



EDGA & EDGX STOCK EXCHANGES			
Regulatory Information Circular			
Circular Number:	2012-019	Contact:	Jeff Rosenstock
Date:	February 16, 2012	Telephone:	(201) 942-8295

**Subject: First Trust Developed Markets ex-US Small Cap AlphaDEX® Fund  
First Trust Emerging Markets Small Cap AlphaDEX® Fund**

### **Background Information on the Fund**

First Trust Exchange-traded AlphaDEX® Fund (the "Trust") is a management investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act"). The Trust consists of separate exchange-traded funds (each, a "Fund", and collectively, the "Funds"). This circular refers only to the Funds listed above. The shares of the Fund are referred to herein as "Shares."

As more fully explained in the [Registration Statement](#) (File Nos. 333-171759 and 811-22519), the Funds are registered under the Investment Company Act of 1940 (the "1940 Act") as open-end management investment companies and are exchange-traded "index funds" ("ETFs").

### **Description of the Funds**

#### *First Trust Developed Markets ex-US Small Cap AlphaDEX® Fund*

First Trust Developed Markets ex-US Small Cap AlphaDEX® Fund (the "Fund") seeks investment results that correspond generally to the price and yield (before the Fund's fees and expenses) of an equity index called the Defined Developed Markets Small Cap Index (the "Index").

The Fund will normally invest at least 90% of its net assets plus the amount of any borrowings for investment purposes in stocks and/or depositary receipts that comprise the Index. The Fund, using an "indexing" investment approach, attempts to replicate, before fees and expenses, the performance of the Index. First Trust seeks a correlation of 0.95 or better (before fees and expenses) between the Fund's performance and the performance of the Index; a figure of 1.00 would represent perfect correlation. First Trust will regularly monitor the Fund's tracking accuracy and will seek to maintain an appropriate correlation.

The Index is in the "Defined Index Series," a family of custom enhanced indices developed, maintained and sponsored by Standard & Poor's Financial Services LLC ("S&P" or the "Index Provider"). The Index is a modified equal-dollar weighted index designed by S&P to objectively identify and select small cap securities from the S&P Developed Markets ex-US BMI Index (the "Base Index") that may generate positive alpha relative to traditional passive-style indices through the use of the AlphaDEX® selection methodology. The Base Index is a comprehensive, rules-based index designed to measure stock market performance of companies in developed markets, excluding the U.S. The companies for the Base Index are selected based on these rules: (1) all publicly listed equities with float adjusted market values of \$100 million or more; and (2) annual dollar value traded of at least \$50 million. S&P creates and maintains the Base Index. Alpha is an indication of how much an investment outperforms or underperforms on a risk-

adjusted basis relative to its benchmark. As of December 30, 2011, the Index was comprised of 400 securities.

*First Trust Emerging Markets Small Cap AlphaDEX® Fund*

First Trust Emerging Markets Small Cap AlphaDEX® Fund (the "Fund") seeks investment results that correspond generally to the price and yield (before the Fund's fees and expenses) of an equity index called the Defined Emerging Markets Small Cap Index (the "Index").

The Fund will normally invest at least 90% of its net assets plus the amount of any borrowings for investment purposes in stocks and/or depositary receipts that comprise the Index. The Fund, using an "indexing" investment approach, attempts to replicate, before fees and expenses, the performance of the Index. First Trust seeks a correlation of 0.95 or better (before fees and expenses) between the Fund's performance and the performance of the Index; a figure of 1.00 would represent perfect correlation. First Trust will regularly monitor the Fund's tracking accuracy and will seek to maintain an appropriate correlation.

