211 Main St
San Francisco, CA 94105

August 17, 2015

VIA ELECTRONIC MAIL (rule-comments@sec.gov)

Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

RE: File No. S7-11-15; Request for Comment on Exchange-Traded Products

Dear Mr. Fields:

Charles Schwab & Co., Inc. (CS&Co), along with its affiliate Charles Schwab Investment Management, Inc. (CSIM)[1] and its other advisory affiliates (together with CS&Co and CSIM, Schwab), appreciates the opportunity to provide comment to the Securities Exchange Commission (Commission) on the listing and trading of exchange-traded products (ETPs) on national securities exchanges and sales of these products by broker-dealers.[2]

Schwab is one of the largest financial institutions in the United States with over $2.5 trillion under custody. Schwab's business model offers high-value, low-cost investment services to retail investors and the independent investment advisors, employers, and retirement plan administrators who serve them. Over 7,000 independent registered investment advisors and their clients choose Schwab to custody their brokerage accounts and to provide trading and investment services. While a majority of our clients are still self-directed investors who rely on online tools, research, and education to make their own informed investment decisions, a substantial and growing number seek occasional individualized guidance or ongoing investment advice for a fee.

Schwab believes that exchange-traded funds (ETFs)[3] provide significant benefits to investors and can help many investors fill their investment needs. The ETFs available through the exchanges today

[1] Charles Schwab & Co., Inc (CS&Co) and Charles Schwab Investment Management, Inc. (CSIM) are affiliates and are each wholly-owned subsidiaries of The Charles Schwab Corporation (Schwab Corporation). Schwab Corporation is a leading provider of financial services, with more than 325 offices and 9.6 million active brokerage accounts, 1.5 million corporate retirement plan participants, 1.0 million banking accounts, and $2.54 trillion in client assets as of June 30, 2015. CSIM manages over $265 billion in assets across money market funds, separately managed accounts, collective trust funds, mutual funds and ETFs, as of June 30, 2015.

[2] *See* Request for Comment on Exchange-Traded Products, SEC Release No. 34-75165 (June 12, 2015).

[3] Unless otherwise defined herein, the term "ETFs" as used throughout this letter includes products registered under the Investment Company Act of 1940, as amended (1940 Act), as well as products often referred to as ETFs but not structured under the 1940 Act (e.g., commodity pools, grantor trusts). ETNs are not included in this definition and,

allow investors to gain access to a wide variety of market segments (both broad-based as well as niche), often at a lower cost than other investment vehicles. As the Commission has previously recognized, through ETFs, investors are able to access the "diversification benefits of an investment company with the trading flexibility of a stock"[4] including, for more frequent traders, the "ability to purchase and sell ETF shares in the secondary market at a known price anytime during the trading day, to purchase ETF shares on margin, and to sell ETF shares short."[5] ETFs further maintain a degree of tax efficiency that many other investment vehicles are unable to achieve.

However, Schwab understands the Commission's concerns that the proliferation and growing complexity of ETFs and other ETPs may lead to investor confusion. Schwab commends the Commission for taking a closer look at more complex ETFs as well as other product structures (e.g., non-1940 Act ETFs and exchange-traded notes (ETNs)) that may carry risks—either associated with product structure itself or investment strategy—that may not be as well understood by investors. Schwab welcomes this opportunity to provide our perspective on the ETF industry and to share with the Commission (i) our views on arbitrage and market pricing; (ii) data on investors' usage and understanding of ETPs; and (iii) suggestions on broker-dealer sales practices related to ETFs and other ETPs.

I. About Schwab

Schwab is well-positioned to respond to this request for comment, due to our experience with many aspects of the ETP related markets: (i) as a broker-dealer sponsoring an ETF trading platform (CS&Co); (ii) as an ETF asset manager (CSIM); and (iii) as a sponsor of and advisor to managed account solutions for investors that use ETFs (CS&Co and its other investment advisor affiliates). Through CS&Co, Schwab has developed strong relationships both with ETF investors and unaffiliated ETF sponsors, and is able to use those relationships to gain additional insight into the needs of investors, as well as to address those needs through tools and educational resources. As an ETF product sponsor, CSIM has developed strong industry relationships with authorized participants (APs), market makers and the exchanges, among others. In the sections below, we provide additional context on Schwab's ETF-related businesses.

A. *Charles Schwab & Co., Inc. (CS&Co)*

CS&Co ranks among the largest custodians of ETF assets, holding over $251.4 billion in ETF assets for its customers as of June 30, 2015, approximately 12% of U.S. ETF assets. By contrast, at the end of 2009, CS&Co clients owned $83.2 billion in ETFs.[6] Retail clients own the vast majority of these assets at Schwab, split almost equally between our "Investor Services" retail division and our "Advisor Services" division that provides services to independent registered investment advisors and their clients. Retail clients and their advisors increasingly have embraced ETFs as an investment vehicle for structuring portfolio allocations and gaining broad exposure to the markets.

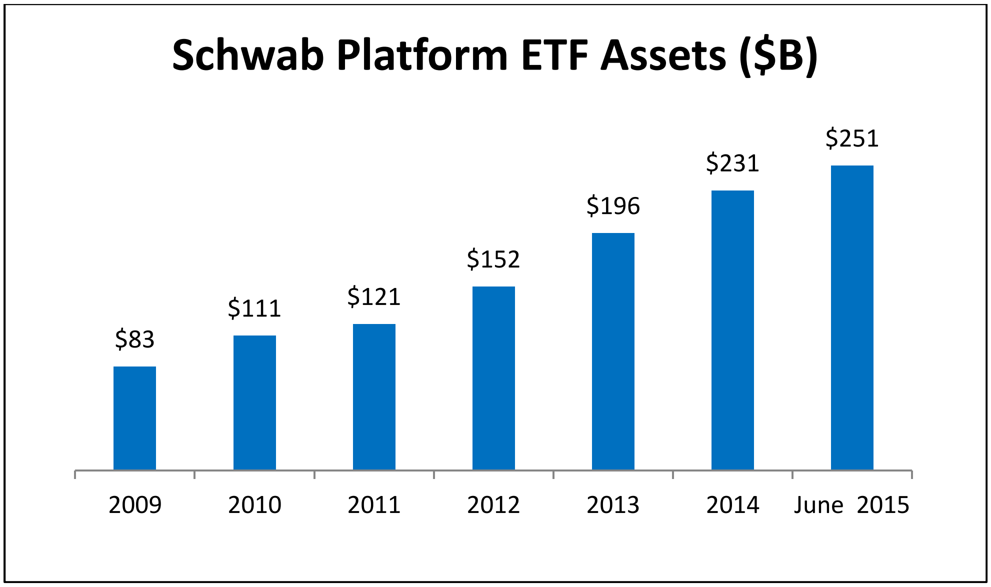
---

for purposes of data displays, ETN assets are separated from ETF assets. ETNs and ETFs are collectively referred to herein as "ETPs".

[4] https://www.sec.gov/rules/concept/ic-25258.htm

[5] Id.

[6] Schwab also makes ETNs available to its customers for purchase. As of June 30, 2015, Schwab customers held $4.2 billion in ETNs. Schwab customer investments in ETNs have grown at a much slower rate than ETFs: at the end of 2009, Schwab customers held $1.9 billion in ETNs.



B. *Charles Schwab Investment Management, Inc. (CSIM)*

CSIM focuses on creating and launching products generally designed to serve as a foundation of an investor's long-term investment portfolio. In 2009, CSIM launched the Schwab ETFs™, a group of low expense, cap-weighted index based ETFs. Today, CSIM is the advisor to 21 Schwab ETFs, including both cap-weighted and fundamentally-weighted index ETFs, with total ETF assets under management of over $34 billion, as of June 30, 2015.

C. *Other advisory affiliates*

Certain of Schwab's other advisory affiliates use ETFs extensively in creating diversified portfolio strategies in separately managed accounts for clients. ETFs are highly valuable in designing and maintaining these portfolio strategies because of the low cost, liquidity and wide range of available asset classes.

II. Arbitrage and Market Pricing

The Commission has requested comments on all aspects of the ETF arbitrage mechanism. Specifically, the Commission has asked whether the ETF arbitrage mechanism is working efficiently, whether it works better for some ETFs than others, the extent to which it helps ensure that pricing in the secondary market is representative of the value of the reference asset, particularly in periods of market volatility, and whether there are mechanisms other than the arbitrage mechanism that can help ensure efficient ETF market pricing. [7]

On the whole, Schwab believes the arbitrage mechanism is functioning as intended, and in general we have not identified any significant systematic differences in its efficiency across various ETF products, whether the ETF employs an index, active, or more complex investment strategy. An AP's

[7] In addition to our comments that follow, we also believe steps taken in recent years by the SEC, as well as the major U.S. equity exchanges have helped support the overall health of trading. Programs like "limit up/limit down" and defined circuit breakers as well as the harmonization of clearly erroneous error policies across the exchanges have been a benefit to all types of investors.

ability to sell ETF shares and buy the underlying basket of securities at a slightly lower price than the sale price, and correspondingly purchase ETF shares and sell the securities in the underlying basket at a price slightly higher than the ETF purchase price, is straightforward and has served to minimize an ETF's premium/discount. In less than normal markets or when securities markets are closed for trading, an AP may need to be more thoughtful in its execution—e.g., by purchasing assets correlated to the underlying basket of securities (and not necessarily the same assets)—but even then the arbitrage mechanism has functioned in a manner consistent with those ETFs' securities markets that are open for transactions.[8]

While generally Schwab does not believe any alterations or enhancements to the arbitrage mechanism construct are needed, it is well-recognized across the industry that the tools available to ETFs to manage the arbitrage mechanism are more limited for some ETF complexes than others. Since the Commission granted the first ETF exemptive relief in the 1990s, the form of exemptive relief required under the Securities Exchange Act of 1934, as amended (the "Exchange Act")—which sets forth the terms and conditions to which each new ETF entrant must agree prior to the application for relief being granted—has changed.[9] Over time, the Commission staff has requested that ETF sponsors comply with additional terms and conditions as the Commission identified and incorporated conditions related to new or product-specific issues. The end result is that the early pioneers of ETFs have much broader relief than new entrants, far more flexibility to operate their ETFs, and ultimately a significant competitive advantage in managing tax-efficiency, maintaining performance relative to their indices, minimizing portfolio transaction costs, and lessening bid/ask spreads. We discuss some specific examples of these inconsistencies below. In addition, in response to the Commission's request, we provide further comments on the function of the Intraday Indicative Value (IIV) and the ETF portfolio disclosure requirements.

A. *Creation and Redemption Baskets: Inconsistent Conditions*

As noted above, ETFs across the industry are subject to different conditions and requirements as a result of an evolving exemptive application process. For example, exemptive relief for newer entrants (including CSIM) requires that creation and redemption baskets reflect a pro rata slice of the ETF's portfolio securities (with some exceptions that allow the substitution of cash in lieu of a security). However, the exemptive relief of other ETF sponsors does not explicitly include such a requirement. As a result, rather than including each portfolio security it owns in the basket, these other sponsors can and do include in the baskets only a small subset of the securities the ETF holds.[10]

---

[8] For example, when certain governmental policies of China recently halted trading for much of the Chinese markets the ETPs listed in the United States continued to trade in an efficient manner. ETPs, in this instance, provided a pricing mechanism for an otherwise opaque marketplace—a benefit for all types of investors—and often, in these situations, the ETP functions as a leading indicator for the reference asset. It is this pricing that often gets misconstrued as large premiums or discounts to net asset value, but the ETP nevertheless serves as the true pricing mechanism decided by investors in a transparent and reportable manner.

[9] While the request for comment is focused on exemptive and no action relief granted pursuant to the Exchange Act, ETFs must also apply for exemptive relief from certain provisions of the 1940 Act. The relief granted by the Staff under the 1940 Act creates an additional layer of potentially inconsistent conditions across what may appear to investors to be identical products.

[10] For example, we looked at the daily National Securities Clearing Corporation Portfolio Composition Files for three Fixed-Income ETFs that each seek to track the Barclays U.S. Aggregate Bond Index. The first ETF is subject to the pro rata requirement and on the August 7, 2015 trade date that ETF included 1,486 securities in its creation basket. The second and third ETFs are not subject to the pro rata requirement. In striking contrast, on the same trade date these two ETFs included only 64 and 56 securities in their creation baskets, respectively.

This greater flexibility supports narrower bid/ask spreads for these ETFs, all else being equal. With fewer securities in the creation and redemption baskets, the size of each individual position in the basket is larger. As a result, the basket securities typically can more easily and more efficiently be traded by the APs or market makers, helping to minimize the bid/ask spreads of the ETF. In contrast, an ETF whose basket must reflect a pro rata slice of the ETF's portfolio securities will have a larger number of securities in the basket, but generally each will be a smaller position. The smaller lots can be more difficult for APs and market makers to trade efficiently, thereby driving up the bid/ask spreads of the ETF.

