

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 91	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2015 - * 100 Amendment No. (req. for Amendments *) 5
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Filing by BATS Exchange  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input type="checkbox"/>	Amendment * <input checked="" type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
Pilot <input type="checkbox"/> Extension of Time Period for Commission Action * <input type="checkbox"/> Date Expires * <input type="text"/>			Rule <input type="checkbox"/> 19b-4(f)(1) <input type="checkbox"/> 19b-4(f)(4) <input type="checkbox"/> 19b-4(f)(2) <input type="checkbox"/> 19b-4(f)(5) <input type="checkbox"/> 19b-4(f)(3) <input type="checkbox"/> 19b-4(f)(6)		

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010 Section 806(e)(1) * <input type="checkbox"/> Section 806(e)(2) * <input type="checkbox"/>	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934 Section 3C(b)(2) * <input type="checkbox"/>
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Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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**Description**

Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

**Contact Information**

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name \* Kyle    Last Name \* Murray  
 Title \* Assistant General Counsel  
 E-mail \* kmurray@bats.com  
 Telephone \* (913) 815-7121    Fax

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title \*)

Date 06/03/2016    SVP, Associate General Counsel  
 By Anders Franzon   

(Name \*)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

afranzone@bats.com

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

**Form 19b-4 Information \***

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

Pursuant to the provisions of Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> Bats BZX Exchange, Inc. (the “Exchange” or “BZX”) (f/k/a BATS Exchange, Inc.) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to adopt generic listing standards for shares listed under BZX Rule 14.11(i) (“Managed Fund Shares”).

- (a) Not applicable.
- (b) Not applicable.
- (c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors of the Exchange on February 11, 2014. Exchange staff will advise the Board of Directors of the Exchange of any action taken pursuant to delegated authority. No other action is necessary for the filing of the rule change.

The persons on the Exchange staff prepared to respond to questions and comments on the proposed rule change are:

Eric Swanson  
EVP, General Counsel  
(913) 815-7000

Kyle Murray  
Assistant General Counsel  
(913) 815-7121

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change.

(a) Purpose

This Amendment No. 5 to SR-BATS-2015-100 amends and replaces in its entirety Amendment No. 1 to the proposal (and subsequent amendments thereto), which was filed on February 10, 2016, which amended and replaced in its entirety the proposal as originally submitted on November 15, 2015. The Exchange submits this Amendment No. 5 in order to clarify certain points about the proposal, to describe more accurately how investments in derivative securities will be treated, and provide an example of how portfolio exposure will be calculated.

The Exchange proposes to amend Rule 14.11(i) to adopt generic listing standards for Managed Fund Shares. Under the Exchange's current rules, a proposed rule change must be filed with the Securities and Exchange Commission ("SEC" or "Commission") for the listing and trading of each new series of Managed Fund Shares. The Exchange believes that it is appropriate to codify certain rules within Rule 14.11(i) that would generally eliminate the need for such proposed rule changes, which would create greater efficiency and promote uniform standards in the listing process. Prior to listing pursuant to proposed amended Rule 14.11(i), an issuer would be required to represent to the Exchange that it will advise the Exchange of any failure by a series of Managed Fund Shares to comply with the continued listing requirements, and, pursuant to its obligations under Section 19(g)(1) of the Exchange Act, the Exchange will surveil for compliance with the continued listing requirements. If the Fund is not in compliance with the applicable listing requirements, the Exchange will commence delisting procedures under Exchange Rule 14.12.

### Background

Rule 14.11(i) sets forth certain rules related to the listing and trading of Managed Fund Shares.<sup>3</sup> Under Rule 14.11(i)(3)(A), the term “Managed Fund Share” means a security that:

- (a) represents an interest in a registered investment company (“Investment Company”) organized as an open-end management investment company or similar entity, that invests in a portfolio of securities selected by the Investment Company’s investment adviser (hereafter “Adviser”) consistent with the Investment Company’s investment objectives and policies;
- (b) is issued in a specified aggregate minimum number in return for a deposit of a specified portfolio of securities and/or a cash amount with a value equal to the next determined net asset value; and
- (c) when aggregated in the same specified minimum number, may be redeemed at a holder’s request, which holder will be paid a specified portfolio of securities and/or cash with a value equal to the next determined net asset value.

Effectively, Managed Fund Shares are securities issued by an actively-managed

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<sup>3</sup> See Securities Exchange Act Release No. 65225 (August 30, 2011), 76 FR 55148 (September 6, 2011) (SR-BATS-2011-018) (Order Approving Proposed Rule Change to Adopt Rules for the Qualification, Listing and Delisting of Companies on the Exchange) (the “Approval Order”). The Approval Order approved the rules permitting the listing of both Tier I and Tier II securities on the Exchange and the requirements associated therewith, which includes the listing and trading of Index Fund Shares and Managed Fund Shares, trading hours and halts, and listing fees originally applicable to Managed Fund Shares.

open-end Investment Company (i.e., an exchange-traded fund (“ETF”) that is actively managed). Because Managed Fund Shares are actively-managed, they do not seek to replicate the performance of a specified passive index of securities. Instead, they generally use an active investment strategy to seek to meet their investment objectives. In contrast, an open-end Investment Company that issues Index Fund Shares, listed and traded on the Exchange pursuant to Rule 14.11(c), seeks to provide investment results that generally correspond to the price and yield performance of a specific foreign or domestic stock index, fixed income securities index, or combination thereof.

All Managed Fund Shares listed pursuant to Rule 14.11(i) are included within the definition of “security” or “securities” as such terms are used in the Rules of the Exchange and, as such, are subject to the full panoply of Exchange rules and procedures that currently govern the trading of securities on the Exchange.<sup>4</sup>

In addition, Rule 14.11(i) currently provides for the criteria that Managed Fund Shares must satisfy for initial and continued listing on the Exchange, including, for example, that a minimum number of Managed Fund Shares are required to be outstanding at the time of commencement of trading on the Exchange. However, the current process for listing and trading new series of Managed Fund Shares on the Exchange requires that the Exchange submit a proposed rule change with the Commission. In this regard, Rule 14.11(i)(2)(A) specifies that the Exchange will file separate proposals under Section 19(b) of the Act (hereafter, a “proposed rule change”) before the listing of Managed Fund Shares, which, in conjunction with the proposal to create generic listing standards for Managed Fund Shares, the Exchange is proposing to delete.

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<sup>4</sup> See Rule 14.11(i)(2).

Proposed Changes to Rule 14.11(i)

The Exchange is proposing to amend Rule 14.11(i) to specify that the Exchange may approve Managed Fund Shares for listing pursuant to SEC Rule 19b-4(e) under the Act, which pertains to derivative securities products (“SEC Rule 19b-4(e)”)<sup>5</sup>. SEC Rule 19b-4(e)(1) provides that the listing and trading of a new derivative securities product by a self-regulatory organization (“SRO”) is not deemed a proposed rule change, pursuant to paragraph (c)(1) of Rule 19b-4,<sup>6</sup> if the Commission has approved, pursuant to section 19(b) of the Act, the SRO’s trading rules, procedures and listing standards for the product class that would include the new derivative securities product and the SRO has a surveillance program for the product class. This is the current method pursuant to which “passive” ETFs are listed under Rule 14.11.

The Exchange would also specify within Rule 14.11(i)(4)(C) that components of Managed Fund Shares listed pursuant to SEC Rule 19b-4(e) must satisfy the requirements of Rule 14.11(i) on an initial and continued basis, which includes certain specific criteria that the Exchange is proposing to include within Rule 14.11(i)(4)(C), as described in greater detail below. As proposed, the Exchange would continue to file separate proposed rule changes before the listing and trading of Managed Fund Shares with components that

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<sup>5</sup> 17 CFR 240.19b-4(e). As provided under SEC Rule 19b-4(e), the term “new derivative securities product” means any type of option, warrant, hybrid securities product or any other security, other than a single equity option or a security futures product, whose value is based, in whole or in part, upon the performance of, or interest in, an underlying instrument.

<sup>6</sup> 17 CFR 240.19b-4(c)(1). As provided under SEC Rule 19b-4(c)(1), a stated policy, practice, or interpretation of the SRO shall be deemed to be a proposed rule change unless it is reasonably and fairly implied by an existing rule of the SRO.

do not satisfy the additional criteria described below or components other than those specified below. For example, if the components of a Managed Fund Share exceeded one of the applicable thresholds, the Exchange would file a separate proposed rule change before listing and trading such Managed Fund Share. Similarly, if the components of a Managed Fund Share included a security or asset that is not specified below, the Exchange would file a separate proposed rule change.

The Exchange would also amend the definition of the term “Disclosed Portfolio” under Rule 14.11(i)(3)(B) in order to require that the website for each series of Managed Fund Shares listed on the Exchange disclose the following information regarding the Disclosed Portfolio, to the extent applicable: ticker symbol, CUSIP or other identifier, a description of the holding, identity of the asset upon which the derivative is based, the strike price for any options, the quantity of each security or other asset held as measured by select metrics, maturity date, coupon rate, effective date, market value and percentage weight of the holding in the portfolio.<sup>7</sup>

The Exchange would also add to Rule 14.11(i)(4)(A) by specifying that all Managed Fund Shares must have a stated investment objective, which must be adhered to under normal market conditions.<sup>8</sup>

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<sup>7</sup> Proposed rule changes for previously-listed series of Managed Fund Shares have similarly included disclosure requirements with respect to each portfolio holding, as applicable to the type of holding. See, e.g., Securities Exchange Act Release No. 72666 (July 3, 2014), 79 FR 44224 (July 30, 2014) (SR-NYSEArca-2013-122) (the “PIMCO Total Return Use of Derivatives Approval”).

<sup>8</sup> The Exchange would also add a new defined term under Rule 14.11(i)(3)(E) to specify that the term “normal market conditions” includes, but is not limited to, the absence of trading halts in the applicable financial markets generally; operational issues causing dissemination of inaccurate market information or system failures; or force majeure type events such as natural or man-made



Finally, the Exchange would also amend the continued listing requirement in Rule 14.11(i)(4)(B) by changing the requirement that an Intraday Indicative Value for Managed Fund Shares be widely disseminated by one or more major market data vendors at least every 15 seconds during the time when the Managed Fund Shares trade on the Exchange to a requirement that an Intraday Indicative Value be widely disseminated by one or more major market data vendors at least every 15 seconds during Regular Trading Hours, as defined in Exchange Rule 1.5(w).

#### Proposed Managed Fund Share Portfolio Standards

The Exchange is proposing standards that would pertain to Managed Fund Shares to qualify for listing and trading pursuant to SEC Rule 19b-4(e). These standards would be grouped according to security or asset type. The Exchange notes that the standards proposed for a Managed Fund Share portfolio that holds equity securities, Derivative Securities Products, and Linked Securities are based in large part on the existing equity security standards applicable to Index Fund Shares in Exchange Rule 14.11(c)(3). The standards proposed for a Managed Fund Share portfolio that holds fixed income securities are based in large part on the existing fixed income security standards applicable to Index Fund Shares in Rule 14.11(c)(4). Many of the standards proposed for other types of holdings in a Managed Fund Share portfolio are based on previous proposed rule changes for specific series of Managed Fund Shares.<sup>9</sup>

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disaster, act of God, armed conflict, act of terrorism, riot or labor disruption, or any similar intervening circumstance.

<sup>9</sup> Securities Exchange Act Release Nos. 74193 (February 3, 2015), 80 FR 7066 (February 9, 2015) (SR-BATS-2014-054) (the “iShares Short Maturity Municipal Bond Approval”); 74297 (February 18, 2015), 80 FR 9788 (February 24, 2015) (SR-BATS-2014-056) (the “iShares U.S. Fixed Income Balanced Risk

Proposed Rule 14.11(i)(4)(C)(i) would describe the standards for a Managed Fund Share portfolio that holds equity securities, which are defined to be U.S. Component Stocks,<sup>10</sup> Non-U.S. Component Stocks,<sup>11</sup> Derivative Securities Products,<sup>12</sup> and Linked

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Approval”); 66321 (February 3, 2012), 77 FR 6850 (February 9, 2012) (SR-NYSEArca-2011-95) (the “PIMCO Total Return Approval”); the PIMCO Total Return Use of Derivatives Approval; 69244 (March 27, 2013), 78 FR 19766 (April 2, 2013) (SR-NYSEArca-2013-08) (the “SPDR Blackstone/GSO Senior Loan Approval”); 68870 (February 8, 2013), 78 FR 11245 (February 15, 2013) (SR-NYSEArca-2012-139) (the “First Trust Preferred Securities and Income Approval”); 69591 (May 16, 2013), 78 FR 30372 (May 22, 2013) (SR-NYSEArca-2013-33) (the “International Bear Approval”); 61697 (March 12, 2010), 75 FR 13616 (March 22, 2010) (SR-NYSEArca-2010-04) (the “WisdomTree Real Return Approval”); and 67054 (May 24, 2012), 77 FR 32161 (May 31, 2012) (SR-NYSEArca-2012-25) (the “WisdomTree Brazil Bond Approval”). Certain standards proposed herein for Managed Fund Shares are also based on previously proposed rule changes for specific index-based series of Index Fund Shares that did not satisfy the standards for those products on their respective listing exchange and for which Commission approval was required prior to listing and trading. See Securities Exchange Act Release Nos. 67985 (October 4, 2012), 77 FR 61804 (October 11, 2012) (SR-NYSEArca-2012-92); 63881 (February 9, 2011), 76 FR 9065 (February 16, 2011) (SR-NYSEArca-2010-120); 63176 (October 25, 2010), 75 FR 66815 (October 29, 2010) (SR-NYSEArca-2010-94); and 69373 (April 15, 2013), 78 FR 23601 (April 19, 2013) (SR-NYSEArca-2012-108) (the “NYSE Arca U.S. Equity Synthetic Reverse Convertible Index Fund Approval”).

<sup>10</sup> For the purposes of Rule 14.11(i) and this proposal, the term “U.S. Component Stocks” will have the same meaning as defined in Rule 14.11(c)(1)(D).

<sup>11</sup> For the purposes of Rule 14.11(i) and this proposal, the term “Non-U.S. Component Stocks” will have the same meaning as defined in Rule 14.11(c)(1)(E).

<sup>12</sup> For the purposes of Rule 14.11(i) and this proposal, the term “Derivative Securities Products will have the same meaning as defined in Rule 14.11(c)(3)(A)(i)(a) and will include both those Derivative Securities Products listed on the Exchange as well as each of the equivalent security types listed on another national securities exchange.

Securities<sup>13</sup> listed on a national securities exchange. For Derivative Securities Products and Linked Securities, no more than 25% of the equity weight of the portfolio could include leveraged and/or inverse leveraged Derivative Securities Products or Linked Securities. To the extent that a portfolio includes convertible securities, the equity security into which such security is converted shall meet the criteria of this Rule 14.11(i)(4)(C)(i) after converting.

As proposed in Rule 14.11(i)(4)(C)(i)(a), the component stocks of the equity portion of a portfolio that are U.S. Component Stocks shall meet the following criteria initially and on a continuing basis:

- (1) Component stocks (excluding Derivative Securities Products and Linked Securities) that in the aggregate account for at least 90% of the equity weight of the portfolio (excluding such Derivative Securities Products and Linked Securities) each must have a minimum market value of at least \$75 million;<sup>14</sup>
- (2) Component stocks (excluding Derivative Securities Products and Linked Securities) that in the aggregate account for at least 70% of the equity weight of the portfolio (excluding such Derivative Securities Products and Linked Securities) each must have a minimum monthly trading volume of 250,000 shares, or minimum notional volume traded per month of

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<sup>13</sup> Linked Securities are securities listed on the Exchange under Rule 14.11(d) and each of the equivalent security types listed on another national securities exchange.

<sup>14</sup> The proposed text is identical to the corresponding text of Rule 14.11(c)(3)(A)(i)(a), except for the omission of the reference to “index,” which is not applicable, and the addition of the reference to Linked Securities.

\$25,000,000, averaged over the last six months;<sup>15</sup>

- (3) The most heavily weighted component stock (excluding Derivative Securities Products and Linked Securities) must not exceed 30% of the equity weight of the portfolio, and, to the extent applicable, the five most heavily weighted component stocks (excluding Derivative Securities Products and Linked Securities) must not exceed 65% of the equity weight of the portfolio;<sup>16</sup>
- (4) Where the equity portion of the portfolio does not include Non-U.S. Component Stocks, the equity portion of the portfolio shall include a minimum of 13 component stocks; provided, however, that there would be no minimum number of component stocks if (a) one or more series of Derivative Securities Products or Linked Securities constitute, at least in part, components underlying a series of Managed Fund Shares, or (b) one or more series of Derivative Securities Products or Linked Securities account for 100% of the equity weight of the portfolio of a series of Managed Fund Shares;<sup>17</sup>

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<sup>15</sup> This proposed text is identical to the corresponding text of Rule 14.11(c)(3)(A)(i)(b), except for the omission of the reference to “index,” which is not applicable, and the addition of the reference to Linked Securities.

<sup>16</sup> This proposed text is identical to the corresponding text of Rule 14.11(c)(3)(A)(i)(c), except for the omission of the reference to “index,” which is not applicable, and the addition of the reference to Linked Securities.

<sup>17</sup> This proposed text is identical to the corresponding text of Rule 14.11(c)(3)(A)(i)(d), except for the omission of the reference to “index,” which is not applicable, the addition of the reference to Linked Securities, the reference to the equity portion of the portfolio not including Non-U.S. Component Stocks, and the reference to the 100% limitation applying to the “equity weight” of the

- (5) Except as provided in proposed Rule 14.11(i)(4)(C)(i)(a), equity securities in the portfolio must be U.S. Component Stocks listed on a national securities exchange and must be NMS Stocks as defined in Rule 600 of Regulation NMS;<sup>18</sup> and
- (6) American Depositary Receipts (“ADRs”) may be exchange traded or non-exchange traded. However no more than 10% of the equity weight of the portfolio shall consist of non-exchange traded ADRs.