The Index is in the "Defined Index Series," a family of custom enhanced indices developed, maintained and sponsored by the Index Provider. The Index is a modified equal-dollar weighted index designed by S&P to objectively identify and select small cap securities from the S&P Emerging Markets BMI Index (the "Base Index") that may generate positive alpha relative to traditional passive-style indices through the use of the AlphaDEX® selection methodology. The Base Index is a comprehensive, rules-based index designed to measure stock market performance of companies in emerging markets. The companies for the Base Index are selected based on these rules: (1) all publicly listed equities with float adjusted market values of \$100 million or more; and (2) annual dollar value traded of at least \$50 million. S&P creates and maintains the Base Index. Additional information regarding the Base Index is set forth under "Index Information." Alpha is an indication of how much an investment outperforms or underperforms on a risk-adjusted basis relative to its benchmark. As of December 30, 2011, the Index was comprised of 200 securities.

First Trust Advisors L.P. serves as the investment advisor for the Funds. First Trust Portfolios L.P. is the distributor for the Funds. Brown Brothers Harriman & Co. is the administrator, custodian and fund accounting and transfer agent for the Funds.

As described more fully in the Funds' prospectus ("Prospectus") and Statement of Additional Information ("SAI"), market prices may differ to some degree from the net asset value ("NAV") of the Shares. Unlike mutual funds, each Fund issues and redeems Shares on a continuous basis, at its NAV, only in large specified blocks each consisting of 50,000 Shares (each block of Shares issued and redeemed, called a "Creation Unit" and collectively, the "Creation Units"). Each Fund's Creation Units are issued and redeemed principally in-kind for securities included in the applicable Fund.

Dividends from net investment income, if any, are declared and paid semi-annually by each Fund. Each Fund distributes its net realized capital gains, if any, to shareholders at least annually.

The Depository Trust Company ("DTC") will serve as securities depository for the Shares, which may be held only in book-entry form; stock certificates will not be issued. DTC, or its nominee, is the record or registered owner of all outstanding Shares.

The NAV per Share of the Funds will be determined as of the close of trading (normally, 4:00 p.m. Eastern Time ("ET")) on each day that the New York Stock Exchange ("NYSE") and NYSE Arca are

open for business. NAVs will be available from the Distributor and are also available to National Securities Clearing Corporation (“NSCC”) participants through data made available from NSCC.

The Trust’s registration statement describes the various fees and expenses for the Funds’ Shares. For a more complete description of the Funds and the Underlying Indexes, visit [www.ftportfolios.com](http://www.ftportfolios.com).

### **Principal Risks**

Interested persons are referred to the Prospectus for a description of risks associated with an investment in the Shares. These risks Market Risk, Non-Correlation Risk, Replication Management Risk; Non-Diversification, Non-U.S. Securities and Emerging Market Risk, Currency Risk, Taiwan Risk, China Risk, Japan Risk, Risk of Cash Transactions, Depository Receipts Risk, Market Capitalization Risk and Smaller Company Risk. In addition, as noted in the Prospectus, the Shares may trade at market prices that may differ from their NAV. The NAV of the Shares will fluctuate with changes in the market value of the applicable Fund’s holdings. The market prices of the Shares will fluctuate in accordance with changes in NAV as well as the supply and demand for the Shares.

### **Exchange Rules Applicable to Trading in the Shares**

The Shares are considered equity securities, thus rendering trading in the Shares subject to the Exchange's existing rules governing the trading of equity securities.

### **Trading Hours**

Trading in the Shares on the Exchanges is on a UTP basis and is subject to the Exchanges equity trading rules. The Shares will trade from 8:00 a.m. until 8:00 p.m. Eastern Time. Members trading the Shares during the Extended Market Sessions (Pre-opening and Post-closing sessions) are exposed to the risk of the lack of the calculation or dissemination of underlying index value or intraday indicative value (“IIV”). For certain derivative securities products, an updated underlying index value or IIV may not be calculated or publicly disseminated in the Extended Market hours. Since the underlying index value and IIV are not calculated or widely disseminated during Extended Market hours, an investor who is unable to calculate implied values for certain derivative securities products during Extended Market hours may be at a disadvantage to market professionals.

### **Trading Halts**

The Exchanges will halt trading in the Shares in accordance with Exchange Rules 14.1(c)(4). The grounds for a halt under this Rule include a halt by the primary market because it stops trading the Shares and/or a halt because dissemination of the IIV or applicable currency spot price has ceased, or a halt for other regulatory reasons. In addition, the Exchanges will stop trading the Shares if the primary market de-lists the Shares.

