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February 12, 2013

Re: File Number SR- NYSEArca-2012-108

Elizabeth M. Murphy
Secretary Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Dear Ms. Murphy:

We are writing in response to the January 16, 2013 Order Instituting Proceedings to Determine Whether to Approve or Disapprove Proposed Rule Change, as Modified by Amendment No. 1 Thereto, Relating to the Listing and Trading of Shares of the NYSE Arca U.S. Equity Synthetic Reverse Convertible Index Fund under NYSE Arca Equities Rule 5.2(j)(3) (the “Order”).

Without restating all of the detail laid out in the Order, we refer to the filing made by NYSE Arca, Inc (the “Exchange” or “NYSE Arca”) with the Securities and Exchange Commission (the “Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act” or the “Exchange Act”) and Rule 19b-4 there under, of a proposed rule change to list and trade shares (the “Shares”) of the NYSE Arca U.S. Equity Synthetic Reverse Convertible Index Fund (the “Fund”) under NYSE Arca Equities Rule 5.2(j)(3).

Under the proposal, the Exchange would list and trade the Shares of the Fund under Commentary .01 to NYSE Arca Equities Rule 5.2(j)(3), which governs the listing and trading of Investment Company Units. The Shares would be issued by the ALPS ETF Trust (“Trust”), ALPS Advisors, Inc. would be the Fund’s investment adviser (“Adviser”), Rich Investment Solutions, LLC (“RIS) would be the Fund’s investment sub-adviser (“Sub-Adviser”), The Bank of New York Mellon (“BNY”) would serve as custodian, fund accounting agent, and transfer agent for the Fund. ALPS Distributors, Inc. would be the Fund’s distributor (“Distributor”).

Additionally, counsel to the Trust has submitted to the Commission staff a draft letter requesting Exemptive, Interpretive or No-Action Relief from Section 11(d)(1) of the Securities Exchange Act of 1934 and Rules 10b 17 and 11d1 2; and Rules 101 and 102 of Regulation M promulgated under the Securities Exchange Act of 1934 (the “Exemptive Relief Letter”).

In the Order the Commission requests that interested persons provide written submissions of their views, data, and arguments with respect to the concerns identified by the Commission, as well as any other concerns they may have with the proposal.

RIS greatly appreciates the opportunity to provide feedback with our views on the points the Commission laid out above.

In the following pages we will discuss the background of the development of the Fund, the timeline of events that have brought us to the decision at hand, and our responses to the questions posed in the Order.

Background of RIS

RIS was formed by Kevin Rich (author of this response) in July of 2009 with an objective to bringing new investment strategies to the market in the Exchange Traded Fund (ETF) wrapper. Jeff Klearman joined RIS in the fall of 2009, and we serve as the principals of RIS today. Both Jeff and I have extensive experience at Wall Street based firms and we each have spent time in structuring related roles during our careers.

While at Deutsche Bank I developed and launched the first US commodity futures based ETF in 2006, then over the next three years launched 29 additional US listed commodity and currency exchange traded funds and notes. It was during that time I truly learned to appreciate the benefits for investors of moving products and investable strategies from customized structured deals into funds listed on the stock exchanges, where it was practical from a strategy perspective and a regulatory perspective.

Beneficial Features of ETFs

The benefits of moving investments onto an exchange where rules permit have been well documented in the past. The benefits ETF products have over many investment products such as notes and mutual funds include transparency of the ETF's portfolio, intraday liquidity on stock exchanges, typically much lower costs, and avoidance of material trading price discounts and premiums to the underlying net asset value of the ETF due to the ability to create and redeem shares on a daily basis.

The Reverse Convertible Note Market

Well prior to 2009, when we initially filed to offer the Fund, and still to this day, there is a very active issuance of reverse convertible notes by banks and other financial institutions in the US. Many of these are registered with the Commission, and a few list on national stock exchanges as structured products. These products are attractive to investors as they offer a unique ability to generate income or yield by imbedding options within a note structure.

There are several features of reverse convertible notes that are not as attractive and can negatively affect investors, such as:

- reverse convertible notes are typically single name, offering no diversification

- reverse convertible notes typically have substantial deal by deal imbedded costs due to the privately placed structure

- reverse convertible notes carry the credit risk of the issuer, so even if the economics of the note work in favor of the investor, the credit worthiness and changes in views on the credit of the issuing firm may negative effect the investors

Benefits the Fund will bring relative to traditional reverse convertible notes

The Fund will deliver the beneficial features of reverse convertible notes while mitigating some of such notes' negative features, such as:

- the Fund will offer diversification by selling options of twenty underlying issuers, not just one underlying issuer in the portfolio at all times

- the Fund will roll every quarter into a new set of twenty underlying options, and the fund structure gives investors a lower initial and ongoing cost due to the economies of scale the Fund will have over a reverse convertible note's deal by deal imbedded costs stemming from its privately placed structure

- the Fund will not carry the credit risk of banks and financial firms imbedded into reverse convertible notes, and the Fund sells options and collects premium upfront: both of these features decrease risks to the Fund as compared to a reverse convertible note.