Moreover, the pro rata basket is more likely to include less liquid or even illiquid securities that ETFs not subject to the pro rata requirement can exclude.[11] The inclusion of less liquid securities in the basket, and the inability to exclude them, also impacts the bid/ask spreads of an ETF, and as such the pro rata requirement is a significant constraint on ETFs subject to the condition. In the case where a competitor not subject to the pro rata requirement makes a similar ETF available, an AP or market maker may prefer trading the ETF whose baskets hold fewer and larger underlying securities.[12] This too, for an ETF subject to the pro rata requirement, has an impact on its bid/ask spread.[13]

Newer entrants are additionally constrained in that they are required to publish one creation basket and one redemption basket, and the same baskets must be used by all APs on any given day. Yet the exemptive relief of certain other ETF sponsors allows them to create multiple, customized baskets for purchase and redemption on the same day, which makes it easier and more cost effective for APs and liquidity providers to transact with those ETFs than with their competitors' ETFs.[14]

---

[11] This is of specific importance for fixed income ETFs as the liquidity profile of a fixed income instrument often can and does change over the term of the security.

[12] We recognize that the Commission may be concerned that a Fund's ability to create a "sampled" basket in lieu of a pro rata basket could lead to overreaching by APs or preferential treatment of an AP by the ETF's investment adviser at the expense of the ETF shareholders. While we believe this to be an unlikely result, any potential conflict of interest could be managed effectively through a combination of compliance monitoring and testing and Board of Trustees oversight. CSIM previously submitted two letters to the staff of the Commission's Division of Investment Management on proposed revisions to its standard ETF exemptive application that addresses this concern in more detail. We would encourage the Commission to review those submissions in connection with its request for comment. *See* Letter from Charles Schwab Investment Management, Inc.to Ms. Dalia Blass, Division of Investment Management, Securities and Exchange Commission (Sept. 19, 2011); Letter from Charles Schwab Investment Management, Inc. to Mark. N. Zaruba, Division of Investment Management, Securities and Exchange Commission (Mar. 20, 2013) (collectively, the "CSIM Letters").

[13] The ability to use a "sampled" basket rather than a pro rata basket could also have an impact on an ETF's premium/discount. For example, in volatile markets, if the pro rata basket includes smaller, less liquid securities, the purchase or sale of the basket securities in such markets at disadvantageous prices could steepen the premium/discount of the ETF.

[14] This same concern over consistency arises in the reliance on generic or non-generic exchange listing standards. In the case of non-generic exchange listing standards, the Commission staff can require subsequent issuers to comply with different requirements than existing products. This results in establishing different conditions for similar products resulting in differences across products that may not be perceptible to investors.

An additional inconsistency relates to the ability to use cash in creation and redemption baskets. As an initial matter, CSIM believes the ability to use cash-only for creation or redemption baskets, at the discretion of the ETF's investment advisor, is essential and should not be constrained.[15] But we note that some ETFs have more flexibility to include cash in a creation and redemption basket than others, particularly as it relates to cash for security substitutions. The ability to substitute cash in lieu provides needed flexibility in managing creation basket transactions and we believe all ETFs should be afforded the same flexibility in those transactions. Unlike a security-for-security substitution, we do not believe the receipt of cash in lieu of a given security disadvantages an ETF or raises concerns of undue influence or preferential treatment.

The inconsistency in requirements and standards places a greater burden on newer ETF sponsors to diligently work with APs and market makers that trade their ETFs to ensure compliance. APs and market makers may be unaware of the different requirements across different ETFs, such as what securities an ETF is eligible to accept or distribute for creation and redemption activity. Moreover, it places a great burden on broker-dealers that make the ETFs available for purchase in sorting through and unraveling the relevant facts related to each product. We also think it unlikely that these differences are fully understood by secondary market investors, making it difficult for the end investor to compare ETFs which on their face are similar but in reality may have significant underlying differences.

Schwab encourages the Commission to standardize both the ETF exemptive relief under the Exchange Act and exchange listing standards. We believe this would have several benefits. It would (i) better meet the expectations and best interests of investors purchasing ETFs in the secondary market; (ii) better enable distributors of ETFs to inform investors of the risks of investing in particular ETFs; and (iii) provide a consistent framework within which APs and market makers operate to support the arbitrage process of ETF trading. At a minimum, we believe it is important that ETF managers have the ability to construct non-pro rata baskets, subject to compliance and board oversight to help identify and address instances where the use of such baskets may conflict with the interests of the ETF and its shareholders. We believe the ability to use non-pro rata baskets will meaningfully enhance an ETF's ability to track its index, manage fund costs more efficiently and effectively, and may lessen the bid/ask spreads incurred by investors for certain asset categories.[16]

B. *Intraday Indicative Value*

The publication of an ETF's IIV—also sometimes referred to as the Indicative Optimized Portfolio Value or IOPV— provided a thoughtful additional data point for investors to consider when its

[15] While use of a cash-only redemption basket may have limited impact on bid/ask spreads, depending on the type of ETF—its investment strategy and portfolio composition—under certain circumstances, the use of such a redemption basket can be a necessity.

[16] The rationale for requiring a pro rata basket is presumably to ensure that the basket is highly correlated to the ETF's portfolio. We note, however, that a "highly correlated" basket does not ensure an "efficient basket," particularly if the basket ignores other important basket construction considerations, such as risk factors related to interest rate or sector exposure, or changing liquidity conditions. Further, basket construction should take into consideration the basket's ability to support market price efficiency and the impact it can have on the shareholder experience (to the extent that it does not lessen the ETF's ability to track its underlying index). For these reasons, even "sampled" baskets should not be required to be highly correlated to the ETF's portfolio. By requiring the sampled basket to be highly correlated, fewer securities may be eligible for inclusion in the basket, which could diminish the ETF's ability to improve market price efficiency to the benefit of shareholders. For more detail on why the Commission should not require that creation and redemption baskets be highly correlated with an ETF's portfolio, see the CSIM Letters, *supra* fn. 12.

disclosure was first required by the Commission in 1993 and for many years thereafter. In our view, however, in light of market developments over time, the IIV may no longer be as effective or helpful as originally intended, and we believe the Commission should consider re-evaluating and potentially modifying the IIV requirement. For example, as the ETF marketplace has expanded into such markets as fixed income, precious metals, and foreign securities the published data points can be potentially misleading when the reference asset the ETF is covering is not open for pricing or transactions. There are many variables that are taken into account when pricing an ETF, such as the value of the securities within the ETF, creation/redemption costs, borrowing costs of both the ETF and the reference assets that make up the ETF, and order flow direction, among others. The IIV calculation only takes into account the value of the reference asset securities at a point in time regardless of whether the reference asset is open for pricing and ignores the other factors.

In addition, the requirement for publication of the IIV every 15 seconds seems antiquated in the evolving electronic trading world in which we are currently immersed. Trading now occurs in micro and nano seconds and the lag between published IIV value and real time quoting and trading has essentially made the calculation of limited worth even when the reference asset is open for pricing. Additionally, pricing of securities is not standardized across the third party firms that provide the service to ETF issuers, which can cause variances in the IIV of two very similar ETPs and therefore result in investor confusion.

C. *Portfolio Holdings Disclosure*

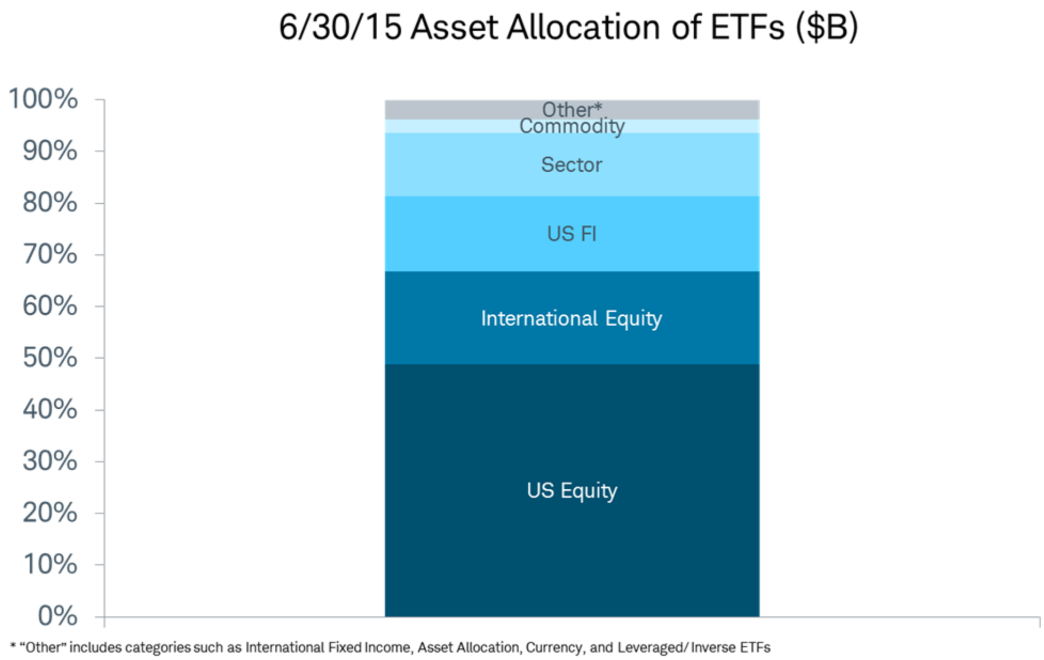
The Commission has requested comment regarding whether disclosure about the contents of an ETF's underlying portfolio is necessary for arbitrage to function efficiently to keep the market price of an ETF aligned with the contemporaneous value of its underlying or reference portfolio. CSIM believes the current requirements to publicly disclose ETF portfolio holdings prior to the market open each day the ETF is available to trade is effective and should be preserved. This and other daily disclosure requirements serve the joint benefit of supporting the market arbitrage mechanism and providing investors more information to make informed investment decisions. We further believe that this level of transparency has and will continue to broaden utilization of ETFs based upon the insights that can be gained by investors knowing what they own, assessing an appropriate price during market trading hours and determining how an ETF can best be used in a portfolio.

Similar to our comments above regarding inconsistent conditions applicable to creation and redemption baskets, and given the extent to which daily disclosures support both arbitrage and investment decisions, Schwab encourages the Commission to adopt consistent daily reporting requirements for the entire industry, regardless of exemptive relief or product structure. Today the daily disclosure requirements do not fully permeate the industry, which can lead to different expectations and information being conveyed to the marketplace.

III. Investors' Use and Understanding of ETPs

In the request for comment, the Commission seeks to gain better insight on investors' understanding and use of ETFs and other ETPs. As noted above, Schwab ranks among the largest custodians of ETF assets, holding over $251.4 billion in ETF assets for its customers as of June 30, 2015, approximately 12% of U.S. ETF assets. The insights gained from this client base, in addition to the ETF sponsor view gained through CSIM, gives Schwab particular learnings about how investors are using ETPs and the extent to which they understand these products.

The vast majority of CS&Co clients' ETF holdings (well over 90%) are in five main asset categories: US Equity, International Equity, US Fixed Income, Sector, and Commodity. Of those, the first three represent roughly 80% of the total ETF assets of CS&Co clients.



As noted earlier, we have seen significant growth in ETF investments by CS&Co clients since 2009. We attribute this increasing rate of growth and widespread use of ETFs in clients' investment portfolios to several factors, some specific to Schwab's businesses but others consistent with broader industry trends. One of the significant drivers of ETF growth since 2009 was the restructuring/reallocation of assets following the financial crisis. In an attempt to minimize the impact of the market downturn driven by the financial crisis many investors reduced portfolio exposures to equity and fixed income securities. As the economic environment improved, investors started to reallocate assets and frequently selected low-cost index-based ETFs as the preferred vehicle rather than reallocating to actively managed mutual funds, which they had previously used. Today, self-directed investors are drawn to ETFs for the same reasons that many investment advisors are more frequently incorporating ETFs into their clients' portfolios: low cost, transparency, ability to purchase and sell ETF shares in the secondary market at a known price at any time during the trading day, and tax efficiency. In addition, the market environment has led to broader utilization of index strategies in portfolio construction.

A. *The Investor Study*

In addition to our own client view, CS&Co has sought information from the broader ETF investor base. In 2014, CS&Co commissioned an investor study to gauge U.S. individual investors' perceptions and knowledge of investing in ETFs (the "Investor Study").[17] We have attached a more complete

[17] The online study was fielded by Koski Research, an independent research firm, unaffiliated with Schwab. Schwab conducted similar studies in previous years, and certain questions were repeated for benchmark purposes. The independent research firm completed interviews with 1,102 U.S. investors who had purchased an ETF in the past two years or would consider doing so in the next two years and who had some familiarity with ETFs. Additional qualifying criteria applied, including a minimum of $25,000 in investable assets. Margin of error for a sample size of 1,102 is 3%; higher for subgroups. Schwab is currently updating the 2014 results through an

summary of the Investor Study as Exhibit A to this comment letter, and we are pleased to share below some general observations on investor use and understanding of ETPs and some of the key findings of the Investor Study.

1. Investor Trends in ETF Usage

When asked how they used ETFs in their portfolio, 78% of Investor Study participants indicated that they use ETFs as core long-term holdings (44%) or as a combination of both core and short-term tactical investments (34%). Only 22% of responding investors indicated the primary use of ETFs in their portfolio was for tactical, short-term investments. Investors participating in the Investor Study were asked how important several factors were in selecting an ETF. Study participants indicated that the total cost (commissions, expense ratio, bid/ask spread) was an "extremely important" factor (64%), closely followed by low expense ratio (59%). Study participants ranked certain other factors lower in importance, such as how well the ETF tracks its index (47% deemed "extremely important") and liquidity/trading volume (42% deemed "extremely important").

