

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-67320; File No. SR-NYSEArca-2012-44)

June 29, 2012

Self-Regulatory Organizations; NYSE Arca, Inc.; Order Granting Approval of Proposed Rule Change Relating to Listing and Trading of iShares Strategic Beta U.S. Large Cap Fund and iShares Strategic Beta U.S. Small Cap Fund under NYSE Arca Equities Rule 8.600

I. Introduction

On May 14, 2012, NYSE Arca, Inc. (“Exchange” or “NYSE Arca”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “Exchange Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to list and trade shares (“Shares”) of the iShares Strategic Beta U.S. Large Cap Fund and iShares Strategic Beta U.S. Small Cap Fund (each a “Fund” and, collectively, “Funds”) under NYSE Arca Equities Rule 8.600. The proposed rule change was published in the Federal Register on May 30, 2012.³ The Commission received no comments on the proposal. This order grants approval of the proposed rule change.

II. Description of the Proposal

The Exchange proposes to list and trade the Shares of the Funds pursuant to NYSE Arca Equities Rule 8.600, which governs the listing and trading of Managed Fund Shares on the Exchange. The Shares will be offered by iShares U.S. ETF Trust (“Trust”), a statutory trust organized under the laws of the State of Delaware and registered with the Commission as an

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 67045 (May 23, 2012), 77 FR 31899 (“Notice”).

open-end management investment company.⁴ The Funds will be managed by BlackRock Fund Advisors (“BFA” or “Adviser”), an indirect wholly-owned subsidiary of BlackRock, Inc. BlackRock Investments, LLC will be the principal underwriter and distributor of the Funds’ Shares. State Street Bank and Trust Company will serve as administrator, custodian, and transfer agent for the Funds. The Exchange states that the Adviser is affiliated with multiple broker-dealers and has implemented a fire wall with respect to such broker-dealers regarding access to information concerning the composition and/or changes to the Funds’ portfolios.⁵

Description of the iShares Strategic Beta U.S. Large Cap Fund

The iShares Strategic Beta U.S. Large Cap Fund will seek long-term capital appreciation. The Fund will seek to achieve its investment objective by investing, under normal circumstances,⁶ at least 80% of its net assets in U.S. exchange-listed and traded equity securities

⁴ The Trust is registered under the Investment Company Act of 1940 (“1940 Act”). On December 21, 2011, the Trust filed with the Commission Form N-1A under the Securities Act of 1933 and under the 1940 Act relating to the (i) iShares Strategic Beta U.S. Large Cap Fund (File Nos. 333-178677 and 811-22649) (“Large Cap Registration Statement”), and (ii) iShares Strategic Beta U.S. Small Cap Fund (File Nos. 333-178675 and 811-22649) (“Small Cap Registration Statement” and, together with the Large Cap Registration Statement, “Registration Statements”). In addition, the Commission has issued an order granting exemptive relief to the Trust under the 1940 Act. See Investment Company Act Release No. 29571 (January 24, 2011) (File No. 812-13601) (“Exemptive Order”).

⁵ See Commentary .06 to NYSE Arca Equities Rule 8.600. The Exchange represents that, in the event (a) the Adviser becomes newly affiliated with a broker-dealer, or (b) any new adviser or sub-adviser becomes affiliated with a broker-dealer, such adviser and/or sub-adviser will implement a fire wall with respect to such broker-dealer regarding access to information concerning the composition and/or changes to the portfolio, and will be subject to procedures designed to prevent the use and dissemination of material, non-public information regarding such portfolio.

⁶ The term “under normal circumstances” includes, but is not limited to, the absence of extreme volatility or trading halts in the equity markets or the financial markets generally; operational issues causing dissemination of inaccurate market information; or force majeure type events such as systems failure, natural or man-made disaster, act of God, armed conflict, act of terrorism, riot or labor disruption, or any similar intervening circumstance.

of large-capitalization issuers. The Fund will seek to maintain strategic exposure to U.S. large-capitalization stocks with targeted investment characteristics. BFA will utilize a proprietary investment process to assemble an investment portfolio from a defined group of stocks that seeks to emphasize companies within the group that exhibit certain quantitative investment characteristics, such as higher quality earnings, low relative valuation, and smaller relative market capitalization, and de-emphasize companies that lack such characteristics. The investment process is intended to provide an increased exposure to securities of companies with higher quality earnings, lower relative valuations, and smaller relative market capitalizations than would a fund that seeks to replicate the performance of a broad U.S. large-capitalization stock index. Companies in the universe of U.S. large capitalization securities represent various sectors of the U.S. large capitalization market.

