

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

1. Introduction

The Amex proposed to list and trade under Rules 1000A *et seq.* Index Fund Shares issued by an open-end management investment company ("Fund") that seeks to provide investment results that correspond generally to the price and yield performance of a specified foreign or domestic equity market index. Index Fund Shares will be issued by an entity registered with the Commission as an open-end management investment company, and which may be organized as a series fund providing for the creation of separate series of securities, each with a portfolio consisting of some or all of the component securities of a specified securities index. A Fund may be managed so as to permit the purchase or sale of certain securities in the underlying portfolio in an effort to track, to the extent desired, the relevant securities index. A Fund may establish tracking tolerances which will be disclosed in the prospectus for a particular Fund or series thereof. Such Fund or series normally will not replicate exactly a specific index, but instead will seek to track an index within the tolerances stated in the prospectus.

Issuances of Index Fund Shares by a Fund will be made only in minimum Creation Unit size aggregations or multiples thereof. The size of the applicable Creation Unit size aggregation will be set forth in the Fund's prospectus and will vary from one series of Index Fund Shares to another, but generally will be of substantial size (e.g., value in excess of \$500,000 per Creation Unit). It is expected that a Fund will issue and sell Index Fund Shares through a principal underwriter ("Distributor") on a continuous basis at the net asset value per share next determined after an order to purchase Index Fund Shares in Creation Unit size aggregations is received in proper form. Following issuance, Index Fund Shares would be traded on the Exchange like other equity securities by professionals, as well as retail and institutional investors.

It is expected that Creation Unit size aggregations of Index Fund Shares generally will be issued in exchange for the "in kind" deposit of a specified portfolio of securities, together with a cash payment representing, in part, the amount of dividends accrued up to the time of issuance. It is anticipated that such deposits will be made primarily by

institutional investors, arbitrageurs, and the Exchange specialist. Redemption of Index Fund Shares generally will be made "in kind," with a portfolio of securities and cash exchanged for Index Fund Shares that have been tendered for redemption. Issuance or redemptions also could occur for cash under specified circumstances (e.g., if it is not possible to effect delivery of securities underlying the specific series in a particular foreign country) and at other times in the discretion of the Fund.

It is expected that a Fund will make available on a daily basis a list of the names and the required number of shares of each of the securities to be deposited in connection with issuance of Index Fund Shares of a particular series in Creation Unit size aggregations, as well as information relating to the required cash payment representing, in part, the amount of accrued dividends.

A Fund make periodic distributions of dividends from net investment income, including net foreign currency gains, if any, in an amount approximately equal to accumulated dividends on securities held by the Fund during the applicable period, net of expenses and liabilities for such period.

Index Fund Shares will be registered in book entry form through The Depository Trust Company. Trading in Index Fund Shares on the Exchange may be effected until 4:15 p.m. (New York time) each business day.

Index Fund Shares initially to be listed on the Exchange will be series ("Index Series") of World Equity Benchmark Shares issued by Foreign Fund, Inc., and based on the following Morgan Stanley Capital International ("MSCI") Indices ("MSCI Indices" or "Indices"); MSCI Australia Index; MSCI Belgium Index; MSCI Canada Index; MSCI France Index; MSCI Germany Index; MSCI Hong Kong Index; MSCI Italy Index; MSCI Japan Index; MSCI Malaysia Index; MSCI Mexico Index; MSCI Netherlands Index; MSCI Singapore (Free) Index; MSCI Spain Index; MSCI Sweden Index; MSCI Switzerland Index; and MSCI United Kingdom Index.<sup>3</sup>

Foreign Fund, Inc. will issue and redeem WEBS of each Index Series only in aggregations of shares specified for each Index Series. The following table sets forth the number of shares of an Index Series that it is anticipated will constitute a Creation Unit for such Index Series:

Index series	Shares per creation unit
Australia Index Series .....	75,000
Austria Index Series .....	40,000
Belgium Index Series .....	40,000
Canada Index Series .....	75,000
France Index Series .....	75,000
Germany Index Series .....	250,000
Hong Kong Index Series .....	40,000
Italy Index Series .....	40,000
Japan Index Series .....	250,000
Malaysia Index Series .....	75,000
Mexico Index Series .....	75,000
Netherlands Index Series .....	75,000
Singapore (Free) Index Series .....	75,000
Spain Index Series .....	40,000
Sweden Index Series .....	75,000
Switzerland Index Series .....	75,000
United Kingdom Index Series .....	75,000

3. The MSCI Indices<sup>4</sup>

General

The Indices were founded in 1969 by Capital International S.A. as the first international performance benchmarks constructed to facilitate accurate comparison of world markets. Morgan Stanley acquired rights to the Indices in 1986. The MSCI Indices have covered the world's developed markets since 1969, and in 1988, MSCI commenced coverage of the emerging markets.

Although local stock exchanges traditionally have calculated their own indices, these generally are not comparable with one another, due to differences in the representation of the local market, mathematical formulas, base dates, and methods of adjusting for capital changes. MSCI applies the same criteria and calculation methodology across all markets for all indices, developed and emerging.

MSCI generally seeks to have 60% of the capitalization of a country's stock market reflected in the MSCI Index for such country. Thus, the MSCI Indices balance the inclusiveness of an "all share" index against the replicability of a "blue chip" index.

Weighting

All single-country MSCI Indices are market capitalization weighted, *i.e.*, companies are included in the indices at their full market value (total number of shares issued and paid up, multiplied by price). For countries that restrict foreign ownership, MSCI calculates two indices. The additional indices are called "free" indices, and they exclude companies and share classes not purchasable by foreigners. Free indices currently are calculated for Singapore, Mexico, the Philippines, and Venezuela,

<sup>3</sup> The Exchange has stated that it will make an appropriate filing pursuant to Rule 19b-4 under the Act prior to listing series of Index Fund Shares for indices other than those described in the present proposal. Amendment No. 1, *supra* note 2.

<sup>4</sup> The description of the MSCI Indices was prepared by Foreign Fund, Inc.