profile of the Index was as follows:

Index Capitalization And Concentration	Total Index Market Capitalization	USD 1,495,412,554
	Number of Constituents	2188
	Percent in Ten Largest Constituents	2.6%
Index Characteristics	Duration	4.20
	Yield to Worst	5.55
	Average Coupon	5.58
	Average maturity	5.11
Sector Weightings	Corporate	83.39%
	Non-Corporate	16.61%

iShares Lehman Credit Bond Fund. This Fund shall be invested and reinvested primarily in a portfolio of fixed income securities with the objective of approximating the total rate of return of the investment grade credit sector of the United States bond market as defined by the Lehman Brothers U.S. Credit Index. The Index includes investment grade U.S. credit securities that have a remaining maturity of greater than or equal to 1 year. As of May 31, 2006, there were 2,966 issues included in the Index and the profile of the Index was as follows:

Index Capitalization And Concentration	Total Index Market Capitalization	USD 1,972,824,555
	Number of Constituents	3,018
	Percent in Ten Largest Constituents	2.3%
Index Characteristics	Duration	5.86
	Yield to Worst	5.72
	Average Coupon	5.86
	Average maturity	9.58
Sector Weightings	Corporate	83.79%
	Non-Corporate	16.21%

iShares Lehman Intermediate Government/Credit Bond Fund. This Fund shall be invested and reinvested primarily in a portfolio of fixed income securities with the objective of approximating the total rate of return of the investment grade credit sector of the United States bond market and the total United States Treasury market as defined by the Lehman Brothers Intermediate U.S. Government/Credit Index. The Index includes U.S. government and U.S. credit securities that have greater than or equal to 1 year and less than 10 years remaining to maturity. As of May 31, 2006, there were 3,021 issues included in the Index and the profile of the Index was as follows:

Index Capitalization And Concentration	Total Index Market Capitalization	USD 4,008,384,067
	Number of Constituents	3,016
	Percent in Ten Largest Constituents	6.8%
Index Characteristics	Duration	3.65
	Yield to Worst	5.16
	Average Coupon	4.96
	Average maturity	4.44
Sector Weightings	Government	62.75%
	Corporate	30.73%
	Non-Corporate	6.52%

iShares Lehman Government/Credit Bond Fund. This Fund shall be invested and reinvested primarily in a portfolio of fixed income securities with the objective of approximating the total rate of return of the investment grade U.S. government and U.S. corporate securities of the U.S. bond market as defined by the Lehman Brothers U.S. Government/Credit Index. The Index includes investment grade U.S. government and U.S. credit securities that have greater than or equal to 1 year remaining to maturity. As of May 31, 2006, there were 3,935 issues included in the Index and the profile of the Index was as follows:

Index Capitalization And Concentration	Total Index Market Capitalization	USD 5,035,365,422
	Number of Constituents	3,964
	Percent in Ten Largest Constituents	5.7%
Index Characteristics	Duration	5.11
	Yield to Worst	5.25
	Average Coupon	5.30
	Average maturity	7.71
Sector Weightings	Government	60.82%
	Corporate	32.83%
	Non-Corporate	6.35%

iShares Lehman MBS Fixed-Rate Bond Fund. This Fund shall be invested and reinvested primarily in a portfolio of fixed income securities with the objective of approximating the total rate of return of the investment grade agency mortgage-backed securities sector of the United States as defined by the Lehman Brothers U.S. MBS Fixed-Rate Index. The Index includes securities issued by GNMA, FHLMC, and FNMA that have 30-, 20-, 15-year balloon securities that have a remaining maturity of at least 1 year. As of May 31, 2006, there were 401 issues included in the Index and the profile of the Index was as follows:

Index Capitalization And Concentration	Total Index Market Capitalization	USD 2,989,745,680
	Number of Constituents	396
	Percent in Ten Largest Constituents	34.4%
Index Characteristics	Duration	4.06
	Yield to Worst	5.77
	Average Coupon	5.38
	Average maturity	6.48
Sector Weightings	GNMA	10.47%
	FHLMC	38.75%
	FNMA	50.76%

Representative Sampling. Each Index Fund will use “Representative Sampling” to track its Underlying Index. This means that each Index Fund will be invested in a representative sample of securities in its Underlying Index. Each Index Fund is expected to have a similar investment profile, including risk and return characteristics, as its Underlying Index. Securities selected have aggregate investment characteristics, fundamental characteristics (such as return variability, earnings valuation and yield) and liquidity measures similar to those of the relevant Underlying Index. (The securities owned by each Index Fund are hereinafter referred to as “Fund Securities.”) A fund that uses Representative Sampling generally does not hold all of the securities that are included in its Underlying Index.