As proposed in Rule 14.11(i)(4)(C)(i)(b), the component stocks of the equity portion of a portfolio that are Non-U.S. Component Stocks shall meet the following criteria initially and on a continuing basis:

- (1) Non-U.S. Component Stocks each shall have a minimum market value of at least \$100 million;<sup>19</sup>
- (2) Non-U.S. Component Stocks each shall have a minimum global monthly trading volume of 250,000 shares, or minimum global notional volume

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portfolio – this last difference is included because the proposed standards in Rule 14.11(i)(4)(C) permit the inclusion of non-equity securities, whereas Rule 14.11(c)(3) applies only to equity securities.

<sup>18</sup> 17 CFR 240.600. This proposed text is identical to the corresponding text of Rule 14.11(c)(3)(A)(i)(e), except for the addition of “equity” to make clear that the standard applies to “equity securities” and the omission of the reference to “index,” which is not applicable.

<sup>19</sup> The proposed text is identical to the corresponding representation from the Non-U.S. Components Release, as defined in footnote 24, below. The proposed text is also identical to the corresponding text of Rule 14.11(c)(3)(A)(ii)(a), except for the omission of the reference to “index,” which is not applicable, and that each Non-U.S. Component Stock must have a minimum market value of at least \$100 million instead of the 70% required under Rule 14.11(c)(3)(A)(ii)(a).

traded per month of \$25,000,000, averaged over the last six months;<sup>20</sup>

- (3) The most heavily weighted Non-U.S. Component Stock shall not exceed 25% of the equity weight of the portfolio, and, to the extent applicable, the five most heavily weighted Non-U.S. Component Stocks shall not exceed 60% of the equity weight of the portfolio;<sup>21</sup>
- (4) Where the equity portion of the portfolio includes Non-U.S. Component Stocks, the equity portion of the portfolio shall include a minimum of 20 component stocks; provided, however, that there shall be no minimum number of component stocks if (a) one or more series of Derivative Securities Products or Linked Securities constitute, at least in part, components underlying a series of Managed Fund Shares, or (b) one or more series of Derivative Securities Products or Linked Securities account for 100% of the equity weight of the portfolio of a series of Managed Fund Shares;<sup>22</sup> and

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<sup>20</sup> The proposed text is identical to the corresponding representation from the Non-U.S. Components Release, as defined in footnote 24, below. This proposed text is identical to the corresponding text of Rule 14.11(c)(3)(A)(ii)(b), except for the omission of the reference to “index,” which is not applicable, and the addition of the reference to Linked Securities.

<sup>21</sup> This proposed text is identical to the corresponding text of Rule 14.11(c)(3)(A)(ii)(c), except for the omission of the reference to “index,” which is not applicable, and the addition of the reference to Linked Securities.

<sup>22</sup> This proposed text is identical to the corresponding text of Rule 14.11(c)(3)(A)(ii)(d), except for the omission of the reference to “index,” which is not applicable, the addition of the reference to Linked Securities, the reference to the equity portion of the portfolio including Non-U.S. Component Stocks, and the reference to the 100% limitation applying to the “equity weight” of the portfolio – this last difference is included because the proposed standards in Rule

- (5) Each Non-U.S. Component Stock shall be listed and traded on an exchange that has last-sale reporting.<sup>23</sup>

The Exchange notes that, as approved by the Commission for certain Managed Fund Shares<sup>24</sup> and also not required under corresponding Rule 14.11(c)(3)(A)(ii) related to Index Fund Shares,<sup>25</sup> it is not proposing to require that any of the equity portion of the equity portfolio composed of Non-U.S. Component Stocks be listed on markets that are either a member of the Intermarket Surveillance Group (“ISG”) or a market with which the Exchange has a comprehensive surveillance sharing agreement (“CSSA”).<sup>26</sup> However, as further detailed below, the Exchange or the Financial Industry Regulatory Authority, Inc. (“FINRA”), on behalf of the Exchange, will communicate as needed regarding trading in Managed Fund Shares with other markets that are members of the ISG, including all U.S. securities exchanges and futures exchanges on which the components are traded.

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14.11(i)(4)(C) permit the inclusion of non-equity securities, whereas Rule 14.11(c)(3) applies only to equity securities.

<sup>23</sup> 17 CFR 240.600. This proposed text is identical to the corresponding text of Rule 14.11(c)(3)(A)(ii)(e), except for the addition of “equity” to make clear that the standard applies to “equity securities” and the omission of the reference to “index,” which is not applicable.

<sup>24</sup> See Securities Exchange Act Release No. 75023 (May 21, 2015), 80 FR 30519 (May 28, 2015) (SR-NYSEArca-2014-100) (the “Non-U.S. Components Release”).

<sup>25</sup> Under Rule 14.11(c)(3)(A)(ii), index fund shares with components that include Non-U.S. Component Stocks can hold a portfolio that is entirely composed of Non-U.S. Component Stocks that are listed on markets that are neither members of ISG, nor with which the Exchange has in place a CSSA.

<sup>26</sup> ISG is comprised of an international group of exchanges, market centers, and market regulators that perform front-line market surveillance in their respective jurisdictions. See <https://www.isgportal.org/home.html>.

Proposed Rule 14.11(i)(4)(C)(ii) would describe the standards for a Managed Fund Share portfolio that holds fixed income securities, which are debt securities<sup>27</sup> that are notes, bonds, debentures or evidence of indebtedness that include, but are not limited to, U.S. Department of Treasury securities (“Treasury Securities”), government-sponsored entity securities (“GSE Securities”), municipal securities, trust preferred securities, supranational debt and debt of a foreign country or a subdivision thereof, investment grade and high yield corporate debt, bank loans, mortgage and asset backed securities,<sup>28</sup> and commercial paper. To the extent that a portfolio includes convertible securities, the fixed income security into which such security is converted shall meet the criteria of proposed Rule 14.11(i)(4)(C)(ii) after converting. The components of the fixed income portion of a portfolio shall meet the following criteria initially and on a continuing basis:

- (1) Components that in the aggregate account for at least 75% of the fixed income weight of the portfolio shall each have a minimum original principal amount outstanding of \$100 million or more;<sup>29</sup>
- (2) No component fixed-income security (excluding Treasury Securities and GSE Securities) could represent more than 30% of the fixed income

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<sup>27</sup> Debt securities include a variety of fixed income obligations, including, but not limited to, corporate debt securities, government securities, municipal securities, convertible securities, and mortgage-backed securities. Debt securities include investment-grade securities, non-investment-grade securities, and unrated securities. Debt securities also include variable and floating rate securities.

<sup>28</sup> The Exchange notes that, for purposes of this proposal, the issuer of asset backed securities will be considered the issuer of the underlying debt.

<sup>29</sup> This proposed text of 14.11(i)(4)(C)(ii)(a)(1) is based on the corresponding text of 14.11(c)(4)(B)(i)(b).



weight of the portfolio, and the five most heavily weighted fixed income securities in the portfolio (excluding Treasury Securities and GSE Securities) shall not in the aggregate account for more than 65% of the fixed income weight of the portfolio;<sup>30</sup>

- (3) An underlying portfolio (excluding exempted securities) that includes fixed income securities shall include a minimum of 13 non-affiliated issuers, provided, however, that there shall be no minimum number of non-affiliated issuers required for fixed income securities if at least 70% of the weight of the portfolio consists of equity securities as described in Rule 14.11(i)(4)(C)(i);<sup>31</sup>
- (4) Component securities that in aggregate account for at least 90% of the fixed income weight of the portfolio must be either: (a) from issuers that are required to file reports pursuant to Sections 13 and 15(d) of the Act; (b) from issuers that have a worldwide market value of its outstanding common equity held by non-affiliates of \$700 million or more; (c) from issuers that have outstanding securities that are notes, bonds, debentures,

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<sup>30</sup> This proposed rule text is identical to the corresponding text of Rule 14.11(c)(4)(B)(i)(d), except for the omission of the reference to “index,” which is not applicable, and the exclusion of “GSE Securities,” which is consistent with the corresponding text of NYSE Arca, Inc. (“Arca”) Commentary .02(a)(4) to Rule 5.2(j)(3).

<sup>31</sup> This proposed text is similar to the corresponding text of Rule 14.11(c)(4)(B)(i)(e), except for the omission of the reference to “index,” which is not applicable and the provision that there shall be no minimum number of non-affiliated issuers required for fixed income securities if at least 70% of the weight of the portfolio consists of equity securities as described in proposed Rule 14.11(i)(4)(C)(i).

or evidence of indebtedness having a total remaining principal amount of at least \$1 billion; (d) exempted securities as defined in Section 3(a)(12) of the Act; or (e) from issuers that are a government of a foreign country or a political subdivision of a foreign country; and

- (5) Non-agency, non-GSE and privately-issued mortgage-related and other asset-backed securities components of a portfolio shall not account, in the aggregate, for more than 20% of the weight of the fixed income portion of the portfolio.

Proposed Rule 14.11(i)(4)(C)(iii) describes the standards for a Managed Fund Share portfolio that holds cash and cash equivalents.<sup>32</sup> Specifically, the portfolio may hold short-term instruments with maturities of less than 3 months. There would be no limitation to the percentage of the portfolio invested in such holdings. Short-term instruments would include the following:<sup>33</sup> (1) U.S. Government securities, including bills, notes and bonds differing as to maturity and rates of interest, which are either issued or guaranteed by the U.S. Treasury or by U.S. Government agencies or instrumentalities; (2) certificates of deposit issued against funds deposited in a bank or savings and loan association; (3) bankers' acceptances, which are short-term credit instruments used to

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<sup>32</sup> Proposed rule changes for previously-listed series of Managed Fund Shares have similarly included the ability for such Managed Fund Share holdings to include cash and cash equivalents. See, e.g., iShares U.S. Fixed Income Balanced Risk Approval at 9789, SPDR Blackstone/GSO Senior Loan Approval at 19768-69, and First Trust Preferred Securities and Income Approval at 76150.

<sup>33</sup> Proposed rule changes for previously-listed series of Managed Fund Shares have similarly specified short-term instruments with respect to their inclusion in Managed Fund Share holdings. See, e.g., First Trust Preferred Securities and Income Approval at 76150-51.

finance commercial transactions; (4) repurchase agreements and reverse repurchase agreements; (5) bank time deposits, which are monies kept on deposit with banks or savings and loan associations for a stated period of time at a fixed rate of interest; (6) commercial paper, which are short-term unsecured promissory notes; and (7) money market funds.

Proposed Rule 14.11(i)(4)(C)(iv) describes the standards for a Managed Fund Share portfolio that holds listed derivatives, including futures, options and swaps on commodities, currencies and financial instruments (e.g., stocks, fixed income, interest rates, and volatility) or a basket or index of any of the foregoing.<sup>34</sup> There would be no limitation to the percentage of the portfolio invested in such holdings; provided, however, that, in the aggregate, at least 90% of the weight of such holdings invested in futures, exchange-traded options, and listed swaps shall, on both an initial and continuing basis, consist of futures, options, and swaps for which the Exchange may obtain information via the ISG from other members or affiliates or for which the principal market is a market with which the Exchange has a CSSA, calculated using the aggregate gross notional value of such holdings.<sup>35</sup> In addition, the aggregate gross notional value of listed derivatives based on any five or fewer underlying reference assets shall not exceed 65% of the weight of the portfolio (including gross notional exposures), and the aggregate gross notional value of listed derivatives based on any single underlying reference asset

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<sup>34</sup> Proposed rule changes for previously-listed series of Managed Fund Shares have similarly included the ability for such Managed Fund Share holdings to include listed derivatives. See, e.g., Securities Exchange Act Release Nos. 75 FR 13616 (March 22, 2010) (SR-NYSEArca-2010-04) at 13617; and 67054 (May 24, 2012), 77 FR 32161 (May 31, 2012) (SR-NYSEArca-2012-25) at 32163.

<sup>35</sup> See supra note 26.

shall not exceed 30% of the weight of the portfolio (including gross notional exposures).

The Exchange notes that, for purposes of calculating this limitation, a portfolio's investment in listed derivatives will be calculated as the gross notional value of the listed derivatives.

Proposed Rule 14.11(i)(4)(C)(v) describes the standards for a Managed Fund Share portfolio that holds over the counter ("OTC") derivatives, including forwards, options and swaps on commodities, currencies and financial instruments (e.g., stocks, fixed income, interest rates, and volatility) or a basket or index of any of the foregoing.<sup>36</sup> Proposed Rule 14.11(i)(4)(C)(v) also provides that the aggregate gross notional value of OTC Derivatives shall not exceed 20% of the weight of the portfolio (including gross notional exposures).

Proposed Rule 14.11(i)(4)(C)(vi) provides that, to the extent that listed or OTC derivatives are used to gain exposure to individual equities and/or fixed income securities, or to indexes of equities and/or fixed income securities, the aggregate gross notional value of such exposure shall meet the criteria set forth in Rule 14.11(i)(4)(C)(i) and 14.11(i)(4)(C)(ii) (including gross notional exposures), respectively. The Exchange notes that, for purposes of this proposal, a portfolio's investment in OTC derivatives will be calculated as the gross notional value of the OTC derivatives.

The Exchange believes that the proposed standards would continue to ensure

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<sup>36</sup> Proposed rule changes for previously-listed series of Managed Fund Shares have similarly included the ability for such Managed Fund Shares to include OTC derivatives, specifically OTC down-and-in put options, which are not NMS Stocks as defined in Rule 600 of Regulation NMS and therefore would not satisfy the requirements of Rule 14.11(c)(3)(A)(i) or the analogous rule on another listing exchange. See, e.g., Securities Exchange Act Release No. 69373 (April 15, 2013), 78 FR 23601 (April 19, 2013) (SR-NYSEArca-2012-108) at 23602.

transparency surrounding the listing process for Managed Fund Shares. Additionally, the Exchange believes that the proposed portfolio standards for listing and trading Managed Fund Shares, many of which track existing Exchange rules relating to Index Fund Shares, are reasonably designed to promote a fair and orderly market for such Managed Fund Shares. These proposed standards would also work in conjunction with the existing initial and continued listing criteria related to surveillance procedures and trading guidelines.

As an example of how the Exchange would determine whether a series of Managed Fund Shares meets these proposed portfolio exposure requirements, see the following examples based on a hypothetical portfolio. For purposes of these examples, it will be assumed that the portfolio meets proposed Rules 14.11(i)(4)(C)(i)(a)(1), (2), (4), (5), and (6), 14.11(i)(4)(C)(i)(b)(1), (2), (4), and (5), and 14.11(i)(4)(C)(ii)(a), (c), and (d).

Instrument Type	Units	Price (\$)	Market Value	% of Portfolio
U.S. Equity 1	15000	25	375,000	7.50%
U.S. Equity 2	10000	50	500,000	10.00%
U.S. Equity 3	5000	100	500,000	10.00%
U.S. Equity 4	1200	150	180,000	3.60%
U.S. Equity 5	1000	250	250,000	5.00%
Int'l Equity 1	9000	25	225,000	4.50%
Int'l Equity 2	5000	50	250,000	5.00%
Int'l Equity 3	5000	100	500,000	10.00%
Int'l Equity 4	10000	75	750,000	15.00%
Int'l Equity 5	2000	75	150,000	3.00%
Fixed Income 1	5000	25	125,000	2.50%
Fixed Income 2	6400	50	320,000	6.40%
Fixed Income 3 (Private label ABS)	2000	75	150,000	3.00%
TBill 1 (2 months)	12500	50	625,000	12.50%
TBill 2 (6 months)	2000	50	100,000	2.00%
<b>Total Equity</b>			<b>3,680,000</b>	
<b>Total Fixed Income</b>			<b>1,320,000</b>	

<b>Total</b>		<b>5,000,000</b>	<b>100.00%</b>
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In this hypothetical portfolio, proposed Rule 14.11(i)(4)(C)(i)(a)(3) is met

because the most heavily weighted single U.S. equity component stock (both U.S. Equity 2 and U.S. Equity 3) represents 13.6% of the equity weight of the portfolio

(500,000/3,680,000) and the five most heavily weighted U.S. equity component stocks represent 49% of the equity weight of the portfolio (1,805,000/3,680,000) and proposed Rule 14.11(i)(4)(C)(i)(b)(3) is met because the most heavily weighted Non-U.S.

Component Stock composes 20.4% of the equity weight of the portfolio

(750,000/3,680,000) and the five most heavily weighted Non-U.S. Component Stocks compose 51% of the equity weight of the portfolio (1,875,000/3,680,000). Proposed

Rules 14.11(i)(4)(C)(ii)(b) and (e) are met because the most heavily weighted fixed

income security (excluding Treasury Securities) represents 24.2% of the fixed income weight of the portfolio (320,000/1,320,000), the five most heavily weighted fixed income

securities (excluding Treasury Securities) represent 45% of the fixed income weight of the portfolio (595,000/1,320,000), and the non-agency, non-GSE, and privately-issued

mortgage-related and other asset-backed securities components represent 11.4% of the fixed income weight of the portfolio (150,000/1,320,000). For purposes of this analysis,

both TBill 1 and TBill 2 will be counted as fixed income securities even though TBill 1 would be included in the definition of cash and cash equivalents. There is no portfolio

analysis specific to the cash and cash equivalents portion of the portfolio because there are no limitations to the percentage of the portfolio invested in instruments that qualify as

cash and cash equivalents.