Timeline since November 2009

The concept behind the Fund was developed by RIS in 2009. The Trust filed the initial registration statement with the Commission's Division of Investment Management (IM) on Form N-1A on November 23, 2009. In the following weeks NYSE ARCA submitted a draft 19b-4 to the SEC Division of Trading and Markets (TM).

During January and February of 2010 it became clear there were several questions on our filings from IM, TM and other interested groups at the SEC, so on March 31, 2010 Jeff and I visited the SEC at their Washington DC offices along with representatives of NYSE ARCA and presented on the following topics:

- The Index - NYSE Arca US Equity Reverse Convertible Index
- Down and In Put Options
- Reverse Convertible Securities (RCs)

- The RC Payoff Description and Diagram
- RVCT - The NYSE Arca US Equity Reverse Convertible Index Fund
- FINRA Notice - February 2010 FINRA published Regulatory Notice 10-09 on Reverse Convertibles
- Hypothetical Returns
- The Process Behind the Fund and the Index
- Index and RVCT Indicative Value Dissemination
- Option Pricing Model
- The OTC Option Dealing Process
- The T-Bill Purchase Process
- Interaction with Bank of New York Mellon
- Valuation at Bank of New York Mellon
- OTC Option Expiration and Quarterly Roll
- The Arbitrage Process
- Availability of pricing information / Transparency of the Market
- Liquidity of the Underlying Market

During this March 2010 meeting several questions and comments were discussed between the SEC staff attending the meeting. Following the meeting we received comments that it was a very helpful undertaking. In the weeks following this meeting IM engaged again in discussions with counsel to RIS, and based on this made certain additional amendments to the N1-A filing. As there were no further comments from IM for our counsel at that time, on May 28, 2010 the N-1A went effective.

At that point at RIS we felt very encouraged that the N-1A was complete. Completion of the No Action letter and 19b-4 filing would allow us to list.

It was also around that time in late March 2010 that the SEC staff announced a "derivative moratorium", during which time it was conducting a review to evaluate the use of derivatives by mutual funds, exchange-traded funds (ETFs) and other investment companies. The objective of the SEC at that time was to examine whether and what additional protections might be necessary for those funds under the Investment Company Act of 1940. During the review the staff determined they would defer consideration of exemptive requests under the Investment Company Act to permit ETFs that would make significant investments in derivatives.

As the review was intended to affect new and pending exemptive requests from certain actively-managed and leveraged ETFs that particularly rely on swaps and other derivative instruments to achieve their investment objectives, the SEC stated the review would not affect any existing ETFs or other types of fund applications.

As we were not applying for additional exemptive relief, we did not fall under the moratorium; however, we assumed the issues that were being contemplated in the review played a large part in delaying the completion of the 19b-4 and Exemptive Relief letter from 2010 until where we are currently in 2013.

During the period of 2009 to 2013 between this initial filing of our N-1A and the Order there were hundreds of phone calls, emails, voice mails, and meetings that occurred between counsel for the Trust, the Exchange, and the Commission regarding the N1-A going effective, submission and approval of the 19b-4, and the Exemptive Relief Letter.

During that time we answered many questions, including several of those questions posed in the Order. Our dialogue with the SEC over the past three years led to a great many additional disclosure changes and additions across the N1-A, 19b-4, and the Exemptive Relief Letter. There were so many changes made during that period it is not practical to list them here, but suffice it to say, we worked very diligently with the SEC staff to enhance the description, disclosure and structure of the Index and the Fund. The result of these efforts is documented within the current versions of the N1-A, 19b-4, and the Exemptive Relief Letter.

Another major structural change which was made after much dialogue between RIS, our counsel, NYSE ARCA and the SEC was that we increased from thirteen to twenty the number of short option positions the Index and the Fund would sell. This increase in positions adds to the diversification of the Index and the Fund and helped to alleviate certain regulatory concerns as well as help to concerns raised in the Order around potential for market manipulation and related questions.

Summary

We provide the background above as context for those reviewing the Order or reading this response who may not have been involved in the process fully along the way. When we describe the benefits the Fund will have over products that exist in the market today, we understand that does not necessarily mean the Fund automatically belongs on the Exchange, and that the questions the SEC asks are being asked to ensure the Fund will fall with the Exchange's requirement to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest; and not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In the response to the questions below we explain why the Fund does meet the Exchange's responsibilities in their duties outlined above, and that the Exchange has sufficiently met its burden in presenting a statutory analysis of how its proposal is consistent with the Exchange Act.