2. Investor Understanding of Non-Traditional ETPs

The Investor Study probed further on investor understanding of less traditional ETPs. When asked about actively managed ETFs, commodities ETPs, ETNs and non-traditional index ETF strategies (specifically alternative beta strategies), investors were not as familiar with many of these products as they are with traditional cap-weighted index ETFs. However, the number of investors that indicated that they "know a lot" about actively managed ETFs (18%) equaled those that indicated they "know a lot" about market-cap weighted index ETFs (18%). Overall, participants indicated they "know a lot" or "know some" about commodities ETFs (60%). This exceeded the same measure for market-cap weighted index ETFs (58%). Participants were less familiar with "smart beta" or "alternative beta" ETF strategies (33% "know a lot" or "know some"), ETNs (37% "know a lot" or "know some") and inverse/leveraged ETFs (38% "know a lot" or "know some").[18]

3. What Information Do Investors Want or Need to Make an Informed Investing Decision?

The Investor Study highlighted that while investor knowledge is on the rise, investors still want more information in certain areas. Specifically, Investor Study participants indicated that they had an interest in learning more about the following areas: (i) how to choose an ETF; (ii) how to best use ETFs in a portfolio in general; (iii) the tax implications of ETFs; and (iv) how to best use more sophisticated ETPs. By contrast, Investor Study participants were less interested in learning about certain other topics, either because they had little interest (e.g., how the indexes that ETFs aim to track are constructed) or because they already felt sufficiently informed (e.g., the differences between ETFs, mutual funds and stocks; how to trade ETFs; the liquidity of ETFs; and how to use ETFs for targeted exposure to certain asset classes).

---

additional survey of ETF investors. We would welcome the opportunity to meet with the Commission and its staff to share the results of the 2015 updated study, once compiled.

[18] In response to survey results like the above, Schwab develops tools, resources, commentary and educational materials to facilitate client education. For example, the Schwab Center for Financial Research (SCFR) and CSIM created a broad array of content to support "smart" or "alternative" beta. The content included articles, videos, frequently asked questions (FAQs) and seminars, and includes content that strives to both help clients understand the strategies and how to use the strategies within a broader investment portfolio.

4. Key ETF Innovations

Participants in the Investor Study were asked to indicate which innovations or trends have been the most beneficial for ETF investors, both looking back as well as projecting out over the next several years. Over the last few years, investors indicated that the top innovation was "more products/choices" (28%), closely followed by "lower operating expense ratios" (23%). When asked which innovations would be the best for ETF investors over the next several years, the responses were almost evenly split across the following: (i) more products/choices; (ii) lower operating expense ratios; (iii) commission-free platforms; (iv) more/better education; and (v) availability in 401(k) plans.

5. Room for More ETFs in the Industry

Two-thirds of investors who participated in the Investor Study indicated that there is room for more ETFs. Some of the key reasons offered by those who responded in this manner were that "innovation needs to continue to keep up with a changing market and economy" and "more ETFs will lead to competition and lower prices, which is good for investors." By contrast, of the remaining one-third of investors (those who responded that there are too many ETFs), the majority indicated that the "sheer number [of ETFs] makes it confusing to differentiate between products and evaluate which ones are best."

IV. Broker-Dealer Sales Practices

With the growing complexity and number of ETP offerings, and the corresponding thirst for knowledge by ETF investors, Schwab has responded by providing investors with education and additional analysis tools and resources.

A. *Providing self-directed investors tools they need to make informed ETF investing decisions.*

As noted, a majority of our clients are self-directed investors. Schwab makes available for all investors—whether clients or not—many sources of information regarding ETFs and other ETPs. Both schwab.com and CSIMfunds.com contain a number of educational resources and commentaries, many drafted specifically to address ETF investor needs identified through the Investor Study. For example, on the public site of schwab.com, CS&Co includes general ETF FAQs and investing guidance;[19] the ability to compare multiple ETFs based on several criteria, including performance, holdings, expense ratios and more;[20] and an "ETF Report Card" that provides information on individual ETFs in an easy to read fact sheet format (see sample ETF Report Card attached as Exhibit B). CSIM and Schwab affiliate, Charles Schwab Investment Advisory, Inc. (CSIA) publish educational materials and commentary, host roundtables and prepare videos and webinars directed to ETF and other ETP investors that is posted on public websites for broad access by investors.[21]

---

[19] http://www.schwab.com/public/schwab/investing/accounts_products/investment/etfs

[20] http://www.schwab.com/public/schwab/investing/investment_help/investment_research/etf_research/etfs.html?path=%2FProspect%2FResearch%2Fetfs%2Foverview%2Fcompare.asp%3Fsymbol%3Dundefined

[21] CSIA commentary on ETPs is available at the following link: http://www.schwab.com/public/schwab/resource_center/expert_insight/mutual_funds_etfs; CSIM commentary on ETPs is available at the following link: https://www.csimfunds.com/public/csim/home/insights

In addition to the publicly available content, CS&Co clients have access to even more in-depth research and tools on schwab.com, such as an enhanced ETF screener (which allows the client to screen for ETFs by various fund asset categories, portfolio, performance, valuation, exposure risk and other technical criteria), as well as the ability to compare ETFs and tools and resources developed to assist ETF investors in structuring a well-diversified portfolio that includes ETFs as an investment option.

B. Addressing enhanced education and disclosure needs related to more complex products

The Commission specifically requested comment on how broker-dealers address the Commission's concerns around investors' understanding of more complex investing strategies and products, such as inverse/leveraged ETFs, commodity ETPs, and ETNs. We think the Commission and other regulators, such as the Financial Industry Regulatory Authority, Inc. (FINRA), should consider disclosure needs in two different contexts: when registered representatives recommend that a customer buy an ETF (a "sale"), and when firms like Schwab enable self-directed investors to review research, prospectuses, and other tools and resources prior to making their own informed investment decision.

CS&Co has taken a multi-pronged approach: (i) creating general white papers and commentary to assist investors in their general understanding of complex products, as discussed above, (ii) adding disclosures to the research and trading pages on schwab.com to provide specific disclosures to CS&Co customers where applicable, and (iii) prohibiting CS&Co's representatives from recommending certain complex products and strategies to Schwab customers, such as leveraged and inverse ETFs.

Schwab recognizes that certain ETPs may have characteristics that may be unfamiliar or surprising to the average investor, which might cause the ETPs to be deemed complex. CS&Co has responded by providing additional information to CS&Co's clients on schwab.com and other broker-dealer materials such as the ETF Report Card to help self-directed investors. These disclosures generally highlight the risks of investing in particular products, whether due to their structure (e.g., ETNs) or their investment strategy (e.g., leveraged/inverse ETFs).[22] In some cases, CS&Co has gone so far as to indicate that a particular type of product or an ETF that employs a particular investment strategy generally may not be appropriate for the average investor. We think this approach – rather than restricting access – is the proper course to enable self-directed investors to trade these securities that are available and listed on national exchanges.

However, CS&Co and other broker-dealers would benefit from more clarity and information from regulators, issuers, and the listing exchanges to identify ETPs whose characteristics might be deemed "complex". For example, FINRA has shared a view that "any product with multiple features that affect its investments returns differently under various scenarios is potentially complex."[23] Although

[22] For example, mentions of leveraged/inverse ETFs trigger the following disclosures: "Leveraged ETFs seek to provide a multiple of the investment returns of a given index or benchmark on a daily basis. Inverse ETFs seek to provide the opposite of the investment returns, also daily, of a given index or benchmark, either in whole or by multiples. Due to the effects of compounding and possible correlation errors, leveraged and inverse ETFs may experience greater losses than one would ordinarily expect. Compounding can also cause a widening differential between the performances of an ETF and its underlying index or benchmark, so that returns over periods longer than one day can differ in amount and direction from the target return of the same period. Consequently, these ETFs may experience losses even in situations where the underlying index or benchmark has performed as hoped. Aggressive investment techniques such as futures, forward contracts, swap agreements, derivatives, options, can increase ETF volatility and decrease performance. Investors holding these ETFs should therefore monitor their positions as frequently as daily."

[23] See FINRA Regulatory Notice 12-03 (published January 2012) (available at http://www.finra.org/sites/default/files/NoticeDocument/p125397.pdf) ("FINRA Reg Notice 12-03").

some specific complex products have been identified by FINRA, products are constantly evolving. In addition, FINRA has stated that "some relatively simple products may also present significant risks to investors that warrant heightened scrutiny or supervision."[24] Identification of these products is a largely manual effort by the broker-dealer—this exercise can lead to misidentification or miscategorization of ETPs. In addition, a lack of standard industry methodology in identifying these ETPs can result in different categorization between broker-dealers, creating the possibility of even more investor confusion.

We believe the Commission, working with industry participants, should consider exploring ways to identify and make more transparent the categories and characteristics of ETPs that are "complex." The result could provide broker-dealers with the tools to better address risk points with investors if and when recommendations are made, and could be useful in helping broker-dealers present more tailored information for self-directed investors seeking to invest in these more complex products.

C. Existing suitability requirements sufficiently address ETP recommendations by broker-dealers.

The Commission has requested comment on the effectiveness of the suitability requirements applicable to brokerage accounts, specifically focusing on broker-dealer sales practices for ETPs. CS&Co. believes that existing suitability obligations imposed on broker-dealers under the applicable FINRA rules[25] are both rigorous enough and flexible enough to fully accommodate recommendations to buy, sell or hold ETPs, even as the market evolves to expand the number of such products with potentially complex or unfamiliar characteristics.

FINRA has clarified, in supplementary materials to FINRA Rule 2111, that a suitability obligation is composed of several components. In addition to the customer-specific suitability obligation (which requires consideration of all relevant factors from a customer's investment profile), the reasonable-basis suitability obligation requires that firms conduct adequate due diligence which "will vary depending on, among other things, the complexity of and risks associated with the security or investment strategy."[26] In January 2012, FINRA expanded upon this point in a published regulatory notice,[27] in which it listed the questions that must "be answered before a complex product is recommended to retail investors." These include asking whether "the product's complexity impair[s] understanding and transparency," how the product is "expected to perform in a wide variety of market or economics conditions," and how any identified "complexity affect[s] suitability requirements."[28]

We believe this flexible, principles-based approach is well-suited to recommending appropriate products to clients, particularly in an evolving landscape where new types of products are constantly being created and where certain established products, once deemed new and exotic, may lose their initial "complexity" by virtue of longer exposure to an investing public.

[24] Id.

[25] FINRA Rule 2111

[26] Supplementary Material .05 to FINRA Rule 2111

[27] FINRA Reg Notice 12-03.

[28] Id.

D. *The Commission could consider narrowly-tailored point of sale disclosures when complex ETPs are recommended.*

The Commission has requested comment on what type of information should be communicated to an ETP investor and when the information should be communicated (e.g., prior to making a recommendation or prior to accepting a customer order). The Commission has further requested comment on whether the broker-dealers' responsibility to make available or provide additional information to investors should be expanded with respect to ETPs that employ more complex strategies.

Generally speaking, CS&Co believes any requirement that broker-dealers deliver additional point-of-sale disclosures to ETP investors, prior to a solicited purchase, would be unnecessarily costly and, ultimately, counterproductive. And as noted above, ample information about ETFs is already conveyed to self-directed investors making their own investment decisions through required regulatory disclosures and through the sorts of articles, disclosures and explanatory texts provided by broker-dealers like CS&Co. The one exception to consider is when a firm chooses to recommend affirmatively (i.e., engage in a sale) that a client purchase ETFs in the sub-class of complex products that may pose immediate risk for clients if they misunderstand how the ETF is structured. Leveraged and inverse ETFs come to mind. Other than that specific situation, without a finite and well-defined list of the types of risks or products that would warrant additional point of sale disclosure, broker-dealers could be forced to interpret any such requirement in the broadest way possible, creating and delivering disclosures for all or most ETPs and thus inundating clients with repetitive, rote disclosure that is likely to be ignored and unlikely to illuminate the special risks of genuinely novel or complex products.

V. Conclusion

Given the general nature of this request for comment, we have provided a high level overview of Schwab's ETP-related businesses. However, if the Commission or its staff would like more information on any topics we've covered in this letter, we would be pleased to meet with the staff at your convenience.

Sincerely,

/s/ Andy Gill

Andy Gill
EVP, Client Solutions
Charles Schwab & Co., Inc.

/s/ Marie Chandoha

Marie Chandoha
President and CEO
Charles Schwab Investment Management, Inc.