Suppose that the hypothetical portfolio laid out above added the following instruments:

Instrument Type	Units of Reference Asset in the Contract(s)	Price or Face Value of Reference Asset	Absolute Notional Exposure	% of Portfolio (including gross notional exposures)
Listed Derivative 1 (Option on U.S. Equity 1)	10,000	20	200,000	3.20%
Listed Derivative 2 (Treasury Futures)	5	100,000	500,000	8.00%
Listed Derivative 3 (Commodity Swap)	200	250	50,000	0.80%
OTC Derivative 1 (Credit Default Swap)	N/A	500,000	500,000	8.00%
<b>Total Derivative</b>			<b>1,250,000</b>	
<b>Listed Derivative</b>			<b>750,000</b>	
<b>Derivative Equity</b>			<b>200,000</b>	
<b>Derivative FI</b>			<b>500,000</b>	
<b>Derivative Other</b>			<b>550,000</b>	
<b>Total Equity</b>			<b>3,880,000</b>	
<b>Total Fixed Income</b>			<b>1,820,000</b>	
<b>Total</b>			<b>6,250,000</b>	

In this hypothetical portfolio, proposed Rule 14.11(i)(4)(C)(vi) provides that the calculations provided above related to Rules 14.11(i)(4)(C)(i) and (ii) would now need to include the aggregate gross notional value of Listed Derivative 1 and Listed Derivative 2, respectively. As such, the \$200,000 absolute notional exposure from Listed Derivative 1 would be added to the existing exposure to U.S. Equity 1 and proposed Rule 14.11(i)(4)(C)(i)(a)(3) would be met because the most heavily weighted single U.S. equity component stock (now U.S. Equity 1) represents 14.8% of the equity weight of the portfolio ( $575,000/3,880,000$ ) and the five most heavily weighted U.S. equity component stocks represent 51.7% of the equity weight of the portfolio ( $2,005,000/3,880,000$ ). Similarly, proposed Rule 14.11(4)(C)(i)(b)(3) is met because the additional \$500,000 in aggregate gross notional exposure to fixed income securities (in particular, Treasury Securities) gained through Listed Derivative 2 is added included in the calculation such

that the most heavily weighted fixed income security (excluding Treasury Securities) represents 17.6% of the fixed income weight of the portfolio (320,000/1,820,000), the five most heavily weighted fixed income securities (excluding Treasury Securities) represent 32.7% of the fixed income weight of the portfolio (595,000/1,820,000), and the non-agency, non-GSE, and privately-issued mortgage-related and other asset-backed securities components represent 8.2% of the fixed income weight of the portfolio (150,000/1,820,000). Proposed Rule 14.11(4)(C)(iv)(a) would be met if both Listed Derivative 1 and Listed Derivative 2 are derivatives for which the Exchange may obtain information via the ISG, from other members or affiliates of the ISG or for which the principal market is a market with which the Exchange has a comprehensive surveillance sharing agreement [ $((500,000 + 200,000)/750,000) = 93\% > 90\%$ ]. However, if Listed Derivative 1 or Listed Derivative 2 did not meet that requirement, the portfolio would not meet proposed Rule 14.11(4)(C)(iv)(a) [ $((500,000 + 50,000)/750,000) = 73.3\% < 90\%$ ;  $((200,000 + 50,000)/750,000) = 33.3\% < 90\%$ ]. Proposed Rule 14.11(4)(C)(iv)(b) is met because the aggregate gross notional value of listed derivatives is 12% of the portfolio (750,000/6,250,000), which is less than both standards in the proposed rule. Proposed Rule 14.11(4)(C)(v) would be met because the aggregate gross notional exposure of OTC Derivatives is 8% of the weight of the portfolio (500,000/6,250,000).

In support of this proposal, the Exchange represents that: (1) generically listed Managed Fund Shares will conform to the initial and continued listing criteria under Rule 14.11(i)(4)(A) and (B); (2) the Exchange's surveillance procedures are adequate to continue to properly monitor the trading of the Managed Fund Shares in all trading sessions and to deter and detect violations of Exchange rules. Specifically, the Exchange



intends to utilize its existing surveillance procedures applicable to derivative products, which will include Managed Fund Shares, to monitor trading in the Managed Fund Shares; (3) prior to the commencement of trading of a particular series of Managed Fund Shares, the Exchange will inform its Members in an information circular of the special characteristics and risks associated with trading the Managed Fund Shares, including procedures for purchases and redemptions of Managed Fund Shares, suitability requirements under Rule 3.7, the risks involved in trading the Managed Fund Shares during the Pre-Opening and After Hours Trading Sessions when an updated Intraday Indicative Value will not be calculated or publicly disseminated, how information regarding the Intraday Indicative Value and Disclosed Portfolio is disseminated, prospectus delivery requirements, and other trading information. In addition, the information circular will disclose that the Managed Fund Shares are subject to various fees and expenses, as described in the registration statement, and will discuss any exemptive, no-action, and interpretive relief granted by the Commission from any rules under the Act. Finally, the Bulletin will disclose that the net asset value for the Managed Fund Shares will be calculated after 4 p.m. ET each trading day; and (4) the issuer of a series of Managed Fund Shares will be required to comply with Rule 10A-3 under the Act for the initial and continued listing of Managed Fund Shares, as provided under Rule 14.10(c)(3).

The Exchange notes that the proposed change is not otherwise intended to address any other issues and that the Exchange is not aware of any problems that Members or issuers would have in complying with the proposed change.

b. Statutory Basis

The Exchange believes that the proposal is consistent with Section 6(b) of the Act<sup>37</sup> in general and Section 6(b)(5) of the Act<sup>38</sup> in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest.

The proposed rule change is designed to perfect the mechanism of a free and open market and, in general, to protect investors and the public interest because it would facilitate the listing and trading of additional Managed Fund Shares, which would enhance competition among market participants, to the benefit of investors and the marketplace. Specifically, after more than six years under the current process, whereby an exchange is required to file a proposed rule change with the Commission for the listing and trading of each new series of Managed Fund Shares, the Exchange believes that it is appropriate to codify certain rules within Rule 14.11(i) that would generally eliminate the need for separate proposed rule changes. The Exchange believes that this would facilitate the listing and trading of additional types of Managed Fund Shares that have investment portfolios that are similar to investment portfolios for Index Fund Shares, which have been approved for listing and trading, thereby creating greater efficiencies in the listing process for the Exchange and the Commission. In this regard, the Exchange notes that the standards proposed for Managed Fund Share portfolios that include equity securities, Derivative Securities Products, and Linked Securities are based

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<sup>37</sup> 15 U.S.C. 78f.

<sup>38</sup> 15 U.S.C. 78f(b)(5).

in large part on the existing equity security standards applicable to Index Fund Shares based on either a U.S. index or portfolio or an international or global index or portfolio found in Rule 14.11(c)(3)(A)(i)<sup>39</sup> and (ii),<sup>40</sup> respectively, and that the standards proposed for Managed Fund Share portfolios that include fixed income securities are based in large part on the existing fixed income standards applicable to Index Fund Shares in 14.11(c)(4). Additionally, many of the standards proposed for other types of holdings of series of Managed Fund Shares are based on previous proposed rule changes for specific series of Managed Fund Shares.<sup>41</sup> The Exchange notes that prior to listing pursuant to proposed amended Rule 14.11(i), an issuer would be required to represent to the Exchange that it will advise the Exchange of any failure by a series of Managed Fund Shares to comply with the continued listing requirements, and, pursuant to its obligations under Section 19(g)(1) of the Exchange Act, the Exchange will surveil for compliance with the continued listing requirements. If the Fund is not in compliance with the applicable listing requirements, the Exchange will commence delisting procedures under Exchange Rule 14.12.

With respect to the proposed addition to the criteria of Rule 14.11(i)(3)(B) to provide that the website for each series of Managed Fund Shares shall disclose certain information regarding the Disclosed Portfolio, to the extent applicable, the Exchange notes that proposed rule changes approved by the Commission for previously-listed series of Managed Fund Shares have similarly included disclosure requirements with respect to

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<sup>39</sup> See supra notes 14 through 18.

<sup>40</sup> See supra notes 19 through 26.

<sup>41</sup> See supra note 9.

each portfolio holding, as applicable to the type of holding.<sup>42</sup> With respect to the proposed exclusion of Derivative Securities Products and Linked Securities from the requirements of proposed Rule 14.11(i)(4)(C)(i)(a) and (b), the Exchange believes it is appropriate to exclude Linked Securities as well as Derivative Securities Products from certain component stock eligibility criteria for Managed Fund Shares in so far as Derivative Securities Products and Linked Securities are themselves subject to specific quantitative listing and continued listing requirements of a national securities exchange on which such securities are listed. Derivative Securities Products and Linked Securities that are components of a fund's portfolio would have been listed and traded on a national securities exchange pursuant to a proposed rule change approved by the Commission pursuant to Section 19(b)(2) of the Act<sup>43</sup> or submitted by a national securities exchange pursuant to Section 19(b)(3)(A) of the Act<sup>44</sup> or would have been listed by a national securities exchange pursuant to the requirements of Rule 19b-4(e) under the Act.<sup>45</sup> The Exchange also notes that Derivative Securities Products and Linked Securities are derivatively priced, and, therefore, the Exchange believes that it would not be necessary to apply the proposed generic quantitative criteria (e.g., market capitalization, trading volume, or portfolio component weighting) applicable to equity securities other than Derivative Securities Products or Linked Securities (e.g., common stocks) to such products.

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<sup>42</sup> See supra note 7.

<sup>43</sup> 15 U.S.C. 78s(b)(2).

<sup>44</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>45</sup> 17 CFR 240.19b-4(e).

With respect to the proposed amendment to the continued listing requirement in Rule 14.11(i)(4)(B)(i) to require dissemination of an Intraday Indicative Value at least every 15 seconds during Regular Trading Hours, such requirement conforms to the requirement applicable to the dissemination of the Intraday Indicative Value for Index Fund Shares in Rule 14.11(c)(3)(C) and 14.11(c)(6)(A). In addition, such dissemination is consistent with representations made in proposed rule changes for issues of Managed Fund Shares previously approved by the Commission.<sup>46</sup>

As proposed, pursuant to Rule 14.11(i)(4)(C)(ii)(c) an underlying portfolio (excluding exempted securities) that includes fixed income securities must include a minimum of 13 non-affiliated issuers, provided, however, that there would be no minimum number of non-affiliated issuers required for fixed income securities if at least 70% of the weight of the portfolio consists of equity securities. The Exchange notes that when evaluated in conjunction with proposed Rule 14.11(i)(4)(C)(ii)(b), the proposed rule is consistent with current Rules 14.11(c)(4)(B)(i)(d) and (e) in that it provides for a maximum weighting of a fixed income security in the fixed income portion of the portfolio of a fund that is comparable to the existing rules applicable to Index Fund Shares based on fixed income indexes.

With respect to the proposed amendment to Rule 14.11(i)(4)(C)(iii) relating to cash and cash equivalents, while there is no limitation on the amount of cash and cash equivalents can make up of the portfolio, such instruments are short-term, highly liquid, and of high credit quality, making them less susceptible than other asset classes both to price manipulation and volatility. Further, the requirement is consistent with

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<sup>46</sup> See supra note 9.

representations made in proposed rule changes for issues of Managed Fund Shares previously approved by the Commission.<sup>47</sup>

With respect to proposed Rule 14.11(i)(4)(C)(iv) relating to listed derivatives, the Exchange believes that it is appropriate that there be no limit to the percentage of a portfolio invested in such holdings, provided that, in the aggregate, at least 90% of the weight of such holdings invested in futures, exchange-traded options, and listed swaps shall, on both an initial and continuing basis, consist of futures, options, and swaps for which the Exchange may obtain information via the ISG from other members or affiliates or for which the principal market is a market with which the Exchange has a comprehensive surveillance sharing agreement CSSA, calculated using the aggregate gross notional value of such holdings. Such a requirement would facilitate information sharing among market participants trading shares of a series of Managed Fund Shares as well as futures and options that such series may hold. In addition, the aggregate gross notional value of listed derivatives based on any five or fewer underlying reference assets shall not exceed 65% of the weight of the portfolio (including gross notional exposures), and the aggregate gross notional value of listed derivatives based on any single underlying reference asset shall not exceed 30% of the weight of the portfolio (including gross notional exposures). Such a requirement would act to limit the concentration of any single or group of five or fewer underlying reference assets in the portfolio. In addition, listed swaps would be centrally cleared, reducing counterparty risk and thereby

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<sup>47</sup> See supra note 32.

furthering investor protection.<sup>48</sup>

With respect to proposed Rule 14.11(i)(4)(C)(v) relating to OTC derivatives, the Exchange believes that the limitation to 20% of a fund's assets would assure that, to the extent that a fund holds derivatives, the preponderance of fund investments would not be in derivatives that are not listed and centrally cleared. The Exchange believes that such a limitation is sufficient to mitigate the risks associated with price manipulation because a 20% cap on OTC derivatives will ensure that any series of Managed Fund Shares will be sufficiently broad-based in scope to minimize potential manipulation associated with OTC derivatives because the remaining 80% of the portfolio will consist of instruments subject to numerous restrictions designed to prevent manipulation, including equity securities (which, as proposed, would be subject to market cap, trading volume, and diversity requirements, among others), fixed income securities (which, as proposed, would be subject to principal amount outstanding, diversity, and issuer requirements, among others), cash and cash equivalents (which, as proposed, would be limited to short-term, highly liquid, and high credit quality instruments), and/or listed derivatives (which, as proposed, 90% of the weight of futures and options will be futures and options whose principal market is a member of ISG). With respect to proposed Rule 14.11(i)(4)(C)(vi) related to a fund's use of listed or OTC derivatives to gain exposure to individual equities and/or fixed income securities, or to indexes of equities and/or indexes of fixed income

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<sup>48</sup> The Commission has noted that “[c]entral clearing mitigates counterparty risk among dealers and other institutions by shifting that risk from individual counterparties to [central counterparties (“CCPs”)], thereby protecting CCPs from each other’s potential failures.” See Securities Exchange Act Release No. 67286 (June 28, 2012) (File No. S7-44-10) (Process for Submissions for Review of Security-Based Swaps for Mandatory Clearing and Notice Filing Requirements for Clearing Agencies).

securities, the Exchange notes that such exposure would be required to meet the numerical and other criteria set forth in proposed Rule 14.11(i)(4)(C)(i) and 14.11(i)(4)(C)(ii), respectively.

Quotation and other market information relating to listed futures and options is available from the exchanges listing such instruments as well as from market data vendors. With respect to centrally-cleared swaps<sup>49</sup> and non-centrally-cleared swaps regulated by the Commodity Futures Trading Commission (the “CFTC”),<sup>50</sup> the Dodd-Frank Act mandates that swap information be reported to swap data repositories (“SDRs”).<sup>51</sup> SDRs provide a central facility for swap data reporting and recordkeeping and are required to comply with data standards set by the CFTC, including real-time public reporting of swap transaction data to a derivatives clearing organization or SEF.<sup>52</sup> SDRs require real-time reporting of all OTC and centrally cleared derivatives, including public reporting of the swap price and size. The parties responsible for reporting swaps information are CFTC-registered swap dealers (“RSDs”), major swap participants, and SEFs. If swap counterparties do not fall into the above categories, then one of the parties

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<sup>49</sup> There are currently five categories of swaps eligible for central clearing: interest rate swaps; credit default swaps; foreign exchange swaps; equity swaps; and commodity swaps. The following entities provide central clearing for OTC derivatives: ICE Clear Credit (U.S.); ICE Clear (E.U.); CME Group; LCH.Clearnet; and Eurex.

<sup>50</sup> Pursuant to the Dodd-Frank Act, OTC and centrally-cleared swaps are regulated by the CFTC with the exception of security-based swaps, which are regulated by the Commission.

<sup>51</sup> The following entities are provisionally registered with the CFTC as SDRs: BSDR LLC, Chicago Mercantile Exchange, Inc., DTCC Data Repository, and ICE Trade Vault.

<sup>52</sup> Approximately 21 entities are currently temporarily registered with the CFTC as SEFs.



to the swap must report the trade to the SDR. Cleared swaps regulated by the CFTC must be executed on a Designated Contract Market (“DCM”) or SEF. Such cleared swaps have the same reporting requirements as futures, including end-of-day price, volume, and open interest. CFTC swaps reporting requirements require public dissemination of, among other items, product ID (if available); asset class; underlying reference asset, reference issuer, or reference index; termination date; date and time of execution; price, including currency; notional amounts, including currency; whether direct or indirect counterparties include an RSD; whether cleared or un-cleared; and platform ID of where the contract was executed (if applicable).

With respect to security-based swaps regulated by the Commission, the Commission has adopted Regulation SBSR under the Act implementing requirements for regulatory reporting and public dissemination of security-based swap transactions set forth in Title VII of the Dodd-Frank Act. Regulation SBSR provides for the reporting of security-based swap information to registered security-based swap data repositories (“Registered SDRs”) or the Commission, and the public dissemination of security-based swap transaction, volume, and pricing information by Registered SDRs.<sup>53</sup>

Price information relating to forwards and OTC options will be available from major market data vendors.

The Exchange notes that a fund’s investments in derivative instruments would be subject to limits on leverage imposed by the 1940 Act. Section 18(f) of the 1940 Act and related Commission guidance limit the amount of leverage an investment company can

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<sup>53</sup> See Securities Exchange Act Release No. 74244 (February 11, 2015), 80 FR 14564 (March 19, 2015) (Regulation SBSR – Reporting and Dissemination of Security-Based Swap Information).

obtain. A fund's investments would be consistent with its investment objective and would not be used to enhance leverage. To limit the potential risk associated with a fund's use of derivatives, a fund will segregate or " earmark " assets determined to be liquid by a fund in accordance with the 1940 Act (or, as permitted by applicable regulation, enter into certain offsetting positions) to cover its obligations under derivative instruments. A fund's investments will not be used to seek performance that is the multiple or inverse multiple (i.e., 2xs or 3xs) of a fund's broad-based securities market index (as defined in Form N-1A).<sup>54</sup>

The proposed rule change is also designed to protect investors and the public interest because Managed Fund Shares listed and traded pursuant to Rule 14.11(i), including pursuant to the proposed new portfolio standards, would continue to be subject to the full panoply of Exchange rules and procedures that currently govern the trading of equity securities on the Exchange, as further described in the Approval Order.