Questions and Responses

1.1 What are commenters' views on whether investors would be able to understand the strategy, risks and potential rewards, assumptions and expected performance of the Fund, including the effect of the Fund's exposure to its down-and-in put options?

Response:

We feel investors in the Fund will very clearly understand the strategy, risks and potential rewards, assumptions and expected performance of the Fund, including the effect of the Fund's exposure to its down-and-in put options.

First, the name of the Fund: the NYSE Arca U.S. Equity Synthetic Reverse Convertible Index Fund, is very descriptive of exactly what the Fund is. We believe the name of the Fund will not mislead potential investors, and potential investors will not assume the Fund does something differently than is described in the information provided in the prospectus of the Fund.

Further, language in the Fund's prospectus describes the Fund's strategy quite clearly:

> **Principal Investment Strategies**
>
> The Fund seeks to replicate, before expenses, the performance of the Index.
>
> The NYSE Arca U.S. Equity Synthetic Reverse Convertible Index is an index that measures the return of a hypothetical portfolio consisting of over the counter put options which have been written on each of 20 stocks and a cash position calculated as described herein under "Additional Information About the Index." The 20 stocks on which options are written are those 20 stocks from a selection of the largest capitalized (over $5 billion in market capitalization) stocks which also have listed options and which have the highest volatility, as determined by the NYSE Arca, Inc., the Fund's index provider (the "Index Provider").
>
> The options are of the type known as "down and in" put options. A down and in option is a contract that becomes a typical option (i.e., the option "knocks in" at a predetermined strike price) once the underlying stock declines to a specified price (the "barrier price"). These types of options are found in "reverse convertible" securities, which convert into the underlying stock (or settle in cash) only upon a decline in the value of the underlying stock rather than a rise (as is the case with typical convertible instruments).
>
> Each option included in the Index is an "European-style" option (i.e. an option which can only be exercised at its expiration) with a 90 day term. The strike prices of the option positions included in the Index are determined based on the closing prices of the options' underlying stocks as of the beginning of each 90-day period. The barrier price of each such option is 80% of the strike price. At the expiration of each 90 day period, if an underlying stock closes at or below its respective barrier price, a cash settlement payment in an amount equal to the difference between the strike price and the closing price of the stock is deemed to be made and the Index value is correspondingly reduced. If the underlying stock does not close at or below the barrier price, then the option expires worthless and the entire amount of the premium payment is retained within the Index.
>
> The Fund will invest in the option positions determined by the Index Provider by writing (i.e., selling) over-the-counter 90-day down and in put options in proportion to their weightings in the Index on economic terms which mirror those of the Index. By writing an option, the Fund will receive premiums from the buyer of the option, which will increase the Fund's return if the option does not "knock in" and thus expires worthless. However, if the option's underlying stock declines by a specified amount (or more), the option will "knock in" and the Fund will be required to pay the buyer the difference between the option's strike price and

the closing price. Therefore, by writing a put option, the Fund is exposed to the amount by which the price of the underlying is less than the strike price. Accordingly, the potential return to the Fund is limited to the amount of option premiums it receives, while the Fund can potentially lose up to the entire strike price of each option it sells. Further, if the value of the stocks underlying the options sold by the Fund increases, the Fund's returns will not increase accordingly. Typically, the writer of a put option incurs an obligation to buy the underlying instrument from the purchaser of the option at the option's exercise price, upon exercise by the option purchaser. However, the put options to be sold by the Fund will be settled in cash only. The Fund may need to sell down and in put options on stocks other than those underlying the option positions contained in the Index if the Fund is unable to obtain a competitive market from over-the-counter option dealers on a stock underlying a particular option position in the Index, thus preventing the Fund from writing an option on that stock.

Each option written by the Fund will be covered through investments in three month Treasury bills at least equal to the Fund's maximum liability under the option (i.e., the strike price).

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Every 90 days, the options included within the Index are cash settled or expire and new option positions are established, and the Fund will enter into new option positions accordingly. This 90-day cycle likely will cause the Fund to have frequent and substantial portfolio turnover. If the Fund receives additional inflows (and issues more Shares accordingly in large numbers known as "Creation Units," as further defined herein) during a 90-day period, the Fund will sell additional over-the-counter down and in put options which will be exercised or expire at the end of such 90-day period. Conversely, if the Fund redeems Shares in Creation Unit size during a 90-day period, the Fund will terminate the appropriate portion of the options it has sold accordingly.

The Sub-Adviser seeks a correlation over time of 0.95 or better between the Fund's performance and the performance of the Index. A figure of 1.00 would represent perfect correlation.