Cc: Edward Cho, Special Counsel, Division of Trading and Markets
Christopher Chow, Special Counsel, Division of Trading and Markets
Sarah Schandler, Special Counsel, Division of Trading and Markets

EXHIBIT A: 2014 ETF INVESTOR STUDY BY CHARLES SCHWAB

charles SCHWAB

2014 ETF Investor Study by Charles Schwab

June 2014

Table of Contents

About the Study

What	▪ Charles Schwab commissioned an online study to gauge U.S. individual investors' perceptions and knowledge of investing in exchange-traded funds (ETFs) ▪ Similar studies were conducted in previous years, and certain questions were repeated for benchmark purposes

How	▪ An online study was fielded by Koski Research
	    ▪ 1,102 completed interviews of U.S. investors
	    ▪ Margin of error for a sample size of 1,102 is 3%; higher for subgroups
	
	Koski is neither affiliated with, nor employed by, Charles Schwab

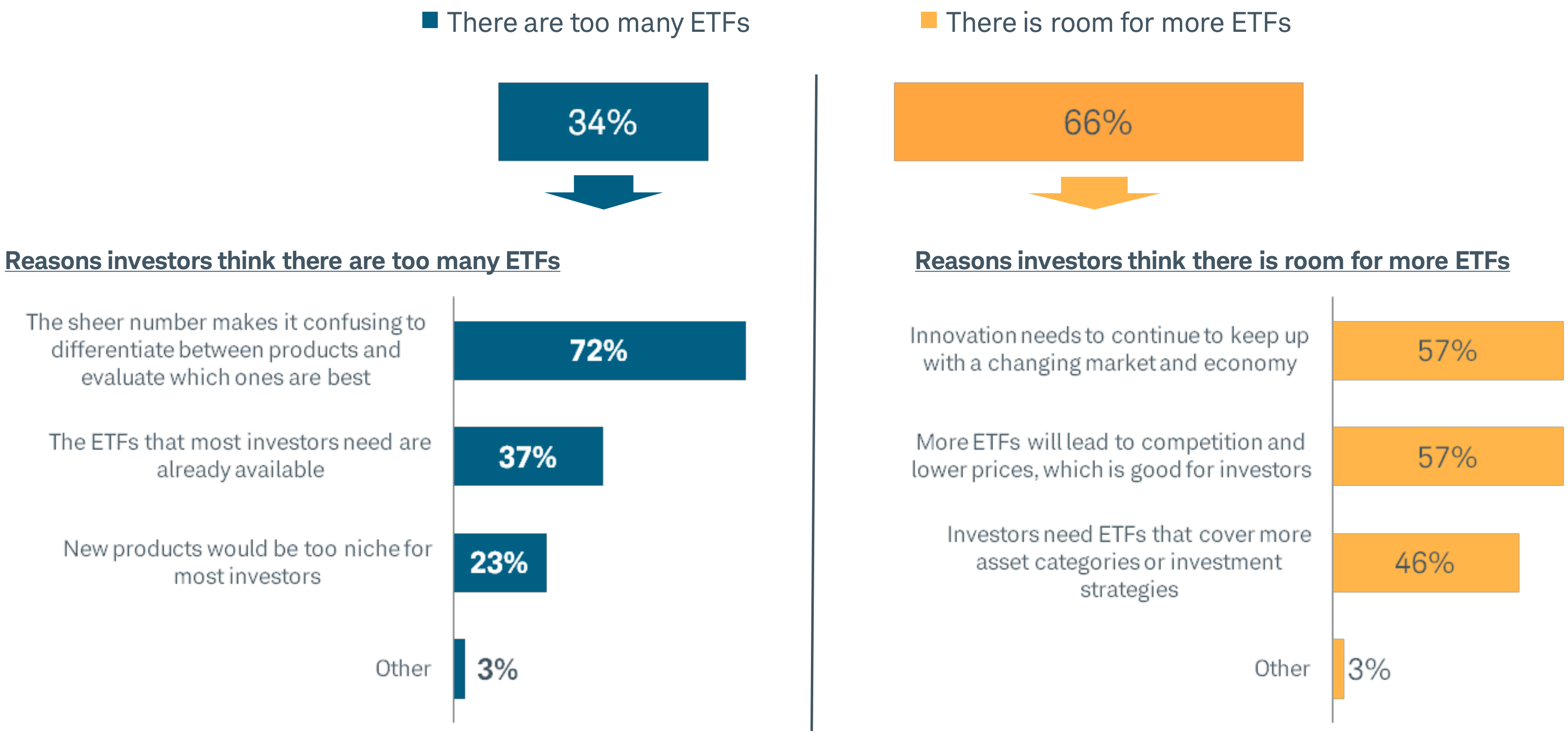
When	▪ The study fielded from May 8 through 14, 2014

Who	▪ 1,012 U.S. individual investors who:
	    ▪ Purchased an ETF in the past two years or would consider doing so in the next two years
	    ▪ Are 25 to 75 years old
	    ▪ Have a minimum of $25,000 in investable assets
	    ▪ Have some familiarity with ETFs

Embracing Innovation and Choice

Two-thirds of investors say there is room for more ETFs

Opinion about the number of ETFs available today
All Investors

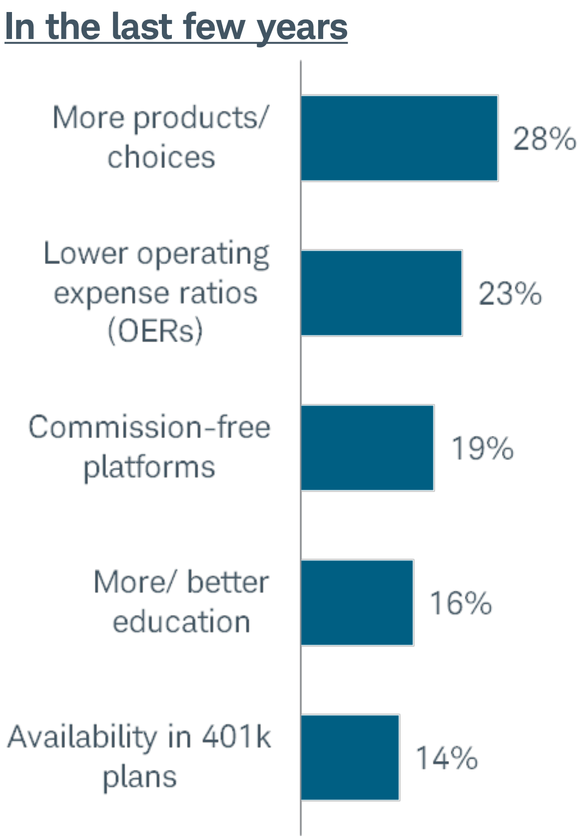


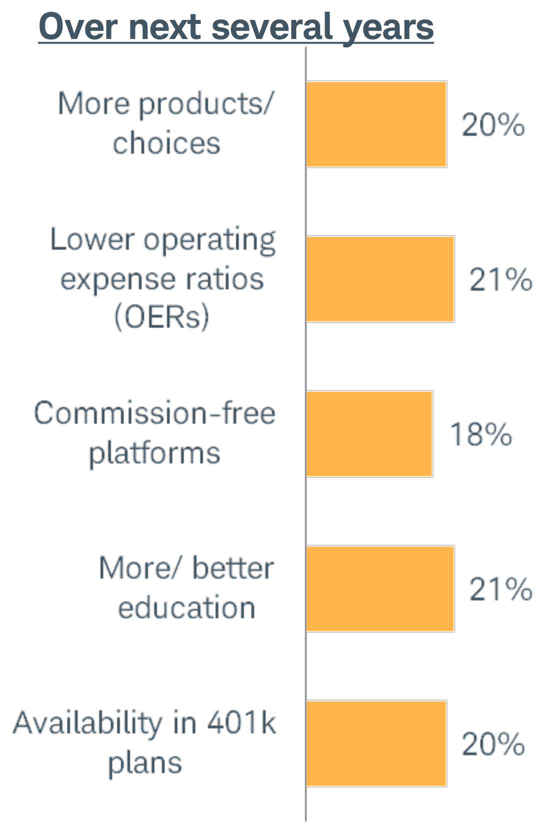
Q20. Which statement best matches your opinion about the number of ETFs that are on the market today? (Base: All Investors=1,012)
Q21. Why do you think there are too many ETFs on the market today? (Base: Investors who think there are too many ETFs = 348)
Q22. Why do you think there is room for more ETFs in the industry? (Base: Investors who think there is room for more ETFs = 664)

Data does not add up to 100% because more than one response was allowed.

More than a quarter say more product choice is #1 ETF innovation of the last few years; split on trends that will most benefit investors in the future

Best ETF innovations and trends – past and future
All investors

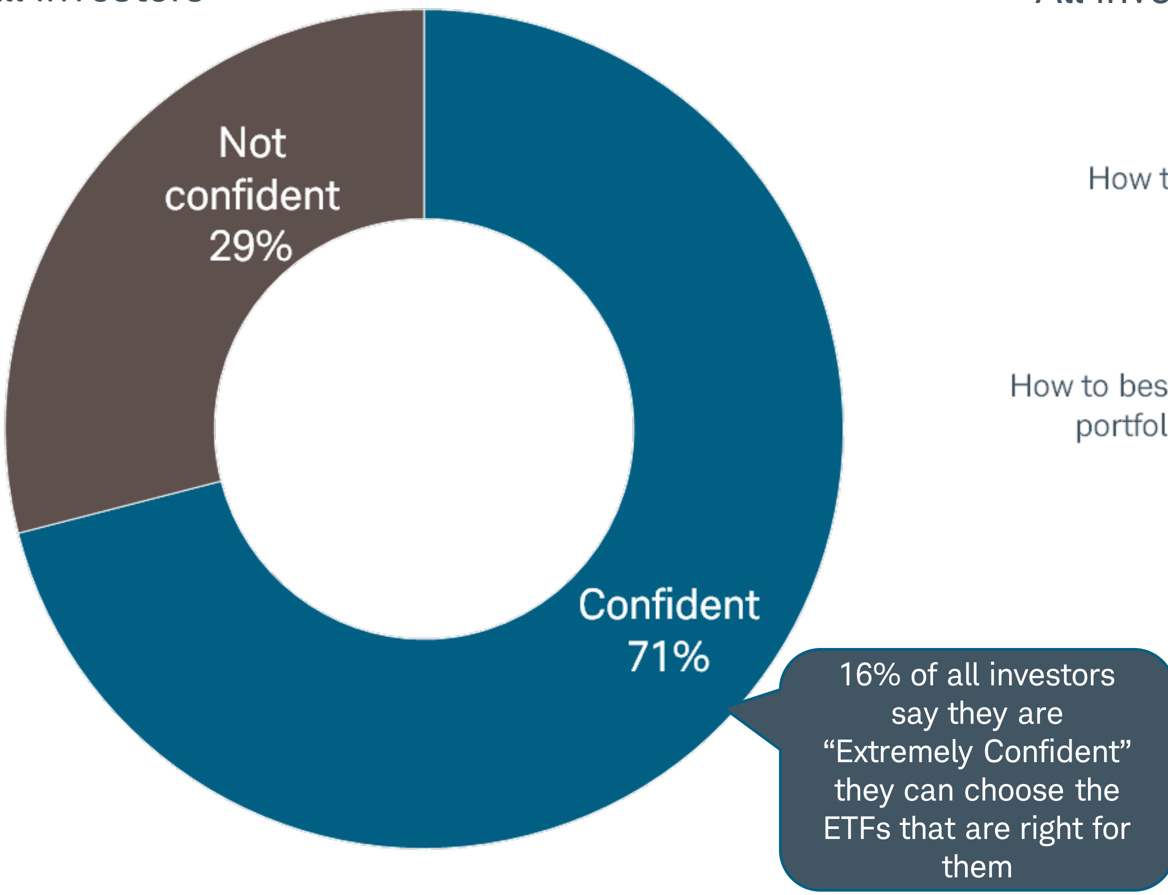




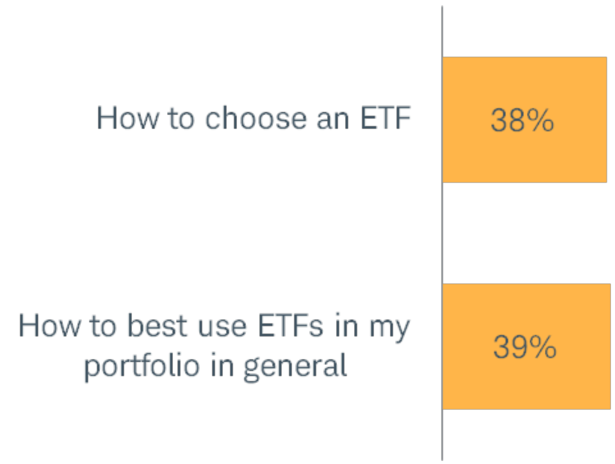
Q34. Which of the following ETF innovations/trends in the last few years has been the best for ETF investors?
Q35. Which of the following ETF innovations/trends will be the best for ETF investors over the next several years? (Base: All Investors=1,012)

71% are confident they can pick the right ETFs, but many also want to better understand how to best choose and use the products

Confidence in ability to choose the right ETF
All investors



Want better understanding of...
All investors



Q23 How confident are you in your ability to choose an ETF that is right for your investment objectives? (Base: All Investors=1,012)