The proposed rule change is also designed to protect investors and the public interest as well as to promote just and equitable principles of trade in that any Non-U.S. Component Stocks will each meet the following criteria initially and on a continuing basis: (1) have a minimum market value of at least \$100 million; (2) have a minimum global monthly trading volume of 250,000 shares, or minimum global notional volume traded per month of \$25,000,000, averaged over the last six months; (3) most heavily weighted Non-U.S. Component Stock shall not exceed 25% of the equity weight of the portfolio, and, to the extent applicable, the five most heavily weighted Non-U.S.

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<sup>54</sup> See, e.g., Securities Exchange Act Release No. 7482 (April 29, 2015), 86 FR 25723 (May 5, 2015) (SR-NYSEArca-2014-89) (order approving listing and trading of shares of eight PIMCO exchange-traded funds).

Component Stocks shall not exceed 60% of the equity weight of the portfolio; and (4) each Non-U.S. Component Stock shall be listed and traded on an exchange that has last-sale reporting. The Exchange believes that such quantitative criteria are sufficient to mitigate any concerns that may arise on the basis of a series of Managed Fund Shares potentially holding 100% of its assets in Non-U.S. Component Stocks that are neither listed on members of ISG nor exchanges with which the Exchange has in place a CSSA because, as stated above, such criteria are either the same or more stringent than the portfolio requirements for Index Fund Shares that hold Non-U.S. Component Stocks and there are no such requirements related to such securities being listed on an exchange that is a member of ISG or with which the Exchange has in place a CSSA. Further, the Exchange has not encountered and is not aware of any instances of manipulation or other negative impact in any series of Index Fund Shares that has occurred by virtue of the Index Fund Shares holding such Non-U.S. Component Stocks. As such, the Exchange believes that there should be no difference in the portfolio requirements for Managed Fund Shares and Index Fund Shares as it relates to holding Non-U.S. Component Stocks that are not listed on an exchange that is a member of ISG or with which the Exchange has in place a CSSA.

The Exchange believes that the proposed rule change is designed to prevent fraudulent and manipulative acts and practices because the Managed Fund Shares will be listed and traded on the Exchange pursuant to the initial and continued listing criteria in Rule 14.11(i). The Exchange has in place surveillance procedures that are adequate to properly monitor trading in the Managed Fund Shares in all trading sessions and to deter and detect violations of Exchange rules and applicable federal securities laws. The

Exchange or FINRA, on behalf of the Exchange, will communicate as needed regarding trading in Managed Fund Shares and their underlying components with other markets that are members of the ISG, including all U.S. securities exchanges and futures exchanges on which the components are traded, or with which the Exchange has in place a CSSA. In addition, the Exchange or FINRA on behalf of the Exchange may obtain information regarding trading in Managed Fund Shares and their underlying components from other markets that are members of the ISG, including all U.S. securities exchanges and futures exchanges on which the components are traded, or with which the Exchange has in place a CSSA.

The Exchange also believes that the proposed rule change would fulfill the intended objective of Rule 19b-4(e) under the Act by allowing Managed Fund Shares that satisfy the proposed listing standards to be listed and traded without separate Commission approval. However, as proposed, the Exchange would continue to file separate proposed rule changes before the listing and trading of Managed Fund Shares that do not satisfy the additional criteria described above.

For the above reasons, the Exchange believes that the proposed rule change is consistent with the requirements of Section 6(b)(5) of the Act.

4. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purpose of the Act. Instead, the Exchange believes that the proposed rule change would facilitate the listing and trading of additional types of Managed Fund Shares and result in a significantly more efficient process surrounding the listing and trading of Managed Fund

Shares, which will enhance competition among market participants, to the benefit of investors and the marketplace. The Exchange believes that this would reduce the time frame for bringing Managed Fund Shares to market, thereby reducing the burdens on issuers and other market participants and promoting competition. In turn, the Exchange believes that the proposed change would make the process for listing Managed Fund Shares more competitive by applying uniform listing standards with respect to Managed Fund Shares.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

The Exchange has neither solicited nor received written comments on the proposed rule change.

6. Extension of Time Period for Commission Action

Not applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

Not applicable.

8. Proposed Rule Change Based on Rule of Another Self-Regulatory Organization or of the Commission

Not applicable.

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

11. Exhibits

Exhibit 1: Completed Notice of the Proposed Rule Change for publication in

the Federal Register.

Exhibit 2 – 3: Not applicable.

Exhibit 4: Additions and deletions from Exhibit 5 to SR-BATS-2015-100  
Amendment No. 1

Exhibit 5: Text of Proposed Rule Change.

## EXHIBIT 1

## SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-\_\_\_\_\_; File No. SR-BATS-2015-100 Amendment No. 5)

Self-Regulatory Organizations; Bats BZX Exchange, Inc. (f/k/a BATS Exchange, Inc.); Notice of Filing of a Proposed Rule Change to Amend BZX Rule 14.11(i), Managed Fund Shares, to Adopt Generic Listing Standards

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on \_\_\_\_\_, Bats BZX Exchange, Inc. (the “Exchange” or “BZX”) (f/k/a BATS Exchange, Inc.) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange is proposing a rule change to adopt generic listing standards for shares listed under BZX Rule 14.11(i) (“Managed Fund Shares”).

The text of the proposed rule change is available at the Exchange’s website at [www.batstrading.com](http://www.batstrading.com), at the principal office of the Exchange, and at the Commission’s Public Reference Room.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant parts of such statements.

(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

This Amendment No. 5 to SR-BATS-2015-100 amends and replaces in its entirety Amendment No. 1 to the proposal (and subsequent amendments thereto), which was filed on February 10, 2016, which amended and replaced in its entirety the proposal as originally submitted on November 15, 2015. The Exchange submits this Amendment No. 5 in order to clarify certain points about the proposal, to describe more accurately how investments in derivative securities will be treated, and provide an example of how portfolio exposure will be calculated.

The Exchange proposes to amend Rule 14.11(i) to adopt generic listing standards for Managed Fund Shares. Under the Exchange's current rules, a proposed rule change must be filed with the Securities and Exchange Commission ("SEC" or "Commission") for the listing and trading of each new series of Managed Fund Shares. The Exchange believes that it is appropriate to codify certain rules within Rule 14.11(i) that would generally eliminate the need for such proposed rule changes, which would create greater efficiency and promote uniform standards in the listing process. Prior to listing pursuant to proposed amended Rule 14.11(i), an issuer would be required to represent to the Exchange that it will advise the Exchange of any failure by a series of Managed Fund Shares to comply with the continued listing requirements, and, pursuant to its obligations under Section 19(g)(1) of the Exchange Act, the Exchange will surveil for compliance



with the continued listing requirements. If the Fund is not in compliance with the applicable listing requirements, the Exchange will commence delisting procedures under Exchange Rule 14.12.

### Background

Rule 14.11(i) sets forth certain rules related to the listing and trading of Managed Fund Shares.<sup>3</sup> Under Rule 14.11(i)(3)(A), the term “Managed Fund Share” means a security that:

- (a) represents an interest in a registered investment company (“Investment Company”) organized as an open-end management investment company or similar entity, that invests in a portfolio of securities selected by the Investment Company’s investment adviser (hereafter “Adviser”) consistent with the Investment Company’s investment objectives and policies;
- (b) is issued in a specified aggregate minimum number in return for a deposit of a specified portfolio of securities and/or a cash amount with a value equal to the next determined net asset value; and
- (c) when aggregated in the same specified minimum number, may be redeemed at a holder’s request, which holder will be paid a specified

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<sup>3</sup> See Securities Exchange Act Release No. 65225 (August 30, 2011), 76 FR 55148 (September 6, 2011) (SR-BATS-2011-018) (Order Approving Proposed Rule Change to Adopt Rules for the Qualification, Listing and Delisting of Companies on the Exchange) (the “Approval Order”). The Approval Order approved the rules permitting the listing of both Tier I and Tier II securities on the Exchange and the requirements associated therewith, which includes the listing and trading of Index Fund Shares and Managed Fund Shares, trading hours and halts, and listing fees originally applicable to Managed Fund Shares.

portfolio of securities and/or cash with a value equal to the next determined net asset value.

Effectively, Managed Fund Shares are securities issued by an actively-managed open-end Investment Company (i.e., an exchange-traded fund (“ETF”) that is actively managed). Because Managed Fund Shares are actively-managed, they do not seek to replicate the performance of a specified passive index of securities. Instead, they generally use an active investment strategy to seek to meet their investment objectives. In contrast, an open-end Investment Company that issues Index Fund Shares, listed and traded on the Exchange pursuant to Rule 14.11(c), seeks to provide investment results that generally correspond to the price and yield performance of a specific foreign or domestic stock index, fixed income securities index, or combination thereof.

All Managed Fund Shares listed pursuant to Rule 14.11(i) are included within the definition of “security” or “securities” as such terms are used in the Rules of the Exchange and, as such, are subject to the full panoply of Exchange rules and procedures that currently govern the trading of securities on the Exchange.<sup>4</sup>

In addition, Rule 14.11(i) currently provides for the criteria that Managed Fund Shares must satisfy for initial and continued listing on the Exchange, including, for example, that a minimum number of Managed Fund Shares are required to be outstanding at the time of commencement of trading on the Exchange. However, the current process for listing and trading new series of Managed Fund Shares on the Exchange requires that the Exchange submit a proposed rule change with the Commission. In this regard, Rule 14.11(i)(2)(A) specifies that the Exchange will file separate proposals under Section

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<sup>4</sup> See Rule 14.11(i)(2).

19(b) of the Act (hereafter, a “proposed rule change”) before the listing of Managed Fund Shares, which, in conjunction with the proposal to create generic listing standards for Managed Fund Shares, the Exchange is proposing to delete.

Proposed Changes to Rule 14.11(i)

The Exchange is proposing to amend Rule 14.11(i) to specify that the Exchange may approve Managed Fund Shares for listing pursuant to SEC Rule 19b-4(e) under the Act, which pertains to derivative securities products (“SEC Rule 19b-4(e”).<sup>5</sup> SEC Rule 19b-4(e)(1) provides that the listing and trading of a new derivative securities product by a self-regulatory organization (“SRO”) is not deemed a proposed rule change, pursuant to paragraph (c)(1) of Rule 19b-4,<sup>6</sup> if the Commission has approved, pursuant to section 19(b) of the Act, the SRO’s trading rules, procedures and listing standards for the product class that would include the new derivative securities product and the SRO has a surveillance program for the product class. This is the current method pursuant to which “passive” ETFs are listed under Rule 14.11.

The Exchange would also specify within Rule 14.11(i)(4)(C) that components of Managed Fund Shares listed pursuant to SEC Rule 19b-4(e) must satisfy the requirements of Rule 14.11(i) on an initial and continued basis, which includes certain specific criteria

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<sup>5</sup> 17 CFR 240.19b-4(e). As provided under SEC Rule 19b-4(e), the term “new derivative securities product” means any type of option, warrant, hybrid securities product or any other security, other than a single equity option or a security futures product, whose value is based, in whole or in part, upon the performance of, or interest in, an underlying instrument.

<sup>6</sup> 17 CFR 240.19b-4(c)(1). As provided under SEC Rule 19b-4(c)(1), a stated policy, practice, or interpretation of the SRO shall be deemed to be a proposed rule change unless it is reasonably and fairly implied by an existing rule of the SRO.

that the Exchange is proposing to include within Rule 14.11(i)(4)(C), as described in greater detail below. As proposed, the Exchange would continue to file separate proposed rule changes before the listing and trading of Managed Fund Shares with components that do not satisfy the additional criteria described below or components other than those specified below. For example, if the components of a Managed Fund Share exceeded one of the applicable thresholds, the Exchange would file a separate proposed rule change before listing and trading such Managed Fund Share. Similarly, if the components of a Managed Fund Share included a security or asset that is not specified below, the Exchange would file a separate proposed rule change.

The Exchange would also amend the definition of the term “Disclosed Portfolio” under Rule 14.11(i)(3)(B) in order to require that the website for each series of Managed Fund Shares listed on the Exchange disclose the following information regarding the Disclosed Portfolio, to the extent applicable: ticker symbol, CUSIP or other identifier, a description of the holding, identity of the asset upon which the derivative is based, the strike price for any options, the quantity of each security or other asset held as measured by select metrics, maturity date, coupon rate, effective date, market value and percentage weight of the holding in the portfolio.<sup>7</sup>

The Exchange would also add to Rule 14.11(i)(4)(A) by specifying that all Managed Fund Shares must have a stated investment objective, which must be adhered to

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<sup>7</sup> Proposed rule changes for previously-listed series of Managed Fund Shares have similarly included disclosure requirements with respect to each portfolio holding, as applicable to the type of holding. *See, e.g.*, Securities Exchange Act Release No. 72666 (July 3, 2014), 79 FR 44224 (July 30, 2014) (SR-NYSEArca-2013-122) (the “PIMCO Total Return Use of Derivatives Approval”).

under normal market conditions.<sup>8</sup>

Finally, the Exchange would also amend the continued listing requirement in Rule 14.11(i)(4)(B) by changing the requirement that an Intraday Indicative Value for Managed Fund Shares be widely disseminated by one or more major market data vendors at least every 15 seconds during the time when the Managed Fund Shares trade on the Exchange to a requirement that an Intraday Indicative Value be widely disseminated by one or more major market data vendors at least every 15 seconds during Regular Trading Hours, as defined in Exchange Rule 1.5(w).

#### Proposed Managed Fund Share Portfolio Standards

The Exchange is proposing standards that would pertain to Managed Fund Shares to qualify for listing and trading pursuant to SEC Rule 19b-4(e). These standards would be grouped according to security or asset type. The Exchange notes that the standards proposed for a Managed Fund Share portfolio that holds equity securities, Derivative Securities Products, and Linked Securities are based in large part on the existing equity security standards applicable to Index Fund Shares in Exchange Rule 14.11(c)(3). The standards proposed for a Managed Fund Share portfolio that holds fixed income securities are based in large part on the existing fixed income security standards applicable to Index Fund Shares in Rule 14.11(c)(4). Many of the standards proposed for other types of holdings in a Managed Fund Share portfolio are based on previous

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<sup>8</sup> The Exchange would also add a new defined term under Rule 14.11(i)(3)(E) to specify that the term “normal market conditions” includes, but is not limited to, the absence of trading halts in the applicable financial markets generally; operational issues causing dissemination of inaccurate market information or system failures; or force majeure type events such as natural or man-made disaster, act of God, armed conflict, act of terrorism, riot or labor disruption, or any similar intervening circumstance.

proposed rule changes for specific series of Managed Fund Shares.<sup>9</sup>

Proposed Rule 14.11(i)(4)(C)(i) would describe the standards for a Managed Fund Share portfolio that holds equity securities, which are defined to be U.S. Component Stocks,<sup>10</sup> Non-U.S. Component Stocks,<sup>11</sup> Derivative Securities Products,<sup>12</sup> and Linked

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<sup>9</sup> Securities Exchange Act Release Nos. 74193 (February 3, 2015), 80 FR 7066 (February 9, 2015) (SR-BATS-2014-054) (the “iShares Short Maturity Municipal Bond Approval”); 74297 (February 18, 2015), 80 FR 9788 (February 24, 2015) (SR-BATS-2014-056) (the “iShares U.S. Fixed Income Balanced Risk Approval”); 66321 (February 3, 2012), 77 FR 6850 (February 9, 2012) (SR-NYSEArca-2011-95) (the “PIMCO Total Return Approval”); the PIMCO Total Return Use of Derivatives Approval; 69244 (March 27, 2013), 78 FR 19766 (April 2, 2013) (SR-NYSEArca-2013-08) (the “SPDR Blackstone/GSO Senior Loan Approval”); 68870 (February 8, 2013), 78 FR 11245 (February 15, 2013) (SR-NYSEArca-2012-139) (the “First Trust Preferred Securities and Income Approval”); 69591 (May 16, 2013), 78 FR 30372 (May 22, 2013) (SR-NYSEArca-2013-33) (the “International Bear Approval”); 61697 (March 12, 2010), 75 FR 13616 (March 22, 2010) (SR-NYSEArca-2010-04) (the “WisdomTree Real Return Approval”); and 67054 (May 24, 2012), 77 FR 32161 (May 31, 2012) (SR-NYSEArca-2012-25) (the “WisdomTree Brazil Bond Approval”). Certain standards proposed herein for Managed Fund Shares are also based on previously proposed rule changes for specific index-based series of Index Fund Shares that did not satisfy the standards for those products on their respective listing exchange and for which Commission approval was required prior to listing and trading. See Securities Exchange Act Release Nos. 67985 (October 4, 2012), 77 FR 61804 (October 11, 2012) (SR-NYSEArca-2012-92); 63881 (February 9, 2011), 76 FR 9065 (February 16, 2011) (SR-NYSEArca-2010-120); 63176 (October 25, 2010), 75 FR 66815 (October 29, 2010) (SR-NYSEArca-2010-94); and 69373 (April 15, 2013), 78 FR 23601 (April 19, 2013) (SR-NYSEArca-2012-108) (the “NYSE Arca U.S. Equity Synthetic Reverse Convertible Index Fund Approval”).

