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PERFORMANCE THROUGH INNOVATION

BARCLAYS GLOBAL INVESTORS

July 17, 2001

COMMENT

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RECORDS SECTION

Ms. Joan Webb
Office of the Secretariat
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street
Washington, DC 20581

Mr. Jonathan G. Katz
Secretary to the Commission
Securities and Exchange Commission
450 Fifth Street
Washington, DC 20549-0609

Re: Narrow-Based Security Indexes, 66 *Fed. Reg.* 27560 (May 17, 2001)

Dear Ms. Webb and Mr.Katz:

Barclays Global Investors ("BGI") welcomes this opportunity to comment on rules that the Commodity Futures Trading Commission and the Securities and Exchange Commission have proposed to implement certain provisions of the Commodity Exchange Act ("CEA") and the Securities Exchange Act of 1934 ("Exchange Act") relating to security futures products. Our comments are limited to the Commissions' proposals concerning foreign security index contracts.

BGI is the world's largest institutional investment manager, and the world's largest provider of structured investment strategies such as indexing, tactical asset allocation, and quantitative active strategies. BGI managed over $800 billion in assets as of December 31, 2000, and over 1,500 funds, which track over 200 global indexes, for nearly 2,000 clients in 37 countries around the world. As the creator of the first index strategy 30 years ago, BGI is truly an innovator in investment management, applying science and technology to the investment process. BGI has 2,000 employees worldwide and is owned by Barclays PLC, one of the UK's largest companies, and one of the world's leading global financial services providers, with operations in about 60 countries.

Barclays Global Investors , N.A.
45 Fremont Street
San Francisco, CA 94105

BGI manages assets primarily for institutional investors, such as pension funds, foundations and endowments as well as SEC-registered investment companies. BGI uses foreign and domestic stock index futures contracts in a number of its strategies, generally to hedge cash positions in anticipation of investment in the underlying physical securities or to retain exposure to the index pending cash redemptions. These "equitized cash" positions permit BGI to more effectively track particular indices and fulfill the investment mandates selected by its clients.

We wish to note our support for the comments that the Futures Industry Association provided to the Commissions on the proposed rules. We endorse the separate regulatory standard proposed by FIA for determining when a foreign security index contract would be broad based for purposes of the CEA and the Exchange Act. Further, as an active participant in global securities markets and as a specialist in risk-controlled investing, we agree that the Commissions must be prepared to change review standards over time to respond to new developments in risk management products, including security index futures contracts.

We believe that the proposed application of the statutory standard to foreign security index contracts could adversely affect the ability of investment managers, such as BGI, to efficiently and effectively implement international securities investment strategies for their U.S. clients. The inability to trade in certain foreign stock index futures contracts for these clients will affect the performance of a strategy, and could reduce returns for investors.

For example, a frequently used foreign index strategy for U.S. institutional investors is benchmarked to Europe, Far East and Asia ("EAFE") countries. This index, the Morgan Stanley Capital International (MSCI) EAFE Free Index, is maintained by Morgan Stanley Capital International and is currently comprised of 21 countries. As of March 30, 2001, BGI managed over $50 billion in EAFE assets for its U.S. institutional clients. BGI's clients increasingly add an EAFE strategy (or a global strategy that includes EAFE exposure) to their investment portfolio in order to diversify that portfolio. By way of example, one of the two additional investment options recently implemented by the Federal Thrift Savings Plan is an international index fund which is invested in a BGI EAFE Index Fund.

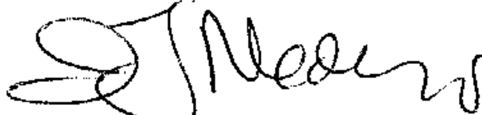
As with all indices, the EAFE index design assumes full investment in all of the securities in the index at their set weights. Index investors seek to track the index as closely as possible. To maintain index weight exposures to the various countries comprising the index during

periods of cash accumulation,[1] BGI invests in futures contracts that are either based on the local country index or the MSCI index for country. Three of these futures contracts, the Hang Seng (Hong Kong), IBEX 35 (Spain) and MSCI Singapore Free (Singapore), would require further regulatory relief to meet the statutory test for broad-based security index products. BGI anticipates that certain of its funds will experience up to 10 basis points of tracking error if the fund cannot purchase these futures contracts.[2] U.S. institutional investors who invest in an EAFE region (e.g., a region comprising Australia, Hong Kong, New Zealand and Singapore) may be even more significantly impacted with an expected tracking error of over 1.5 percent of the index for that region.

Absent adoption of a separate standard for foreign stock index futures, U.S. investors and non-U.S. investors investing in the same international index strategy will experience different performance returns even though the strategies are managed by the same manager. Assuming an appreciating market, this means that the return of the strategy involving U.S investors will be less than the same strategy managed for non-U.S. investors. By way of example, the potential exists that a Norwegian participant in his defined contribution plan would have a greater return on his investment in an international index strategy than a participant in a U.S. defined contribution plan in the identical index strategy.

Congress specifically provided the Commissions with plenary authority to adopt a different standard for foreign security index contracts.[3] We respectfully request that the Commissions adopt a standard that would at least enable U.S. persons to continue to utilize the futures contracts currently available to them. We again note our support for the proposal submitted by the Futures Industry Association on foreign security index contracts.

Sincerely,



Joanne T. Medero
General Counsel

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[1] Outside the U.S., the practice is for companies to each pay dividends within a narrow period of several months ("dividend season"). During dividend season, managers accumulate cash in local currency, and use foreign security futures contracts to maintain fully invested in a particular country market pending sufficient funds to acquire the underlying physical securities in index weight. If a manager is unable to acquire the futures positions for its U.S. customers, it would hold the cash (invested in money market instruments). The client, who is seeking a return to match the index, would experience underperformance (in a rising equity market) or outperformance (in a falling equity market) relative to the benchmark index due to the cash held. This is called "tracking error" caused by "cash drag".

[2] Ten basis points of tracking error on $50 billion in investments is $50 million of annual tracking error.

[3] Securities Exchange Act sections 3(a)(55)(C)(iv) and 6(k); Commodity Exchange Act sections 1(a)(25)(B)(iv) and 2(a)(1)(E).