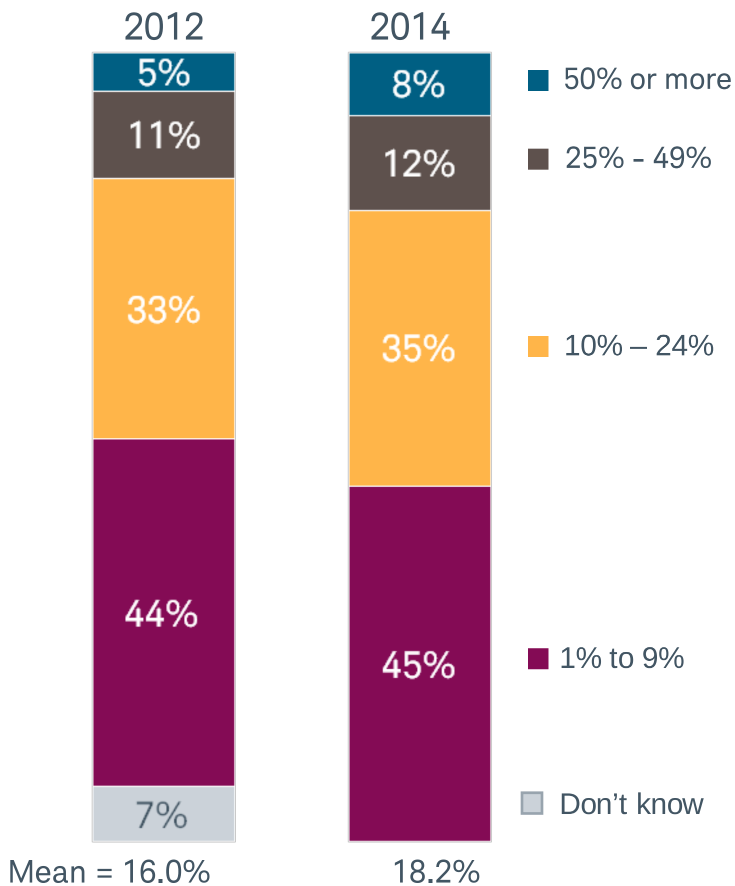
Q11. Which of the following would you like to better understand? (Base: All Investors=1,012)

A Healthy Serving of ETFs

ETFs account for 18% of ETF owners' portfolios and half of all investors expect current portion to increase

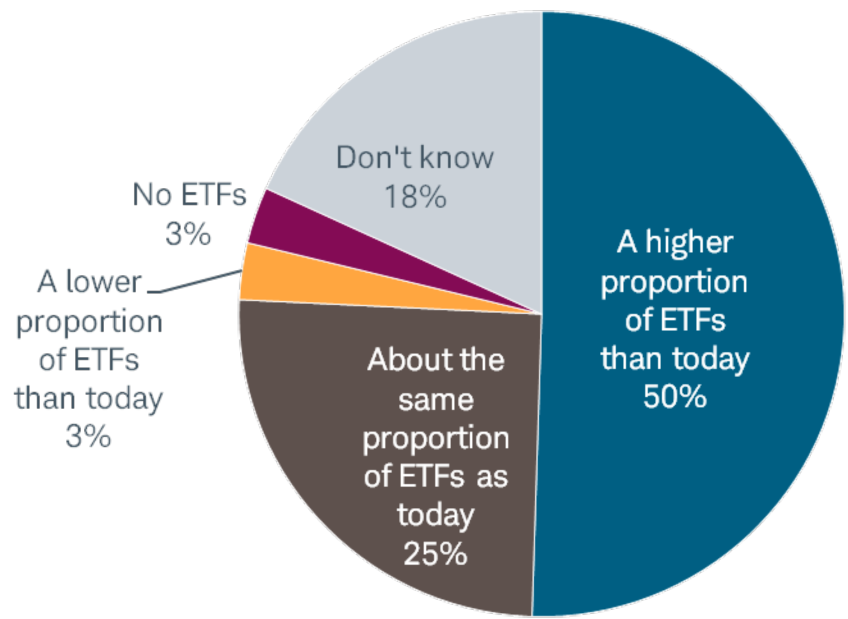
Percent of investments in ETFs today

Current ETF owners



In five years, investors expect their portfolios to have...

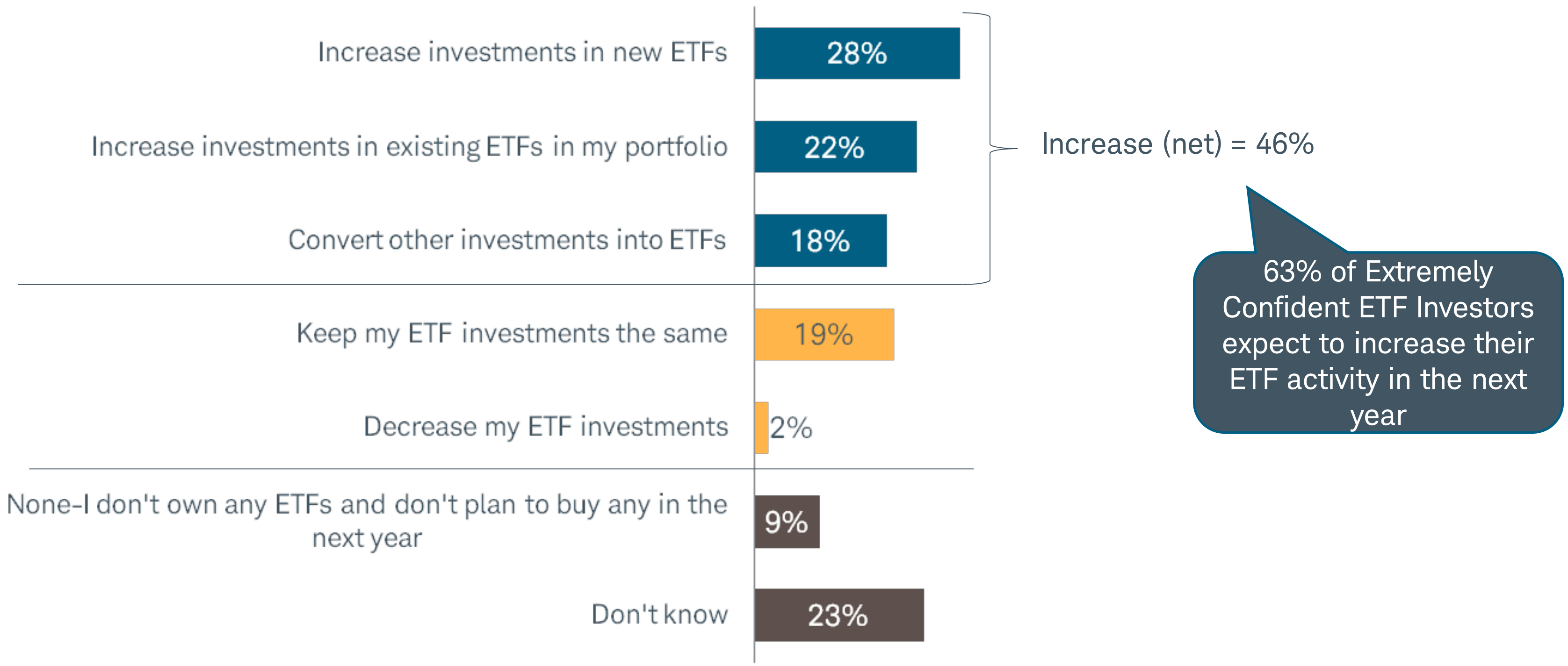
All Investors



Q30. What percent of all of your investments is in ETFs today, if any? (Base: Current ETF Owners = 617)
Q31. Looking into the future, in five years do you expect that your portfolio will have...? (Base: All Investors = 1,012)

Nearly half of investors plan to increase their ETF investments in next year

Expected ETF activity in the next year
All investors

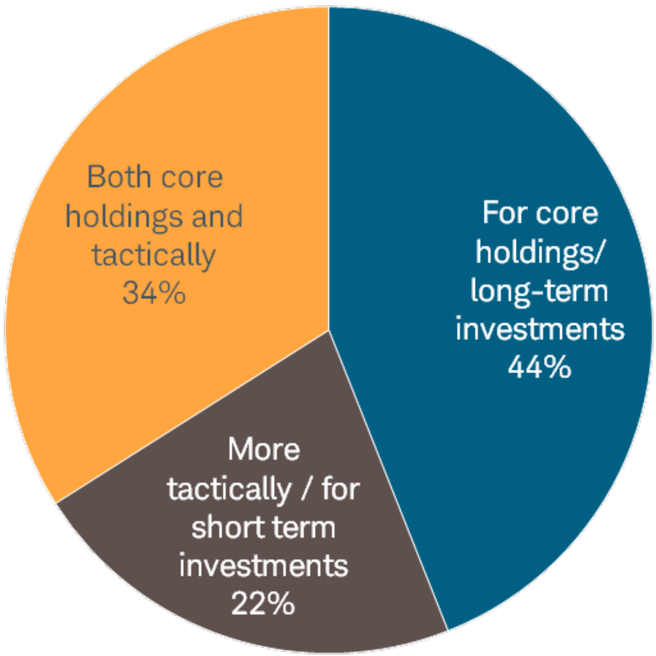


Q15. In the next year, which of the following do you expect to do, if any? (Base: All Investors=1,012)

Data does not add up to 100% because more than one response was allowed.

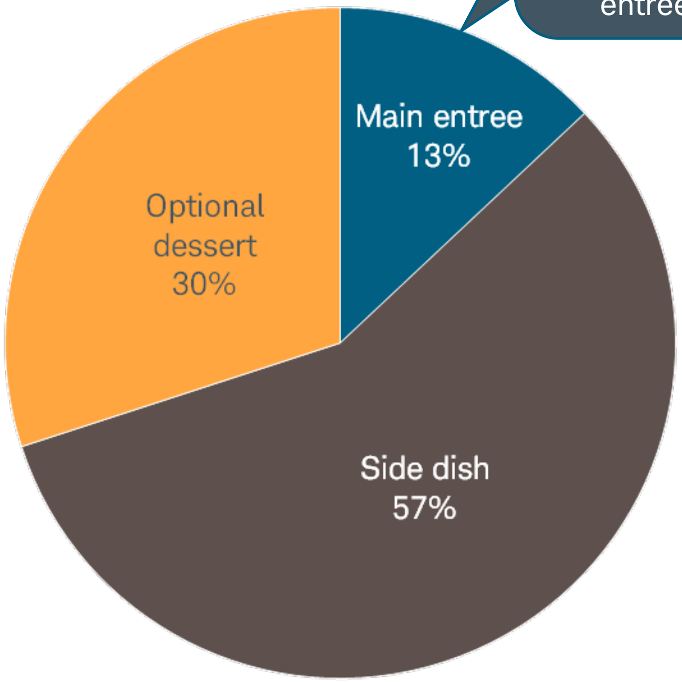
Investors have a healthy appetite for ETFs

Primary use of ETFs in portfolio
All investors



ETFs as part of a meal
All Investors

Extremely Confident ETF Investors are three times more likely to consider ETFs their main entrée (38%)

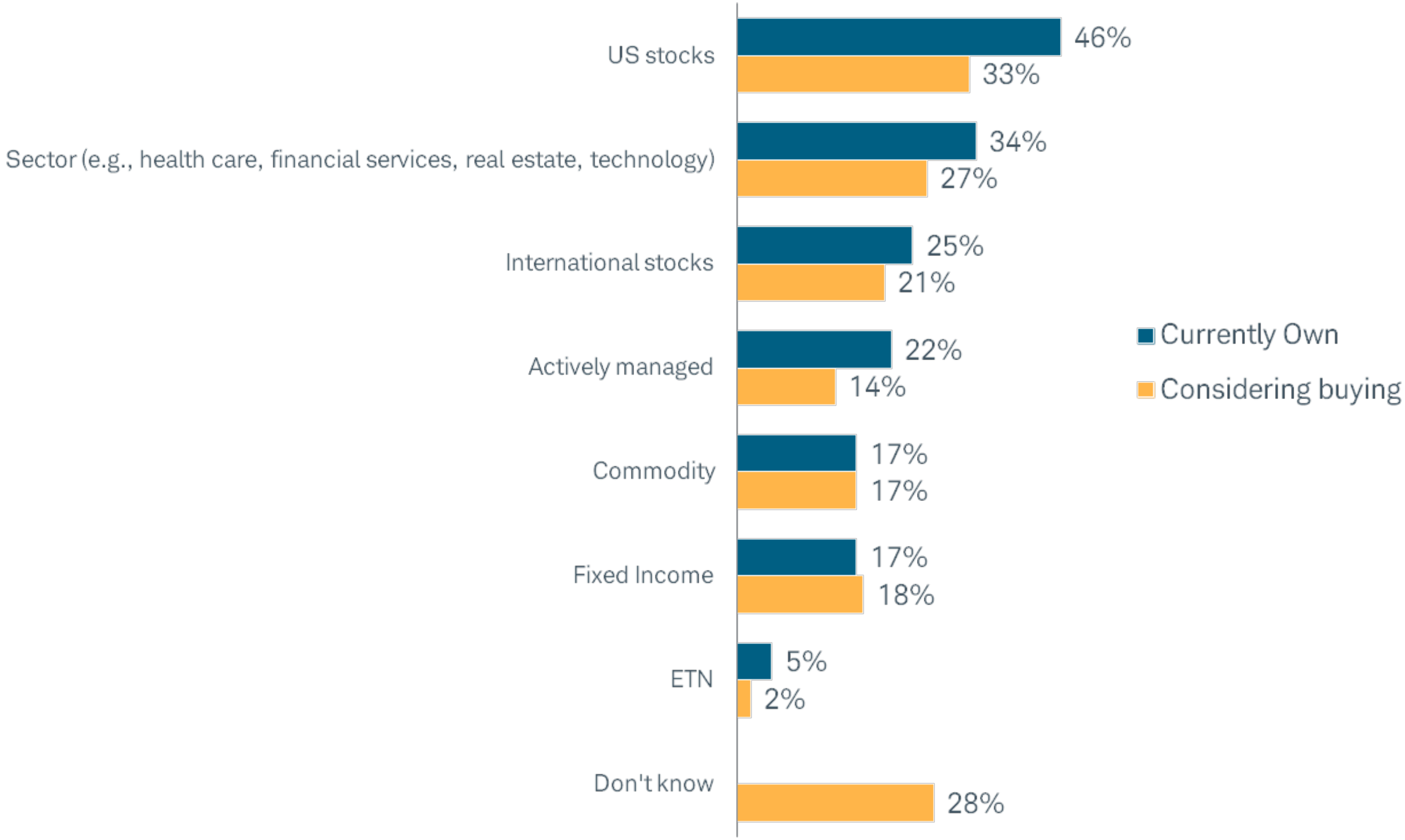


Q32. How do you primarily use ETFs in your portfolio?
Q33. Imagine your investment portfolio is a dinner menu. What part of the meal best describes ETFs in your portfolio? (Base: All Investors=1,012)