### **Suitability**

Trading in the Shares on the Exchanges will be subject to the provisions of Exchange Rules 3.7. Members recommending transactions in the Shares to customers should make a determination that the recommendation is suitable for the customer. In addition, Members must possess sufficient information to satisfy the “know your customer” obligation that is embedded in Exchange Rules 3.7.

Members also should review FINRA Notice to Members 03-71 for guidance on trading these products. The Notice reminds Members of their obligations to: (1) conduct adequate due diligence to understand the

features of the product; (2) perform a reasonable-basis suitability analysis; (3) perform customer-specific suitability analysis in connection with any recommended transactions; (4) provide a balanced disclosure of both the risks and rewards associated with the particular product, especially when selling to retail investors; (5) implement appropriate internal controls; and (6) train registered persons regarding the features, risk and suitability of these products.

### **Delivery of a Prospectus**

Pursuant to federal securities laws, investors purchasing Shares must receive a prospectus prior to or concurrently with the confirmation of a transaction. Investors purchasing Shares directly from the Fund (by delivery of the Deposit Amount) must also receive a prospectus.

Prospectuses for [First Trust Developed Markets ex-US Small Cap AlphaDEX® Fund](#) and for [First Trust Emerging Markets Small Cap AlphaDEX® Fund](#) may be obtained through the Funds' [website](#). The Prospectuses do not contain all of the information set forth in the registration statement (including the exhibits to the registration statement), parts of which have been omitted in accordance with the rules and regulations of the SEC. For further information about the Fund, please refer to the Trust's registration statement.

### **Exemptive, Interpretive and No-Action Relief Under Federal Securities Regulations**

The Commission has issued letters dated October 24, 2006, November 21, 2005 and August 17, 2001 (together the "No-Action Letters") granting exemptive, interpretive and no-action relief from certain provisions of and rules under the Securities Exchange Act of 1934 for exchange-traded funds listed and traded on a registered national securities exchange that meet certain criteria. Members are referred to the text of the No-Action Letters, available at [www.sec.gov](http://www.sec.gov), for additional information.

### **Regulation M Exemptions**

Generally, Rules 101 and 102 of Regulation M prohibit any "distribution participant" and its "affiliated purchasers" from bidding for, purchasing, or attempting to induce any person to bid for or purchase any security which is the subject of a distribution until after the applicable restricted period, except as specifically permitted in Regulation M. The provisions of the Rules apply to underwriters, prospective underwriters, brokers, dealers, and other persons who have agreed to participate or are participating in a distribution of securities.

The Commission issued a No-Action Letter by which persons participating in a distribution of shares of a fund may engage in secondary market transactions in such shares during their participation in such a distribution, despite the requirements of from Rule 101 under Regulation M. In addition, the SEC has permitted persons who may be deemed to be participating in the distribution of shares of a fund (i) to purchase securities for the purpose of purchasing creation unit aggregations of fund shares and (ii) to tender securities for redemption in Creation Unit Aggregations. Further, the Commission has clarified that the tender of fund shares to the Fund for redemption does not constitute a bid for or purchase of any of the Fund's securities during the restricted period of Rule 101. The Commission has issued a No-Action Letter to paragraph (e) of Rule 102 under Regulation M which allow the redemption of fund shares in creation unit aggregations during the continuous offering of shares.