<sup>10</sup> For the purposes of Rule 14.11(i) and this proposal, the term “U.S. Component Stocks” will have the same meaning as defined in Rule 14.11(c)(1)(D).

<sup>11</sup> For the purposes of Rule 14.11(i) and this proposal, the term “Non-U.S. Component Stocks” will have the same meaning as defined in Rule 14.11(c)(1)(E).

<sup>12</sup> For the purposes of Rule 14.11(i) and this proposal, the term “Derivative Securities Products will have the same meaning as defined in Rule 14.11(c)(3)(A)(i)(a) and will include both those Derivative Securities Products

Securities<sup>13</sup> listed on a national securities exchange. For Derivative Securities Products and Linked Securities, no more than 25% of the equity weight of the portfolio could include leveraged and/or inverse leveraged Derivative Securities Products or Linked Securities. To the extent that a portfolio includes convertible securities, the equity security into which such security is converted shall meet the criteria of this Rule 14.11(i)(4)(C)(i) after converting.

As proposed in Rule 14.11(i)(4)(C)(i)(a), the component stocks of the equity portion of a portfolio that are U.S. Component Stocks shall meet the following criteria initially and on a continuing basis:

- (1) Component stocks (excluding Derivative Securities Products and Linked Securities) that in the aggregate account for at least 90% of the equity weight of the portfolio (excluding such Derivative Securities Products and Linked Securities) each must have a minimum market value of at least \$75 million;<sup>14</sup>
- (2) Component stocks (excluding Derivative Securities Products and Linked Securities) that in the aggregate account for at least 70% of the equity weight of the portfolio (excluding such Derivative Securities Products and Linked Securities) each must have a minimum monthly trading volume of

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listed on the Exchange as well as each of the equivalent security types listed on another national securities exchange.

<sup>13</sup> Linked Securities are securities listed on the Exchange under Rule 14.11(d) and each of the equivalent security types listed on another national securities exchange.

<sup>14</sup> The proposed text is identical to the corresponding text of Rule 14.11(c)(3)(A)(i)(a), except for the omission of the reference to “index,” which is not applicable, and the addition of the reference to Linked Securities.

250,000 shares, or minimum notional volume traded per month of

\$25,000,000, averaged over the last six months;<sup>15</sup>

- (3) The most heavily weighted component stock (excluding Derivative Securities Products and Linked Securities) must not exceed 30% of the equity weight of the portfolio, and, to the extent applicable, the five most heavily weighted component stocks (excluding Derivative Securities Products and Linked Securities) must not exceed 65% of the equity weight of the portfolio;<sup>16</sup>
- (4) Where the equity portion of the portfolio does not include Non-U.S. Component Stocks, the equity portion of the portfolio shall include a minimum of 13 component stocks; provided, however, that there would be no minimum number of component stocks if (a) one or more series of Derivative Securities Products or Linked Securities constitute, at least in part, components underlying a series of Managed Fund Shares, or (b) one or more series of Derivative Securities Products or Linked Securities account for 100% of the equity weight of the portfolio of a series of Managed Fund Shares;<sup>17</sup>

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<sup>15</sup> This proposed text is identical to the corresponding text of Rule 14.11(c)(3)(A)(i)(b), except for the omission of the reference to “index,” which is not applicable, and the addition of the reference to Linked Securities.

<sup>16</sup> This proposed text is identical to the corresponding text of Rule 14.11(c)(3)(A)(i)(c), except for the omission of the reference to “index,” which is not applicable, and the addition of the reference to Linked Securities.

<sup>17</sup> This proposed text is identical to the corresponding text of Rule 14.11(c)(3)(A)(i)(d), except for the omission of the reference to “index,” which is not applicable, the addition of the reference to Linked Securities, the reference to



- (5) Except as provided in proposed Rule 14.11(i)(4)(C)(i)(a), equity securities in the portfolio must be U.S. Component Stocks listed on a national securities exchange and must be NMS Stocks as defined in Rule 600 of Regulation NMS;<sup>18</sup> and
- (6) American Depositary Receipts (“ADRs”) may be exchange traded or non-exchange traded. However no more than 10% of the equity weight of the portfolio shall consist of non-exchange traded ADRs.

As proposed in Rule 14.11(i)(4)(C)(i)(b), the component stocks of the equity portion of a portfolio that are Non-U.S. Component Stocks shall meet the following criteria initially and on a continuing basis:

- (1) Non-U.S. Component Stocks each shall have a minimum market value of at least \$100 million;<sup>19</sup>
- (2) Non-U.S. Component Stocks each shall have a minimum global monthly trading volume of 250,000 shares, or minimum global notional volume

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the equity portion of the portfolio not including Non-U.S. Component Stocks, and the reference to the 100% limitation applying to the “equity weight” of the portfolio – this last difference is included because the proposed standards in Rule 14.11(i)(4)(C) permit the inclusion of non-equity securities, whereas Rule 14.11(c)(3) applies only to equity securities.

<sup>18</sup> 17 CFR 240.600. This proposed text is identical to the corresponding text of Rule 14.11(c)(3)(A)(i)(e), except for the addition of “equity” to make clear that the standard applies to “equity securities” and the omission of the reference to “index,” which is not applicable.

<sup>19</sup> The proposed text is identical to the corresponding representation from the Non-U.S. Components Release, as defined in footnote 24, below. The proposed text is also identical to the corresponding text of Rule 14.11(c)(3)(A)(ii)(a), except for the omission of the reference to “index,” which is not applicable, and that each Non-U.S. Component Stock must have a minimum market value of at least \$100 million instead of the 70% required under Rule 14.11(c)(3)(A)(ii)(a).

traded per month of \$25,000,000, averaged over the last six months;<sup>20</sup>

- (3) The most heavily weighted Non-U.S. Component Stock shall not exceed 25% of the equity weight of the portfolio, and, to the extent applicable, the five most heavily weighted Non-U.S. Component Stocks shall not exceed 60% of the equity weight of the portfolio;<sup>21</sup>
- (4) Where the equity portion of the portfolio includes Non-U.S. Component Stocks, the equity portion of the portfolio shall include a minimum of 20 component stocks; provided, however, that there shall be no minimum number of component stocks if (a) one or more series of Derivative Securities Products or Linked Securities constitute, at least in part, components underlying a series of Managed Fund Shares, or (b) one or more series of Derivative Securities Products or Linked Securities account for 100% of the equity weight of the portfolio of a series of Managed Fund Shares;<sup>22</sup> and

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<sup>20</sup> The proposed text is identical to the corresponding representation from the Non-U.S. Components Release, as defined in footnote 24, below. This proposed text is identical to the corresponding text of Rule 14.11(c)(3)(A)(ii)(b), except for the omission of the reference to “index,” which is not applicable, and the addition of the reference to Linked Securities.

<sup>21</sup> This proposed text is identical to the corresponding text of Rule 14.11(c)(3)(A)(ii)(c), except for the omission of the reference to “index,” which is not applicable, and the addition of the reference to Linked Securities.

<sup>22</sup> This proposed text is identical to the corresponding text of Rule 14.11(c)(3)(A)(ii)(d), except for the omission of the reference to “index,” which is not applicable, the addition of the reference to Linked Securities, the reference to the equity portion of the portfolio including Non-U.S. Component Stocks, and the reference to the 100% limitation applying to the “equity weight” of the portfolio – this last difference is included because the proposed standards in Rule

- (5) Each Non-U.S. Component Stock shall be listed and traded on an exchange that has last-sale reporting.<sup>23</sup>

The Exchange notes that, as approved by the Commission for certain Managed Fund Shares<sup>24</sup> and also not required under corresponding Rule 14.11(c)(3)(A)(ii) related to Index Fund Shares,<sup>25</sup> it is not proposing to require that any of the equity portion of the equity portfolio composed of Non-U.S. Component Stocks be listed on markets that are either a member of the Intermarket Surveillance Group (“ISG”) or a market with which the Exchange has a comprehensive surveillance sharing agreement (“CSSA”).<sup>26</sup> However, as further detailed below, the Exchange or the Financial Industry Regulatory Authority, Inc. (“FINRA”), on behalf of the Exchange, will communicate as needed regarding trading in Managed Fund Shares with other markets that are members of the ISG, including all U.S. securities exchanges and futures exchanges on which the components are traded.

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14.11(i)(4)(C) permit the inclusion of non-equity securities, whereas Rule 14.11(c)(3) applies only to equity securities.

<sup>23</sup> 17 CFR 240.600. This proposed text is identical to the corresponding text of Rule 14.11(c)(3)(A)(ii)(e), except for the addition of “equity” to make clear that the standard applies to “equity securities” and the omission of the reference to “index,” which is not applicable.

<sup>24</sup> See Securities Exchange Act Release No. 75023 (May 21, 2015), 80 FR 30519 (May 28, 2015) (SR-NYSEArca-2014-100) (the “Non-U.S. Components Release”).

<sup>25</sup> Under Rule 14.11(c)(3)(A)(ii), index fund shares with components that include Non-U.S. Component Stocks can hold a portfolio that is entirely composed of Non-U.S. Component Stocks that are listed on markets that are neither members of ISG, nor with which the Exchange has in place a CSSA.

<sup>26</sup> ISG is comprised of an international group of exchanges, market centers, and market regulators that perform front-line market surveillance in their respective jurisdictions. See <https://www.isgportal.org/home.html>.

Proposed Rule 14.11(i)(4)(C)(ii) would describe the standards for a Managed Fund Share portfolio that holds fixed income securities, which are debt securities<sup>27</sup> that are notes, bonds, debentures or evidence of indebtedness that include, but are not limited to, U.S. Department of Treasury securities (“Treasury Securities”), government-sponsored entity securities (“GSE Securities”), municipal securities, trust preferred securities, supranational debt and debt of a foreign country or a subdivision thereof, investment grade and high yield corporate debt, bank loans, mortgage and asset backed securities,<sup>28</sup> and commercial paper. To the extent that a portfolio includes convertible securities, the fixed income security into which such security is converted shall meet the criteria of proposed Rule 14.11(i)(4)(C)(ii) after converting. The components of the fixed income portion of a portfolio shall meet the following criteria initially and on a continuing basis:

- (1) Components that in the aggregate account for at least 75% of the fixed income weight of the portfolio shall each have a minimum original principal amount outstanding of \$100 million or more;<sup>29</sup>
- (2) No component fixed-income security (excluding Treasury Securities and GSE Securities) could represent more than 30% of the fixed income

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<sup>27</sup> Debt securities include a variety of fixed income obligations, including, but not limited to, corporate debt securities, government securities, municipal securities, convertible securities, and mortgage-backed securities. Debt securities include investment-grade securities, non-investment-grade securities, and unrated securities. Debt securities also include variable and floating rate securities.

<sup>28</sup> The Exchange notes that, for purposes of this proposal, the issuer of asset backed securities will be considered the issuer of the underlying debt.

<sup>29</sup> This proposed text of 14.11(i)(4)(C)(ii)(a)(1) is based on the corresponding text of 14.11(c)(4)(B)(i)(b).

weight of the portfolio, and the five most heavily weighted fixed income securities in the portfolio (excluding Treasury Securities and GSE Securities) shall not in the aggregate account for more than 65% of the fixed income weight of the portfolio;<sup>30</sup>

- (3) An underlying portfolio (excluding exempted securities) that includes fixed income securities shall include a minimum of 13 non-affiliated issuers, provided, however, that there shall be no minimum number of non-affiliated issuers required for fixed income securities if at least 70% of the weight of the portfolio consists of equity securities as described in Rule 14.11(i)(4)(C)(i);<sup>31</sup>
- (4) Component securities that in aggregate account for at least 90% of the fixed income weight of the portfolio must be either: (a) from issuers that are required to file reports pursuant to Sections 13 and 15(d) of the Act; (b) from issuers that have a worldwide market value of its outstanding common equity held by non-affiliates of \$700 million or more; (c) from issuers that have outstanding securities that are notes, bonds, debentures,

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<sup>30</sup> This proposed rule text is identical to the corresponding text of Rule 14.11(c)(4)(B)(i)(d), except for the omission of the reference to “index,” which is not applicable, and the exclusion of “GSE Securities,” which is consistent with the corresponding text of NYSE Arca, Inc. (“Arca”) Commentary .02(a)(4) to Rule 5.2(j)(3).

<sup>31</sup> This proposed text is similar to the corresponding text of Rule 14.11(c)(4)(B)(i)(e), except for the omission of the reference to “index,” which is not applicable and the provision that there shall be no minimum number of non-affiliated issuers required for fixed income securities if at least 70% of the weight of the portfolio consists of equity securities as described in proposed Rule 14.11(i)(4)(C)(i).

or evidence of indebtedness having a total remaining principal amount of at least \$1 billion; (d) exempted securities as defined in Section 3(a)(12) of the Act; or (e) from issuers that are a government of a foreign country or a political subdivision of a foreign country; and

- (5) Non-agency, non-GSE and privately-issued mortgage-related and other asset-backed securities components of a portfolio shall not account, in the aggregate, for more than 20% of the weight of the fixed income portion of the portfolio.

Proposed Rule 14.11(i)(4)(C)(iii) describes the standards for a Managed Fund Share portfolio that holds cash and cash equivalents.<sup>32</sup> Specifically, the portfolio may hold short-term instruments with maturities of less than 3 months. There would be no limitation to the percentage of the portfolio invested in such holdings. Short-term instruments would include the following:<sup>33</sup> (1) U.S. Government securities, including bills, notes and bonds differing as to maturity and rates of interest, which are either issued or guaranteed by the U.S. Treasury or by U.S. Government agencies or instrumentalities; (2) certificates of deposit issued against funds deposited in a bank or savings and loan association; (3) bankers' acceptances, which are short-term credit instruments used to

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<sup>32</sup> Proposed rule changes for previously-listed series of Managed Fund Shares have similarly included the ability for such Managed Fund Share holdings to include cash and cash equivalents. See, e.g., iShares U.S. Fixed Income Balanced Risk Approval at 9789, SPDR Blackstone/GSO Senior Loan Approval at 19768-69, and First Trust Preferred Securities and Income Approval at 76150.

<sup>33</sup> Proposed rule changes for previously-listed series of Managed Fund Shares have similarly specified short-term instruments with respect to their inclusion in Managed Fund Share holdings. See, e.g., First Trust Preferred Securities and Income Approval at 76150-51.

finance commercial transactions; (4) repurchase agreements and reverse repurchase agreements; (5) bank time deposits, which are monies kept on deposit with banks or savings and loan associations for a stated period of time at a fixed rate of interest; (6) commercial paper, which are short-term unsecured promissory notes; and (7) money market funds.

Proposed Rule 14.11(i)(4)(C)(iv) describes the standards for a Managed Fund Share portfolio that holds listed derivatives, including futures, options and swaps on commodities, currencies and financial instruments (e.g., stocks, fixed income, interest rates, and volatility) or a basket or index of any of the foregoing.<sup>34</sup> There would be no limitation to the percentage of the portfolio invested in such holdings; provided, however, that, in the aggregate, at least 90% of the weight of such holdings invested in futures, exchange-traded options, and listed swaps shall, on both an initial and continuing basis, consist of futures, options, and swaps for which the Exchange may obtain information via the ISG from other members or affiliates or for which the principal market is a market with which the Exchange has a CSSA, calculated using the aggregate gross notional value of such holdings.<sup>35</sup> In addition, the aggregate gross notional value of listed derivatives based on any five or fewer underlying reference assets shall not exceed 65% of the weight of the portfolio (including gross notional exposures), and the aggregate gross notional value of listed derivatives based on any single underlying reference asset

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<sup>34</sup> Proposed rule changes for previously-listed series of Managed Fund Shares have similarly included the ability for such Managed Fund Share holdings to include listed derivatives. See, e.g., Securities Exchange Act Release Nos. 75 FR 13616 (March 22, 2010) (SR-NYSEArca-2010-04) at 13617; and 67054 (May 24, 2012), 77 FR 32161 (May 31, 2012) (SR-NYSEArca-2012-25) at 32163.

<sup>35</sup> See supra note 26.

shall not exceed 30% of the weight of the portfolio (including gross notional exposures).

The Exchange notes that, for purposes of calculating this limitation, a portfolio's investment in listed derivatives will be calculated as the gross notional value of the listed derivatives.

Proposed Rule 14.11(i)(4)(C)(v) describes the standards for a Managed Fund Share portfolio that holds over the counter ("OTC") derivatives, including forwards, options and swaps on commodities, currencies and financial instruments (e.g., stocks, fixed income, interest rates, and volatility) or a basket or index of any of the foregoing.<sup>36</sup> Proposed Rule 14.11(i)(4)(C)(v) also provides that the aggregate gross notional value of OTC Derivatives shall not exceed 20% of the weight of the portfolio (including gross notional exposures).

Proposed Rule 14.11(i)(4)(C)(vi) provides that, to the extent that listed or OTC derivatives are used to gain exposure to individual equities and/or fixed income securities, or to indexes of equities and/or fixed income securities, the aggregate gross notional value of such exposure shall meet the criteria set forth in Rule 14.11(i)(4)(C)(i) and 14.11(i)(4)(C)(ii) (including gross notional exposures), respectively. The Exchange notes that, for purposes of this proposal, a portfolio's investment in OTC derivatives will be calculated as the gross notional value of the OTC derivatives.