The Fund's proprietary investment process will begin with the selection of securities representing a defined investable universe of stocks of U.S. large-capitalization issuers. The universe is then subjected to rules-based screens designed to exclude securities with very low trading volume or very low prices. The stocks will then be scored based on their exposure to quantitative metrics such as leverage, return on equity, price-to-book ratio, and capitalization. BFA will assemble a portfolio emphasizing those stocks with high relative exposure to the desired investment characteristics, while seeking to remain diversified by industry.

Description of the iShares Strategic Beta U.S. Small Cap Fund

The iShares Strategic Beta U.S. Small Cap Fund seeks long-term capital appreciation. The Fund will seek to achieve its investment objective by investing, under normal circumstances, at least 80% of its net assets in U.S. exchange-listed and traded equity securities of small-capitalization issuers. The Fund will seek to maintain strategic exposure to U.S. small-

capitalization stocks with targeted investment characteristics. BFA will utilize a proprietary investment process to assemble an investment portfolio from a defined group of stocks that seeks to emphasize companies within the group that exhibit certain quantitative investment characteristics, such as higher quality earnings, low relative valuation, and smaller relative market capitalization, and de-emphasize companies that lack such characteristics. The investment process is intended to provide an increased exposure to securities of companies with higher quality earnings, lower relative valuations, and smaller relative market capitalizations than would a fund that seeks to replicate the performance of a broad U.S. small-capitalization stock index. Companies in the universe of U.S. small capitalization securities represent various sectors of the U.S. small capitalization market.

The Fund's proprietary investment process will begin with securities representing a defined investable universe of stocks of U.S. small-capitalization issuers. The universe will then be subjected to rules-based screens designed to exclude securities with very low trading volume or very low prices. The stocks are then scored based on their exposure to quantitative metrics such as leverage, return on equity, price-to-book ratio, and capitalization. BFA will assemble a portfolio emphasizing those stocks with high relative exposure to the desired investment characteristics, while seeking to remain diversified by industry.

With respect to each of the Funds, no less than 80% of the equity securities held by the respective Fund will be listed and traded on a U.S. national securities exchange.

Other Investments of the Funds

While each Fund, under normal circumstances, will invest at least 80% of its net assets in their respective investments, each Fund may directly invest in certain other investments, as

described below. The Funds may temporarily depart from their normal investment process,⁷ provided that the alternative, in the opinion of BFA, is consistent with a Fund's investment objective and is in the best interest of a Fund. However, BFA will not seek to actively time market movements.

Each Fund may hold up to an aggregate amount of 15% of its net assets in illiquid securities (calculated at the time of investment), including Rule 144A securities. Each Fund will monitor its portfolio liquidity on an ongoing basis to determine whether, in light of current circumstances, an adequate level of liquidity is being maintained, and will consider taking appropriate steps in order to maintain adequate liquidity if, through a change in values, net assets, or other circumstances, more than 15% of a Fund's net assets are held in illiquid securities. Illiquid securities include securities subject to contractual or other restrictions on resale and other instruments that lack readily available markets as determined in accordance with Commission staff guidance.

The Funds may invest in repurchase and reverse repurchase agreements. A repurchase agreement is an instrument under which the purchaser (i.e., a Fund) acquires the security and the seller agrees, at the time of the sale, to repurchase the security at a mutually agreed upon time and price, thereby determining the yield during the purchaser's holding period. Reverse repurchase agreements involve the sale of securities with an agreement to repurchase the securities at an agreed-upon price, date, and interest payment, and have the characteristics of borrowing.

⁷ Circumstances under which the Funds may temporarily depart from their normal investment process include, but are not limited to, extreme volatility or trading halts in the equity markets or the financial markets generally; operational issues causing dissemination of inaccurate market information; or force majeure type events such as systems failure, natural or man-made disaster, act of God, armed conflict, act of terrorism, riot or labor disruption, or any similar intervening circumstance.

