



October 18, 2017

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Mr. Brent J. Fields  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

**Re: Proposal to facilitate the listing and trading of certain series of Investment Company Units listed pursuant to NYSE Arca Rule 5.2-E(j)(3) (Amendment No. 1 to SR-NYSEArca-2017-56)  
File No. SR-NYSEArca-2017-56**

Dear Mr. Fields:

This letter responds to the request of the Securities and Exchange Commission (“**Commission**”) for comment on the proposed rule change filed by NYSE Arca, Inc. (“**NYSE Arca**”) to list and trade twelve series of Investment Company Units (the “**Funds**”) listed pursuant to NYSE Arca Rule 5.2-E(j)(3) (the “**Proposal**”).<sup>1</sup> In response to the Commission’s approval of continued listing standards applicable to exchange-traded funds (“**ETFs**”), NYSE Arca submitted the Proposal in order to establish alternate listing standards for the continued listing and trading of the Funds.

BlackRock, Inc. or its affiliates (collectively, “**BlackRock**”) serves as investment adviser to four of the Funds included in the Proposal: iShares National Muni Bond ETF, iShares Short-Term National Muni Bond ETF, iShares California Muni Bond ETF and iShares New York Muni Bond ETF (collectively, the “**iShares Muni ETFs**”). In the aggregate, the iShares Muni ETFs have over \$11.5 billion in assets under management, and have each been listed on NYSE Arca for more than eight years. Each of the iShares Muni ETFs seeks to track the investment results of an index composed of an investment grade segment of the municipal bond market,<sup>2</sup> and each index underlying the iShares Muni ETFs satisfies all but one element of NYSE Arca’s generic listing standards.<sup>3</sup>

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<sup>1</sup> See Securities Exchange Act Release No. 81400, 82 FR 39643 (August 21, 2017).

<sup>2</sup> iShares National Muni Bond ETF (inception date: 09/07/2007) seeks to track the investment results of an index composed of investment-grade U.S. municipal bonds; iShares Short-Term National Muni Bond ETF (inception date: 11/05/2008) seeks to track the investment results of an index composed of investment-grade U.S. municipal bonds with remaining maturities between one month and five years; iShares California Muni Bond ETF (inception date: 10/04/2007) seeks to track the investment results of an index composed of investment-grade municipal bonds issued in the State of California; and iShares New York Muni Bond ETF (inception date: 10/04/2007) seeks to track the investment results of an index composed of investment-grade municipal bonds issued in the State of New York.

<sup>3</sup> See NYSE Arca Rule 5.2-E(j)(3), Commentary .02. The index underlying each of the iShares Muni ETFs meets all the applicable generic listing standards except the requirement in paragraph a(2) of Commentary .02 that component fixed income securities representing at least 75% of the weight of an index shall have a minimum original principal amount outstanding of \$100 million.

If the Commission does not approve the Proposal before the implementation date of NYSE Arca's continued listing standards on January 1, 2018, the iShares Muni ETFs, which have been operating effectively in the marketplace since their inception, will be subject to delisting procedures if no resolution can be reached with NYSE Arca to gain compliance with the new standards.

BlackRock believes that the Commission should approve the Proposal because it is consistent with the Securities Exchange Act of 1934 (the "**Act**") and because it is consistent with prior proposals that the Commission has recently approved. As noted in NYSE Arca's comment letter on the Proposal,<sup>4</sup> the Commission approved a similar proposal for the continued listing of the PowerShares Taxable Municipal Bond Portfolio (formerly, PowerShares Build America Bond Portfolio) (the "**PowerShares Muni ETF**") in January 2017.<sup>5</sup> Similar to the PowerShares Muni ETF, the iShares Muni ETFs satisfy all of the applicable generic listing standards except for the requirement that component fixed income securities representing at least 75% of the weight of an index shall have a minimum original principal amount outstanding of \$100 million. In its order granting approval of the proposed rule change for the PowerShares Muni ETF, the Commission concluded that the underlying index was "sufficiently broad-based to deter potential manipulation."

The indexes underlying the iShares Muni ETFs are also diversified and broad-based. For example, as of April 1, 2017, the index underlying the iShares National Muni Bond ETF included 11,333 component securities, the most heavily weighted component in the index represented approximately 0.25% of the total weight of the index and the aggregate weight of the top five most heavily weighted securities in the index represented less than 1% of the total weight of the index. As of February 4, 2016, the index underlying the PowerShares Muni ETF, in comparison, contained 10,126 component securities, the most heavily weighted component in the index represented approximately 2.27% of the total weight of the index and the aggregate weight of the top five most heavily weighted securities in the index represented 6.33% of the total weight of the index. The indexes underlying the three other iShares Muni Funds are also extremely broad-based and diversified.<sup>6</sup>

In addition, in July 2015, the Commission granted approval for the initial listing of the Vanguard Tax-Exempt Bond ETF (formerly, the Vanguard Tax-Exempt Bond Index Fund) (the "**Vanguard Muni ETF**"), which—like the iShares Muni ETFs and the PowerShares ETF—met all the applicable generic listing standards except for the minimum original principal amount outstanding requirement.<sup>7</sup> The Vanguard Muni ETF tracks an identical index to the iShares

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<sup>4</sup> See NYSE Arca, Comment Letter, Proposal to facilitate the listing and trading of certain series of Investment Company Units based on an index of municipal bond securities listed pursuant to NYSE Arca Rule 5.2E(j)(3) (October 6, 2017), available at <https://www.sec.gov/comments/sr-nysearca-2017-56/nysearca201756-2627821-161189.pdf>.