Investors favor ETFs in U.S. stocks, sectors, and international stocks

Types of ETFs currently owned / considering buying in the next year

All investors

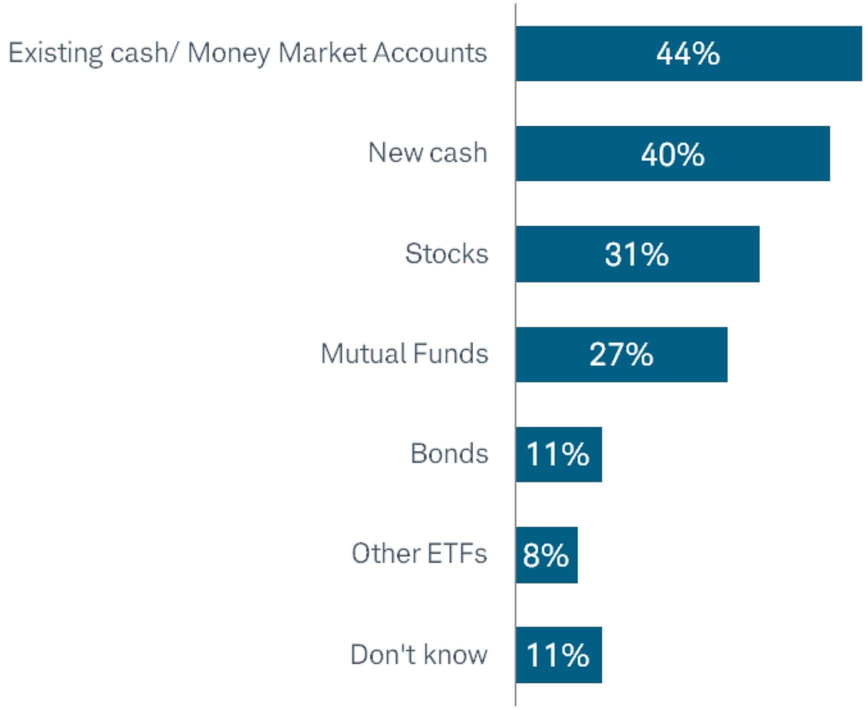


Q28. Which types of ETFs or other Exchange Traded Products do you currently own, if any?
Q29. Which types of ETFs or Exchange Traded Products are you considering buying in the next year, if any? (Base: All Investors=1,012)

Data does not add up to 100% because more than one response was allowed.

Cash will fund new ETF investments

Where will assets for future investments in ETFs come from?
All investors



Q17. From where do you expect your assets for future investments in ETFs to come? (Base: All Investors=1,012)

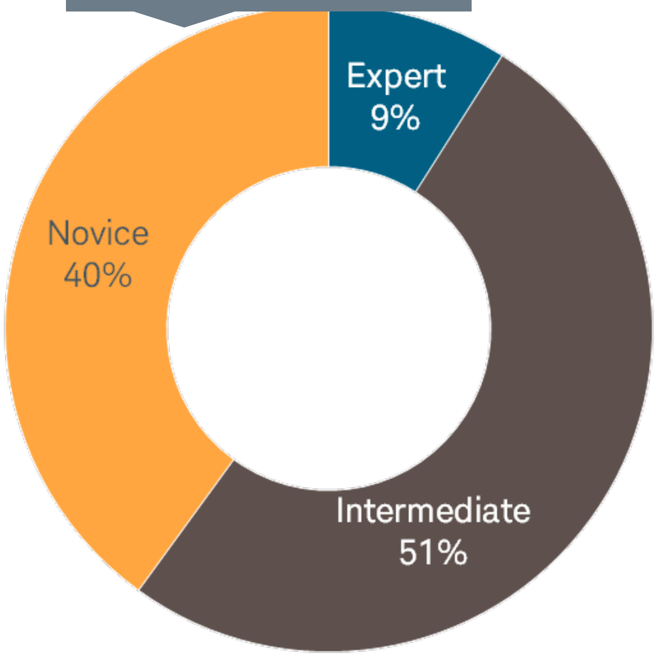
Data does not add up to 100% because more than one response was allowed.

Education: Pushing Beyond the Basics

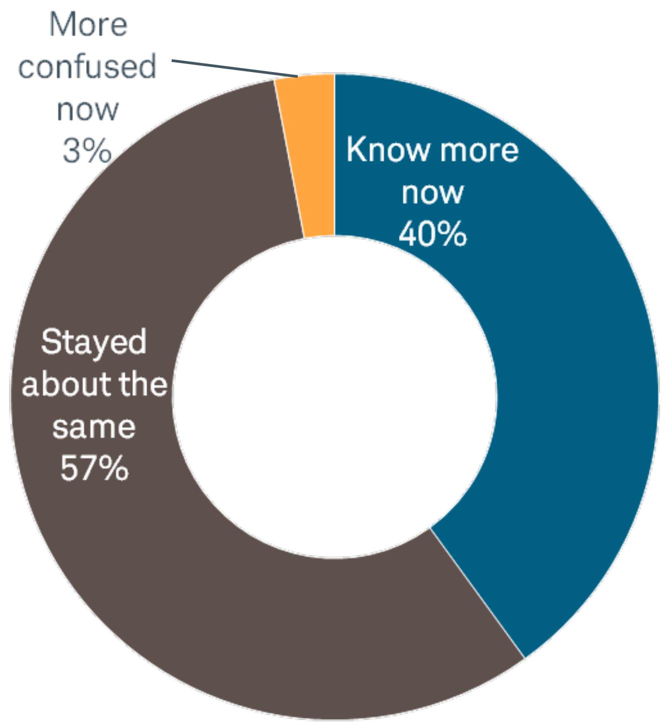
Few investors consider themselves experts – but knowledge is growing

Understanding of ETFs
All investors

In 2013, 45% of investors saw themselves as novices

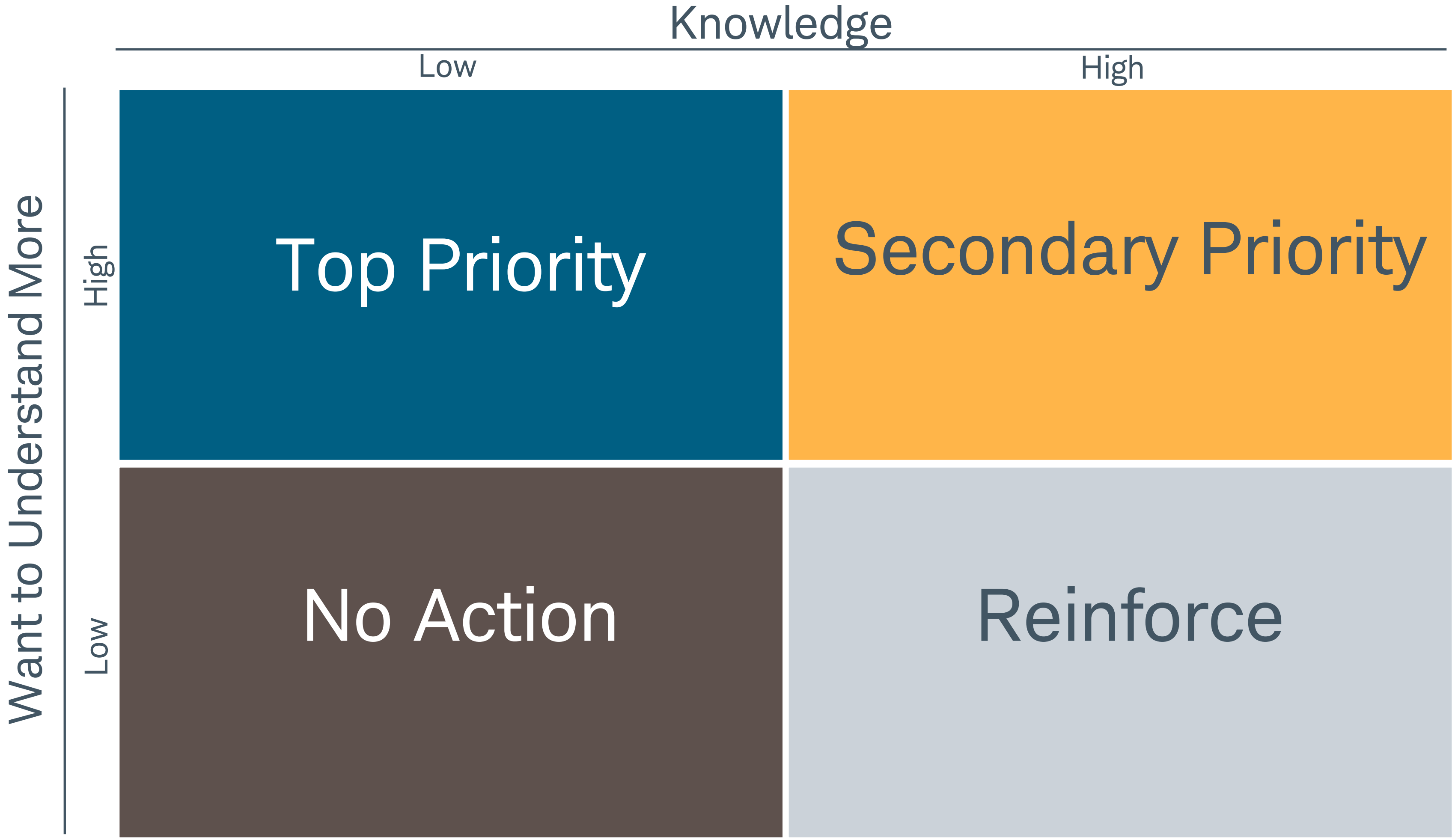


Knowledge of ETFs changed over past year
All investors



Q9. When it comes to your understanding of ETFs, do you consider yourself a/an...? Q9a. How has your knowledge of ETFs changed over the past year?
(Base: All Investors=1,012)

Setting Education Priorities – examining areas where perceived knowledge is low and desire to understand more is high



Q10. How would you rate your understanding on each of the following? Q11. Which of the following would you like to better understand? (Base: All Investors=1,012)

Education priorities are how to choose ETFs, how ETFs fit best in portfolios, tax implications and more sophisticated products

Want to Understand More \ Knowledge	Low	High
High	• How to choose an ETF • How to best use ETFs in my portfolio in general • The tax implications of ETFs • How to best use more sophisticated exchange traded products (ETPs)	• The risks associated with ETFs • The benefits associated with ETFs • The costs associated with ETFs
Low	• How the indexes that ETFs aim to track are constructed	• The differences between ETFs, mutual funds and stocks • How to trade ETFs • The liquidity of ETFs • How to use ETFs for targeted exposure to certain asset classes