The Funds may invest in other short-term instruments, including money market instruments, on an ongoing basis to provide liquidity or for other reasons. Money market instruments are generally short-term investments that may include but are not limited to: (i) shares of money market funds (including those advised by BFA or otherwise affiliated with BFA); (ii) obligations issued or guaranteed by the U.S. government, its agencies, or instrumentalities (including government-sponsored enterprises); (iii) negotiable certificates of deposit, bankers' acceptances, fixed-time deposits, and other obligations of U.S. and non-U.S. banks (including non-U.S. branches) and similar institutions; (iv) commercial paper rated, at the date of purchase, "Prime-1" by Moody's® Investors Service, Inc., "F-1" by Fitch Inc., or "A-1" by Standard & Poor's®, or if unrated, of comparable quality as determined by BFA; (v) non-convertible corporate debt securities (e.g., bonds and debentures) with remaining maturities at the date of purchase of not more than 397 days and that satisfy the rating requirements set forth in Rule 2a-7 under the 1940 Act; and (vi) short-term U.S. dollar-denominated obligations of non-U.S. banks (including U.S. branches) that, in the opinion of BFA, are of comparable quality to obligations of U.S. banks which may be purchased by the Funds. Any of these instruments may be purchased on a current or forward-settled basis. Time deposits are non-negotiable deposits maintained in banking institutions for specified periods of time at stated interest rates.

A Fund may invest a small portion of its net assets in tracking stocks, which primarily will be U.S. exchange-listed. A tracking stock is a separate class of common stock whose value is linked to a specific business unit or operating division within a larger company and is designed to "track" the performance of such business unit or division. The tracking stock may pay dividends to shareholders independent of the parent company. The parent company, rather than the business unit or division, generally is the issuer of tracking stock. However, holders of the

tracking stock may not have the same rights as holders of the company's common stock.

Each Fund will be classified as a "diversified" investment company under the 1940 Act. In addition, the Funds intend to qualify for and to elect treatment as a separate regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code. The Funds will not purchase the securities of issuers conducting their principal business activity in the same industry if, immediately after the purchase and as a result thereof, the value of a Fund's investments in that industry would equal or exceed 25% of the current value of a Fund's total assets, provided that this restriction does not limit a Fund's: (i) investments in securities of other investment companies, (ii) investments in securities issued or guaranteed by the U.S. government, its agencies or instrumentalities, or (iii) investments in repurchase agreements collateralized by U.S. government securities.

In accordance with the Exemptive Order, the Funds will not invest in options, futures, or swaps. The Funds may invest in currency forwards for hedging and trade settlement purposes.⁸ Each Fund's investments will be consistent with its respective investment objective and will not be used to enhance leverage. The Funds will not invest in non-U.S.-registered equity securities.

The Exchange represents that the Shares will conform to the initial and continued listing criteria under NYSE Arca Equities Rule 8.600. The Exchange further represents that, for initial and/or continued listing, the Funds will be in compliance with Rule 10A-3 under the Exchange Act,⁹ as provided by NYSE Arca Equities Rule 5.3. A minimum of 100,000 Shares for each Fund will be outstanding at the commencement of trading on the Exchange. The Exchange will obtain a representation from the issuer of the Shares that the net asset value ("NAV") per Share

⁸ A forward currency contract is an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days from the date of the contract agreed upon by the parties, at a price set at the time of the contract.

⁹ 17 CFR 240.10A-3.

will be calculated daily and that the NAV and the Disclosed Portfolio, as defined in NYSE Arca Equities Rule 8.600(c)(2), will be made available to all market participants at the same time.

Additional information regarding the Trust, the Funds, and the Shares, including investment strategies, risks, creation and redemption procedures, fees, portfolio holdings disclosure policies, distributions, and taxes, among other things, is included in the Notice and Registration Statements.¹⁰

III. Discussion and Commission's Findings

The Commission has carefully reviewed the proposed rule change and finds that it is consistent with the requirements of Section 6 of the Act¹¹ and the rules and regulations thereunder applicable to a national securities exchange.¹² In particular, the Commission finds that the proposal is consistent with Section 6(b)(5) of the Act,¹³ which requires, among other things, that the Exchange's rules be designed 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. The Commission notes that the Funds and the Shares must comply with the requirements of NYSE Arca Equities Rule 8.600 to be listed and traded on the Exchange.

The Commission finds that the proposal to list and trade the Shares on the Exchange is consistent with Section 11A(a)(1)(C)(iii) of the Act,¹⁴ which sets forth Congress' finding that it is in the public interest and appropriate for the protection of investors and the maintenance of fair and

¹⁰ See Notice and Registration Statements, supra notes 3 and 4, respectively.

