“Flash Crash” Perceptions Study

Following the events of May 6, 2010 (commonly referred to as the “Flash Crash”), iShares commissioned a study through Market Strategies International to understand financial advisors’ perceptions of and reactions to the extreme market volatility, and the role the market structure played in the crash.

Additionally, the survey gauged financial advisors’ confidence in Exchange Traded Funds (ETFs) during market volatility.

Market Volatility – Overall Perceptions

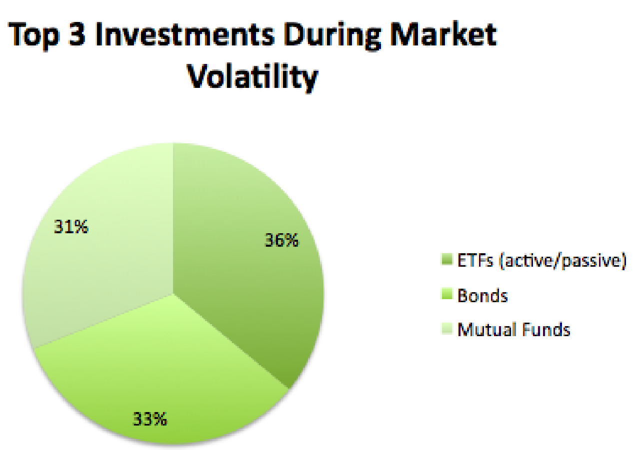
Over the next 6 months, one-third of advisors surveyed expect market volatility to increase; more than half expect it to remain the same.

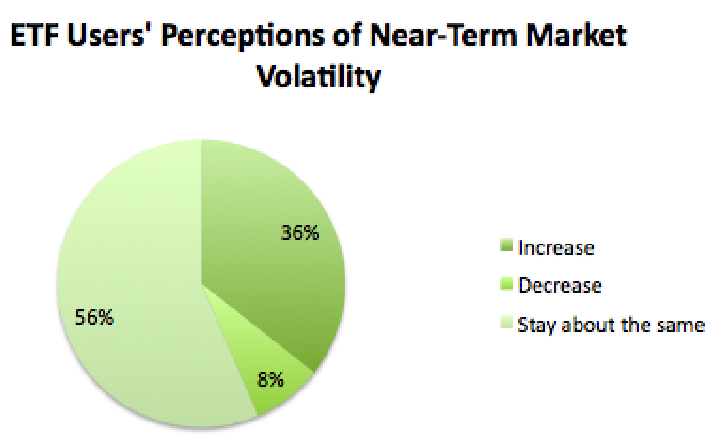
- More than 1-in-3 advisors (36 percent) expect market volatility to increase.
- More than half (56 percent) expect volatility to stay the same over the next six months.
- Less than 10 percent of those surveyed believe that volatility will decrease.

In volatile markets, the top 3 investment products identified by financial advisors were ETFs, bonds and mutual funds.

- Overall, 54 percent of those surveyed identified ETFs as the top investment product to use in a volatile market, followed by bonds (49 percent) and mutual funds (46 percent).
- 68 percent of Independent Registered Advisors (RIAs) would use ETFs over other investment vehicles in a volatile market, whereas 44 percent of wirehouse and regional broker-dealers said they would use ETFs over other investment vehicles.

In volatile markets, financial advisors surveyed felt the most important investment product attributes are: diversification (64 percent), precise exposure to targeted asset classes (45 percent) and intraday liquidity (43 percent).