B. The Advisor

BGFA serves as advisor to each Index Fund pursuant to an investment advisory agreement between the Trust and BGFA. BGFA is located at 45 Fremont Street, San Francisco, California 94105. It is a wholly-owned subsidiary of Barclays Global Investors, NA. (“BGI”), which in turn is an indirect subsidiary of Barclays Bank PLC. BGI, together with its affiliates, is the world’s largest manager of institutional investment assets. As of June 30, 2006, BGI and its affiliates, including BGFA, managed, administered or advised assets aggregating in excess of \$1.6 trillion.

C. The Distributor

SEI Investments Distribution Company (the “Distributor”) acts as the distributor of iShares in Creation Unit Aggregations. The Distributor has entered into an agreement with the Trust pursuant to which it

will distribute iShares of each Fund, including the Index Funds. The agreement is renewable annually. iShares are continuously offered for sale by the Funds through the Distributor only in Creation Unit Aggregations, as described in the Trust's prospectus. The Distributor will deliver the Trust's prospectus, product description and statement of additional information ("SAI"), as necessary, to persons purchasing Creation Unit Aggregations and will maintain records of both orders placed with it and confirmations of acceptance furnished by it. The Distributor is a broker-dealer registered under the Exchange Act and a member of the National Association of Securities Dealers, Inc. The Distributor has no role in determining the investment policies of the Funds or which securities are to be purchased or sold by the Funds.

D. Management – Indexing Approach

The Trust's Board of Trustees (the "Board") has responsibility for the overall management of the Funds. The Advisor, subject to the supervision of the Board, is responsible for the investment management of each Fund. As described in the Trust's prospectus, the Funds are not managed according to traditional methods of "active" investment management, which involve the buying and selling of securities based upon economic, financial and market analysis and investment judgment. Instead, each Fund attempts to approximate the investment performance of an Underlying Index by investing in a portfolio of fixed-income securities that seeks to replicate the relevant Underlying Index through the use of quantitative analytical procedures. Fund assets not invested in securities that comprise the relevant Underlying Index may be invested in index futures tied to such Underlying Index.

II. Proposal

A. Reason for this Request

It is currently expected that the Index Funds will issue and redeem iShares only in aggregations of 100,000 iShares ("Creation Unit Aggregations") and that purchasers of Creation Unit Aggregations will be able to separate the Creation Unit Aggregations into 100,000 individual iShares. It is expected that a Creation Unit Aggregation will have an initial value of approximately \$10 million. The number of iShares in a Creation Unit Aggregation generally will not change once initially established (except in the event of a stock split or similar revaluation).

The Trust has submitted an application to list iShares of each Index Fund on either the NYSE or the Amex, as noted above. One or more NYSE or Amex member firms, as the case may be, will act as designated specialists and maintain a market for the iShares that trade on such Exchange. iShares of each Index Fund will trade on the NYSE or the Amex in a manner similar to the way other exchange-traded funds, such as the other iShares Funds, iShares MSCI, SPDRs, MidCap SPDRs, DIAMONDS, Select Sector SPDRs, and Nasdaq-100 Shares, trade on one of the Exchanges.

As stated earlier, the Trust has filed with the Commission a registration statement to permit the Trust to offer and sell iShares of each Index Fund. The various disclosure documents and marketing materials will describe the significant features of iShares.

iShares are registered in book-entry form only; an Index Fund will not issue individual share certificates for iShares. The Depository Trust Company (“DTC”) or its nominee will be the record or registered owner of all outstanding iShares. Beneficial ownership of iShares will be shown on the records of DTC or a broker-dealer that is a participant in DTC (a “DTC Participant”). Beneficial Owners of iShares (“Beneficial Owners”) will receive all of the statements, notices, and reports required under the 1940 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 furnish these statements, notices, and reports to the DTC Participants who, in turn, will be responsible for distributing them to the Beneficial Owners. This arrangement is identical to that of the other iShares Funds listed on the Exchanges, and is similar to that used by funds whose shares are owned through mutual funds supermarket intermediaries.

B. Purchasing iShares

Each Index Fund will issue iShares only in Creation Unit Aggregations and generally, only in exchange for an in-kind deposit of securities by the purchaser (except in the case of iShares Lehman MBS Fixed-Rate Bond Fund), together with a deposit of a specified cash payment described more fully below. The in-kind deposit will consist of a basket of securities (the “Deposit Securities”) selected by the Advisor to correspond to the price and yield performance of the Underlying Index. The identities and amounts of the Deposit Securities will be determined by the Advisor and made publicly available. By requiring that purchase (and redemption) transactions involving iShares be in-kind, rather than in cash, the Trust can minimize portfolio turnover, brokerage expenses, and other transaction costs.¹⁰

Each Index Fund will offer and sell iShares in Creation Unit Aggregations through the Distributor on a continuous basis at the net asset value (“NAV”) per share next determined after receipt of an order in proper form. The NAV of iShares will be determined as of the close of regular trading on the New York Stock Exchange (“NYSE”) on each day that the NYSE is open (a “Business Day”).

