



EDGA & EDGX STOCK EXCHANGES			
Regulatory Information Circular			
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**Subject: IQ U.S. Real Estate Small Cap ETF**

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

As more fully explained in the Registration Statement (Nos. 333-152915 and 811-22227) for IndexIQ ETF Trust ("Trust"), the Trust is an open-end management investment company registered under the Investment Company Act of 1940, as amended ("1940 Act"), and currently has a number of separate investment portfolios, of which IQ U.S. Real Estate Small Cap ETF, (the "Fund") is one portfolio. The Fund is a registered investment company and an exchange-traded "index fund." This circular refers only to the Fund listed above. The shares of the Fund are referred to herein as "Shares."

The Fund seeks investment results that correspond (before fees and expenses) generally to the price and yield performance of its underlying index, the IQ U.S. Real Estate Small Cap Index (the "Underlying Index").

The Fund employs a "passive management" – or indexing – investment approach designed to track the performance of the Underlying Index, which was developed by Financial Development Holdco LLC ("IndexIQ"), the parent company of IndexIQ Advisors LLC, the Fund's investment advisor (the "Advisor"). The Underlying Index is a rules based, modified capitalization weighted, float adjusted index intended to give investors a means of tracking the overall performance of the small capitalization sector of publicly traded companies domiciled and primarily listed on an exchange in the United States and that invest in real estate, such as Real Estate Investment Trusts ("REITs") or real estate holding companies.

Under normal circumstances, the Fund invests at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in the components that make up its Underlying Index (the "Underlying Index Components"). The Underlying Index Components that are eligible for inclusion in the Underlying Index include the following characteristics, measured as of each quarterly rebalance date: Issuer engaged in the real estate investment industry, as determined by Standard Industrial Classification ("SIC") code classifications; Issuer domiciled in the U.S.; Primary stock exchange listing in the U.S.; Minimum average market capitalization of \$150 million for the prior 90 days and as of the quarterly rebalance date; Maximum average market capitalization equal to the bottom 10% ranking of Real Estate Companies in the U.S. based on market capitalization for the prior 90 days (the "Market Cap Ceiling"); Minimum average daily trading volume of at least \$1 million for the prior 90 days; and Minimum monthly volume of 250,000 shares each month over the prior six months.

Securities of issuers with recent stock exchange listings (*i.e.*, recent initial public offerings) may be added to the Underlying Index on a quarterly basis, provided that the companies meet all eligibility criteria and have been trading for more than ten trading days. Existing Underlying Index Components whose average market capitalization falls below \$100 million or increases above the level 65% higher than the Market Cap Ceiling for the 90 days prior to any rebalancing date will no longer be eligible for inclusion.

The Underlying Index Components are selected quarterly in connection with the reconstitution of the Underlying Index. Their respective weights are rebalanced quarterly in connection with the rebalance of the Underlying Index. As of March 31, 2011, the U.S. dollar-denominated market capitalizations of the Underlying Index Components ranged from approximately \$170 million to approximately \$1.2 billion. The Fund will invest at least 80% of its total assets in securities of the Underlying Index or depository receipts based on the securities of the Underlying Index.

As described more fully in the Trust's prospectus and Statement of Additional Information, the Fund will issue and redeem Shares on a continuous basis at their net asset value ("NAV") only in large blocks of 50,000 Shares (each, a "Creation Unit"). Creation Units will be issued and redeemed principally in-kind for securities included in the underlying index. Except when aggregated in Creation Units, the Shares may not be redeemed with the Fund.

Net investment income and net capital gains are typically distributed to shareholders at least annually. Dividends may be declared and paid more frequently to improve index tracking or to comply with the distribution requirements of the Internal Revenue Code (the "Code"). In addition, the Fund may determine to distribute at least annually amounts representing the full dividend yield net of expenses on the underlying investment securities, as if the Fund owned the underlying investment securities for the entire dividend period in which case some portion of each distribution may result in a return of capital.

The Depository Trust Company ("DTC") serves 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 Fund will be determined as of the close of trading (normally, 4:00 p.m. Eastern Time ("ET")) on each day that the Exchanges are open for business. The NAV will be available from the Distributor and is also available to National Securities Clearing Corporation ("NSCC") participants through data made available from NSCC.

The Fund's Registration Statement describes the various fees and expenses for the Fund's Shares. For a more complete description of the Fund and the Index, visit [www.indexiq.com](http://www.indexiq.com).

### **Principal Risks**

Interested persons are referred to the Prospectus for a description of risks associated with an investment in the Shares. These risks include index risk, tracking error risk, small capitalization companies risk, real estate investment risks, interest rate risk, leverage risk, property risk, management risk, market risk, replication management risk, non-diversified risk, concentration risk, volatile rental income risk, liquidity risk, regulatory risk, U.S. tax risk, new fund risk and the risk that a Fund's return may not match the return of its index for a number of reasons including the incursion by a Fund of operating expenses and costs not applicable to its index. 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 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 on the Exchange.

### **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 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 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 Prospectus does 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 21, 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. ETP Holders are referred to the full 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 Funds for redemption does not constitute a bid for or purchase of any of the Funds' securities during the restricted period of Rule 101. The Commission has issued a No-Action Letter relating to paragraph (e) of Rule 102 under Regulation M to allow the redemption of fund shares in creation unit aggregations during the continuous offering of shares.

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

The Commission has permitted any person acting as a dealer-manager of a tender offer for a component security of funds (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.

### **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 stating 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.

### **Rule 10b-17**

The Commission has granted an exemption from the requirements of Rule 10b-17 with respect to transactions in ETF shares, for ETFs registered as open-end management investment companies.

**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>
ROOF	IQ U.S. Real Estate Small Cap ETF	45409B628