We feel this language above leaves no ambiguity about the strategy of the Index and of the Fund. In addition, regarding the question "will potential investors understand the risks and potential rewards, assumptions and expected performance of the Fund, including the effect of the Fund's exposure to its down-and-in put options?", we feel the description below from our prospectus which describes the Index Methodology and Construction, along with the example within of how the options are structured, as well as the table within outlining various hypothetical scenarios concerning changes in the stock prices, will allow investors to clearly understand the risks and potential rewards, the assumptions and expected performance of the holdings of the Fund, and the effect of the Fund's exposure to its down-and-in put options.

Index Methodology and Construction

Each option included in the Index has a 90 day term. The strike prices of the option positions included in the Index are determined based on the closing prices of the options' underlying stocks as of the beginning of each 90-day period. The barrier price of each such option is 80% of the strike price. At the expiration of each 90 day period, if an underlying stock closes at or below its respective barrier price, a cash settlement payment in an amount equal to the difference between the strike price and the closing price of the stock is deemed to be made and the Index value is correspondingly reduced. If the underlying stock does not close at or below the barrier price, then the option expires worthless and the entire amount of the premium payment is retained within the Index.

For example, a stock "ABC" trades at $50 per share at the start of the 90 day period, and a down and in 90 day put was written at an 80% barrier (resulting in a strike price of $50 per share and a barrier price of $40 per share) for a premium of $4 per share:

Settlement above the barrier price: If at the end of 90 days the ABC stock closed at any value above the barrier price of $40, then the option would expire worthless and the Index's value would reflect the retention of the $4 per share premium. The Index's value thus would be increased by $4 per share on the ABC option position.

Settlement at the barrier price: If at the end of 90 days ABC closed at the barrier price of $40, then the option would settle in cash at the closing price of $40, and the Index's value would be reduced by $10 per share to reflect the settlement of the option. However, the Index's value would reflect the retention of the $4 per share premium, so the net loss to the Index's value would be $6 per share on the ABC option position.

Settlement below the barrier price: If at the end of 90 days, ABC closed at $35, then the option would settle in cash at the closing price of $35, and the Index's value would be reduced by $15 per share to reflect the settlement of the option. However, the Index's value would reflect the retention of the $4 per share premium, so the net loss to the Index's value would be $11 per share on the ABC option position.

For further elaboration, set forth below is a table outlining various hypothetical scenarios concerning changes in the stock price of ABC and the effect of such changes on options included in the Index:

Stock "ABC" at Inception	Barrier Price of Put Written on "ABC"	"ABC" Price at end of 90 day Period	Percentage Change in "ABC" Price for the period	Premium Received for Written Put	Gain or loss at Settlement from exercise or expiration of Put	Gain or Loss on Option Position (Premium plus or minus Settlement amount)	Gain or Loss on Option Position as a percentage of initial Stock Price
$50.00	$40.00	$75.00	50%	$4.00	$0.00	$4.00	8%
$50.00	$40.00	$70.00	40%	$4.00	$0.00	$4.00	8%
$50.00	$40.00	$65.00	30%	$4.00	$0.00	$4.00	8%
$50.00	$40.00	$60.00	20%	$4.00	$0.00	$4.00	8%
$50.00	$40.00	$55.00	10%	$4.00	$0.00	$4.00	8%
$50.00	$40.00	$50.00	0%	$4.00	$0.00	$4.00	8%
$50.00	$40.00	$45.00	-10%	$4.00	$0.00	$4.00	8%
$50,00	$40.00	$40.00	-20%	$4.00	-$10.00	-$6.00	-12%
$50,00	$40.00	$35.00	-30%	$4.00	-$15.00	-$11.00	-22%
$50.00	$40.00	$30.00	-40%	$4.00	-$20.00	-$16.00	-32%
$50.00	$40.00	$25.00	-50%	$4.00	-$25.00	-$21.00	-42%

The Index's value is equal to the value of the options positions comprising the Index plus a cash position. The cash position starts at a base of 100. The cash position is increased by option premiums generated by the option positions comprising the Index and interest on the cash position at an annual rate equal to the three month Treasury-bill rate. The cash position is decreased by cash settlement on options which "knock in" (i.e., where the closing price of the underlying stock at the end of the 90 day period is at or below the barrier price). The cash position is also decreased by a deemed quarterly cash distribution, currently targeted at the rate of 2.5% of the value of the Index. However, if the option premiums generated during the quarter are less than 2.5%, the deemed distribution will be reduced by the amount of the shortfall.

Finally, potential investors are also explicitly informed in the Fund's prospectus of the following in the "Who Should Invest" section:

WHO SHOULD INVEST

The Fund is designed for investors who seek to obtain income through selling options on select equity securities which the Index Provider determines to have the highest volatility. Because of the high volatility of the stocks underlying the options sold by the Fund, it is possible that the value of such stocks will decline in sufficient magnitude to trigger the exercise of the options and cause a loss which may outweigh the income from selling such options. Accordingly, the Fund should be considered a speculative trading instrument and is not necessarily appropriate for investors who seek to avoid or minimize their exposure to stock market volatility. Investors should also recognize that the option positions in the Index are determined every 90 days and the Index, and thus the Fund, may thus experience substantial turnover in their option positions from one such 90-day period to the next. Accordingly, even investors who seek to obtain income from selling options on volatile stocks generally should evaluate whether they wish to sell options (indirectly through the Fund) on the particular stocks selected by the Index in any particular 90-day period.