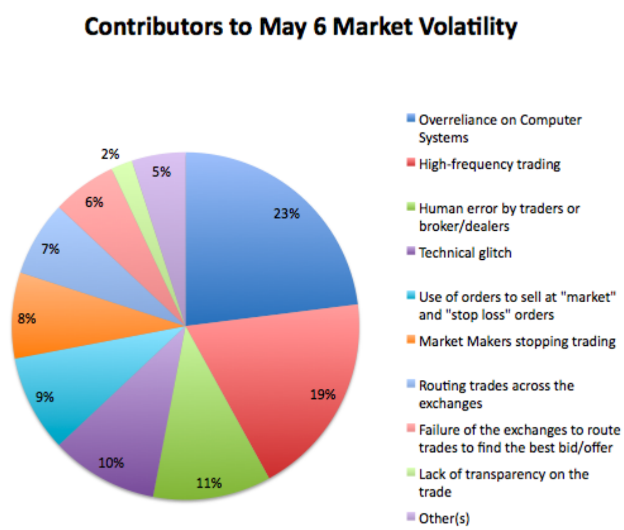
Contributing Factors to the "Flash Crash"

Overreliance on computer systems and high-frequency trading were cited as primary contributors to the May 6 volatility.

- More than 4-in-5 advisors believe that the overreliance on computer systems (85 percent) and high-frequency trading (83 percent) contributed to the May 6 volatility.
    - 56 percent surveyed believed overreliance on computer systems was the biggest contributor to the volatility on May 6.
    - 46 percent believed high-frequency trading was the biggest contributor.

Financial advisors viewed the use of stop-loss orders, market makers, and exchange routing issues as secondary factors that contributed to the Flash Crash.

- Use of stop-loss orders (23 percent)
- Market makers (21 percent)
- Exchange routing issues (18 percent)



"Flash Crash Impact"

The most common account impact on May 6 was the triggering of a stop-loss order by the crash.

- 28 percent of advisors had a stop-loss order triggered by the crash at a significantly reduced value.

Stop-loss and reversed stock trades were twice as likely to occur in non-discretionary accounts (23 percent) than discretionary accounts (11 percent).

Contrary to initial media reports, the majority of advisors surveyed said their accounts were minimally impacted.

- More than 8-in-10 advisors surveyed said each of the following did not occur in their accounts:
    - ETF trade reversed
    - Stock trade reversed
    - Loss of stock or fund
    - Gain of stock or fund

The "Flash Crash" minimally affected the use of stop-loss and market orders among advisors - 63 percent and 77 percent respectively say that usage of them will stay the same.

ETF trade reversals were the least common account impact (12 percent) of the issues tested in the survey.

“Flash Crash” Response & Solutions

In response to the flash crash, advisors most favored clearer inter-market routing guidelines (83 percent) and uniform circuit breakers (80 percent).

- Three-in-four advisors also favor:
  - Trading audits (76 percent)
  - Expanding the role of lead market maker (76 percent)

More than a third of financial advisors surveyed strongly oppose prohibition of stop-loss orders.

- Nearly 1-in-2 advisors feel that some preventative steps have been taken, although similar events are likely to happen.*
- Nearly 3-in-4 advisors believe similar events will happen irrespective of what steps have been taken.*

Role of Information Sources on “Flash Crash” Perceptions

Following the Flash Crash, internal resources were viewed as helpful to both advisors’ and their clients’ understanding of the event.

- Nearly 1-in-2 advisors felt that their firm’s resources increased understanding.
- Two-in-three felt that their firm’s resources increased clients’ understanding.

Financial Advisors felt external sources, particularly media, increased their personal confusion surrounding the Flash Crash.

- Half of the advisors (49 percent) felt the media added to their confusion.
- 32 percent felt the SEC or other government bodies increased their confusion.

Financial advisors felt that their clients’ confusion was greatly impacted by external sources.

- 66 percent of advisors said the media increased confusion among their clients.

Methodology

The online survey was conducted by Market Strategies International between June 23, 2010 - June 29, 2010 among 380 retail advisors throughout the United States. While iShares sponsored the research and provided the sample, they were not revealed as the sponsor of the research.

Survey respondents were required to manage assets totaling $25 million or more and provide investment advice to individual investors and they are personally responsible for making investment product recommendations to individual investors. Those surveyed have used or managed passive ETFs within the past six months, and were comprised of iShares clients and those who use other providers.

*At the time the survey was given, the SEC had implemented stock-by-stock circuit breakers to halt trading for five minutes in any stock that experiences a move of 10 percent or more from its last good sale.