Individual iShares of each Index Fund will be listed on either the NYSE or the Amex, as specified above, and traded in the secondary market in the same manner as other securities. The price of iShares trading on the NYSE or the Amex, as the case may be, will be based on a current bid/offer market and may vary from net asset value. No secondary sales will be made to brokers or dealers at a concession by the Distributor or by an Index Fund. Transactions involving the sale of iShares on the NYSE or the Amex – which will be between purchasers and sellers and will not involve an Index Fund – will be subject to customary brokerage commissions or mark-ups and charges.

The pricing of iShares of an Index Fund by means of bids and offers on the Exchanges in the secondary market is not novel. As noted above, iShares of most of the Trust’s other Funds are listed

¹⁰ Notwithstanding the benefits of in-kind transactions, the Funds may allow a purchaser to substitute cash for some or all of the Deposit Securities.

and traded on one of the Exchanges. This is the method by which the shares of closed-end investment companies are priced and sold after initial issuance. iShares and other exchange-traded funds have traded at, or very close to, their respective NAVs since their trading commenced.¹¹ Like those products, the price at which iShares of each Index Fund trade on the NYSE or the Amex, as the case may be, will be disciplined by arbitrage opportunities created by the ability to purchase or redeem Creation Unit Aggregations at NAV, which should ensure that iShares similarly do not trade at a material premium or discount in relation to NAV.

C. Placement of Orders to Purchase Creation Unit Aggregations

All orders to purchase iShares of an Index Fund must be placed with the Distributor by or through an "Authorized Participant," which is a DTC Participant. An Index Fund will recoup the costs of issuing a Creation Unit Aggregation by imposing a "Transaction Fee" on investors purchasing or redeeming Creation Unit Aggregations. The purpose of the Transaction Fee is to impose the costs associated with the purchase and redemption of Creation Unit Aggregations on those purchasing and redeeming.¹² The SAI for each Index Fund will provide complete disclosure about the Transaction Fee.

All orders to purchase Creation Unit Aggregations must be received by the Distributor no later than the closing time of the NYSE ("Closing Time") on the date the order is placed (the "Transmittal Date") in order for the purchaser to receive the NAV determined on the Transmittal Date. The Distributor will maintain a record of Creation Unit Aggregation purchases.

The Distributor will transmit all purchase orders to each Index Fund. Any order that is not in proper form will be rejected. After an Index Fund has accepted a purchase order and received delivery of the Deposit Securities and any accompanying cash payment, DTC will instruct it to initiate "delivery" of the appropriate number of iShares to the book-entity account specified by the purchaser. The Distributor will furnish a prospectus and a confirmation to those placing purchase orders.

D. Payment for Creation Unit Aggregations

Except in the case of the iShares Lehman MBS Fixed-Rate Bond Fund, persons purchasing Creation Unit Aggregations from an Index Fund generally must make an in-kind deposit of Deposit Securities together with an amount of cash specified by the Advisor (the "Balancing Amount"). Purchases of Creation Unit Aggregations of the iShares Lehman MBS Fixed-Rate Bond Fund generally will be

¹¹ An exception is the experience of the Malaysia (Free) iShares MSCI Index Fund, which announced that it was suspending creations and discouraging redemptions following the imposition of capital controls by the Malaysian government in September 1998. Since the time of that announcement, the Malaysia iShares MSCI have traded on the Amex at substantially wider spreads to NAV than they had prior to the announcement. Applicants note that the pricing of iShares MSCI generally is subject to additional factors not relevant to exchange-traded funds which are based on underlying indices composed primarily of U.S. securities. These factors include non-overlapping trading hours of domestic and foreign exchanges, currency conversion factors, and local holiday schedules.

¹² Where a Fund permits an in-kind purchaser to substitute cash in lieu of depositing one or more Deposit Securities, the purchaser will be assessed a higher Transaction Fee to offset the increased cost to the Fund of buying or selling those particular Deposit Securities.

made in cash. The Deposit Securities and the Balancing Amount collectively are referred to as the "Fund Deposit." As noted above, the Deposit Securities correspond generally to Fund Securities of the Index Funds. The Balancing Amount is a cash payment designed to ensure that the NAV of a Fund Deposit is identical to the NAV of the Creation Unit Aggregation it is used to purchase. The Balancing Amount is an amount equal to the difference between the NAV of a Creation Unit Aggregation and the market value of the Deposit Securities.¹³

The Advisor will make available through the Distributor on each business day, prior to the opening of trading on the NYSE and the Amex, as the case may be, a list of the name and the required number of units of each Deposit Security to be included in the Fund Deposit for an Index Fund.¹⁴ The Advisor also will make available on a daily basis information about the previous day's Balancing Amount. In addition, the following information will be disseminated: (i) continuously throughout the trading day, through the facilities of the consolidated tape, the market price of an iShare, and (ii) every 15 seconds throughout the trading day, as calculated by market data vendors, the indicative optimized portfolio value, of an iShare (which estimate is expected to be accurate to within a few basis points but should not be viewed as a "real-time" update of the NAV). Comparing these two figures may allow an investor to determine whether, and to what extent, iShares of the Index Funds are selling at a premium or a discount to NAV.