Unlike interests in many conventional mutual funds, the Shares are traded throughout the day on a national securities exchange, whereas mutual fund interests are typically only bought and sold at closing net asset values. The Shares have been designed to be tradable in the secondary market on a national securities exchange on an intra-day basis, and to be created and redeemed principally for cash in Creation Units at each day's next calculated NAV.

We also note that, as set forth above, the foregoing prospectus disclosures were the subject of extensive discussion with the Commission staff of both the Division of Investment Management and Division of Trading & Markets, and the current version of those disclosures incorporates many revisions made in response to comments and concerns of the Commission staff. We do not believe there are unaddressed concerns as to whether investors would understand the Fund's strategy and related risks.

1.2 With respect to the trading of the Fund's Shares on the Exchange, do commenters believe that the Exchange's rules governing sales practices are adequately designed to ensure the suitability of recommendations regarding the Fund's Shares? Why or why not? If not, should the Exchange's rules governing sales practices be enhanced? If so, in what way(s)?

Response:

We do believe that the Exchange's rules governing sales practices adequately ensure the suitability of recommendations regarding the Fund's Shares, and do not feel the Exchange's rules governing sales practices be altered for the Fund. We base this on the following facts:

First, in the "Suitability" section of the 19b-4 and as restated in the Order, NYSE Arca Equities Rule 9.2(a) (Diligence as to Accounts) provides that an Equity Trading Permit ("ETP") Holder, before recommending a transaction in any security, must have reasonable grounds to believe that the recommendation is suitable for the customer based on any facts disclosed by the customer as to its other security holdings and as to its financial situation and needs. Further, the rule provides, with a limited exception, that prior to the execution of a transaction recommended to a non-institutional customer, the ETP Holder must make reasonable efforts to obtain information concerning the customer's financial status, tax status, investment objectives, and any other information that such ETP Holder believes would be useful to make a recommendation.

Further, as stated in the 19b-4 and restated in the Order, prior to the commencement of trading, the Exchange would inform its ETP Holders of the suitability requirements of NYSE Arca Equities Rule 9.2(a) in an Information Bulletin ("Information Bulletin" or "Bulletin"). Specifically, ETP Holders would be reminded in the Information Bulletin that, in recommending transactions in these securities, they must have a reasonable basis to believe that (1) the recommendation is suitable for a customer given reasonable inquiry concerning the customer's investment objectives, financial situation, needs, and any other information known by such member, and (2) the customer can evaluate the special characteristics, and is able to bear the financial risks, of an investment in the Shares. In connection with the suitability obligation, the Information Bulletin would also provide that members must make reasonable efforts to obtain the following information: (1) the customer's financial status; (2) the customer's tax status; (3) the customer's investment objectives; and (4) such other information used or considered to be reasonable by such member or registered representative in making recommendations to the customer.

Additionally, as stated in the 19b-4 and restated in the Order, FINRA has issued a regulatory notice relating to sales practice procedures applicable to recommendations to customers by FINRA members of reverse convertibles, as described in FINRA Regulatory Notice 10-09 (February 2010) ("FINRA Regulatory Notice").As described above, while the Fund would not invest in traditional reverse convertible securities, the down-and-in put options written by the Fund would have the effect of exposing the Fund to the return of reverse convertible securities as if the Fund owned such reverse convertible securities directly. Therefore, the Bulletin would state that ETP Holders that carry customer accounts should follow the FINRA guidance set forth in the FINRA Regulatory Notice.

We believe that through these actions as described above the Exchange through its rules governing sales practices, the Exchange clearly notifies broker dealers of their responsibilities to ensure the suitability of their clients regarding the Fund's Shares.

1.3 With respect to the trading of the Fund's Shares on the Exchange, do commenters believe that the proposed disclosure of the nature of, and the risks of investing in, the Shares is sufficient? Why or why not? If not, should the Exchange be required to enhance its disclosure relating to the Shares? If so, in what way(s) should the disclosure be enhanced?

Response:

We do believe the Exchange has clearly and appropriately disclosed the nature of, and the risks of investing in, the Shares, and that enhanced or additional disclosure relating to the Shares by the Exchange is unnecessary. We base this on the detailed description the Exchange provides on the Description of the Fund, the Index Methodology and Construction, the Fund's Investments, Secondary Investment Strategies, Pricing Fund Shares, Creations and Redemptions of Shares, Initial and Continued Listing, Availability of Information, Trading Halts, Trading Rules, Surveillance, and Information Bulletin. We believe this information clearly discloses the nature of, and the risks of investing in, the Shares.