<sup>5</sup> See Securities Exchange Act Release No. 79767, 82 FR 4950 (January 17, 2017) (order approving PowerShares Muni ETF).

<sup>6</sup> The index underlying the iShares Short Term National Muni Bond ETF included 3,309 component securities, the most heavily weighted component in the index represented approximately 1% of the total weight of the index and the aggregate weight of the top five most heavily weighted securities in the index represented approximately 2% of the total weight of the index; the index underlying the iShares California Muni Bond ETF included 2,115 component securities, the most heavily weighted component in the index represented approximately 0.50% of the total weight of the index and the aggregate weight of the top five most heavily weighted securities in the index represented approximately 2.75% of the total weight of the index; the index underlying the iShares New York Muni Bond ETF included 2,191 component securities, the most heavily weighted component in the index represented approximately 1.50% of the total weight of the index and the aggregate weight of the top five most heavily weighted securities in the index represented approximately 4.25% of the total weight of the index (all figures as of April 1, 2017).

<sup>7</sup> See Securities Exchange Act Release No. 75376, 80 FR 40113 (July 7, 2015) (order approving Vanguard Muni ETF).

National Muni Bond ETF. In its order granting approval of the proposed rule change for the Vanguard Muni ETF, the Commission concluded that the underlying index was “sufficiently broad-based to deter potential manipulation.” Also, we note that the iShares National Muni Bond ETF was the first municipal bond ETF in the marketplace and has been offering investors low cost, diversified exposure to municipal bonds for over 10 years—similar to the other iShares Muni ETFs—without evidence of price manipulation.

Furthermore, in June 2016, in connection with a proposed rule change filed by BATS BZX Exchange, Inc. to list and trade shares of three series of transparent actively managed iShares ETFs (the “**iShares Active Muni ETFs**”) <sup>8</sup> investing in the municipal bond market—similar to the iShares Muni ETFs—BlackRock provided the Commission’s Division of Trading and Markets with the results of an internal empirical analysis.<sup>9</sup> The analysis examined municipal bond pricing and sought to analyze a theory advanced in an academic paper that raised the possibility that a municipal bond index or ETF comprised of less liquid bonds could be manipulated by strategic trading in a few illiquid constituents.<sup>10</sup> BlackRock’s analysis found that this form of manipulation may be uneconomical and is unsupported in practice.<sup>11</sup>

For the reasons stated above, BlackRock strongly believes that the continued listing and trading of the iShares Muni ETFs is consistent with the requirements of Section 6 of the Act and respectfully urges the Commission to promptly approve the Proposal to avoid any delisting proceedings for the iShares Muni ETFs, which would be extremely harmful to investors.

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We thank the Commission for providing BlackRock the opportunity to express our support for the Proposal. Please contact the undersigned if you have any questions or comments regarding BlackRock’s views.

Sincerely,

Samara Cohen  
Managing Director, U.S. Head of iShares Capital Markets

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<sup>8</sup> See Securities Exchange Act Release No. 80399, 82 FR 17913 (April 7, 2017) (order approving iShares Active Muni ETFs).

<sup>9</sup> See Analysis of Municipal Bond Pricing, iShares Global Research (updated June 1, 2016). BlackRock’s analysis used actual transaction prices from the Municipal Securities Rulemaking Board (MSRB), matched to the constituents of the S&P AMT-Free Municipal Series December 2021 Index for the period January 4, 2016 through April 15, 2016.

<sup>10</sup> See K. Jeremy Ko, Igor Kozhanov, and Sean Wilkoff, “Manipulation of Illiquid Asset Indexes” (2016). Mr. Ko is a Senior Financial Economist in the Commission’s Division of Economic and Risk Analysis, and Mr. Kozhanov is a Financial Economist in the Commission’s Division of Economic and Risk Analysis.

<sup>11</sup> Our empirical analysis indicated that: (1) given the over-the-counter dealer-centric market for municipal bonds, the bid-ask spread decreases with trade size; therefore, trading many small lots to move matrix prices is likely to be costly; (2) large trades move prices significantly and this effect is incorporated into prices quickly; for manipulation to work by affecting bond prices, the trades must be large, implying greater dollar cost and more likelihood of detection even if markets were segmented; (3) while pricing agents apply matrix pricing techniques to value non-traded bonds, the effect is likely too small to permit price manipulation of the corresponding index or ETF; and (4) market participants will use all intraday data to come up with their own valuations independently of pricing providers; ultimately, the price of an ETF at a point in time reflects these estimates in a manner that balances supply and demand.

Joanne Medero  
Managing Director, Government Relations & Public Policy

Deepa Damre  
Managing Director, Legal & Compliance

cc:

The Honorable Jay Clayton  
Chairman  
Securities and Exchange Commission

The Honorable Michael S. Piwowar  
Commissioner  
Securities and Exchange Commission

The Honorable Kara M. Stein  
Commissioner  
Securities and Exchange Commission

Heather Seidel  
Acting Director  
Division of Trading and Markets  
Securities and Exchange Commission

Dalia Blass  
Director  
Division of Investment Management  
Securities and Exchange Commission

Gary Goldsholle  
Deputy Director  
Division of Trading and Markets  
Securities and Exchange Commission

David Shillman  
Associate Director  
Division of Investment Management  
Securities and Exchange Commission