



EDGA & EDGX STOCK EXCHANGES			
Regulatory Information Circular			
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**Subject: ProShares RAFI Long/Short ETF**

**Background Information on the Fund**

The ProShares Trust (the “Trust”) is a management investment company registered under the Investment Company Act of 1940, as amended (the “1940 Act”), consisting of several investment portfolios. This circular relates only to the ProShares RAFI Long/Short (the “Fund”). The shares of the Fund are referred to herein as “Shares.” ProShare Advisors (“ProShares” or the “Advisor”) is the investment advisor to the Fund.

The Fund seeks investment results, before fees and expenses, that track the performance of the RAFI US Equity Long/Short Index (the “Index”). The Index (Bloomberg Ticker “RAFILS”) allocates an aggregate equal dollar amount to both long and short equity positions. This allocation is based on a comparison of Research Affiliates Fundamental Index weightings with traditional market capitalization weightings.

The Fund invests in a combination of equity securities and derivatives that ProShares believes should track the performance of the Index. Assets of the Fund not invested in equity securities or derivatives will typically be held in money market instruments.

- Equity Securities — The Fund invests in common stock issued by public companies.
- Derivatives — The Fund invests in financial instruments whose value is derived from the value of an underlying asset, interest rate or index. The Fund invests in derivatives as a substitute for investing directly in or making short sales of the equity securities comprising the Index. Derivatives principally include swap agreements — contracts entered into primarily with institutional investors for a specified period ranging from a day to more than one year. In a standard “swap” transaction, two parties agree to exchange the returns (or differentials in rates of return) earned or realized on particular predetermined investments or instruments. The gross returns to be exchanged or “swapped” between the parties are calculated with respect to a “notional amount,” e.g., the return on or change in value of a particular dollar amount invested in a “basket” of securities representing a particular index.
- Money Market Instruments — The Fund invests in short-term cash instruments that have terms to maturity of less than 397 days and exhibit high quality credit profiles.

ProShares uses a mathematical approach to investing. Using this approach, ProShares determines the type, quantity and mix of investment positions that the Fund should hold to

approximate the performance of its benchmark. The Fund may gain exposure to only a representative sample of the securities in the underlying Index, which is intended to have aggregate characteristics similar to those of the underlying Index. ProShares does not invest the assets of the Fund in securities or derivatives based on ProShares' view of the investment merit of a particular security, instrument, or company, nor does it conduct conventional stock research or analysis (other than in determining counterparty creditworthiness), or forecast stock market movement or trends, in managing the assets of the Fund. The Fund seeks to remain fully invested at all times in securities and/or derivatives that provide exposure to its underlying Index without regard to market conditions, trends or direction.

Please see the Fund's prospectus for more information regarding the Fund and its investment objective.

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.

The Fund intends to declare and distribute to its shareholders at least annually virtually all of its net income (interest and dividends, less expenses), if any, as well as net capital gains, if any, realized from the sale of its holdings. Subject to Board approval, some or all of any net capital gains distribution may be declared payable in either additional Shares of the respective Fund or in cash.

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 Funds and is recognized as the owner of all Shares for all purposes.

The NAV per Share for the Fund is computed by dividing the value of the net assets of the Fund (i.e., the value of its total assets less total liabilities) by the total number of Shares outstanding. Expenses and fees are accrued daily and taken into account for purposes of determining NAV. The NAV of each Fund is determined each business day after the close of trading (ordinarily 4:00 p.m., Eastern Time or "ET") of the Exchange. Any assets or liabilities denominated in currencies other than the U.S. dollar are converted into U.S. dollars at the current market rates on the date of valuation as quoted by one or more sources.

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.proshares.com](http://www.proshares.com).

### **Purchases and Redemptions in Creation Unit Size**

Members are hereby informed that procedures for purchases and redemptions of Shares in Creation Unit Size are described in the Trust's prospectus and Statement of Additional Information and that Shares are not individually redeemable but are redeemable only in Creation Unit Size aggregations or multiples thereof.

## **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, concentration risk, derivatives risk, counterparty risk and short sale 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.

## **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.

## **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.

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

The SEC has issued exemptive, interpretive or no-action relief from certain provisions of rules under the Securities Exchange Act of 1934 (the “Act”) regarding trading in the above mentioned exchange-traded fund.

### **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 SEC has granted an exemption from Rule 101 under Regulation M to permit persons participating in a distribution of shares of the above-mentioned Fund to engage in secondary market transactions in such shares during their participation in such a distribution. In addition, the SEC has granted relief under Regulation M to permit persons who may be deemed to be participating in the distribution of Shares of the above-mentioned 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 SEC 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 SEC has also granted an exemption pursuant 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.

### **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 Unit size 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 for the Fund 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**

An exemption from Rule 14e-5 has been granted to permit any person acting as a dealer-manager of a tender offer for a component security of the 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 position has been taken under Rule 14e-5 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, if 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) of the Exchange Act; Exchange Act Rule 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 SEC 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 the 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 the Fund to persons outside the Fund complex, other than non-cash compensation permitted under NASD Rule 2830(l)(5)(A), (B), or (C). (See [letter](#) from Catherine McGuire, Chief Counsel, SEC Division of Market Regulation, to Securities Industry Association, Derivative Products Committee, dated November 21, 2005.) The SEC also has taken a no-action position under Section 11(d)(1) of the Act that broker-dealers may treat Shares of the 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 SEC has taken a no-action position 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. (See [letter](#) from Catherine McGuire, Chief Counsel, SEC Division of Market Regulation, to Securities Industry Association, Derivative Products Committee, dated November 21, 2005.)

**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>
RALS	ProShares RAFI Long/Short ETF	74347X310