All of these items collectively serve to clearly and appropriately disclosed the nature of, and the risks of investing in, the Shares.

Further, SEC prospectus delivery rules require a prospectus or summary prospectus be provided by the Fund to investors with key information they need to make informed investment decisions.

2. The Fund states that the OTC down-and-in put options that it will write may experience greater discontinuity in pricing as they approach expiration, especially if the underlying equity price is close to the barrier level. For example, in the example provided by the Exchange described above, where Stock ABC trades at $50 per share at the start of the 90-day period, and a down-and-in 90-day put option is written at an 80% barrier (resulting in a strike price of $50 per share and a barrier price of $40 per share), as the price of Stock ABC goes from $40 to $40.01, the value of the option goes from $10 to $0. Do commenters believe that this discontinuous payoff structure of down-and-in put options could give rise to the potential for manipulation? Does this type of barrier option have the potential to provide an incentive for someone who has a position in the option or the Fund to manipulate the price of the underlying stock when it is near the knock-in price on the expiration date? Why or why not?

Response:

The barrier option in the Fund does have the potential to provide an incentive for someone who has a position in an option sold by the Fund or the Fund itself to manipulate the price of the underlying stock when it is near the knock-in price on the expiration date. However, this potential is very limited because the diversification of the Fund greatly restricts gains from the manipulation of any one underlying stock. We believe the following hypothetical examples illustrate these limits.

Situation 1: holder of an option position sold by the Fund.

Generally speaking, holders of an option position sold by the Fund will mainly be dealers that buy the OTC options sold by the fund. These dealers will only be long these options (that's because the Fund will only "buy back" option positions from dealers when there are redeems to eliminate credit exposure to dealers) and thus short the underlying stock. If an underlying stock on one of the 20 option positions held by the dealer is near the knock-in price on the expiration date, the dealer could attempt to "force" the underlying stock lower by selling shares of the underlying stock in sufficient quantity such that the underlying stock price closes at or below the barrier. However, the risk/reward profile of such a maneuver is not advantageous to the dealer because the potential gain to the dealer is only 1% of the total notional of option positions the dealer holds and because the underlying stocks all have market capital values greater than $5 billion with large daily trading volumes that would require substantial sales or purchases to influence the stock price. (The 1% number comes from the fact that each down-and-in put knocks in only if the underlying share price has fallen 20% or more. Since each down-and-in put is 1/20th of the index, the gain from being knocked in is only 1%.) In addition, from a mark-to-market perspective, the potential gain is really only 0.5% as the option position is likely to have been marked at approximately 10% of the notional of that particular option position the previous night. (The 0.5% number comes from the fact that the expected value of a barrier option whose underlying is very near the knock-in price days before its expiration is ½ of the value of that barrier option if it knocks in.) The cost of attempting to force a particular stock lower is not proportional to the prospective gain. As such, the dealer is strongly disincentivised from attempting this type of manipulation.

This argument holds true whether it is one underlying stock near the barrier or all 20 as each option position held by the dealer has the exact same payout and economics.

Situation 2: holder of a position in the Fund (Fund investor).

Holders of a position in the Fund (i.e., owners of Fund shares) are short the down-and-in puts just like the Fund itself and, thus, long the underlying stocks. If an underlying stock on one of the 20 option positions held by the Fund is near the knock-in price on the expiration date, a Fund investor could attempt to "force" the underlying stock higher by buying shares of the underlying stock in sufficient quantity such that the underlying stock price closes above the barrier. However, the risk/reward profile of such a maneuver is not advantageous at all to the Fund investor because the potential gain to the Fund investor is only 1% of the total notional of option positions of the Fund shares the Fund investor owns and because the underlying stocks all have market capital values greater than $5 billion with large daily trading volumes that would require substantial sales or purchases to influence the stock price. (The 1% number comes from the fact that each down-and-in put knocks in only if the underlying share price has fallen 20% or more. Since each down-and-in put is 1/20th of the index, the gain from being knocked in is only 1%.) In addition, from a mark-to-market perspective, the potential gain is really only 0.5% as the option position is likely to have been marked at approximately 10% of the notional of that particular option position the previous night. (The 0.5% number comes from the fact that the expected value of a barrier option whose underlying is very near the knock-in price days before its expiration is ½ of the value of that barrier option if it knocks in.) The cost of attempting to force a particular stock higher is not proportional to the prospective gain. As such, the Fund investor is strongly disincentivised from attempting this type of manipulation.

This argument holds true whether it is one underlying stock near the barrier or all 20 as each option position held by Fund investor has the exact same payout and economics.