¹¹ 15 U.S.C. 78f.

¹² In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

¹³ 17 U.S.C. 78f(b)(5).

¹⁴ 15 U.S.C. 78k-1(a)(1)(C)(iii).

orderly markets to assure the availability to brokers, dealers, and investors of information with respect to quotations for, and transactions in, securities. Quotation and last-sale information for the Shares will be available via the Consolidated Tape Association (“CTA”) high-speed line. In addition, the Indicative Optimized Portfolio Value (“IOPV”), which is the Portfolio Indicative Value, as defined in NYSE Arca Equities Rule 8.600(c)(3), will be widely disseminated by one or more major market data vendors at least every 15 seconds during the Core Trading Session.¹⁵ On each business day, before commencement of trading in Shares during the Core Trading Session on the Exchange, the Funds will disclose on their website the Disclosed Portfolio that will form the basis for the Funds’ calculation of the NAV at the end of the business day.¹⁶ The NAV of the Funds will be determined once each business day, generally as of the regularly scheduled close of business of the New York Stock Exchange (“NYSE”) (normally 4:00 p.m., Eastern time) on each day that the NYSE is open for trading, based on prices at the time of closing provided that (a) any Fund assets or liabilities denominated in currencies other than the U.S. dollar are translated into U.S. dollars at the prevailing market rates on the date of valuation as quoted by one or more data service providers, and (b) U.S. fixed-income assets may be valued as of the announced closing time for trading in fixed-income instruments in a particular market or exchange. A basket composition file, which includes the security names and share quantities required to be delivered in exchange for a Fund’s Shares, together with estimates and actual cash components, will be publicly disseminated daily prior to the opening of the NYSE via the

¹⁵ According to the Exchange, several major market data vendors display and/or make widely available IOPVs published on the CTA or other data feeds.

¹⁶ On a daily basis, the Adviser will disclose for each portfolio security or other financial instrument of the Funds the following information: ticker symbol (if applicable); name of security and financial instrument; number of shares or dollar value of financial instruments held in the portfolio; and percentage weighting of the security and financial instrument in the portfolio.

National Securities Clearing Corporation. Information regarding market price and trading volume of the Shares will be continually available on a real-time basis throughout the day on brokers' computer screens and other electronic services, and information regarding the previous day's closing price and trading volume information for the Shares will be published daily in the financial section of newspapers. The intra-day, closing, and settlement prices or other values of the portfolio securities, currency forwards, and other Fund investments are also generally readily available from the national securities exchanges trading such securities, automated quotation systems, published or other public sources, or on-line information services, such as Bloomberg or Reuters. The Funds' website will also include a form of the prospectus for each Fund, information relating to NAV (updated daily), and other quantitative and trading information.

The Commission further believes that the proposal to list and trade the Shares is reasonably designed to promote fair disclosure of information that may be necessary to price the Shares appropriately and to prevent trading when a reasonable degree of transparency cannot be assured. The Commission notes that the Exchange will obtain a representation from the issuer of the Shares that the NAV per Share will be calculated daily and that the NAV and the Disclosed Portfolio will be made available to all market participants at the same time.¹⁷ In addition, the Exchange will halt trading in the Shares under the specific circumstances set forth in NYSE Arca Equities Rule 8.600(d)(2)(D) and may halt trading in the Shares if trading is not occurring in the securities and/or the financial instruments comprising the Disclosed Portfolio of the Funds, or if other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present.¹⁸ Further, the Commission notes that the Reporting Authority that provides the Disclosed

¹⁷ See NYSE Arca Equities Rule 8.600(d)(1)(B).

¹⁸ See NYSE Arca Equities Rule 8.600(d)(2)(C). With respect to trading halts, the Exchange may consider other relevant factors in exercising its discretion to halt or

Portfolio must implement and maintain, or be subject to, procedures designed to prevent the use and dissemination of material non-public information regarding the actual components of the portfolio.¹⁹ The Exchange states that it has a general policy prohibiting the distribution of material, non-public information by its employees. Moreover, the Exchange states that the Adviser is affiliated with multiple broker-dealers and represents that the Adviser has implemented a fire wall with respect to such broker-dealers regarding access to information concerning the composition and/or changes to the Funds' portfolios.²⁰ The Commission also notes that the Exchange can obtain information via the Intermarket Surveillance Group ("ISG") from other exchanges that are ISG members, including all U.S. national securities exchanges, or with which the Exchange has in place a comprehensive surveillance sharing agreement.