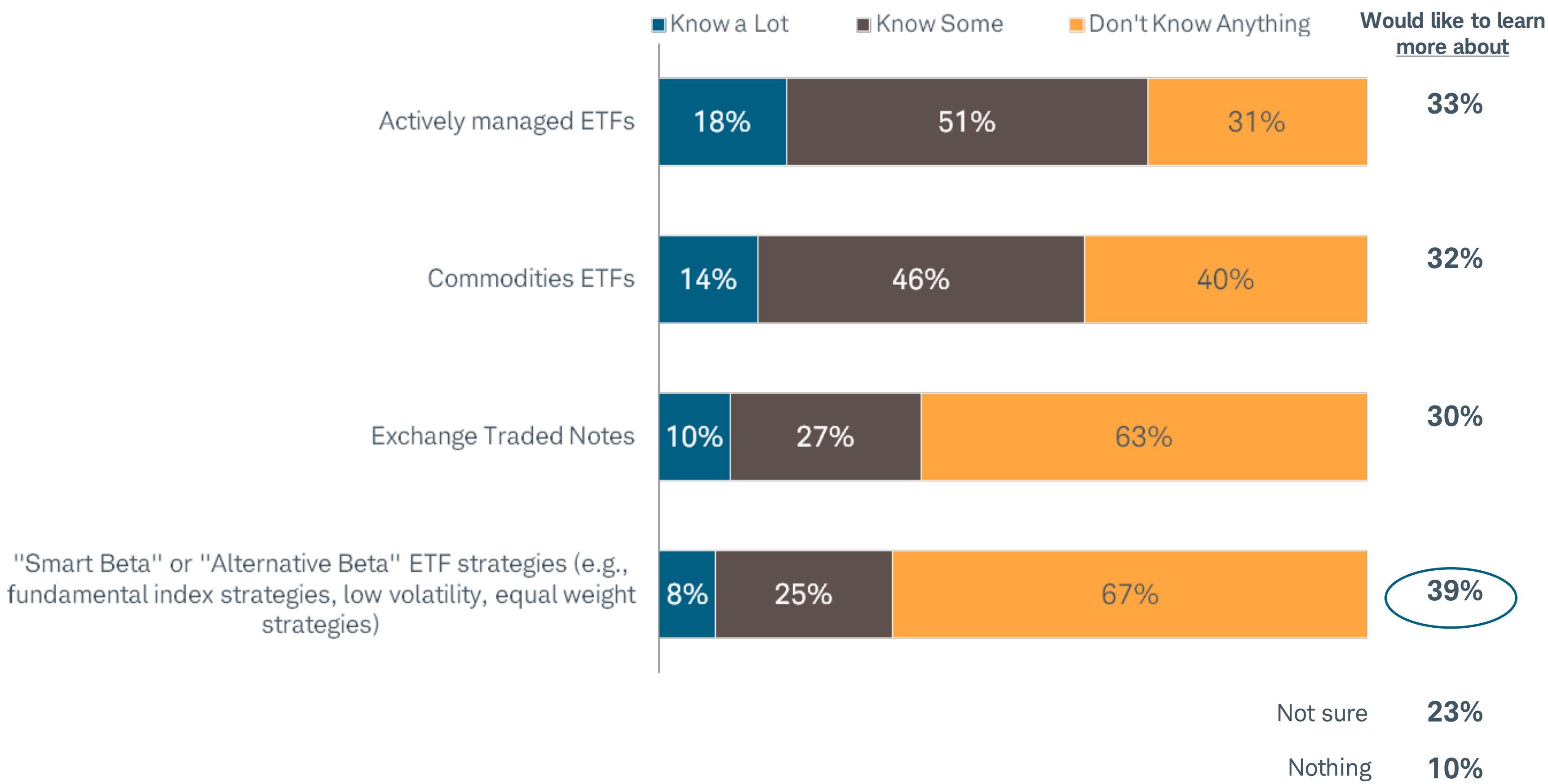
Q10. How would you rate your understanding on each of the following? Q11. Which of the following would you like to better understand? (Base: All Investors=1,012)

New Frontiers

Investors are curious about smart beta, ETNs and commodities ETFs

Knowledge of / desire to learn more about Exchange Traded Products

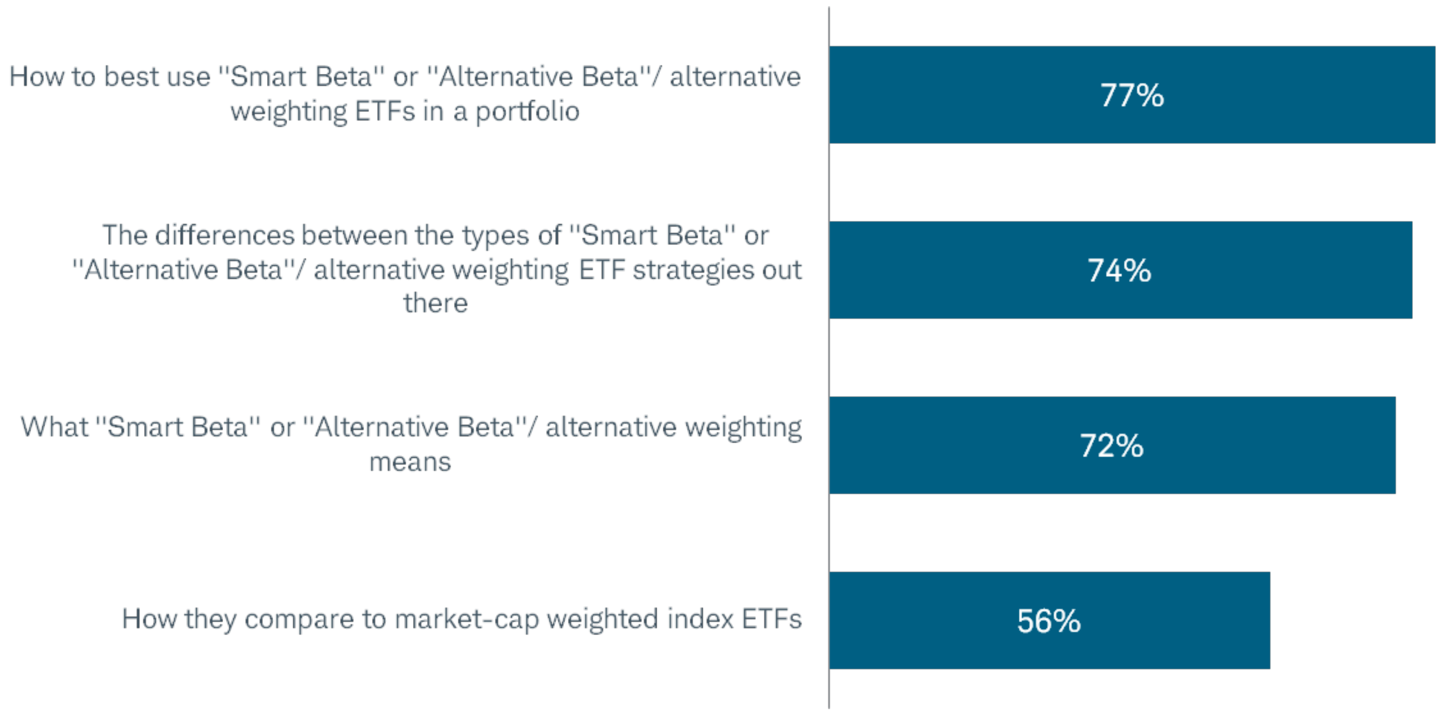
All investors



12. How would you rate your knowledge on each of the following types of exchange traded products? Q13. Which of the following would you like to learn more about? (Base: All Investors=1,012)

And they want to know all about smart beta ETFs

What would you like to know about smart beta or alternative beta ETFs?
Among those who want to learn more

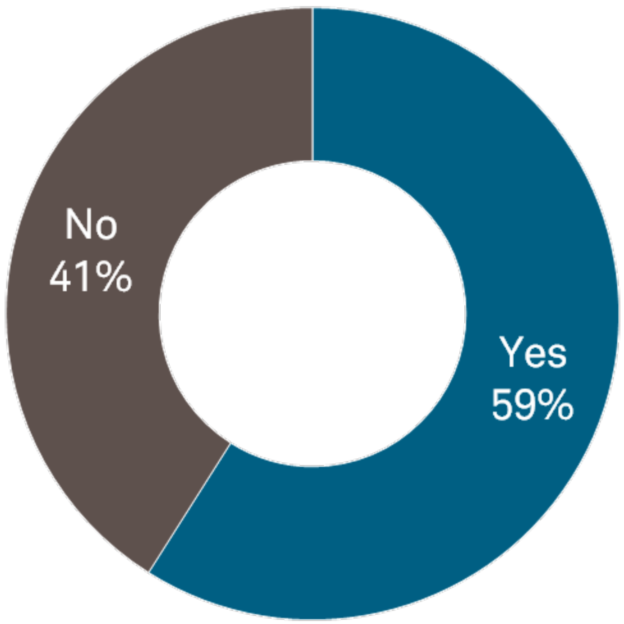


Q14. When it comes to “Smart Beta” or “Alternative Beta”/alternative weighting ETF strategies, which of the following would you like to learn more about?
(Base: Investors who want to learn more about Smart Beta or Alternative Beta ETFs= 390)

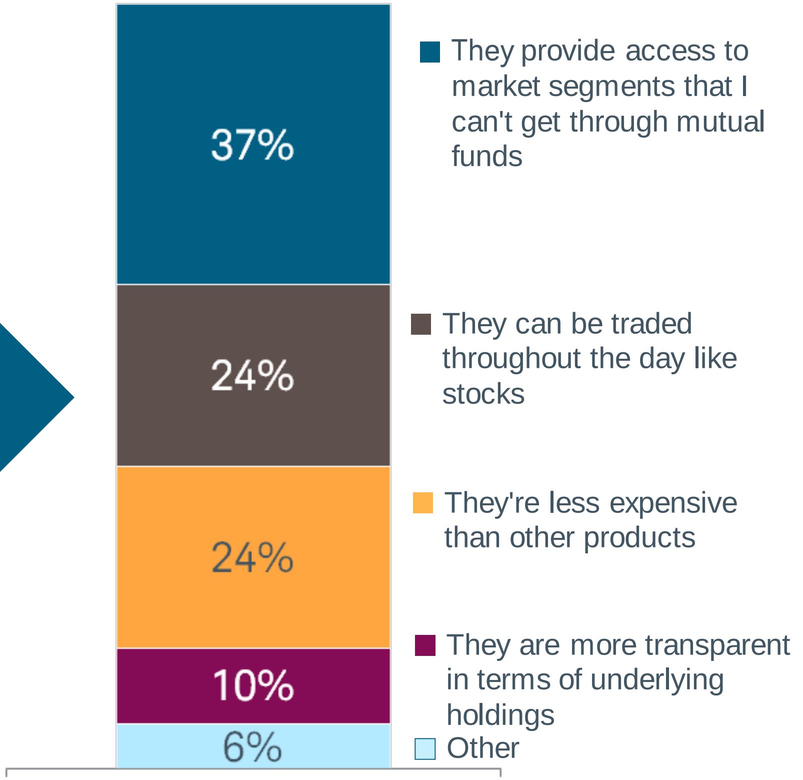
Data does not add up to 100% because more than one response was allowed.

Investors say ETFs belong in 401(k) plans

Would like ETFs to be available through 401(k)
All investors



Why?
Among those responding Yes



Q18. Would you like ETFs to be made available through your 401k plan? (Base: All Investors=1,012)

Q19. What is the #1 reason why you would like ETFs to be made available through your 401k plan? (Base: Would like ETFs to be available through 401(k) = 600)

Investor Demographics

Demographics

	All Investors (n=1012)
Gender	
Male	69%
Female	31%
Age	
Under 45	25%
40 to 55	17%
56 to 65	27%
Over 65	31%
MEAN	55
MEDIAN	58
Region	
East	26%
Midwest	22%
South	27%
West	25%
Investable Assets	
Under $100K	21%
$100K to less than $250K	18%
$250K to less than $1M	39%
$1M or more	22%
MEAN	$855K
MEDIAN	$401K
Investor Experience	
A beginner	21%
Somewhat experienced	47%
Experienced	26%
Highly experienced	6%
Number of Trades in Past Year	
None	14%
1 to 11	45%
12 to 23	17%
24 to 35	8%
36 or more	10%
Don't know/prefer not to answer	6%
MEAN	21
MEDIAN	10

	All Investors (n=1012)
Type of Investor	
You do all the research and decision-making yourself without the assistance of a financial advisor or broker	36%
You make all of your own investment decisions but want to be able to discuss them with a friend or family member	13%
You make all of your own investment decisions but want to be able to discuss them with a financial advisor or broker	20%
You make most decisions yourself, but rely heavily on a financial advisor or broker	17%
You delegate decision-making to a financial advisor or broker for some or all of your investments	14%
Income	
Less than $50K	13%
$50K to less than $100K	40%
$100K to less than $200K	36%
200K or more	9%
Prefer not to say	2%
MEAN	$107K
MEDIAN	$93K
Employment	
Working (net)	**60%**
Employed full-time	49%
Employed part-time	11%
Retired	32%
Unemployed	3%
Student/homemaker/other	5%

Demographics

	All Investors (n=1012)
Currently Own or Have Bought/Sold in the Past	
Individual Stocks	85%
Mutual Funds	84%
Money Market Funds	77%
CDs (Certificates of Deposit)	71%
ETFs (Exchange Traded Funds)	60%
Individual Bonds	52%
Last Time Bought or Sold an ETF Among ETF Owners (n=610)	
Past month	24%
Past 3 months	18%
Past 6 months	14%
Past year	20%
Past 2 years	12%
More than 2 years ago	5%
Don't know	7%
MEAN (in days)	218

	All Investors (n=1012)
Likelihood of Purchasing an ETF in the Next Two Years	
Extremely likely	34%
Somewhat likely	56%
Neither likely nor unlikely	7%
Somewhat unlikely	1%
Not at all likely	1%
Don't know	1%

Disclosures

Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges, and expenses. You can request a prospectus by calling Schwab at 800-435-4000. Please read the prospectus carefully before investing.