3. Do commenters believe that the market for OTC down-and-in put options is sufficiently liquid and that pricing of those options is sufficiently transparent for investors in the Shares? Why or why not? Do commenters believe that investors would be able to accurately value such options? Why or why not?

Response:

The market for OTC down-and-in puts is sufficiently liquid and that pricing of those options is sufficiently transparent for investors in the Fund for the following reasons:

1) The down-and-in puts sold by the Fund are very short dated "terminal" puts ("terminal" meaning the down-and-in put can only knock in if the price of the underlying stock finishes at or below the knock-in price on the expiration date of the option) with terms to expiration of only 3 months and have very liquid underlying stocks with exchange traded options on that underlying. This means all necessary inputs to price the down-in-puts are available in the market through observable listed instruments.

2) The model for pricing “terminal” very short dated down-and-in puts is both robust and common. In fact identical pricing values for the down-and-in puts in the Fund may also be calculated without an explicit model through the use of plain vanilla puts and put spreads.   Thus, because all inputs to this model for pricing these down-and-puts are readily available, there will not be disparate pricing and all dealers will have the same fair value for these down-and-in puts.
3) The Fund will provide to the public the model used to calculate the down-and-in put option values used by the Index provider and its calculation agent.   This model will be available on the Fund’s website with detailed explanations of the inputs.

4) The OTC market for barrier options is the single largest exotic option OTC market. “As of December 2000, the outstanding notional amount in OTC derivatives markets was $95 trillion compared with $14 trillion on exchanges.. According to a research report, barrier option trading accounts for 50% of the volume of all exotic traded options and 10% of the volume of all traded securities.” (see *Optimal Static-Dynamic Hedges for Barrier Options,* by Aytac Ilhan and Ronnie Sircar, November 2003, revised 18 July, 2004)

4. Do commenters believe that the market for OTC down-and-in put options is sufficiently liquid and that pricing of those options is sufficiently transparent for authorized participants and market makers to effectively arbitrage the OTC market and the market for the Shares through the trading day? Why or why not?

Response:

The market for OTC down-and-in puts is sufficiently liquid and that pricing of those options is sufficiently transparent for authorized participants and market makers to effectively arbitrage the OTC market for the share during the trading day for the reasons given in 3) above and because:

1) Many market makers, at least initially, will be associated with the dealers buying/selling the down-and-in put options from/back to the Fund. This means they will have the necessary infrastructure and knowledge to price, make markets and hedge their positions in the Fund throughout the trading day.
2) Authorized participants only clear the trading of Fund shares when there are redeems or creates and do not arbitrage the OTC market and the market for the Shares during the day.

5. The Commission understands that some market makers might use listed options to synthetically replicate down-and-in put options that may not be sufficiently liquid to buy and sell intraday. Do commenters believe the replication of down-and-in-put options through the purchase and sale of specific listed options would be an effective way for market makers to arbitrage the value of a down-and-in put option against the price of the Shares? Why or why not?

Response:

The purchase and sale of specific listed options would, in many cases, be an effective way for market makers to arbitrage the value of a down-and-in put option against the price of the Shares. This is because:

1) The down-and-in put in the Fund is a "terminal" down-and-in put, meaning the put can only knock in if the price of the underlying stock finishes at or below the knock-in price on the expiration date of the option. Because of this, the purchase/sale of the down-and-in put may be efficiently hedged by selling/purchasing a static portfolio of listed puts and put spreads. This hedging strategy is most effective when the listed options have the same maturity date as the down-and-in put, when the strike price of the listed option is very close to the knock-in price of the down-and-in put in the Fund and when the available listed options have strikes relatively close to one another.
2) When this is not the case, hedging with a static portfolio of listed puts and put spreads may not be the most efficient hedging methodology. In such cases, an efficient and effective hedge can be implemented using a dynamic portfolio of options and stock.

It is important to point out that that many market makers, at least initially, will be associated with the dealers buying/selling the down-and-in puts from/back to the Fund. This means they will have the necessary infrastructure and knowledge to price, make markets and hedge their positions in the Fund throughout the trading day ensuring the arbitrage of the value of the down-and-in puts in the Fund and the price of the Shares.

6. Are there other methods for authorized participants or market makers to hedge the market risk derived from arbitraging any differences between the market price of the Shares and the expected NAV per Share of the Fund?

Response:

There are other methods for authorized participants or market makers to hedge the market risk derived from arbitraging any differences between the market price of the Shares and the NAV per share of the fund:

Because, at least initially, many market makers will be associated with the dealers buying/selling the down-and-in puts from/back to the fund and because the OTC market for barrier options is the single largest exotic option OTC market, these market makers will be able to efficiently hedge and price the down-and-in put options in the Fund. This combined with the fact that the down-and in put options in the Fund are terminal type down-and-in puts, are very short dated and can be priced with a well know model using pricing inputs easily obtained from the listed option and stock markets, ensure that these market makers will be able to hedge the market risk derived from arbitraging any differences between the market price of the Shares and the NAV per share of the fund.