### **Customer Confirmations for Creation or Redemption of Fund Shares (SEC Rule 10b-10)**

Broker-dealers who handle purchases or redemptions of Fund shares in Creation Units for customers will be permitted to provide such customers with a statement of the number of Creation Unit Aggregations

created or redeemed without providing a statement of the identity, number and price of shares of the individual securities tendered to the Fund for purposes of purchasing creation unit aggregations (“Deposit Securities”) or the identity, number and price of shares to be delivered by the Trust to the redeeming holder (“Redemption Securities”). The composition of the securities required to be tendered to the Fund for creation purposes and of the securities to be delivered on redemption will be disseminated each business day and will be applicable to requests for creations or redemption, as the case may be, on that day. This exemptive relief under Rule 10b-10 with respect to creations and redemptions is subject to the following conditions:

- (1) Confirmations to customers engaging in creations or redemptions must state that all information required by Rule 10b-10 will be provided upon request;
- (2) Any such request by a customer for information required by Rule 10b-10 will be filed in a timely manner, in accordance with Rule 10b-10(c);
- (3) Except for the identity, number and price of shares of the component securities of the Deposit Securities and Redemption Securities, as described above, confirmations to customers must disclose all other information required by Rule 10b-10(a).

### **SEC Rule 14e-5**

The Commission has permitted any person acting as a dealer-manager of a tender offer for a component security of fund (1) to redeem fund shares in creation unit aggregations from the issuer that may include a security subject to such tender offer and (2) to purchase fund shares during such tender offer. In addition, a No-Action has been issued under Rule 14e-5 states that if a broker-dealer acting as a dealer-manager of a tender offer for a security of the Fund purchases or arranges to purchase such securities in the secondary market for the purpose of tendering such securities to purchase one or more creation unit aggregations of shares, it must be made in conformance with the following:

- (i) such bids or purchases are effected in the ordinary course of business, in connection with a basket of 20 or more securities in which any security that is the subject of a distribution, or any reference security, does not comprise more than 5% of the value of the basket purchased; or
- (ii) purchases are effected as adjustments to such basket in the ordinary course of business as a result of a change in the composition of the underlying index; and
- (iii) such bids or purchases are not affected for the purpose of facilitating such tender offer.

### **Section 11(d)(1); SEC Rules 11d1-1 and 11d1-2**

Section 11(d)(1) of the Act generally prohibits a person who is both a broker and a dealer from effecting any transaction in which the broker-dealer extends credit to a customer on any security which was part of a new issue in the distribution of which he participated as a member of a selling syndicate or group within thirty days prior to such transaction. The Commission has clarified that Section 11(d)(1) does not apply to broker-dealers that are not authorized participants (and, therefore, do not create creation unit aggregations) that engage in both proprietary and customer transactions in shares of a fund in the secondary market, and for broker-dealer authorized participants that engage in creations of creation unit aggregations. This relief is subject to specific conditions, including the condition that such broker-dealer (whether or not an authorized participant) does not, directly or indirectly, receive from the fund complex any payment, compensation or other economic incentive to promote or sell the shares of a fund to persons outside the fund complex, other than non-cash compensation permitted under NASD Rule 2830 (I)(5)(A), (B) or (C). See letter dated November 22, 2005 from Brian A. Bussey, Assistant Chief Counsel, SEC Division of Market Regulation, to Barclays Global Investors, N.A., dated November 22, 2005. The Commission has issued a No-Action Letter under Section 11(d)(1) of the Act states that broker-dealers

may treat shares of a fund, for purposes of Rule 11d1-2, as "securities issued by a registered open-end investment company as defined in the Investment Company Act" and thereby extend credit or maintain or arrange for the extension or maintenance of credit on shares that have been owned by the persons to whom credit is provided for more than 30 days, in reliance on the exemption contained in the rule.

**SEC Rule 15c1-5 and 15c1-6**

The Commission has issued a No-Action letter with respect to Rule 15c1-5 and Rule 15c1-6 as to the required disclosure of control by a broker or dealer with respect to creations and redemptions of fund shares and secondary market transactions therein.

**This Regulatory Information Circular is not a statutory Prospectus. Members should consult the Trust's Registration Statement, SAI, Prospectus and the Fund's [website](#) for relevant information.**

## Appendix A

<b>Ticker</b>	<b>Fund Name</b>	<b>CUSIP</b>
FDTS	First Trust Developed Markets ex-US Small Cap AlphaDEX <sup>®</sup> Fund	33737J406
FEMS	First Trust Emerging Markets Small Cap AlphaDEX <sup>®</sup> Fund	33737J307