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 self-regulatory organization 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 self-regulatory organization has prepared summaries, set forth in sections A, B and C below, of the most significant aspects of such statements.

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

The Exchange proposes to list up to nine CountryBasket securities ("Securities"). The Securities will be issued either by an open-end management investment company or by UITs or similar entities that invest in individual series of an index fund.3 Each series of such an investment company (each a "Fund") is designed to provide investment results that substantially correspond to the price and yield performance of a specific component of the FT-Actuaries World Index. The initial nine series of Funds will be based on the following FT-Actuaries World Indices: Australia; France; Germany; Hong Kong; Italy; Japan; South Africa; United Kingdom; and the United States.⁴

The FT-Actuaries World Indices

DBSC, the adviser to the Funds, has provided the Exchange with the following description of the FT-Actuaries World Indices.

Establishing an Index

The FT–AWI are jointly compiled by The Financial Times Limited, Goldman,

⁴The actual components, component capitalization, and component weightings for each series were submitted as part of a Form N–1A registration statement of The CountryBaskets Index Fund, Inc. under the Securities Act of 1933 and the Investment Company Act of 1940. Registration Nos. 33–85710; 811–8734. Sachs & Co., and NatWest Securities Limited, in conjunction with the Institute of Actuaries (together, the "Consortium"). The aim of the Consortium is to create and maintain a series of high quality equity indices for use by the global investment community. Specifically, the Consortium seeks to establish and maintain the FT–AWI so that with respect to their corresponding markets, they are comprehensive, consistent, flexible, accurate, investible, and representative.

The World Index Policy Committee ("WIPC") makes all policy decisions concerning the FT-AWI, including: objectives; selection criteria; liquidity requirements; calculation methodologies; and the timing and disclosure of additions and deletions. The WIPC makes those decisions in a manner that is consistent with the stated aims and objectives of the Consortium. In general, the WIPC aims for a minimum of 70 percent coverage of the aggregate value of all domestic exchange-listed stocks in every country, region and sector in which it maintains an index.

The WIPC consists of: One representative of each Consortium member; one member nominated by each of the parties as representing an actual or prospective main user group of the World Indices; a Chairman and additional member who are members of the Institute of Actuaries or the Facility of Actuaries.

A country must satisfy the following criteria for the WIPC to include it in the FT-Actuaries World Indices: (1) Direct equity investment by non-nationals must be permitted; (2) accurate and timely data must be available; (3) no significant exchange controls should exist that would prevent the timely repatriation of capital or dividends; (4) significant international investor interest in the local equity market must have been demonstrated; and (5) adequate liquidity must exist.

Securities in the FT–AWI are subject to the following "investibility screens": (1) Securities comprising the bottom five percent of any market's capitalization are excluded; (2) securities must be eligible to be owned by foreign investors; (3) 25 percent or more of the full capitalization of eligible securities must be publicly available for investment and not in the hands of a single party or parties "acting in concert"; and (4) securities that fail to trade for more than 15 business days within each of two consecutive quarters are excluded.

The WIPC seeks to select constituent stocks that capture 85 percent of the

equity that remains available in any market (known as the "investible universe") after applying the investibility screens. Securities are selected with regard to economic sector and market capitalization to make the FT–AWI component highly representative of the overall economic sector make-up and market capitalization distribution of the investible universe of a market.

Maintaining an Index

The WIPC may add securities to the FT-AWI for any of the following reasons: (1) The addition would make the economic sector make-up and market capitalization distribution of the FT-AWI component more representative of its investible universe; (2) a non-constituent security has gained in importance and replaces an existing constituent security under the rules of review established by the WIPC; (3) the FT-AWI component represents less than its targeted percentage of the capitalization of its investible universe (usually in cases where the investible universe has grown faster than the corresponding FT-AWI component); (4) a new, eligible security becomes available whose total capitalization is one percent or more of the current capitalization of the relevant FT-AWI component; (5) an existing constituent "spin off" a part of its business and issues new equity to the existing shareholders; or (6) changes in investibility factors lead to a stock becoming eligible for inclusion and that stock now qualifies on other grounds.

The WIPC may adjust the FT-AWI for any of the following reasons: (1) The component comprises too high a percentage of its representative universe; (2) a review by the WIPC shows that a constituent security has declined in importance and should be replaced by a non-constituent security; (3) the deletion of a security that has declined in importance would make the FT-AWI component more representative of the economic make-up of its investible universe; (4) circumstances regarding investibility and free float change, causing the constituent security to fail the FT-AWI screening criteria; (5) an existing constituent security is acquired by another entity; or (6) the stock has been suspended from trading for a period of more than ten working days. Generally, but not in all cases, changes resulting from review by the WIPC occur at the end of a calendar quarter. Changes resulting from merger or "spin-off" activity will be effectuated as soon as practicable.

³The specific character or structure of the Securities will be determined based on, among other things, the types of exemptive relief the product sponsors receive from the Commission with respect to issues arising under the Investment Company Act of 1940. The manner in which the Securities will be listed and traded on the Exchange will be the same regardless of the structure chosen. For ease of reference throughout this filing the term "Fund" will refer either to each series of the open end management investment company that will be trading on the Exchange (in a fund-only structure) or to each series of the open end management investment company that will be underlying a UIT (in a dual Fund/UIT structure).