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Good morning. My name is Noel Archard -- I'm a Managing Director at BlackRock and I head the Product Team for the US exchange-traded fund (ETF) business. I greatly appreciate the opportunity to speak with you today about the impact of the May 6th "Flash Crash" on investors in ETFs – and what steps we can take to prevent such market disruptions in the future.

As the members of this committee know well, ETFs have become widely accepted investment vehicles for both institutional and retail investors. There are currently 985 exchange traded products available in the US market with $797 billion in assets invested. They represent 30% of the total volume traded on national exchanges and they have become indispensable tools for a range of investment strategies. Institutional investors use them for a number of sophisticated strategies such as cash equitization or as a low-cost hedging tool. For their part, retail investors also use them in a wide variety of ways: to build an asset allocation, as part of a core/satellite approach, or tactical investing among sectors, to name a few. With their low costs, transparency and easy access to a wide range of asset classes, ETFs have significant advantages that have benefited millions of investors. For example, many investors, both retail and institutional, find enormous value in being able to observe the price of the ETF during the day, and to use trade type orders such as stop-loss or limit orders in an attempt to control the price at which they transact.

Against this backdrop, several market issues converged on May 6th to affect prices for US equities in general, and ETFs holding US equities specifically, for a period of approximately ½ hour during the afternoon's trading. We note that ETFs holding US fixed-income securities and non-US equities were largely unaffected and generally traded at prices within normal ranges of underlying asset values. Many ETFs holding US equities, however, did not. In our view, four different factors simultaneously contributed to market prices for some ETFs diverging from underlying asset value. First, there was a sudden market freefall in US equity prices, which preceded the fall in ETF prices and caused market makers in ETFs that seek to track benchmarks heavy in the falling stocks to have difficulty valuing the ETF's underlying assets. Second, anxiety over potential trade cancellations caused liquidity providers to fear that normal ETF hedging strategies would be interrupted, which caused them to pull back from bidding for ETFs. Third, there was market fragmentation where exchange protocols and order routing rules increased selling pressure. And finally, there was unintended selling because stop-loss orders were triggered, which increased the volume of sell orders on ETFs. These stop-loss orders, which turned into orders to sell at "market" prices, were executed significantly below trigger points due to the speed of price freefall.

While we believe the final impact on investors was relatively limited due to widespread trade cancellations, there was nonetheless an impact. To better understand exactly the effect on financial advisors, we at BlackRock's iShares ETF business recently commissioned a survey of 380 retail financial advisors in late June. We commissioned the 'Flash Crash' Perceptions Study to learn from financial advisors, one of the largest groups of ETF users, what they think about the market event that affected individual securities and ETFs as a category. The survey revealed that the majority of advisors were minimally impacted by the market disruption, and they believe that market structure issues, such as an overreliance on computer systems and some types of high frequency trading, were the primary drivers of the crash. Stop-loss orders, market makers and exchange routing issues were seen as secondary issues. As it relates to the macro economic environment, the majority of advisors surveyed expect current market volatility will either increase or remain at today's level over the next six months. Furthermore (and perhaps disappointingly), those surveyed anticipate an event similar to May 6th will likely occur again, no matter what solutions are adopted. The survey also indicated that most advisors' accounts were not impacted by the events of May 6th. Of those account touched by the volatile trading on that day, the most common cause was a stop-loss order triggered by the "Flash Crash" and executed at a significantly reduced value, which happened to about a quarter of the advisors surveyed.

Regardless of the cause of volatility – economic or structural like the "Flash Crash" – advisors identified ETFs as the best investment vehicles to navigate a volatile market environment followed by bonds and mutual funds.

The survey findings underscore for us at iShares the importance of strong market structure reforms to help prevent future market disruptions. We believe those reforms should include:

- Uniform "circuit breakers" for stocks and ETFs across all exchanges;

- Making exchange trade error cancellation rules less arbitrary and more transparent in a manner that does not discourage liquidity providers from providing liquidity at times of market stress;

- Clearer guidelines for inter-market order routing rules;

- Replacing "stop loss" orders with "stop loss limit" orders to specify a limit price; and

- Expanding the role of lead market makers to ensure orderly market functioning.

We believe these reforms would represent a strong step towards preventing market disruptions like the one of May 6th in the future. We at BlackRock look forward to working together with the members of this committee and the staffs of the SEC and CFTC on this important issue. Thank you again for the opportunity to speak today.