The Exchange believes that the proposed standards would continue to ensure

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<sup>36</sup> Proposed rule changes for previously-listed series of Managed Fund Shares have similarly included the ability for such Managed Fund Shares to include OTC derivatives, specifically OTC down-and-in put options, which are not NMS Stocks as defined in Rule 600 of Regulation NMS and therefore would not satisfy the requirements of Rule 14.11(c)(3)(A)(i) or the analogous rule on another listing exchange. See, e.g., Securities Exchange Act Release No. 69373 (April 15, 2013), 78 FR 23601 (April 19, 2013) (SR-NYSEArca-2012-108) at 23602.



transparency surrounding the listing process for Managed Fund Shares. Additionally, the Exchange believes that the proposed portfolio standards for listing and trading Managed Fund Shares, many of which track existing Exchange rules relating to Index Fund Shares, are reasonably designed to promote a fair and orderly market for such Managed Fund Shares. These proposed standards would also work in conjunction with the existing initial and continued listing criteria related to surveillance procedures and trading guidelines.

As an example of how the Exchange would determine whether a series of Managed Fund Shares meets these proposed portfolio exposure requirements, see the following examples based on a hypothetical portfolio. For purposes of these examples, it will be assumed that the portfolio meets proposed Rules 14.11(i)(4)(C)(i)(a)(1), (2), (4), (5), and (6), 14.11(i)(4)(C)(i)(b)(1), (2), (4), and (5), and 14.11(i)(4)(C)(ii)(a), (c), and (d).

Instrument Type	Units	Price (\$)	Market Value	% of Portfolio
U.S. Equity 1	15000	25	375,000	7.50%
U.S. Equity 2	10000	50	500,000	10.00%
U.S. Equity 3	5000	100	500,000	10.00%
U.S. Equity 4	1200	150	180,000	3.60%
U.S. Equity 5	1000	250	250,000	5.00%
Int'l Equity 1	9000	25	225,000	4.50%
Int'l Equity 2	5000	50	250,000	5.00%
Int'l Equity 3	5000	100	500,000	10.00%
Int'l Equity 4	10000	75	750,000	15.00%
Int'l Equity 5	2000	75	150,000	3.00%
Fixed Income 1	5000	25	125,000	2.50%
Fixed Income 2	6400	50	320,000	6.40%
Fixed Income 3 (Private label ABS)	2000	75	150,000	3.00%
TBill 1 (2 months)	12500	50	625,000	12.50%
TBill 2 (6 months)	2000	50	100,000	2.00%
<b>Total Equity</b>			<b>3,680,000</b>	
<b>Total Fixed Income</b>			<b>1,320,000</b>	

<b>Total</b>		<b>5,000,000</b>	<b>100.00%</b>
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In this hypothetical portfolio, proposed Rule 14.11(i)(4)(C)(i)(a)(3) is met

because the most heavily weighted single U.S. equity component stock (both U.S. Equity 2 and U.S. Equity 3) represents 13.6% of the equity weight of the portfolio

(500,000/3,680,000) and the five most heavily weighted U.S. equity component stocks represent 49% of the equity weight of the portfolio (1,805,000/3,680,000) and proposed

Rule 14.11(i)(4)(C)(i)(b)(3) is met because the most heavily weighted Non-U.S.

Component Stock composes 20.4% of the equity weight of the portfolio

(750,000/3,680,000) and the five most heavily weighted Non-U.S. Component Stocks

compose 51% of the equity weight of the portfolio (1,875,000/3,680,000). Proposed

Rules 14.11(i)(4)(C)(ii)(b) and (e) are met because the most heavily weighted fixed

income security (excluding Treasury Securities) represents 24.2% of the fixed income

weight of the portfolio (320,000/1,320,000), the five most heavily weighted fixed income

securities (excluding Treasury Securities) represent 45% of the fixed income weight of

the portfolio (595,000/1,320,000), and the non-agency, non-GSE, and privately-issued

mortgage-related and other asset-backed securities components represent 11.4% of the

fixed income weight of the portfolio (150,000/1,320,000). For purposes of this analysis,

both TBill 1 and TBill 2 will be counted as fixed income securities even though TBill 1

would be included in the definition of cash and cash equivalents. There is no portfolio

analysis specific to the cash and cash equivalents portion of the portfolio because there

are no limitations to the percentage of the portfolio invested in instruments that qualify as

cash and cash equivalents.

Suppose that the hypothetical portfolio laid out above added the following

instruments:

Instrument Type	Units of Reference Asset in the Contract(s)	Price or Face Value of Reference Asset	Absolute Notional Exposure	% of Portfolio (including gross notional exposures)
Listed Derivative 1 (Option on U.S. Equity 1)	10,000	20	200,000	3.20%
Listed Derivative 2 (Treasury Futures)	5	100,000	500,000	8.00%
Listed Derivative 3 (Commodity Swap)	200	250	50,000	0.80%
OTC Derivative 1 (Credit Default Swap)	N/A	500,000	500,000	8.00%
<b>Total Derivative</b>			<b>1,250,000</b>	
<b>Listed Derivative</b>			<b>750,000</b>	
<b>Derivative Equity</b>			<b>200,000</b>	
<b>Derivative FI</b>			<b>500,000</b>	
<b>Derivative Other</b>			<b>550,000</b>	
<b>Total Equity</b>			<b>3,880,000</b>	
<b>Total Fixed Income</b>			<b>1,820,000</b>	
<b>Total</b>			<b>6,250,000</b>	

In this hypothetical portfolio, proposed Rule 14.11(i)(4)(C)(vi) provides that the calculations provided above related to Rules 14.11(i)(4)(C)(i) and (ii) would now need to include the aggregate gross notional value of Listed Derivative 1 and Listed Derivative 2, respectively. As such, the \$200,000 absolute notional exposure from Listed Derivative 1 would be added to the existing exposure to U.S. Equity 1 and proposed Rule 14.11(i)(4)(C)(i)(a)(3) would be met because the most heavily weighted single U.S. equity component stock (now U.S. Equity 1) represents 14.8% of the equity weight of the portfolio ( $575,000/3,880,000$ ) and the five most heavily weighted U.S. equity component stocks represent 51.7% of the equity weight of the portfolio ( $2,005,000/3,880,000$ ). Similarly, proposed Rule 14.11(4)(C)(i)(b)(3) is met because the additional \$500,000 in aggregate gross notional exposure to fixed income securities (in particular, Treasury Securities) gained through Listed Derivative 2 is added included in the calculation such

that the most heavily weighted fixed income security (excluding Treasury Securities) represents 17.6% of the fixed income weight of the portfolio (320,000/1,820,000), the five most heavily weighted fixed income securities (excluding Treasury Securities) represent 32.7% of the fixed income weight of the portfolio (595,000/1,820,000), and the non-agency, non-GSE, and privately-issued mortgage-related and other asset-backed securities components represent 8.2% of the fixed income weight of the portfolio (150,000/1,820,000). Proposed Rule 14.11(4)(C)(iv)(a) would be met if both Listed Derivative 1 and Listed Derivative 2 are derivatives for which the Exchange may obtain information via the ISG, from other members or affiliates of the ISG or for which the principal market is a market with which the Exchange has a comprehensive surveillance sharing agreement [ $((500,000 + 200,000)/750,000) = 93\% > 90\%$ ]. However, if Listed Derivative 1 or Listed Derivative 2 did not meet that requirement, the portfolio would not meet proposed Rule 14.11(4)(C)(iv)(a) [ $((500,000 + 50,000)/750,000) = 73.3\% < 90\%$ ;  $((200,000 + 50,000)/750,000) = 33.3\% < 90\%$ ]. Proposed Rule 14.11(4)(C)(iv)(b) is met because the aggregate gross notional value of listed derivatives is 12% of the portfolio (750,000/6,250,000), which is less than both standards in the proposed rule. Proposed Rule 14.11(4)(C)(v) would be met because the aggregate gross notional exposure of OTC Derivatives is 8% of the weight of the portfolio (500,000/6,250,000).

In support of this proposal, the Exchange represents that: (1) generically listed Managed Fund Shares will conform to the initial and continued listing criteria under Rule 14.11(i)(4)(A) and (B); (2) the Exchange's surveillance procedures are adequate to continue to properly monitor the trading of the Managed Fund Shares in all trading sessions and to deter and detect violations of Exchange rules. Specifically, the Exchange

intends to utilize its existing surveillance procedures applicable to derivative products, which will include Managed Fund Shares, to monitor trading in the Managed Fund Shares; (3) prior to the commencement of trading of a particular series of Managed Fund Shares, the Exchange will inform its Members in an information circular of the special characteristics and risks associated with trading the Managed Fund Shares, including procedures for purchases and redemptions of Managed Fund Shares, suitability requirements under Rule 3.7, the risks involved in trading the Managed Fund Shares during the Pre-Opening and After Hours Trading Sessions when an updated Intraday Indicative Value will not be calculated or publicly disseminated, how information regarding the Intraday Indicative Value and Disclosed Portfolio is disseminated, prospectus delivery requirements, and other trading information. In addition, the information circular will disclose that the Managed Fund Shares are subject to various fees and expenses, as described in the registration statement, and will discuss any exemptive, no-action, and interpretive relief granted by the Commission from any rules under the Act. Finally, the Bulletin will disclose that the net asset value for the Managed Fund Shares will be calculated after 4 p.m. ET each trading day; and (4) the issuer of a series of Managed Fund Shares will be required to comply with Rule 10A-3 under the Act for the initial and continued listing of Managed Fund Shares, as provided under Rule 14.10(c)(3).

The Exchange notes that the proposed change is not otherwise intended to address any other issues and that the Exchange is not aware of any problems that Members or issuers would have in complying with the proposed change.

## 2. Statutory Basis

The Exchange believes that the proposal is consistent with Section 6(b) of the Act<sup>37</sup> in general and Section 6(b)(5) of the Act<sup>38</sup> in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest.

The proposed rule change is designed to perfect the mechanism of a free and open market and, in general, to protect investors and the public interest because it would facilitate the listing and trading of additional Managed Fund Shares, which would enhance competition among market participants, to the benefit of investors and the marketplace. Specifically, after more than six years under the current process, whereby an exchange is required to file a proposed rule change with the Commission for the listing and trading of each new series of Managed Fund Shares, the Exchange believes that it is appropriate to codify certain rules within Rule 14.11(i) that would generally eliminate the need for separate proposed rule changes. The Exchange believes that this would facilitate the listing and trading of additional types of Managed Fund Shares that have investment portfolios that are similar to investment portfolios for Index Fund Shares, which have been approved for listing and trading, thereby creating greater efficiencies in the listing process for the Exchange and the Commission. In this regard, the Exchange notes that the standards proposed for Managed Fund Share portfolios that include equity securities, Derivative Securities Products, and Linked Securities are based

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<sup>37</sup> 15 U.S.C. 78f.

<sup>38</sup> 15 U.S.C. 78f(b)(5).

in large part on the existing equity security standards applicable to Index Fund Shares based on either a U.S. index or portfolio or an international or global index or portfolio found in Rule 14.11(c)(3)(A)(i)<sup>39</sup> and (ii),<sup>40</sup> respectively, and that the standards proposed for Managed Fund Share portfolios that include fixed income securities are based in large part on the existing fixed income standards applicable to Index Fund Shares in 14.11(c)(4). Additionally, many of the standards proposed for other types of holdings of series of Managed Fund Shares are based on previous proposed rule changes for specific series of Managed Fund Shares.<sup>41</sup> The Exchange notes that prior to listing pursuant to proposed amended Rule 14.11(i), an issuer would be required to represent to the Exchange that it will advise the Exchange of any failure by a series of Managed Fund Shares to comply with the continued listing requirements, and, pursuant to its obligations under Section 19(g)(1) of the Exchange Act, the Exchange will surveil for compliance with the continued listing requirements. If the Fund is not in compliance with the applicable listing requirements, the Exchange will commence delisting procedures under Exchange Rule 14.12.

With respect to the proposed addition to the criteria of Rule 14.11(i)(3)(B) to provide that the website for each series of Managed Fund Shares shall disclose certain information regarding the Disclosed Portfolio, to the extent applicable, the Exchange notes that proposed rule changes approved by the Commission for previously-listed series of Managed Fund Shares have similarly included disclosure requirements with respect to

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<sup>39</sup> See supra notes 14 through 18.

<sup>40</sup> See supra notes 19 through 26.

<sup>41</sup> See supra note 9.

each portfolio holding, as applicable to the type of holding.<sup>42</sup> With respect to the proposed exclusion of Derivative Securities Products and Linked Securities from the requirements of proposed Rule 14.11(i)(4)(C)(i)(a) and (b), the Exchange believes it is appropriate to exclude Linked Securities as well as Derivative Securities Products from certain component stock eligibility criteria for Managed Fund Shares in so far as Derivative Securities Products and Linked Securities are themselves subject to specific quantitative listing and continued listing requirements of a national securities exchange on which such securities are listed. Derivative Securities Products and Linked Securities that are components of a fund's portfolio would have been listed and traded on a national securities exchange pursuant to a proposed rule change approved by the Commission pursuant to Section 19(b)(2) of the Act<sup>43</sup> or submitted by a national securities exchange pursuant to Section 19(b)(3)(A) of the Act<sup>44</sup> or would have been listed by a national securities exchange pursuant to the requirements of Rule 19b-4(e) under the Act.<sup>45</sup> The Exchange also notes that Derivative Securities Products and Linked Securities are derivatively priced, and, therefore, the Exchange believes that it would not be necessary to apply the proposed generic quantitative criteria (e.g., market capitalization, trading volume, or portfolio component weighting) applicable to equity securities other than Derivative Securities Products or Linked Securities (e.g., common stocks) to such products.

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<sup>42</sup> See supra note 7.

<sup>43</sup> 15 U.S.C. 78s(b)(2).

<sup>44</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>45</sup> 17 CFR 240.19b-4(e).



With respect to the proposed amendment to the continued listing requirement in Rule 14.11(i)(4)(B)(i) to require dissemination of an Intraday Indicative Value at least every 15 seconds during Regular Trading Hours, such requirement conforms to the requirement applicable to the dissemination of the Intraday Indicative Value for Index Fund Shares in Rule 14.11(c)(3)(C) and 14.11(c)(6)(A). In addition, such dissemination is consistent with representations made in proposed rule changes for issues of Managed Fund Shares previously approved by the Commission.<sup>46</sup>

As proposed, pursuant to Rule 14.11(i)(4)(C)(ii)(c) an underlying portfolio (excluding exempted securities) that includes fixed income securities must include a minimum of 13 non-affiliated issuers, provided, however, that there would be no minimum number of non-affiliated issuers required for fixed income securities if at least 70% of the weight of the portfolio consists of equity securities. The Exchange notes that when evaluated in conjunction with proposed Rule 14.11(i)(4)(C)(ii)(b), the proposed rule is consistent with current Rules 14.11(c)(4)(B)(i)(d) and (e) in that it provides for a maximum weighting of a fixed income security in the fixed income portion of the portfolio of a fund that is comparable to the existing rules applicable to Index Fund Shares based on fixed income indexes.

With respect to the proposed amendment to Rule 14.11(i)(4)(C)(iii) relating to cash and cash equivalents, while there is no limitation on the amount of cash and cash equivalents can make up of the portfolio, such instruments are short-term, highly liquid, and of high credit quality, making them less susceptible than other asset classes both to price manipulation and volatility. Further, the requirement is consistent with

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<sup>46</sup> See supra note 9.

representations made in proposed rule changes for issues of Managed Fund Shares previously approved by the Commission.<sup>47</sup>

With respect to proposed Rule 14.11(i)(4)(C)(iv) relating to listed derivatives, the Exchange believes that it is appropriate that there be no limit to the percentage of a portfolio invested in such holdings, provided that, in the aggregate, at least 90% of the weight of such holdings invested in futures, exchange-traded options, and listed swaps shall, on both an initial and continuing basis, consist of futures, options, and swaps for which the Exchange may obtain information via the ISG from other members or affiliates or for which the principal market is a market with which the Exchange has a comprehensive surveillance sharing agreement CSSA, calculated using the aggregate gross notional value of such holdings. Such a requirement would facilitate information sharing among market participants trading shares of a series of Managed Fund Shares as well as futures and options that such series may hold. In addition, the aggregate gross notional value of listed derivatives based on any five or fewer underlying reference assets shall not exceed 65% of the weight of the portfolio (including gross notional exposures), and the aggregate gross notional value of listed derivatives based on any single underlying reference asset shall not exceed 30% of the weight of the portfolio (including gross notional exposures). Such a requirement would act to limit the concentration of any single or group of five or fewer underlying reference assets in the portfolio. In addition, listed swaps would be centrally cleared, reducing counterparty risk and thereby

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<sup>47</sup> See supra note 32.

furthering investor protection.<sup>48</sup>

With respect to proposed Rule 14.11(i)(4)(C)(v) relating to OTC derivatives, the Exchange believes that the limitation to 20% of a fund's assets would assure that, to the extent that a fund holds derivatives, the preponderance of fund investments would not be in derivatives that are not listed and centrally cleared. The Exchange believes that such a limitation is sufficient to mitigate the risks associated with price manipulation because a 20% cap on OTC derivatives will ensure that any series of Managed Fund Shares will be sufficiently broad-based in scope to minimize potential manipulation associated with OTC derivatives because the remaining 80% of the portfolio will consist of instruments subject to numerous restrictions designed to prevent manipulation, including equity securities (which, as proposed, would be subject to market cap, trading volume, and diversity requirements, among others), fixed income securities (which, as proposed, would be subject to principal amount outstanding, diversity, and issuer requirements, among others), cash and cash equivalents (which, as proposed, would be limited to short-term, highly liquid, and high credit quality instruments), and/or listed derivatives (which, as proposed, 90% of the weight of futures and options will be futures and options whose principal market is a member of ISG). With respect to proposed Rule 14.11(i)(4)(C)(vi) related to a fund's use of listed or OTC derivatives to gain exposure to individual equities and/or fixed income securities, or to indexes of equities and/or indexes of fixed income

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<sup>48</sup> The Commission has noted that “[c]entral clearing mitigates counterparty risk among dealers and other institutions by shifting that risk from individual counterparties to [central counterparties (“CCPs”)], thereby protecting CCPs from each other’s potential failures.” See Securities Exchange Act Release No. 67286 (June 28, 2012) (File No. S7-44-10) (Process for Submissions for Review of Security-Based Swaps for Mandatory Clearing and Notice Filing Requirements for Clearing Agencies).

securities, the Exchange notes that such exposure would be required to meet the numerical and other criteria set forth in proposed Rule 14.11(i)(4)(C)(i) and 14.11(i)(4)(C)(ii), respectively.