Authorized participants only clear Fund shares when there are creates and redeems and do not arbitrage differences between the market price of the Shares and the expected NAV per Share of the Fund.

7. Do commenters believe that the ability of market makers and authorized participants to arbitrage throughout the day will be sufficiently robust to ensure that prices of the Shares closely track the intraday NAV per Share of the Fund? Are there circumstances in which significant premiums or discounts could develop?

Response:

Market makers and authorized participants will have the ability to arbitrage throughout the day and ensure that prices of the Shares closely track the intraday NAV per Share of the Fund. Significant premiums or discounts should not develop relative to the bid/offer of the Shares. This is for the following reasons:

1) Because, at least initially, many market makers will be associated with the dealers buying/selling the down-and-in puts from/back to the fund and because the OTC market for barrier options is the single largest exotic option OTC market, these market makers and authorized participants will be able to efficiently hedge and price the down-and-in put options in the Fund. This combined with the fact that the down-and in put options in the Fund are terminal type down-and-in puts, are very short dated, can be priced with a well know model using pricing inputs easily obtained from the listed option and stock markets and can be hedged with listed options and stocks, ensure that these market makers will be able to ensure that prices of the Shares closely track the intraday NAV per share of the Fund.
2) Authorized participants only clear Fund shares when there are creates and redeems and do not arbitrage throughout the day to ensure that prices of the Shares closely track the intraday NAV per Share of the Fund.
3) The only situation in which significant discounts or premiums can develop is when a large number of the down-and-in put options in the fund are days away from maturity and the underlying stock price is very close to the knock-in barrier. However, in such case the premium or discount is either equal to or very close to the bid/offer of the Shares and would not indicate fundamental pricing inconsistencies or issues.

8. Do commenters believe that the third-party model that would be used to value the Fund's OTC down-and-in put options would accurately reflect prices at which the Fund could enter into new OTC down-and-in put options or unwind existing OTC down-and-in

put options? Why or why not? Should the Exchange or the Fund be required to provide further disclosure relating to the formula and methodology of such third-party pricing model? Would such disclosure better help investors to price the OTC down-and-in put options held by the Fund?

Response:

Yes, the third party model that would be used to value the Fund's OTC down-and-in put options would accurately reflect prices at which the Fund could enter into new OTC down-and-in put options or unwind existing OTC down-and-in put options for the following reason:

Because the down-and in put options in the Fund are terminal type down-and-in puts (i.e., can only knock in based on the closing prices of the underlying stock on the expiration date of the down-and-in put option) are very short dated and can be hedged with listed options and stocks, they can be priced uniformly by market makers and investors with a third party model using pricing inputs easily obtained from the listed option and stock markets. In addition, the type of down-and-in puts in the Fund (as described in the previous sentence) may also be priced without a third party model by simply pricing the down-and-in put options in the fund as a combination of plain vanilla puts and put spreads.

The Fund and the Index Provider (NYSE Arca) will provide further disclosure relating to the formula and methodology of such third party model, describing in detail the formula calculation and inputs to the formula. This disclosure is intended to better help investors price the down-and-in put options held by the fund.

9. Are there any characteristics unique to barrier options on equity securities that would make them more difficult to value than options on equity securities without a barrier feature? If so, what are they and how could they potentially impact the valuation?

Response:

For the barrier options contained in the down-and-in put options held by the Fund, there are no characteristics unique to them that would make them more difficult to value than options on equity securities without a barrier feature. This is because the barrier options in the down-and in put options held by the Fund are terminal type options (i.e., can only knock in based on the closing prices of the underlying stock on the expiration date of the down-and-in put) and are very short dated and, as a result, may be priced uniformly and consistently across market participants with a third party model using pricing inputs easily obtained from the listed option and stock markets. In addition, these types of barrier options in the down-and-in puts held by the Fund may also be priced without a third party model by simply pricing the barrier as a put spread.

10. Are there any circumstances under which the nature of barrier options would cause market makers to widen bid and offer spreads for the Shares? For example, if a significant number of components stocks are at or near a 20% loss a few days before expiration of the down-and-out-put options, would market makers widen their spreads to reflect the added uncertainty?

Response:

The only circumstance under in which the nature of the barrier options would cause market makers to widen bid and offer spreads for the Shares is if a number of component stocks are at or near the knock in price a few days before the expiration of the down-and-in put options. This widening of the bid and offer would merely be a reflection of the actual economics of the down-and-in put option possible payout and not increased risk or lack of liquidity.

Again, RIS greatly appreciates the opportunity to provide feedback on the points the Commission laid out in the Order. Please do not hesitate to contact the undersigned if you have any questions.

Very truly yours,

/s/ Kevin Rich

Kevin Rich