Each Index Fund reserves the right to require the substitution of an amount of cash to replace any Deposit Security. Substitution might be required, for example because one or more Deposit Securities: (1) may be unavailable, or may not be available in the quantity needed to make a Fund Deposit; (2) may not be eligible for transfer,¹⁵ (3) may not be eligible for trading by an Authorized Participant or the investor on whose behalf the Authorized Participant is acting, or (4) may be in the process of being deleted from an Underlying Index. Brokerage commissions incurred by a Fund to acquire any Deposit Security not part of a Fund Deposit are expected to be immaterial, and in any event the Advisor may adjust the relevant Transaction Fee to collect the extra expense from the purchaser.

E. Redemption of iShares

Just as iShares can be *purchased* from an Index Fund only in Creation Unit size aggregations, such shares or units similarly may be *redeemed* only if tendered in Creation Unit size aggregations (except in the event an Index Fund is liquidated). As required by law, redemption requests in good order will receive the NAV next determined after the request is made. Except in unusual circumstances and in the case of the iShares Lehman MBS Fixed-Rate Bond Fund, iShares will generally be redeemed in-

¹³ If the market value of the Deposit Securities is greater than the NAV of a Creation Unit Aggregation, then the Balancing Amount will be a negative number, in which case the Balancing Amount will be paid by the Fund to the purchaser, rather than vice-versa.

¹⁴ The identity and number of units of the Deposit Securities required for a Fund Deposit will change from time to time in response to changes in the composition of an Underlying Index, or corporate actions, or portfolio adjustments by the Advisor.

¹⁵ It is rare that a security likely to be a Deposit Security is ineligible for transfer.

kind, together with a small cash payment, as described more fully below. iShares Lehman MBS Fixed-Rate Bond Fund generally will be redeemed for cash.

iShares in Creation Unit Aggregations of an Index Fund will be redeemable on any day on which the NYSE is open in exchange for a basket of securities (“Redemption Securities”) and a cash payment. The Redemption Securities received by a redeeming investor will be those Fund Securities announced by BGFA on the Business Day that the request for redemption is received in final form. Depending on whether the NAV of a Creation Unit Aggregation is higher or lower than the market value of the Redemption Securities; the redeemer of a Creation Unit Aggregation will either receive from or pay to an Index Fund a cash amount equal to the Balancing Amount.

An Index Fund may make redemptions partly or fully in cash in lieu of transferring one or more Redemption Securities to a redeeming investor if an Index Fund determines, in its discretion, that such alternative is warranted. For example, this could happen if the redeeming investor is unable, by law or policy, to own a particular Redemption Security.

As with purchases, redemptions of iShares in Creation Unit Aggregations will include a Transaction Fee.

F. Dividend Reinvestment Service

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 brokerage firms may make the Service available to their clients. The Trust’s disclosure documents 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 Trust’s disclosure documents 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. No Balancing Amount will be required in connection with acquiring these iShares because such acquisition is a secondary market transaction and not a creation of iShares at current NAV. Brokerage commissions, if any, incurred in purchasing iShares with the cash from the distributions will be an expense borne by the Beneficial Owners participating in reinvestment through the Service.

G. Disclosure Documents

The purchase of iShares in Creation Unit Aggregations or in secondary market transactions will be accompanied or preceded by a statutory prospectus or product description.¹⁶

¹⁶ The Trust has received an exemption from Section 24(d) of the 1940 Act. *In the Matter of the iShares, Inc., et al.* Investment Company Act Release No. 25623 (June 5, 2002). The exemption is conditioned on an undertaking that

The Distributor will coordinate the production and distribution of prospectuses to broker-dealers. It will be the responsibility of the broker-dealers to ensure that a prospectus is provided to each secondary market purchaser of iShares.