Quotation and other market information relating to listed futures and options is available from the exchanges listing such instruments as well as from market data vendors. With respect to centrally-cleared swaps<sup>49</sup> and non-centrally-cleared swaps regulated by the Commodity Futures Trading Commission (the “CFTC”),<sup>50</sup> the Dodd-Frank Act mandates that swap information be reported to swap data repositories (“SDRs”).<sup>51</sup> SDRs provide a central facility for swap data reporting and recordkeeping and are required to comply with data standards set by the CFTC, including real-time public reporting of swap transaction data to a derivatives clearing organization or SEF.<sup>52</sup> SDRs require real-time reporting of all OTC and centrally cleared derivatives, including public reporting of the swap price and size. The parties responsible for reporting swaps information are CFTC-registered swap dealers (“RSDs”), major swap participants, and SEFs. If swap counterparties do not fall into the above categories, then one of the parties

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<sup>49</sup> There are currently five categories of swaps eligible for central clearing: interest rate swaps; credit default swaps; foreign exchange swaps; equity swaps; and commodity swaps. The following entities provide central clearing for OTC derivatives: ICE Clear Credit (U.S.); ICE Clear (E.U.); CME Group; LCH.Clearnet; and Eurex.

<sup>50</sup> Pursuant to the Dodd-Frank Act, OTC and centrally-cleared swaps are regulated by the CFTC with the exception of security-based swaps, which are regulated by the Commission.

<sup>51</sup> The following entities are provisionally registered with the CFTC as SDRs: BSDR LLC, Chicago Mercantile Exchange, Inc., DTCC Data Repository, and ICE Trade Vault.

<sup>52</sup> Approximately 21 entities are currently temporarily registered with the CFTC as SEFs.

to the swap must report the trade to the SDR. Cleared swaps regulated by the CFTC must be executed on a Designated Contract Market (“DCM”) or SEF. Such cleared swaps have the same reporting requirements as futures, including end-of-day price, volume, and open interest. CFTC swaps reporting requirements require public dissemination of, among other items, product ID (if available); asset class; underlying reference asset, reference issuer, or reference index; termination date; date and time of execution; price, including currency; notional amounts, including currency; whether direct or indirect counterparties include an RSD; whether cleared or un-cleared; and platform ID of where the contract was executed (if applicable).

With respect to security-based swaps regulated by the Commission, the Commission has adopted Regulation SBSR under the Act implementing requirements for regulatory reporting and public dissemination of security-based swap transactions set forth in Title VII of the Dodd-Frank Act. Regulation SBSR provides for the reporting of security-based swap information to registered security-based swap data repositories (“Registered SDRs”) or the Commission, and the public dissemination of security-based swap transaction, volume, and pricing information by Registered SDRs.<sup>53</sup>

Price information relating to forwards and OTC options will be available from major market data vendors.

The Exchange notes that a fund’s investments in derivative instruments would be subject to limits on leverage imposed by the 1940 Act. Section 18(f) of the 1940 Act and related Commission guidance limit the amount of leverage an investment company can

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<sup>53</sup> See Securities Exchange Act Release No. 74244 (February 11, 2015), 80 FR 14564 (March 19, 2015) (Regulation SBSR – Reporting and Dissemination of Security-Based Swap Information).

obtain. A fund's investments would be consistent with its investment objective and would not be used to enhance leverage. To limit the potential risk associated with a fund's use of derivatives, a fund will segregate or " earmark " assets determined to be liquid by a fund in accordance with the 1940 Act (or, as permitted by applicable regulation, enter into certain offsetting positions) to cover its obligations under derivative instruments. A fund's investments will not be used to seek performance that is the multiple or inverse multiple (i.e., 2xs or 3xs) of a fund's broad-based securities market index (as defined in Form N-1A).<sup>54</sup>

The proposed rule change is also designed to protect investors and the public interest because Managed Fund Shares listed and traded pursuant to Rule 14.11(i), including pursuant to the proposed new portfolio standards, would continue to be subject to the full panoply of Exchange rules and procedures that currently govern the trading of equity securities on the Exchange, as further described in the Approval Order.

The proposed rule change is also designed to protect investors and the public interest as well as to promote just and equitable principles of trade in that any Non-U.S. Component Stocks will each meet the following criteria initially and on a continuing basis: (1) have a minimum market value of at least \$100 million; (2) have a minimum global monthly trading volume of 250,000 shares, or minimum global notional volume traded per month of \$25,000,000, averaged over the last six months; (3) most heavily weighted Non-U.S. Component Stock shall not exceed 25% of the equity weight of the portfolio, and, to the extent applicable, the five most heavily weighted Non-U.S.

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<sup>54</sup> See, e.g., Securities Exchange Act Release No. 7482 (April 29, 2015), 86 FR 25723 (May 5, 2015) (SR-NYSEArca-2014-89) (order approving listing and trading of shares of eight PIMCO exchange-traded funds).

Component Stocks shall not exceed 60% of the equity weight of the portfolio; and (4) each Non-U.S. Component Stock shall be listed and traded on an exchange that has last-sale reporting. The Exchange believes that such quantitative criteria are sufficient to mitigate any concerns that may arise on the basis of a series of Managed Fund Shares potentially holding 100% of its assets in Non-U.S. Component Stocks that are neither listed on members of ISG nor exchanges with which the Exchange has in place a CSSA because, as stated above, such criteria are either the same or more stringent than the portfolio requirements for Index Fund Shares that hold Non-U.S. Component Stocks and there are no such requirements related to such securities being listed on an exchange that is a member of ISG or with which the Exchange has in place a CSSA. Further, the Exchange has not encountered and is not aware of any instances of manipulation or other negative impact in any series of Index Fund Shares that has occurred by virtue of the Index Fund Shares holding such Non-U.S. Component Stocks. As such, the Exchange believes that there should be no difference in the portfolio requirements for Managed Fund Shares and Index Fund Shares as it relates to holding Non-U.S. Component Stocks that are not listed on an exchange that is a member of ISG or with which the Exchange has in place a CSSA.

The Exchange believes that the proposed rule change is designed to prevent fraudulent and manipulative acts and practices because the Managed Fund Shares will be listed and traded on the Exchange pursuant to the initial and continued listing criteria in Rule 14.11(i). The Exchange has in place surveillance procedures that are adequate to properly monitor trading in the Managed Fund Shares in all trading sessions and to deter and detect violations of Exchange rules and applicable federal securities laws. The

Exchange or FINRA, on behalf of the Exchange, will communicate as needed regarding trading in Managed Fund Shares and their underlying components with other markets that are members of the ISG, including all U.S. securities exchanges and futures exchanges on which the components are traded, or with which the Exchange has in place a CSSA. In addition, the Exchange or FINRA on behalf of the Exchange may obtain information regarding trading in Managed Fund Shares and their underlying components from other markets that are members of the ISG, including all U.S. securities exchanges and futures exchanges on which the components are traded, or with which the Exchange has in place a CSSA.

The Exchange also believes that the proposed rule change would fulfill the intended objective of Rule 19b-4(e) under the Act by allowing Managed Fund Shares that satisfy the proposed listing standards to be listed and traded without separate Commission approval. However, as proposed, the Exchange would continue to file separate proposed rule changes before the listing and trading of Managed Fund Shares that do not satisfy the additional criteria described above.

For the above reasons, the Exchange believes that the proposed rule change is consistent with the requirements of Section 6(b)(5) of the Act.

(B) Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purpose of the Act. Instead, the Exchange believes that the proposed rule change would facilitate the listing and trading of additional types of Managed Fund Shares and result in a significantly more efficient process surrounding the listing and trading of Managed Fund



Shares, which will enhance competition among market participants, to the benefit of investors and the marketplace. The Exchange believes that this would reduce the time frame for bringing Managed Fund Shares to market, thereby reducing the burdens on issuers and other market participants and promoting competition. In turn, the Exchange believes that the proposed change would make the process for listing Managed Fund Shares more competitive by applying uniform listing standards with respect to Managed Fund Shares.

(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

The Exchange has neither solicited nor received written comments on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will: (a) by order approve or disapprove such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposal is consistent with the Act.

Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form

<http://www.sec.gov/rules/sro.shtml>); or

- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File No. SR-BATS-2015-100 Amendment No. 5 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File No. SR-BATS-2015-100 Amendment No. 5. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 am and 3:00 pm. Copies of such filing will also be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File No. SR-BATS-2015-100 Amendment No. 5 and should be submitted on or before [\_\_\_\_\_21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to

delegated authority.<sup>55</sup>

Robert W. Errett  
Deputy Secretary

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<sup>55</sup> 17 CFR 200.30-3(a)(12).

## EXHIBIT 4

Note: Proposed new language is underlined. Proposed deletions are enclosed in [brackets]. ***Bold italics*** indicate changes from SR-BATS-2015-100 as originally filed.

\* \* \* \* \*

## Rule 14.11. Other Securities

\* \* \* \* \*

## (i) Managed Fund Shares

\* \* \* \* \*

(2) **Applicability.** This Rule is applicable only to Managed Fund Shares. Except to the extent inconsistent with this Rule, or unless the context otherwise requires, the rules and procedures of the Board of Directors shall be applicable to the trading on the Exchange of such securities. Managed Fund Shares are included within the definition of “security” or “securities” as such terms are used in the Rules of the Exchange.

(A) [The Exchange will file separate proposals under Section 19(b) of the Act before the listing of Managed Fund Shares.]

[(B)] Transactions in Managed Fund Shares will occur throughout the Exchange’s trading hours.

[(C)](B) **Minimum Price Variance.** The minimum price variation for quoting and entry of orders in Managed Fund Shares is \$0.01.

[(D)](C) **Surveillance Procedures.** The Exchange will implement written surveillance procedures for Managed Fund Shares.

[(E)](D) **Creation and Redemption.** For Managed Fund Shares based on an international or global portfolio, the statutory prospectus or the application for exemption from provisions of the Investment Company Act of 1940 for the series of Managed Fund Shares must state that such series must comply with the federal securities laws in accepting securities for deposits and satisfying redemptions with redemption securities, including that the securities accepted for deposits and the securities used to satisfy redemption requests are sold in transactions that would be exempt from registration under the Securities Act of 1933.

(3) **Definitions.** The following terms as used in the Rules shall, unless the context otherwise requires, have the meanings herein specified:

(A) (No changes.)

(B) Disclosed Portfolio. The term “Disclosed Portfolio” means the identities and quantities of the securities and other assets held by the Investment Company that will form the basis for the Investment Company’s calculation of net asset value at the end of the business day. The website for each series of Managed Fund Shares shall disclose the following information regarding the Disclosed Portfolio, to the extent applicable:

- (i) Ticker symbol;
- (ii) CUSIP or other identifier;
- (iii) Description of the holding;
- (iv) Identity of the security, commodity, index, or other asset upon which the derivative is based;
- (v) The strike price for any options;
- (vi) The quantity of each security or other asset held as measured by:
  - (a) Par value;
  - (b) Notional value;
  - (c) Number of shares;
  - (d) Number of contracts;
  - (e) Number of units;
- (vii) Maturity date;
- (viii) Coupon rate;
- (ix) Effective date;
- (x) Market value; and
- (xi) Percentage weighting of the holding in the portfolio.

(C)-(D)(No changes.)

(E) Normal Market Conditions. The term “Normal Market Conditions” includes, but is not limited to, the absence of trading halts in the applicable financial markets generally; operational issues causing dissemination of inaccurate market information *or system failures*; or force majeure type events

such as ~~systems failure~~, natural or man-made disaster, act of God, armed conflict, act of terrorism, riot or labor disruption, or any similar intervening circumstance.

(4) Initial and Continued Listing. Managed Fund Shares will be listed and traded on the Exchange subject to application of the following criteria:

(A) Initial Listing. Each series of Managed Fund Shares will be listed and traded on the Exchange subject to application of the following initial listing criteria:

(i)-(ii) (No changes.)

(iii) All Managed Fund Shares shall have a stated investment objective, which shall be adhered to under Normal Market Conditions.

(B) Continued Listing. Each series of Managed Fund Shares will be listed and traded on the Exchange subject to application of the following continued listing criteria:

(i) Intraday Indicative Value. The Intraday Indicative Value for Managed Fund Shares will be widely disseminated by one or more major market data vendors at least every 15 seconds during [the time when the Managed Fund Shares trade on the Exchange]Regular Trading Hours, as defined in Exchange Rule 1.5(w).

\* \* \* \* \*

(C) The Exchange may approve Managed Fund Shares for listing pursuant to Rule 19b-4(e) under the Act. Components of a series of Managed Fund Shares listed pursuant to Rule 19b-4(e) shall satisfy the initial and continued criteria set forth within this Rule 14.11(i). The Exchange will file separate proposals under Section 19(b) of the Act before the listing and trading of a series of Managed Fund Shares with components that do not satisfy the criteria set forth within this Rule 14.11(i) or components other than those specified below.

(i) Equity. For purposes of paragraph (C) of this Rule, equity securities include the following: U.S. Component Stocks (~~as which are~~ defined in Rule 14.11(c)(1)(D)), Non-U.S. Component Stocks (~~as which are~~ defined in Rule 14.11(c)(1)(E)), Derivative Securities Products (~~as which are~~ defined in Rule 14.11(c)(3)(A)(i)(a)), ~~and~~ Linked Securities (securities ~~eligible for listing listed~~ on the Exchange under Rule 14.11(d)), ~~and each of the equivalent security types listed on a another~~ national securities exchange. For Derivative Securities Products and Linked Securities, no more than 25% of the equity weight of the portfolio shall consist of leveraged and/or inverse leveraged Derivative Securities Products or Linked Securities. To the extent that a portfolio includes convertible securities, the equity security into which such security is

converted shall meet the criteria of this Rule 14.11(i)(4)(C)(i) after converting.

(a) U.S. Component Stocks. The component stocks of the equity portion of a portfolio that are U.S. Component Stocks shall meet the following criteria initially and on a continuing basis:

(1) Component stocks (excluding Derivative Securities Products and Linked Securities) that in the aggregate account for at least 90% of the equity weight of the portfolio (excluding such Derivative Securities Products and Linked Securities) each shall have a minimum market value of at least \$75 million;

(2) Component stocks (excluding Derivative Securities Products and Linked Securities) that in the aggregate account for at least 70% of the equity weight of the portfolio (excluding such Derivative Securities Products and Linked Securities) each shall have a minimum monthly trading volume of 250,000 shares, or minimum notional volume traded per month of \$25,000,000, averaged over the last six months;

(3) The most heavily weighted component stock (excluding Derivative Securities Products and Linked Securities) shall not exceed 30% of the equity weight of the portfolio, and, to the extent applicable, the five most heavily weighted component stocks (excluding Derivative Securities Products and Linked Securities) shall not exceed 65% of the equity weight of the portfolio;

(4) Where the equity portion of the portfolio does not include Non-U.S. Component Stocks, the equity portion of the portfolio shall include a minimum of 13 component stocks; provided, however, that there shall be no minimum number of component stocks if (a) one or more series of Derivative Securities Products or Linked Securities constitute, at least in part, components underlying a series of Managed Fund Shares, or (b) one or more series of Derivative Securities Products or Linked Securities account for 100% of the equity weight of the portfolio of a series of Managed Fund Shares;

(5) Except as provided herein, equity securities in the portfolio shall be U.S. Component Stocks listed on a national securities exchange and shall be NMS Stocks as defined in Rule 600 of Regulation NMS under the Act; and

(6) American Depositary Receipts (“ADRs”) may be exchange traded or non-exchange traded. However, no more than 10% of the equity weight of the portfolio shall consist of non-exchange traded ADRs.

(b) Non-U.S. Component Stocks. The component stocks of the equity portion of a portfolio that are Non-U.S. Component Stocks shall meet the following criteria initially and on a continuing basis:

(1) Non-U.S. Component Stocks each shall have a minimum market value of at least \$100 million;

(2) Non-U.S. Component Stocks each shall have a minimum global monthly trading volume of 250,000 shares, or minimum global notional volume traded per month of \$25,000,000, averaged over the last six months;

(3) The most heavily weighted Non-U.S. Component stock shall not exceed 25% of the equity weight of the portfolio, and, to the extent applicable, the five most heavily weighted Non-U.S. Component Stocks shall not exceed 60% of the equity weight of the portfolio;

(4) Where the equity portion of the portfolio includes Non-U.S. Component Stocks, the equity portion of the portfolio shall include a minimum of 20 total component stocks; provided, however, that there shall be no minimum number of component stocks if (a) one or more series of Derivative Securities Products or Linked Securities constitute, at least in part, components underlying a series of Managed Fund Shares, or (b) one or more series of Derivative Securities Products or Linked Securities account for 100% of the equity weight of the portfolio of a series of Managed Fund Shares; and

(5) Each Non-U.S. Component Stock shall be listed and traded on an exchange that has last-sale reporting.