Investment returns will fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. Unlike mutual funds, shares of ETFs are not individually redeemable directly with the ETF. Shares are bought and sold at market price, which may be higher or lower than the net asset value (NAV).

Commodity-related products carry a high level of risk and are not suitable for all investors. Commodity-related products may be extremely volatile, illiquid and can be significantly affected by underlying commodity prices, world events, import controls, worldwide competition, government regulations, and economic conditions.

Exchange Traded Notes (ETNs) are distinct from Exchange Traded Funds (ETFs). ETNs are debt instruments backed by the credit of the issuer and as such bear inherent credit risk. ETNs are not generally appropriate for the average investor.

Since a sector fund is typically not diversified and focuses its investments on companies involved in a specific sector, the fund may involve a greater degree of risk than an investment in other funds with greater diversification.

(0614-4128)

EXHIBIT B: SCHWAB ETF REPORT CARD

SPDR® S&P 500 ETF

SPY
CONSOLIDATED NYSE ARCA

PRICE (AS OF CLOSE 08/14/2015) **$209.44**

TODAY'S CHANGE ▲$0.78 (0.37%)

HISTORICAL PRICE PERFORMANCE

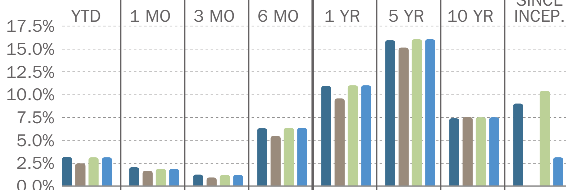
FUND STRATEGY

The investment seeks to provide investment results that, before expenses, generally correspond to the price and yield performance of the S&P 500 Index.The Trust holds the Portfolio and cash and is not actively "managed" by traditional methods. To maintain the correspondence between the composition and weightings of Portfolio Securities and component stocks of the S&P 500 Index ("Index Securities"), the Trustee adjusts the Portfolio from time to time to conform to periodic changes in the identity and/or relative weightings of Index Securities.

PERFORMANCE RETURNS

as of 07/31/2015

This section contrasts the SPDR® S&P 500 ETF SPY to its benchmarks.



	Cumulative Returns %				Annualized Returns %			
	YTD	1 MO	3 MO	6 MO	1 YR	5 YR	10 YR	SINCE INCEP.
SPDR® S&P 500 ETF (SPY) Market	+3.4	+2.3	+1.5	+6.5	+11.2	+16.1	+7.6	+9.2
(SPY) NAV	+3.3	+2.1	+1.4	+6.5	+11.1	+16.1	+7.6	+9.3
Large Blend Morningstar Category	+2.7	+1.9	+1.1	+5.7	+9.8	+15.3	+7.7	–
S&P 500 TR USD Broad-Based Index	+3.4	+2.1	+1.4	+6.6	+11.2	+16.2	+7.7	+10.6
S&P 500 TR USD Best Fit Index	+3.4	+2.1	+1.4	+6.6	+11.2	+16.2	+7.7	+3.4

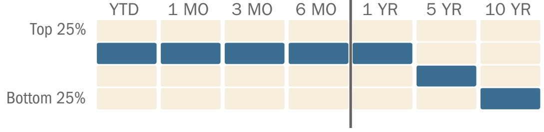
TAX ANALYSIS

as of 07/31/2015

	Cumulative Returns %				Annualized Returns %			
	YTD	1 MO	3 MO	6 MO	1 YR	5 YR	10 YR	SINCE INCEP.
Load Adjusted Total Returns	+3.3	+2.1	+1.4	+6.5	+11.1	+16.1	+7.6	+9.3
SEC Pre-Liquidation Market Returns	+3.0	+2.3	+1.3	+6.1	+10.2	+15.3	+7.0	+8.6
SEC Post-Liquidation Market Returns	+1.9	+1.3	+0.8	+3.7	+6.3	+12.6	+6.0	+7.7
Tax Cost Ratio Market Returns	–	–	–	–	+0.8	+0.8	+0.5	–

RANK WITHIN CATEGORY FOR ANNUAL TOTAL RETURN %

Rank within Category compares this fund's total annual return to that of other funds in the same category, and its figures are not adjusted for load, sales charge, or taxes.



QUOTE SUMMARY

as of close 08/14/2015

Day's Range	$208.26 - 209.51
52 Week Range	$181.92 - 213.78
Average Volume (10 Day)	109,257,901
SEC Yield	–
Distribution Yield	1.92%
Previous Ex-Date	06/19/2015
Previous Pay Date	07/31/2015

FUND PROFILE

Inception Date	01/22/1993
Category	Large Blend
Fund Family	SPDR State Street Global Advisors
Total Assets	$176.9 Billion
Gross Expense Ratio	0.11%
Net Expense Ratio	0.09%

MARKET EDGE SECOND OPINION ®

rating as of 07/27/2015

Market Edge Second Opinion®

AVOID | NEUTRAL | LONG

CONFIDENCE RATING: 0.0

Market Edge Power Rating

-60 | 0 | 100

WEAKER | STRONGER

Market Edge Score

-4 | -3 | -2 | -1 | 0 | 1 | 2 | 3 | 4

DETERIORATING | IMPROVING

Stock is **Not a Short Sale Candidate.** If you are **long, close position** or monitor stock closely. **Avoid the stock.**

MORNINGSTAR RATING

Category: Large Blend

rating as of 07/31/2015

Overall rating — OUT OF 45 FUNDS — ★★★★

3 year rating — OUT OF 45 FUNDS — ★★★

5 year rating — OUT OF 35 FUNDS — ★★★★

10 year rating — OUT OF 14 FUNDS — ★★★★

Historical Return
ABOVE AVERAGE RETURN
LO HI

Historical Risk
BELOW AVERAGE RISK
LO HI

Past performance is no guarantee of future results. The ratings reflect historical risk-adjusted performance. and the overall rating is derived from a weighted average of the fund's 3, 5 and 10 year Morningstar Rating metrics.

Performance data quoted represents past performance and does not guarantee future results. Visit schwab.com for month-end performance information. Current performance may be lower or higher. Investment value will fluctuate, and shares when redeemed, may be worth more or less than original cost. Please visit http://schwab.com for more recent performance information.

For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) The top 10% of the funds in an investment category receive 5 stars, 22.5% receive 4 stars, 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star.

SPDR® S&P 500 ETF

SPY
CONSOLIDATED NYSE ARCA

PRICE (AS OF CLOSE 08/14/2015) **$209.44**

TODAY'S CHANGE ▲$0.78 (0.37%)

GROWTH OF A HYPOTHETICAL $10,000 INVESTMENT

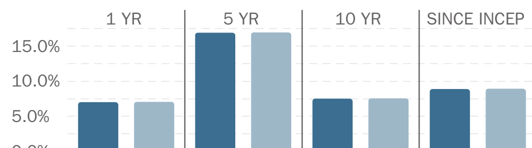
as of 07/31/2015

● SPY $20,866 ● Large Blend $19,739 ● S&P 500 TR USD $21,043

This graph represents the growth of a hypothetical investment of $10,000. It assumes reinvestment of dividends and capital gains, and does not reflect sales loads, redemption fees or the effects of taxes on any capital gains and/or distributions.

STANDARDIZED QUARTERLY TOTAL RETURN

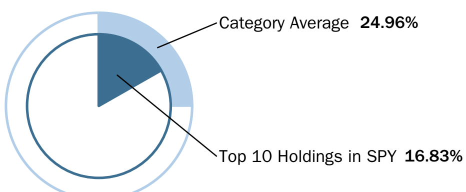
as of 06/30/2015



	1 YR	5 YR	10 YR	SINCE INCEP
● SPDR® S&P 500 ETF (SPY) Market	+7.2	+17.2	+7.8	+9.1
● SPDR® S&P 500 ETF (SPY) NAV	+7.3	+17.2	+7.8	+9.2

TOP TEN HOLDINGS

as of 08/12/2015



Top 10 holdings are 16.83% of the total porfolio assets. The Large Blend category average is 24.96%

NAME	SECTOR	PERCENT OF ASSETS
Apple Inc	Technology Hardware, Storag...	3.6%
Microsoft Corp	Software	2.1%
Exxon Mobil Corporation	Oil, Gas & Consumable Fuels	1.8%
Johnson & Johnson	Pharmaceuticals	1.5%
Wells Fargo & Co	Banks	1.4%
General Electric Co	Industrial Conglomerates	1.4%
Berkshire Hathaway Inc Class B	Diversified Financial Services	1.4%
JPMorgan Chase & Co	Banks	1.4%
Pfizer Inc	Pharmaceuticals	1.2%
AT&T Inc	Diversified Telecommunicatio...	1.1%

Fund holdings subject to change

PORTFOLIO OVERVIEW

as of 08/14/15

Total Number of Holdings	503
Non-Diversified Portfolio	No
Portfolio Turnover	3.54%
Distinct Portfolio	Yes

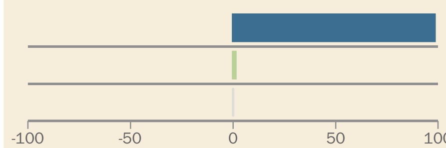
SECTOR WEIGHTINGS

as of 01/22/15

SECTOR NAME	YTD PERF.(%)	% OF ASSETS
Information Technology	+1.8	19.7
Financials	+1.9	16.8
Health Care	+10.6	15.6
Consumer Discretionary	+7.8	13.0
Industrials	-4.1	10.0
Consumer Staples	+3.0	9.7
Energy	-16.8	7.0
Materials	-7.5	2.9
Utilities	-6.7	2.9
Telecommunication Srvs.	-1.9	2.4

ASSET BREAKDOWN

as of 07/31/15



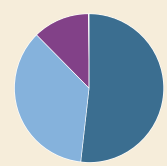
	%Long	%Short	%Net
Domestic Stock	98.45	0.00	98.45
Non-US Stock	1.33	0.00	1.33
Cash	0.22	0.00	0.22

Non-US assets includes assets without a specific country classification.

MARKET CAPITALIZATION

as of 07/31/15

Giant Cap	51.71%
Large Cap	35.93%
Medium Cap	12.29%
Small Cap	0.08%



IMPORTANT INFORMATION REGARDING THIS REPORT

Information regarding "Fees & Expenses" and "Investment Minimums" generally applies to retail investment accounts as well as Personal Choice Retirement Accounts (PCRA). Some of the data may not be applicable to your plan's core retirement plan investments.

Investors in ETFs should consider carefully information contained in the prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by calling 800-435-4000. Please read the prospectus carefully before investing. Investors in Closed-End Funds please note that since these securities are not continuously offered, there may be no prospectus available.

Exchange Traded Funds and Closed-End Funds are subject to market risk. Investment returns will fluctuate and are subject to market volatility, so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost. Investments in non-US investments may incur greater risks than domestic investments. Past performance is no guarantee of future results.

Schwab does not recommend the use of technical analysis as a sole means of investment research.

Sector investing may involve a greater degree of risk than an investment in other funds with broader diversification.

Leveraged ETFs seek to provide a multiple of the investment returns of a given index or benchmark on a daily basis. Inverse ETFs seek to provide the opposite of the investment returns, also daily, of a given index or benchmark, either in whole or by multiples. Due to the effects of compounding and possible correlation errors, leveraged and inverse ETFs may experience greater losses than one would ordinarily expect. Compounding can also cause a widening differential between the performances of an ETF and its underlying index or benchmark, so that returns over periods longer than one day can differ in amount and direction from the target return of the same period. Consequently, these ETFs may experience losses even in situations where the underlying index or benchmark has performed as hoped. Aggressive investment techniques such as futures, forward contracts, swap agreements, derivatives, options, can increase ETF volatility and decrease performance. Investors holding these ETFs should therefore monitor their positions as frequently as daily.

Exchange Traded Notes (ETNs) are distinct from Exchange Traded Funds (ETFs). ETNs are debt instruments backed by the credit of the issuer and as such bear inherent credit risk. The ETN structure does not represent a per unit stake in the underlying assets tracked by the benchmark. Additionally, investors should be particularly alert to trading and liquidity issues concerning leveraged and/or inverse ETNs, those with low Assets Under Management (AUM), and ETNs tracking volatile indexes. These additional risks may expose investors to additional price volatility. ETNs and some other unique and specialized ETFs are not generally appropriate for the average investor.

Short-term bond funds are not money market funds and have a higher risk profile, including possible fluctuation of the net asset value per share and principal loss.

The yields of certain Treasury Inflation Protected Securities (TIPS) Funds are adjusted based on changes in the rate of inflation and these changes can cause the yield to vary substantially over time. Exceptionally high and low yields reported by such funds can often be attributed to the rise and fall in inflation rate and might not be repeated.

Commodity-related products, including futures, carry a high level of risk and are not suitable for all investors. Commodity-related products may be extremely volatile, illiquid and can be significantly affected by underlying commodity prices, world events, import controls, worldwide competition, government regulations, and economic conditions, regardless of the length of time shares are held. Investments in commodity-related products may subject the fund to significantly greater volatility than investments in traditional securities and involve substantial risks, including risk of loss of a significant portion of their principal value.

The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of Morgan Stanley Capital International Inc. and Standard and Poor's. GICS is a service mark of MSCI and S&P and has been licensed for use by Schwab.