H. Comparison of the Trust to the Other Funds Which Have Sought Similar Commission Action

The relief requested in this letter is similar to the relief granted by the Commission to the other Funds of the Trust which currently are listed and traded on the Exchanges and Chicago Board Options Exchange ("CBOE"), and to the iShares S&P Global Consumer Staples Sector Index Fund and iShares S&P Global Utilities Sector Index Fund.¹⁷ With respect to the Treasury/MBS Funds, the relief requested herein is similar to the iShares MSCI Index Funds (formerly known as WEBS, and the Foreign Fund), the Select Sector SPDR Trust and CountryBaskets Index Fund. The relief requested herein also is similar to that granted to certain unit investment trusts, namely SPDR Trust, Series I; MidCap SPDR Trust, Series 1; Diamonds Trust, Series 1; and Nasdaq-100 Trust, Series 1.¹⁸

III. Requests for Relief for All Index Funds

A. Rule 10a-1

Rule 200(a) of Regulation SHO defines a "short sale." Rule 10a-1(a)(1)(i) provides that a short sale of an exchange-traded security may not be effected below the last regular-way sale price, or at such price unless such price is above the next preceding price at which a sale was reported. The Trust believes that relief from the application of Rule 10a-1 to secondary market transactions in iShares of the Index Funds is appropriate insofar as iShares are derivative securities based on an index of fixed-income securities. Application of Rule 10a-1 to transactions of the Index Funds' iShares would not further the rule's purposes, and exempting such transactions would not be inconsistent with such rule.

A primary purpose of Rule 10a-1 is to prevent the market price of an exchange-traded security from being manipulated downward by unrestricted short selling. The market prices of iShares of the Index Funds will fluctuate in accordance with changes in net asset value and supply and demand on the particular NYSE or the Amex, as the case may be. Price differences may be due, in large part, to the fact that supply and demand forces at work in the secondary trading market for iShares will be closely related to, but not identical to, the same forces influencing the prices of the component securities of the Underlying Indices of the Index Funds trading individually or in the aggregate at any point in time. Any temporary disparities in market value between iShares and the relevant component securities would tend to be corrected immediately by arbitrage activity. Moreover, iShares in Creation Unit Aggregations or multiples thereof may be redeemed on any Business Day. Under these circumstances,

investors purchasing iShares from or through dealers in the secondary market will receive a short "Product Description" or other similar disclosure document in lieu of the lengthier statutory prospectus. The Product Description will provide a plain English description of the relevant Fund and the iShares it issues.

¹⁷ See *supra* footnote 2.

¹⁸ See *supra* footnote 2.

it would appear to be economically futile for short sales in iShares to be utilized to depress iShare prices.

The trading market for iShares of the Index Funds would be adversely affected if Rule 10a-1 operated to prevent dealers or the specialist from making short sales of iShares to satisfy customer demand in the absence of an uptick. Requiring an investor to utilize another means to achieve such investor's investment goals would be detrimental to the market for iShares and contrary to the public interest in liquid, efficient securities markets.

The Trust notes that it is not requesting relief from Rule 10a-1 for secondary market portfolio sales which may be made in connection with redemptions of iShares. The short sale rule will apply (or not apply) to such transactions as to any other portfolio trade.

For the reasons set forth above, the Trust requests that the Commission grant an exemption from Rule 10a-1 to permit sales of iShares of the Index Funds without regard to the "tick" requirements of Rule 10a-1.

B. Rule 200(g) of Regulation SHO

Rule 200(g) of Regulation SHO ("Rule 200(g)") provides that a broker-dealer must mark all sell orders of any equity security as "long," "short," or "short exempt." Rule 200(g)(2) requires that a short sale order must be marked "short exempt" if the seller is relying on an exception from the uptick requirements of Rule 10a-1 of the Exchange Act or any short sale price test of any exchange or national securities association. As of January 3, 2005, under Regulation SHO, broker-dealers are generally required to mark "short exempt" all short sales effected in any class of products, or during certain specified periods of time, that have been granted an exemption from a price test, such as that requested by the Trust in connection with the Index Funds. Commission Staff has provided no-action relief to the Securities Industry Association (the "200(g) Letter")¹⁹ that, subject to certain conditions, permits broker-dealers to mark short sales as "short" rather than "short exempt" for, among other things, short sales effected in ETFs that had been granted an exemption from a price test at the time of the letter.²⁰

The relief granted in the 200(g) Letter is subject to the following conditions:

- (i) For each exempt short sale, the various market centers that execute such sales have instituted procedures to "mask" the short sale character of the transaction so that they are executed as short exempt;

¹⁹ See letter from James A. Brigagliano, Assistant Director of the Division of Market Regulation, to Ira Hammerman, General Counsel to the Security Industry Association, dated January 3, 2005, File No. TP-05-11 (granting relief from Regulation SHO with regard to ETFs that had previously been granted an exemption from a price test).

²⁰ The ETFs to which the relief is applicable are listed in Appendix A to the request letter from SIA and include the other Funds of the Trust. See *Id.*

(ii) Such market centers monitor on a regular basis to confirm that any such product or transaction continues to meet the conditions for the exemptive relief and re-institute the price test for any product or transaction that fails to satisfy such conditions;

(iii) A broker-dealer executing exempt short sales will mark such sales as “short,” and in no event will such sales be marked “long,” and

(iv) The market centers will maintain an audit trail of all such trade executions, which is capable of being produced and subject to review upon request by the Commission and other appropriate regulatory authorities.

