BLACKROCK

Via Electronic Mail

July 11, 2012

Ms. Elizabeth M. Murphy, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-0609

Re: File Number SR-NYSEArca-2012-37
Release No. 34-66966
NYSE Arca proposal of pilot program to create a Lead Market Maker Issuer Incentive Program for Exchange Traded Products
and
File Number SR-NASDAQ-2012-043
Release No. 34-66765
Nasdaq proposal to add new Rule 5950 (Market Quality Program)

Dear Ms. Murphy,

This letter responds to the request for comments by the Securities and Exchange Commission (the "Commission") on (a) NYSE Arca, Inc.'s ("Arca") proposal to create a new Fixed Incentive Program (the "FIP Program") on a pilot basis (the "FIP Proposal"),[1] pursuant to which an issuer of an exchange-traded product ("ETP") listed on the Arca Exchange (the "Arca Exchange") would be permitted to pay money to Arca that would be used by Arca to pay the ETP's lead market maker, and (b) the NASDAQ Stock Market LLC's ("Nasdaq") proposal to add a new Rule 5950 implementing a Market Quality Program (the "MQP Program," and together with the FIP Program, the "Programs") on a pilot basis (together with the FIP Proposal, the "Proposals"),[2] pursuant to which an ETP issuer listed on the Nasdaq Exchange (together with the Arca Exchange, the "Exchanges") would be permitted to pay money to Nasdaq that would be used by Nasdaq to pay the ETP's market makers.

BlackRock, Inc. ("BlackRock") supports innovations that promote more efficient and robust markets for ETPs, and commends the goals of the Programs, as well as the goals of a similar program previously adopted by the BATS Exchange, Inc. ("BATS").[3] The existing lead market maker ("LMM") program and designated liquidity provider ("DLP") program for ETPs, respectively, of Arca and Nasdaq, provide one firm with additional rebates or reduced fees – based on volume – in exchange for higher quotation and spread requirements than a normal registered market maker ("MM").

[1] *Self-Regulatory Organizations: NYSE Arca, Inc.; Notice of Filing of Proposed Rule Change Proposing a Pilot Program to Create a Lead Market Maker Issuer Incentive Program for Issuers of Certain Exchange-Traded Products Listed on NYSE Arca, Inc.*, Exchange Act Release No. 66966 (May 11, 2012).
[2] *Self-Regulatory Organizations: The NASDAQ Stock Market, LLC; Notice of Filing of Proposed Rule Change, as Modified by Amendment No. 1 Thereto*, Exchange Act Release No. 66765 (April 6, 2012).
[3] The Competitive Liquidity Provider Program ("CLP Program") recently adopted by BATS (Exchange Act Release No. 66034 (Dec. 22, 2011) (proposing release); Exchange Act Release No. 66307 (Feb. 2, 2012) (adopting release)) seeks to improve market liquidity through establishing programs to facilitate payments to market makers.

Because new ETPs may take time to establish liquidity and trading volume in the marketplace (and may never achieve higher levels of liquidity and trading volume), current programs may provide an insufficient incentive to outweigh the risks, obligations and capital commitments required of the LMM or DLP. BlackRock believes that supporting efficient market-making for new and smaller ETPs is important for the continued growth and development of the ETP market as a whole, and important to ensure all investors have access to ETPs that are suitable to their investment needs.

Currently the majority of overall daily ETP trading volume is centered on a limited number of larger ETFs. The ability of the exchanges to offer proper incentives to MMs who support new or less frequently traded ETPs can lead to tighter spreads, which benefits all investors. In addition, it would appear that the incentives to participate in the Programs diminishes as the volume of trading in any participating ETPs increase, likely resulting in such participating ETPs being removed from the Programs once they achieve sufficient liquidity.[4] Thus, the exchanges' respective proposals and plans offer the opportunity for new and smaller ETPs to gain traction in the marketplace at an earlier time.