(ii) Fixed Income. Fixed income securities are debt securities that are notes, bonds, debentures, or evidence of indebtedness that include, but are not limited to, U.S. Department of Treasury securities (“Treasury Securities”), government-sponsored entity securities (“GSE Securities”), municipal securities, trust preferred securities, supranational debt and debt of a foreign country or a subdivision thereof, investment grade and high yield corporate debt, bank loans, mortgage and asset backed securities,



and commercial paper. To the extent that a portfolio includes convertible securities, the fixed income security into which such security is converted shall meet the criteria of this Rule 14.11(i)(4)(C)(ii) after converting. The components of the fixed income portion of a portfolio shall meet the following criteria initially and on a continuing basis:

(a) Components that in the aggregate account for at least 75% of the fixed income weight of the portfolio must each have a minimum original principal amount outstanding of \$100 million or more;

(b) No component fixed-income security (excluding Treasury Securities and GSE Securities) shall represent more than 30% of the fixed income weight of the portfolio, and the five most heavily weighted component fixed income securities in the portfolio (*excluding Treasury Securities and GSE Securities*) shall not in the aggregate account for more than 65% of the fixed income weight of the portfolio;

(c) An underlying portfolio (excluding exempted securities) that includes fixed income securities shall include a minimum of 13 non-affiliated issuers, provided, however, that there shall be no minimum number of non-affiliated issuers required for fixed income securities if at least 70% of the weight of the portfolio consists of equity securities as described in Rule 14.11(i)(4)(C)(i) above;

(d) Component securities that in aggregate account for at least 90% of the fixed income weight of the portfolio must be either: (a) from issuers that are required to file reports pursuant to Sections 13 and 15(d) of the Act; (b) from issuers that have a worldwide market value of its outstanding common equity held by non-affiliates of \$700 million or more; (c) from issuers that have outstanding securities that are notes, bonds, debentures, or evidence of indebtedness having a total remaining principal amount of at least \$1 billion; (d) exempted securities as defined in Section 3(a)(12) of the Act; or (e) from issuers that are a government of a foreign country or a political subdivision of a foreign country; and

(e) Non-agency, non-GSE and privately-issued mortgage-related and other asset-backed securities components of a portfolio shall not account, in the aggregate, for more than 20% of the weight of the fixed income portion of the portfolio.

(iii) Cash and Cash Equivalents. The portfolio may hold cash and cash equivalents. Cash equivalents are short-term instruments with maturities of less than 3 months (as described herein).

(a) There shall be no limitation to the percentage of the portfolio invested in such holdings.

(b) Short-term instruments shall include the following:

(1) U.S. Government securities, including bills, notes, and bonds differing as to maturity and rates of interest, which are either issued or guaranteed by the U.S. Treasury or by U.S. Government agencies or instrumentalities;

(2) Certificates of deposit issued against funds deposited in a bank or savings and loan association;

(3) Bankers' acceptances, which are short-term credit instruments used to finance commercial transactions;

(4) Repurchase agreements and reverse repurchase agreements;

(5) Bank time deposits, which are monies kept on deposit with banks or savings and loan associations for a stated period of time at a fixed rate of interest;

(6) Commercial paper, which are short-term unsecured promissory notes; and

(7) Money market funds.

(iv) Listed Derivatives. The portfolio may hold listed derivatives, including futures, options, and swaps on commodities, currencies and financial instruments (e.g., stocks, fixed income, interest rates, and volatility) or a basket or index of any of the foregoing.

(a) There shall be no limitation to the percentage of the portfolio invested in such holdings; provided, however, that in the aggregate, at least 90% of the weight of such holdings invested in futures, exchange-traded options, and listed swaps shall, on both an initial and continuing basis, consist of futures, options, and swaps for which the Exchange may obtain information via the Intermarket Surveillance Group ("ISG") from other members or affiliates of the ISG or for which the principal market is a market with which the Exchange has a comprehensive surveillance sharing

agreement, calculated using the aggregate gross notional value of such holdings; and

(b) the aggregate gross notional value of listed derivatives based on any five or fewer underlying reference assets shall not exceed 65% of the weight of the portfolio (including gross notional exposures), and the aggregate gross notional value of listed derivatives based on any single underlying reference asset shall not exceed 30% of the weight of the portfolio (including gross notional exposures).

(v) Over-the-Counter (“OTC”) Derivatives. The portfolio may, on both an initial and continuing basis, hold OTC derivatives, including forwards, options, and swaps on commodities, currencies and financial instruments (e.g., stocks, fixed income, interest rates, and volatility) or a basket or index of any of the foregoing, however ~~no more than~~ the aggregate gross notional value of OTC Derivatives shall not exceed 20% of the ~~assets in weight of~~ the portfolio ~~may be invested in OTC derivatives (including gross notional exposures).~~

(vi) To the extent that listed or OTC derivatives are used to gain exposure to individual equities and/or fixed income securities, or to indexes of equities and/or indexes of fixed income securities, the aggregate gross notional value of such exposure shall meet the criteria set forth in Rule 14.11(i)(4)(C)(i) and (ii) (including gross notional exposures), respectively.

\* \* \* \* \*

## EXHIBIT 5

Note: Proposed new language is underlined. Proposed deletions are enclosed in [brackets].

\* \* \* \* \*

## Rule 14.11. Other Securities

\* \* \* \* \*

## (i) Managed Fund Shares

\* \* \* \* \*

(2) **Applicability.** This Rule is applicable only to Managed Fund Shares. Except to the extent inconsistent with this Rule, or unless the context otherwise requires, the rules and procedures of the Board of Directors shall be applicable to the trading on the Exchange of such securities. Managed Fund Shares are included within the definition of “security” or “securities” as such terms are used in the Rules of the Exchange.

(A) [The Exchange will file separate proposals under Section 19(b) of the Act before the listing of Managed Fund Shares.]

[(B)] Transactions in Managed Fund Shares will occur throughout the Exchange’s trading hours.

[(C)](B) **Minimum Price Variance.** The minimum price variation for quoting and entry of orders in Managed Fund Shares is \$0.01.

[(D)](C) **Surveillance Procedures.** The Exchange will implement written surveillance procedures for Managed Fund Shares.

[(E)](D) **Creation and Redemption.** For Managed Fund Shares based on an international or global portfolio, the statutory prospectus or the application for exemption from provisions of the Investment Company Act of 1940 for the series of Managed Fund Shares must state that such series must comply with the federal securities laws in accepting securities for deposits and satisfying redemptions with redemption securities, including that the securities accepted for deposits and the securities used to satisfy redemption requests are sold in transactions that would be exempt from registration under the Securities Act of 1933.

(3) **Definitions.** The following terms as used in the Rules shall, unless the context otherwise requires, have the meanings herein specified:

(A) (No changes.)

(B) Disclosed Portfolio. The term “Disclosed Portfolio” means the identities and quantities of the securities and other assets held by the Investment Company that will form the basis for the Investment Company’s calculation of net asset value at the end of the business day. The website for each series of Managed Fund Shares shall disclose the following information regarding the Disclosed Portfolio, to the extent applicable:

- (i) Ticker symbol;
- (ii) CUSIP or other identifier;
- (iii) Description of the holding;
- (iv) Identity of the security, commodity, index, or other asset upon which the derivative is based;
- (v) The strike price for any options;
- (vi) The quantity of each security or other asset held as measured by:
  - (a) Par value;
  - (b) Notional value;
  - (c) Number of shares;
  - (d) Number of contracts;
  - (e) Number of units;
- (vii) Maturity date;
- (viii) Coupon rate;
- (ix) Effective date;
- (x) Market value; and
- (xi) Percentage weighting of the holding in the portfolio.

(C)-(D)(No changes.)

(E) Normal Market Conditions. The term “Normal Market Conditions” includes, but is not limited to, the absence of trading halts in the applicable financial markets generally; operational issues causing dissemination of inaccurate market information or system failures; or force majeure type events

such as natural or man-made disaster, act of God, armed conflict, act of terrorism, riot or labor disruption, or any similar intervening circumstance.

(4) Initial and Continued Listing. Managed Fund Shares will be listed and traded on the Exchange subject to application of the following criteria:

(A) Initial Listing. Each series of Managed Fund Shares will be listed and traded on the Exchange subject to application of the following initial listing criteria:

(i)-(ii) (No changes.)

(iii) All Managed Fund Shares shall have a stated investment objective, which shall be adhered to under Normal Market Conditions.

(B) Continued Listing. Each series of Managed Fund Shares will be listed and traded on the Exchange subject to application of the following continued listing criteria:

(i) Intraday Indicative Value. The Intraday Indicative Value for Managed Fund Shares will be widely disseminated by one or more major market data vendors at least every 15 seconds during [the time when the Managed Fund Shares trade on the Exchange]Regular Trading Hours, as defined in Exchange Rule 1.5(w).

\* \* \* \* \*

(C) The Exchange may approve Managed Fund Shares for listing pursuant to Rule 19b-4(e) under the Act. Components of a series of Managed Fund Shares listed pursuant to Rule 19b-4(e) shall satisfy the initial and continued criteria set forth within this Rule 14.11(i). The Exchange will file separate proposals under Section 19(b) of the Act before the listing and trading of a series of Managed Fund Shares with components that do not satisfy the criteria set forth within this Rule 14.11(i) or components other than those specified below.

(i) Equity. For purposes of paragraph (C) of this Rule, equity securities include the following: U.S. Component Stocks (which are defined in Rule 14.11(c)(1)(D)), Non-U.S. Component Stocks (which are defined in Rule 14.11(c)(1)(E)), Derivative Securities Products (which are defined in Rule 14.11(c)(3)(A)(i)(a)), Linked Securities (securities listed on the Exchange under Rule 14.11(d)), and each of the equivalent security types listed on another national securities exchange. For Derivative Securities Products and Linked Securities, no more than 25% of the equity weight of the portfolio shall consist of leveraged and/or inverse leveraged Derivative Securities Products or Linked Securities. To the extent that a portfolio includes convertible securities, the equity security into which

such security is converted shall meet the criteria of this Rule 14.11(i)(4)(C)(i) after converting.

(a) U.S. Component Stocks. The component stocks of the equity portion of a portfolio that are U.S. Component Stocks shall meet the following criteria initially and on a continuing basis:

(1) Component stocks (excluding Derivative Securities Products and Linked Securities) that in the aggregate account for at least 90% of the equity weight of the portfolio (excluding such Derivative Securities Products and Linked Securities) each shall have a minimum market value of at least \$75 million;

(2) Component stocks (excluding Derivative Securities Products and Linked Securities) that in the aggregate account for at least 70% of the equity weight of the portfolio (excluding such Derivative Securities Products and Linked Securities) each shall have a minimum monthly trading volume of 250,000 shares, or minimum notional volume traded per month of \$25,000,000, averaged over the last six months;

(3) The most heavily weighted component stock (excluding Derivative Securities Products and Linked Securities) shall not exceed 30% of the equity weight of the portfolio, and, to the extent applicable, the five most heavily weighted component stocks (excluding Derivative Securities Products and Linked Securities) shall not exceed 65% of the equity weight of the portfolio;

(4) Where the equity portion of the portfolio does not include Non-U.S. Component Stocks, the equity portion of the portfolio shall include a minimum of 13 component stocks; provided, however, that there shall be no minimum number of component stocks if (a) one or more series of Derivative Securities Products or Linked Securities constitute, at least in part, components underlying a series of Managed Fund Shares, or (b) one or more series of Derivative Securities Products or Linked Securities account for 100% of the equity weight of the portfolio of a series of Managed Fund Shares;

(5) Except as provided herein, equity securities in the portfolio shall be U.S. Component Stocks listed on a national securities exchange and shall be NMS Stocks as defined in Rule 600 of Regulation NMS under the Act; and

(6) American Depositary Receipts (“ADRs”) may be exchange traded or non-exchange traded. However, no more than 10% of the equity weight of the portfolio shall consist of non-exchange traded ADRs.

(b) Non-U.S. Component Stocks. The component stocks of the equity portion of a portfolio that are Non-U.S. Component Stocks shall meet the following criteria initially and on a continuing basis:

(1) Non-U.S. Component Stocks each shall have a minimum market value of at least \$100 million;

(2) Non-U.S. Component Stocks each shall have a minimum global monthly trading volume of 250,000 shares, or minimum global notional volume traded per month of \$25,000,000, averaged over the last six months;

(3) The most heavily weighted Non-U.S. Component stock shall not exceed 25% of the equity weight of the portfolio, and, to the extent applicable, the five most heavily weighted Non-U.S. Component Stocks shall not exceed 60% of the equity weight of the portfolio;

(4) Where the equity portion of the portfolio includes Non-U.S. Component Stocks, the equity portion of the portfolio shall include a minimum of 20 total component stocks; provided, however, that there shall be no minimum number of component stocks if (a) one or more series of Derivative Securities Products or Linked Securities constitute, at least in part, components underlying a series of Managed Fund Shares, or (b) one or more series of Derivative Securities Products or Linked Securities account for 100% of the equity weight of the portfolio of a series of Managed Fund Shares; and

(5) Each Non-U.S. Component Stock shall be listed and traded on an exchange that has last-sale reporting.

(ii) Fixed Income. Fixed income securities are debt securities that are notes, bonds, debentures, or evidence of indebtedness that include, but are not limited to, U.S. Department of Treasury securities (“Treasury Securities”), government-sponsored entity securities (“GSE Securities”), municipal securities, trust preferred securities, supranational debt and debt of a foreign country or a subdivision thereof, investment grade and high yield corporate debt, bank loans, mortgage and asset backed securities,



and commercial paper. To the extent that a portfolio includes convertible securities, the fixed income security into which such security is converted shall meet the criteria of this Rule 14.11(i)(4)(C)(ii) after converting. The components of the fixed income portion of a portfolio shall meet the following criteria initially and on a continuing basis:

(a) Components that in the aggregate account for at least 75% of the fixed income weight of the portfolio must each have a minimum original principal amount outstanding of \$100 million or more;

(b) No component fixed-income security (excluding Treasury Securities and GSE Securities) shall represent more than 30% of the fixed income weight of the portfolio, and the five most heavily weighted component fixed income securities in the portfolio (excluding Treasury Securities and GSE Securities) shall not in the aggregate account for more than 65% of the fixed income weight of the portfolio;

(c) An underlying portfolio (excluding exempted securities) that includes fixed income securities shall include a minimum of 13 non-affiliated issuers, provided, however, that there shall be no minimum number of non-affiliated issuers required for fixed income securities if at least 70% of the weight of the portfolio consists of equity securities as described in Rule 14.11(i)(4)(C)(i) above;

(d) Component securities that in aggregate account for at least 90% of the fixed income weight of the portfolio must be either: (a) from issuers that are required to file reports pursuant to Sections 13 and 15(d) of the Act; (b) from issuers that have a worldwide market value of its outstanding common equity held by non-affiliates of \$700 million or more; (c) from issuers that have outstanding securities that are notes, bonds, debentures, or evidence of indebtedness having a total remaining principal amount of at least \$1 billion; (d) exempted securities as defined in Section 3(a)(12) of the Act; or (e) from issuers that are a government of a foreign country or a political subdivision of a foreign country; and

(e) Non-agency, non-GSE and privately-issued mortgage-related and other asset-backed securities components of a portfolio shall not account, in the aggregate, for more than 20% of the weight of the fixed income portion of the portfolio.

(iii) Cash and Cash Equivalents. The portfolio may hold cash and cash equivalents. Cash equivalents are short-term instruments with maturities of less than 3 months (as described herein).

(a) There shall be no limitation to the percentage of the portfolio invested in such holdings.

(b) Short-term instruments shall include the following:

(1) U.S. Government securities, including bills, notes, and bonds differing as to maturity and rates of interest, which are either issued or guaranteed by the U.S. Treasury or by U.S. Government agencies or instrumentalities;

(2) Certificates of deposit issued against funds deposited in a bank or savings and loan association;

(3) Bankers' acceptances, which are short-term credit instruments used to finance commercial transactions;

(4) Repurchase agreements and reverse repurchase agreements;

(5) Bank time deposits, which are monies kept on deposit with banks or savings and loan associations for a stated period of time at a fixed rate of interest;

(6) Commercial paper, which are short-term unsecured promissory notes; and

(7) Money market funds.

(iv) Listed Derivatives. The portfolio may hold listed derivatives, including futures, options, and swaps on commodities, currencies and financial instruments (e.g., stocks, fixed income, interest rates, and volatility) or a basket or index of any of the foregoing.

(a) There shall be no limitation to the percentage of the portfolio invested in such holdings; provided, however, that in the aggregate, at least 90% of the weight of such holdings invested in futures, exchange-traded options, and listed swaps shall, on both an initial and continuing basis, consist of futures, options, and swaps for which the Exchange may obtain information via the Intermarket Surveillance Group ("ISG") from other members or affiliates of the ISG or for which the principal market is a market with which the Exchange has a comprehensive surveillance sharing

agreement, calculated using the aggregate gross notional value of such holdings; and

(b) the aggregate gross notional value of listed derivatives based on any five or fewer underlying reference assets shall not exceed 65% of the weight of the portfolio (including gross notional exposures), and the aggregate gross notional value of listed derivatives based on any single underlying reference asset shall not exceed 30% of the weight of the portfolio (including gross notional exposures).

(v) Over-the-Counter (“OTC”) Derivatives. The portfolio may, on both an initial and continuing basis, hold OTC derivatives, including forwards, options, and swaps on commodities, currencies and financial instruments (e.g., stocks, fixed income, interest rates, and volatility) or a basket or index of any of the foregoing, however the aggregate gross notional value of OTC Derivatives shall not exceed 20% of the weight of the portfolio (including gross notional exposures).

(vi) To the extent that listed or OTC derivatives are used to gain exposure to individual equities and/or fixed income securities, or to indexes of equities and/or indexes of fixed income securities, the aggregate gross notional value of such exposure shall meet the criteria set forth in Rule 14.11(i)(4)(C)(i) and (ii) (including gross notional exposures), respectively.

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