The Trust requests that Commission Staff not recommend that the Commission take enforcement action under Rule 200(g) of Regulation SHO if a broker-dealer marks “short,” rather than “short exempt,” a short sale that is effected in the Index Funds in the same manner as those ETFs listed in Appendix A of the 200(g) request letter and the above conditions are satisfied.²¹

C. Rule 101 of Regulation M

Generally, Rule 101 of Regulation M is an anti-manipulation regulation that, subject to certain exemptions, prohibits any “distribution participant” and its “affiliated purchasers” from bidding for, purchasing, or attempting to induce any person to bid for or purchase, any security which is the subject of a distribution until after the applicable restricted period, except as specifically permitted in Regulation M. The provisions of Rule 101 apply to underwriters, prospective underwriters, brokers, dealers, and other persons who have agreed to participate or are participating in a distribution of securities.

We understand that while broker-dealers that: (i) tender Deposit Securities through the Distributor in return for Creation Unit Aggregation(s) or (ii) redeem Creation Unit Aggregations generally will not be part of a syndicate or selling group, and while no broker-dealer will receive fees, commissions or other remuneration from the Trust or the Distributor for the sale of Creation Unit Aggregations, under certain circumstances such broker-dealers could be deemed to be “underwriters” or “distribution participants” as those terms are defined in Rule 100(b).

The Trust respectfully requests that the Commission grant an exemption from Rule 101, as discussed below, to permit persons participating in a distribution of iShares of an Index Fund to bid for or purchase, redeem or engage in other secondary market transactions in such iShares during their participation in such distribution.

Paragraph (c)(4) of Rule 101 exempts from its application, *inter alia*, redeemable securities issued by an open-end management investment company (as such terms are used in the 1940 Act). The Trust is registered as an open-end management investment company under the 1940 Act. However, iShares are

²¹ The Trust notes that Commission Staff has recently granted identical no-action relief with regard to Rule 200(g) of Regulation SHO. See *supra* footnote 19.

not redeemable except in Creation Unit Aggregations. Due to the redeemability of the iShares in Creation Unit Aggregations, there should be little disparity between the iShares' market price and their net asset value per iShare. Accordingly, the rationale for exempting redeemable securities of open-end management investment companies from the application of Rule 101 is equally applicable to iShares. Although redemption is subject to the condition of tendering sufficient iShares in Creation Unit Aggregations, the Trust otherwise will function as an open-end fund continuously offering its shares or units. It is in recognition of the special nature of such offerings that open-end management investment company and unit investment trust securities are exempted under paragraph (c)(4). Without such an exemption, they could not operate as intended. In view of the foregoing, the Trust requests that the Commission confirm that as a result of registration of the Trust as an open-end management investment company and the redeemable nature of the iShares in Creation Unit Aggregations, transactions in the iShares of the Index Funds would be exempted from Rule 101 on the basis of the exception contained in (c)(4) of such rule.

The purpose of Rule 101 is to prevent persons from conditioning the market to facilitate a distribution. Creation Unit Aggregations of iShares may be created, and iShares in Creation Unit Aggregations may be redeemed in-kind at net asset value, on any Business Day. Holders of iShares also have the benefit of intra-day secondary market liquidity by virtue of the Exchange listing. Thus, the secondary market price of iShares should not vary substantially from their net asset value. Because of the redeemability of iShares in Creation Unit Aggregations, any significant disparity between the market price of iShares and net asset value should be eliminated by arbitrage activity. Because the net asset value of iShares is based on the market value of an Index Fund's portfolio, transactions involving iShares (creations from and redemptions with an Index Fund, purchases and sales in the secondary market) will not affect net asset value. Similarly, such transactions should not have a significant effect on the market value of iShares.

In view of the lack of any special financial incentive to create Creation Unit Aggregations of iShares, combined with a predictable lack of any meaningful potential for the issuance and the secondary market trading of iShares to affect significantly iShare pricing, application of Rule 101 to a broker-dealer or other person who may be participating in a distribution of iShares is unnecessary and inappropriate, and could unnecessarily hinder broker-dealers or other persons in their creation and redemption activities, in their day-to-day ordinary business of buying and selling securities and iShares and thus undermine the potential beneficial market effect of iShare trading.²²

²² Please note that we are not requesting relief from the provisions of Rule 101 to the extent necessary to permit certain transactions in Fund Securities of the Index Funds as we have done in previous iShares Trust letters. In this context, the Fund Securities consist entirely of nonconvertible debt securities rated by at least one nationally recognized statistical rating organization as "investment grade" – and exempted securities as defined in Exchange Act Section 3(a)(12). Rules 101(c)(2) and (c)(3) specifically except these securities from the provisions of Rule 101.

