



EDGA & EDGX STOCK EXCHANGES			
Regulatory Information Circular			
Circular Number:	2012-077	Contact:	Jeff Rosenstock
Date:	August 30, 2012	Telephone:	(201) 942-8295

**Subject: First Trust CBOE S&P 500 VIX Tail Hedge Fund**

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

As more fully explained in the [Registration Statement](#) (Nos. 333-125751 and 811-21774), First Trust Exchange Traded Fund (the "Trust") is an open-end management investment company registered under the Investment Company Act of 1940 ("1940 Act"), as amended. The Trust consists of separate exchange-traded funds (each, a "Fund" and collectively, the "Funds"). This circular refers only to the Fund listed above. The shares of the Fund are referred to herein as "Shares." First Trust Advisors L.P. is the investment adviser to the Fund (the "Advisor").

### **Description of the Fund**

First Trust CBOE S&P 500 VIX Tail Hedge 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 CBOE VIX Tail Hedge Index (the "Underlying Index").

The Fund will normally invest at least 90% of its net assets (plus the amount of any borrowings for investment purposes) in common stocks and call options included in the Underlying Index.

The Fund, using an indexing investment approach, attempts to replicate, before fees and expenses, the performance of the Underlying Index. The Advisor seeks a correlation of 0.95 or better (before fees and expenses) between the Fund's performance and the performance of the Underlying 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.

Pursuant to an arrangement with Chicago Board Options Exchange, Incorporated ("CBOE"), Standard & Poor's Financial Services LLC ("S&P" or the "Index Provider") has certain rights to license the Underlying Index to third parties. S&P has licensed the Underlying Index to First Trust for use by First Trust and the Fund. CBOE compiles, maintains and owns the Underlying Index. The Underlying Index is designed to provide a benchmark for investors interested in hedging tail risk (as described below) in an S&P 500 portfolio. As of July 17, 2012 the Underlying Index was comprised of 501 securities.

The Underlying Index is composed of each of the equity securities comprising the S&P 500 and a call option position on the Chicago Board Options Exchange Market Volatility Index (the "VIX Index"). The VIX Index is calculated and disseminated in real-time by CBOE and is a way of measuring the market's expectation of volatility in the S&P 500 over the next 30-day period. Historically, the VIX Index has ranged in value from 0 to 100, however, during periods of sustained extreme volatility, the Underlying Index value could exceed 100. A higher value in the VIX Index indicates greater expected volatility in the S&P 500 over the next 30 days.

The Underlying Index, and in turn the Fund, tracks the performance of an S&P 500 stock portfolio (with dividends reinvested), and call options on the VIX Index. The amount of the Underlying Index allocated to call options on the VIX Index is reevaluated and rebalanced each month, depending on the level of forward expected volatility in the S&P 500, as measured by the closest to maturity VIX Index futures. Depending upon this forward expected volatility, the Underlying Index, and in turn the Fund, may allocate 0%, 0.5% or 1% of its portfolio to purchasing call option on the VIX Index.

A steep and sudden drop in equity market prices, such as a downward move of 20% or more in a month, is thought of as an unlikely or "tail" occurrence. The Underlying Index is designed to help cope with these extreme downward movements in the market by hedging its portfolio through purchasing call options on the VIX Index, or "tail hedging." Historically, there has been a negative correlation between the VIX Index and the S&P 500; during periods of time when the S&P 500 declines in value, the VIX Index tends to rise. Therefore, the Fund's purchase of call options on the VIX Index may offset some of the losses incurred in the S&P 500 due to a tail occurrence; however, there is no guarantee that the tail hedging strategy utilized by the Underlying Index, and in turn the Fund, will offset such losses. Additionally, under certain circumstances, the Underlying Index, and in turn the Fund, may be invested only in stocks in the S&P 500, which would prevent the Fund from hedging against any losses caused by increased volatility due to an unexpected event.

The Fund intends to invest entirely in securities included in the Underlying Index, however, there may also be instances in which the Fund may be underweighted or overweighted in certain securities in the Underlying Index, not invest in certain securities included in the Underlying Index, purchase securities not in the Underlying Index that are appropriate to substitute for certain securities in the Underlying Index or utilize various combinations of the above techniques in seeking to track the Underlying Index.

As described more fully in the Trust's prospectus (the "Prospectus") and Statement of Additional Information ("SAI"), the Fund issues and redeems Shares at net asset value ("NAV") only in large blocks of shares, respectively, (each block of Shares called a "Creation Unit") or multiples thereof. Each Creation Unit consists of 50,000 shares. As a practical matter, only broker-dealers or large institutional investors with creation and redemption agreements ("Authorized Participants") can purchase or redeem these Creation Units. Except when aggregated in Creation Units, the Shares may not be redeemed with the Fund.

The NAV per Share for the Fund will be determined each business day, normally at the close of regular trading (ordinarily, 4:00 p.m. Eastern Standard Time ("ET")) on EDGA

Exchange, Inc. and EDGX Exchange, Inc. (the “Exchanges”). NAV is calculated by dividing the value of the net assets of the Fund (i.e., the total value of its assets less all liabilities) by the number of Shares outstanding, rounded to the nearest cent. NAV will be available from the Distributor and will also be available to National Securities Clearing Corporation (“NSCC”) participants through data made available from NSCC.

Dividends from net investment income, if any, are declared and paid quarterly by the Fund. The Fund distributes its net realized capital gains, if any, to shareholders at least annually.

Shares are held in book-entry form, which means that no Share certificates are issued. The Depository Trust Company or its nominee is the record owner of all outstanding Shares of the Fund and is recognized as the owner of all Shares for all purposes.

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

### **Principal Risks**

Interested persons are referred to the discussion in the Prospectus for the Fund of the principal risks of an investment in the Fund. These include tracking error risk (factors causing the Fund’s performance to not match the performance of the underlying index), market trading risk (for example, trading halts, trading above or below net asset value), investment style risk, sector risk, investment approach risk, non-diversification risk, equity risk, derivatives risk and securities lending risk.

### **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 EDGA and EDGX Exchanges (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 of a Trust 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 of a Trust if the primary market de-lists the Shares.

## **Suitability**

Trading in the Shares on the Exchanges will be subject to the provisions of EDGA and EDGX 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 may be obtained through the Distributor or on the Fund’s [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 Fund’s [registration statement](#).

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

The Commission has issued letters dated April 9, 2007, 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 (“1934 Act”) for exchange-traded funds listed and traded on a registered national securities exchange that meet certain criteria. Members are referred to the No-Action Letters, available at [www.sec.gov](http://www.sec.gov), for additional information. A description of the relief granted in the No- Action Letters follows.

## **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 each 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 effected 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 1934 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 Fund'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>
VIXH	First Trust CBOE S&P 500 VIX Tail Hedge Fund	33733E609