That all three of the exchanges are currently focusing on the issue of ETP liquidity and aggressively pursuing new approaches to incentivize MMs with market-directed payments – compensating one lead MM in the case of the FIP Program or creating competition among multiple MMs in the case of the MQP Program and BATS' current program – is ample proof of the significance of this issue and suggests the need for improvements similar to those described in the Proposals. As the differences in the programs offered by Arca, BATS and Nasdaq demonstrate,[5] there may be more than one effective way to improve the markets for ETPs. Therefore, each of these three programs merits an opportunity to prove its ability to improve the liquidity and transparency of ETP markets.[6]

While BlackRock supports programs to provide additional incentives to ETP MMs and liquidity providers, this support is based on tying financial incentives provided to ETP MMs and liquidity providers directly and clearly to metrics or standards that demonstrate improved liquidity or tighter spreads for ETPs that participate in the programs. BlackRock believes such programs should benefit ETP shareholders, not merely subsidize MMs and liquidity providers. BlackRock, however, believes the exchanges should be allowed and encouraged to experiment and innovate unique programs based on these principles in order to develop best practices through experience over time.

While the proposed programs do not specify any particular party that should be responsible for the costs associated with the operation of such programs, BlackRock believes that the ETP sponsor should bear any fees associated with these programs.[7] If payments are to be made by an ETP or its shareholders, the nature and extent of such payments should be clearly disclosed in the ETP's

---

[4] Comparing the Proposals to the existing LMM and DLP programs, it appears that economic incentives would be greater for MMs under the LMM and DLP programs once a certain level of liquidity in participant products is achieved, providing a natural incentive for the products to be removed from the Programs once those levels are reached.

[5] The CLP Program seeks to achieve greater liquidity by rewarding a daily rebate to the two MMs who provide the best markets based on spread, size and depth, irrespective of volume (see, http://batstrading.com/resources/regulation/rule_book/CLP_Quoting_Incentives.pdf). Like the CLP Program, the MQP Program has a competitive reward for MMs based on metrics tied to both quotations and trading activity in the underlying ETP shares. The FIP Program proposes paying one LMM a predetermined amount to maintain an expected liquid trading market in the ETP's shares.

[6] Based on the results of the pilot periods of the programs, it may be appropriate for the exchanges to consider implementing time limitations for participants in the final form of the programs.

[7] BlackRock notes that ETPs relying on certain class relief from Section 11(d)(1) and Rules 10b-10, 11d1-2, 15c1-5 and 15c1-6 of the Securities Exchange Act of 1934, as amended (see, Market Regulation No Action Letter re: Securities Industry Association (*avail.* Nov. 21, 2005)), may find it difficult to rely on such class relief if the ETP directly pays for such fees.

offering documents so that investors understand the total costs associated with investing in the ETP. Both ETPs and their sponsors should consider the best interests of investors in determining whether to make payments under these programs.[8]

As liquidity and tight spreads in any security are of benefit to investors, BlackRock supports any prudent efforts to increase liquidity and narrow spreads for ETPs. The Programs and BATS' adopted program are important to the evolution of the growing ETP market, particularly for ETPs with less frequent trading activity. While the exchanges should be careful to craft incentive payments in a manner that demonstrates a liquidity or spread benefit for ETP shareholders, BlackRock believes that innovative approaches and solutions to market issues should be given the opportunity to assist future ETPs in becoming successful investment options for investors.

We would like to thank you for the opportunity to comment on the Proposals, and would welcome any further dialogue you wish to engage us in regarding this matter. If we can answer any questions or provide any further information regarding any of BlackRock's views, please feel free to contact Edward Baer, in BlackRock's Legal and Compliance Department, at (415) 670-7987.

Sincerely,

Joseph Cavatoni	Joanne Medero
Managing Director	Managing Director

cc: The Honorable Mary L. Schapiro, Chairman
The Honorable Luis A. Aguilar, Commissioner
The Honorable Daniel M. Gallagher, Commissioner
The Honorable Troy A. Paredes, Commissioner
The Honorable Elisse B. Walter, Commissioner
Norm Champ, Director, Division of Investment Management
Robert Cook, Director, Division of Trading and Markets

[8] It is important to note that such costs must be weighed against the benefits that may accrue to investors transacting in shares of ETPs participating in the programs from the narrower spreads expected to result from the implementation of these programs. The transaction cost savings resulting from these improved spreads may exceed any costs of the program that may be passed on to such investors. For that reason, BlackRock believes that an independent fiduciary, such as an ETP's non-interested fund directors, should have the responsibility for determining that it is appropriate for an ETP to bear costs directly.