D. Rule 102 of Regulation M

The Trust also requests that the Commission confirm that, as a result of registration of the Trust as an open-end management investment company and the redeemable nature of iShares in Creation Unit Aggregations, for the reasons previously stated under the request with respect for relief under Rule 101(c)(4), transactions in iShares of the Index Funds would be exempted from Rule 102 on the basis of the exception contained in paragraph (d)(4) of such rule. Application of Rule 102 in this context would not further the anti-manipulative purposes underlying the rule.

The purpose of Rule 102 is to prevent persons from manipulating the price of a security during a distribution and to protect the integrity of the offering process by prohibiting activities that could artificially influence the market for that particular security. The Trust respectfully requests that the Commission grant an exemption under paragraph (e) of Rule 102 to allow the Index Funds to redeem iShares in Creation Unit Aggregations during the continuous offering of iShares. The Trust respectfully submits that the redemptions described in this letter do not constitute a manipulative or deceptive practice within the purpose of Rule 102 and are eligible for an exemption from the provisions of Rule 102 to allow the Index Funds to redeem iShares in Creation Unit Aggregations during the continuous offering of iShares.²³

E. Rule 10b-17

Rule 10b-17 requires an issuer of a class of publicly-traded securities to give notice of certain specified actions (*e.g.*, dividends, stock splits, rights offerings) relating to such class of securities in accordance with Rule 10b-17(b). Paragraph (c), however, states that the rule shall not apply to redeemable securities issued by open-end investment companies and unit investment trusts registered under the 1940 Act.²⁴ Except for the fact that iShares must be redeemed in Creation Unit-size aggregations, iShares are redeemable securities issued by open-end investment companies. Therefore, the exemption under paragraph (c) of Rule 10b-17, should be applicable to the Index Funds.

IV. Requests for Relief for Treasury/MBS Funds Only

A. Rule 10b-10

Rule 10b-10 requires a broker or dealer effecting a transaction in a security for a customer to give or send written notification to such customer disclosing the information specified in paragraph (a) of Rule 10b-10, including the identity, price, yield (including yield to maturity) and number of shares or units

²³ As noted *supra*, footnote 22, the Fund Securities consist entirely of nonconvertible debt securities rated by at least one nationally recognized statistical rating organization as "investment grade" and exempted securities as defined in Exchange Act Section 3(a)(12). Since Rules 102(d)(2) and (d)(3) specifically except these securities from the provisions of Rule 102, we have not included a request for relief from the provisions of Rule 102 with respect to transactions in Fund Securities.

²⁴ The Commission has issued orders granting relief requested by the Trust in its Applications for Orders under Sections 6(c) and 17(b) of the 1940 Act for the purpose of exempting the Funds from various provisions of the 1940 Act. *See supra* footnote 7.

(or principal amount) of the security purchased or sold. The Trust requests that the Commission grant an exemption from Rule 10b-10, as discussed below, with respect to the creation (*i.e.*, issuance) or redemption of iShares (all of which are in Creation Unit Aggregations) of the Treasury/MBS Funds. The Trust is not requesting exemptive or interpretive relief from Rule 10b-10 in connection with purchases and sales of iShares in the secondary market.

The Trust proposes that broker-dealers or other persons acting for their customers in either depositing Deposit Securities in exchange for Creation Unit Aggregations or redeeming iShares in Creation Unit Aggregations for Fund Securities be permitted to provide such customers with a statement of the number of Creation Unit Aggregations created or redeemed without providing a statement of the identity, principal amount, price and yield (including yield to maturity) of individual Deposit Securities included in the Fund Deposit tendered to an Index Fund for purposes of purchasing Creation Unit Aggregations or the identity, principal amount, price and yield (including yield to maturity) of Redemption Securities to be delivered by the Trust to the redeeming holder. The composition of the Deposit Securities required to be tendered to an Index Fund for creation purposes and of the Redemption Securities to be delivered on redemption will be disseminated by DTC or the Distributor on each Business Day and will be applicable to requests for creations or redemptions, as the case may be, on that day. This information will be publicly available on the NYSE or the Amex, as the case may be, and will be made available to requesting broker-dealers or other persons through other third-party information providers. Moreover, institutions and market professionals will be readily able to calculate independently such information based on publicly available information. We anticipate that any institution or broker-dealer engaging in creation or redemption transactions would have done so only with knowledge of the composition of the applicable securities, so that specific information in the Rule 10b-10 notification would be redundant.