The Exchange represents that the Shares are deemed to be equity securities, thus rendering

suspend trading in the Shares of the Funds. Trading in Shares of the Funds will be halted if the circuit breaker parameters in NYSE Arca Equities Rule 7.12 have been reached. Trading also may be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable.

¹⁹ See NYSE Arca Equities Rule 8.600(d)(2)(B)(ii).

²⁰ See supra note 5 and accompanying text. The Commission notes that an investment adviser to an open-end fund is required to be registered under the Investment Advisers Act of 1940 ("Advisers Act"). As a result, the Adviser and its related personnel are subject to the provisions of Rule 204A-1 under the Advisers Act relating to codes of ethics. This Rule requires investment advisers to adopt a code of ethics that reflects the fiduciary nature of the relationship to clients as well as compliance with other applicable securities laws. Accordingly, procedures designed to prevent the communication and misuse of non-public information by an investment adviser must be consistent with Rule 204A-1 under the Advisers Act. In addition, Rule 206(4)-7 under the Advisers Act makes it unlawful for an investment adviser to provide investment advice to clients unless such investment adviser has (i) adopted and implemented written policies and procedures reasonably designed to prevent violation, by the investment adviser and its supervised persons, of the Advisers Act and the Commission rules adopted thereunder; (ii) implemented, at a minimum, an annual review regarding the adequacy of the policies and procedures established pursuant to subparagraph (i) above and the effectiveness of their implementation; and (iii) designated an individual (who is a supervised person) responsible for administering the policies and procedures adopted under subparagraph (i) above.

trading in the Shares subject to the Exchange's existing rules governing the trading of equity securities. In support of this proposal, the Exchange has made representations, including:

- (1) The Shares will conform to the initial and continued listing criteria under NYSE Arca Equities Rule 8.600.
- (2) The Exchange has appropriate rules to facilitate transactions in the Shares during all trading sessions.
- (3) The Exchange's surveillance procedures applicable to derivative products, which include Managed Fund Shares, are adequate to properly monitor Exchange trading of the Shares in all trading sessions and to deter and detect violations of Exchange rules and applicable federal securities laws.
- (4) Prior to the commencement of trading, the Exchange will inform its Equity Trading Permit ("ETP") Holders in an Information Bulletin of the special characteristics and risks associated with trading the Shares. Specifically, the Information Bulletin will discuss the following: (a) the procedures for purchases and redemptions of Shares in Creation Unit aggregations (and that Shares are not individually redeemable); (b) NYSE Arca Equities Rule 9.2(a), which imposes a duty of due diligence on its ETP Holders to learn the essential facts relating to every customer prior to trading the Shares; (c) the risks involved in trading the Shares during the Opening and Late Trading Sessions when an updated IOPV will not be calculated or publicly disseminated; (d) how information regarding the IOPV is disseminated; (e) the requirement that ETP Holders deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction; and (f) trading and other information.

- (5) For initial and/or continued listing, the Funds will be in compliance with Rule 10A-3 under the Act,²¹ as provided by NYSE Arca Equities Rule 5.3.
- (6) With respect to each of the Funds, no less than 80% of the equity securities held by the respective Fund will be listed and traded on a U.S. national securities exchange.
- (7) Each Fund may hold up to an aggregate amount of 15% of its net assets in illiquid securities, including Rule 144A securities.
- (8) Each Fund will not: (a) invest in non-U.S.-registered equity securities; and (b) pursuant to the terms of the Exemptive Order, invest in options, futures, or swap agreements. In addition, each Fund's investments will be consistent with its respective investment objective and will not be used to enhance leverage.
- (9) A minimum of 100,000 Shares of each Fund will be outstanding at the commencement of trading on the Exchange.

This approval order is based on all of the Exchange's representations and description of the Funds, including those set forth above and in the Notice.

For the foregoing reasons, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act²² and the rules and regulations thereunder applicable to a national securities exchange.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,²³ that the

²¹ See 17 CFR 240.10A-3.

²² 15 U.S.C. 78f(b)(5).

²³ 15 U.S.C. 78s(b)(2).

proposed rule change (SR-NYSEArca-2012-44) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁴

Kevin M. O'Neill
Deputy Secretary

²⁴ 17 CFR 200.30-3(a)(12).