The Trust agrees that any exemptive relief under Rule 10b-10 with respect to creations and redemptions be subject to the following conditions:

- (1) Confirmations to customers engaging in creations or redemptions must state that all information required by Rule 10b-10 will be provided upon request;
- (2) Any such request by a customer for information required by Rule 10b-10 will be filled in a timely manner, in accordance with Rule 10b-10(c); and
- (3) Except for the identity, principal amount, price and yield (including yield to maturity) of the component securities of the Deposit Securities and Redemption Securities, as described above, confirmations to customers must disclose all other information required by Rule 10b-10(a).

B. Section 11(d)(1); Rule 11d1-2

Section 11(d)(1) of the Exchange Act generally prohibits a person who is both a broker and a dealer from effecting any transaction in which the broker-dealer extends credit to a customer on any security which was part of a new issue in the distribution of which he participated as a member of a selling

syndicate or group within thirty days prior to such transaction. Rule 11d1-2 provides an exemption from Section 11(d)(1) for securities issued by a registered open-end investment company or unit investment trust with respect to transactions by a broker-dealer who extends credit on such security, provided the person to whom credit has been extended has owned the security for more than thirty days.

The Trust hereby requests that the Staff clarify that Section 11(d)(1) does not apply to broker-dealers that engage in both proprietary and customer transactions in iShares of the Treasury/MBS Funds in the secondary market but do not create Creation Unit Aggregations. The Trust believes that application of the thirty-day restriction in Rule 11d1-2 to broker-dealers engaging exclusively in secondary market transactions in iShares does not further the purposes of Section 11(d)(1) or Rule 11d1-2.²⁵ The only compensation a broker-dealer will receive for representing a customer in purchasing iShares is a customary commission (if acting as agent) or mark-up/spread (if acting as principal), determined in the same manner as in any sale of stock by the broker-dealer in a secondary market transaction.

The Trust also requests that the Staff not recommend enforcement action to the Commission under Section 11(d)(1) of the Exchange Act if broker-dealers treat iShares of the Treasury/MBS Funds, for purposes of Rule 11d1-2, as "securities issued by a registered open-end investment company as defined in the Investment Company Act" and thereby extend credit or maintain or arrange for the extension or maintenance of credit on iShares that have been owned by the persons to whom credit is provided for more than thirty days, in reliance on the exemption contained in the rule.

C. Rule 15c1-5 and 15c1-6

Rule 15c1-5 requires a broker or dealer controlled by, controlling, or under common control with, the issuer of a security who induces the purchase or sale by a customer of a security, to disclose the existence of such control before entering into a contract with or for such customer for the purchase or sale of such security. Rule 15c1-6 requires a broker or dealer to send a customer written notification of its participation in the primary or secondary distribution of any security in which it effects any transaction in or for such customer's account or induces the purchase or sale of such security by such customer.

For the reasons discussed above in Part III. B and C, the Trust believes that disclosure by a broker-dealer of a control relationship with the issuer of a Fund Security in an Underlying Index of a Treasury/MBS Fund or of a participation in the distribution of one of the Fund Securities would impose an unnecessary and unjustifiable burden on broker-dealers engaging in Treasury/MBS Fund iShare transactions for their customers. There is no realistic potential for manipulating the market price of a Fund Security by transactions in iShares because the Fund Securities are limited to nonconvertible debt securities rated by at least one nationally recognized statistical rating organization

²⁵ The Trust notes that broker-dealers that engage in both creation of Creation Unit Aggregations of iShares and secondary market transactions in iShares, and that meet the requirements of Rule 11d1-1 may be covered by the exemptions provided in such rule.

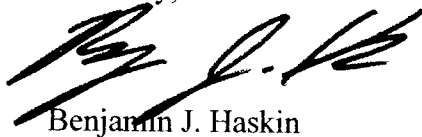
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as “investment grade” and exempted securities as defined in Exchange Act Section 3(a)(12). The inability to manipulate the market in these securities is demonstrated by is their exclusion from Rules 101 and 102 of Regulation M, as discussed above.²⁶ The same justification would apply to granting relief from providing these disclosures to customers in connection with the creation or redemption of Creation Unit Aggregations of iShares. Application of these rules could adversely affect the attractiveness of iShares to broker-dealers and thereby affect market liquidity and the utility of iShares as a form of basket trading. The Trust, therefore, requests the Staff to grant no-action relief from application of the rules with respect to creations and redemptions of the Treasury/MBS Funds’ iShares and secondary market transactions therein.

V. Conclusion

Based on the foregoing, we respectfully request that the Commission and the Staff grant the relief requested herein. The forms of relief requested are virtually identical to those actions which the Commission and the Staff have taken in similar circumstances and for the other Funds of the Trust. Should you have any questions please call the undersigned at (202) 303-1124 or Margery K. Neale at (212) 728-8297.

Sincerely,



Benjamin J. Haskin

²⁶ See e.g. *supra* footnote 22.