

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="25"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2017"/> - * <input type="text" value="26"/>	Amendment No. (req. for Amendments *) <input type="text"/>
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Filing by **Bats BZX Exchange, Inc.**  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input 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"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<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	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

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 \*).

The Exchange proposes a change to Rule 14.11, Other Securities, to provide for the inclusion of cash in an index underlying a series of Index Fund Shares.

**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 * <input type="text" value="Kyle"/>	Last Name * <input type="text" value="Murray"/>
Title * <input type="text" value="Assistant General Counsel"/>	
E-mail * <input type="text" value="kmurray@bats.com"/>	
Telephone * <input type="text" value="(913) 815-7121"/>	Fax <input type="text"/>

**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 <input type="text" value="05/03/2017"/>	<input type="text" value="SVP, Associate General Counsel"/>
By <input type="text" value="Anders Franzon"/>	<input type="text" value=""/>
(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.

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”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to amend BZX Rule 14.11, Other Securities, to provide for the inclusion of cash in an index underlying a series of Index 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:

Joanne Moffic-Silver  
Executive Vice President, General  
Counsel, and Corporate Secretary  
(312) 786-7462

Kyle Murray  
Assistant General Counsel  
(913) 815-7121

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

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

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

(a) Purpose

The Exchange proposes to amend BZX Rule 14.11(c), Index Fund Shares, to provide for the inclusion of cash in an index underlying a series of Index Fund Shares (“Shares”).<sup>3</sup> More specifically, BZX Rules 14.11(c)(3) and 14.11(c)(4) provide “generic” criteria permitting listing and trading of Shares pursuant to Rule 19b-4(e) under the Act<sup>4</sup> when the underlying index or portfolio satisfies the criteria set forth in BZX Rules 14.11(c)(3) related to equity securities or 14.11(c)(4) related to fixed income securities.

The Exchange understands that certain index providers have included, or intend to include, cash as a component in indexes that also include equity or fixed income securities components. An index provider may, for example, provide a certain index weighting allocation to cash or may periodically change an allocation to cash based on the index provider’s assessment of market risk associated with other asset classes in the applicable index. Accordingly, the Exchange proposes to amend BZX Rules 14.11(c)(3) and 14.11(c)(4) to explicitly permit listing and trading of Shares based on an index or portfolio that includes cash as a component.

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<sup>3</sup> Index Fund Shares are securities issued by an open-end management investment company based on a portfolio of stocks or fixed income securities or a combination thereof, that seeks to provide investment results that correspond generally to the price and yield performance or total return performance of a specified foreign or domestic stock index, fixed income securities index or combination thereof.

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

BZX Rule 14.11(c)(3)(A)(i) currently provides that the component stocks of an index or portfolio of U.S. Component Stocks<sup>5</sup> underlying a series of Shares must meet certain requirements related to the market cap, trading volume, weighting, diversity, and security requirements. BZX Rule 14.11(c)(3)(A)(ii) currently provides that the components of an index or portfolio underlying a series of Shares that consist of either only Non-U.S. Component Stocks<sup>6</sup> or both U.S. Component Stocks and Non-U.S. Component Stocks must meet certain similar requirements related to the market cap, trading volume, weighting, diversity, and security requirements that are either equally or more restrictive than for an index or portfolio of U.S. Component Stocks. Finally, BZX Rule 14.11(c)(4)(B)(i) provides that each component of an index or portfolio that underlies a series of Shares shall meet the following criteria: the index or portfolio must consist of Fixed Income Securities<sup>7</sup> as well as certain requirements related to original principal outstanding, convertible securities, weighting, diversity, and certain issuer requirements. As described below, the proposed amendments to BZX Rule 14.11(c)(3)

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<sup>5</sup> Pursuant to BZX Rule 14.11(c)(1)(D), the term "U.S. Component Stock" shall mean an equity security that is registered under Sections 12(b) or 12(g) of the Act, or an American Depositary Receipt, the underlying equity security of which is registered under Sections 12(b) or 12(g) of the Act.

<sup>6</sup> Pursuant to BZX Rule 14.11(c)(1)(E), the term "Non-U.S. Component Stock" shall mean an equity security that (a) is not registered under Sections 12(b) or 12(g) of the Act, (b) is issued by an entity that is not organized, domiciled or incorporated in the United States, and (c) is issued by an entity that is an operating company (including Real Estate Investment Trusts (REITs) and income trust, but excluding investment trusts, unit trusts, mutual funds, and derivatives).

<sup>7</sup> Pursuant to BZX Rule 14.11(c)(4), 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.

and 14.11(c)(4) would make clear that cash is permitted to be held as an index or portfolio component and how such cash component should be treated for calculation purposes.

The Exchange proposes to amend BZX Rule 14.11(c)(3)(A)(i) to make clear that the components of an index or portfolio underlying a series of Shares may also include cash. In addition, the percentage weighting criteria in BZX Rule 14.11(c)(3)(A)(i)(a) through (d) each would be amended to make clear that such criteria would be applied only to the U.S. Component Stocks portion of an index or portfolio. For example, in applying the criteria in proposed BZX Rule 14.11(c)(3)(A)(i)(a),<sup>8</sup> if 85% of the weight of an index consists of U.S. Component Stocks and 15% of the index weight is cash, the requirement that component stocks accounting for 90% of the weight of the index or portfolio have a minimum market value of \$75 million minimum would be applied only to the 85% portion consisting of U.S. Component Stocks.

The Exchange proposes to amend BZX Rule 14.11(c)(3)(A)(ii), which relates to international or global indexes or portfolios, in order to make clear that components of an index or portfolio underlying a series of Shares may consist of (a) only Non-U.S. Component Stocks, (b) Non-U.S. Component Stocks and cash, (c) both U.S. Component Stocks and Non-U.S. Component Stocks, or (d) U.S. Component Stocks, Non-U.S. Component Stocks and cash. In addition, the percentage weighting criteria in BZX Rule 14.11(c)(3)(A)(ii)(a) through (d) each would be amended to make clear that such criteria

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<sup>8</sup> Proposed changes to BZX Rule 14.11(c)(3)(A)(i)(a) would provide that component stocks (excluding Derivative Securities Products) that in the aggregate account for at least 90% of the weight of the U.S. Component Stocks portion of the index or portfolio (excluding such Derivative Securities Products) each shall have a minimum market value of at least \$75 million.

would be applied only to the combined US and Non-U.S. Component Stocks portions of an index or portfolio.

As noted above, BZX Rule 14.11(c)(4) provides generic criteria applicable to listing and trading of Shares whose underlying index or portfolio includes Fixed Income Securities. The Exchange proposes to amend BZX Rule 14.11(c)(4)(B)(i)(a) to make clear that the index or portfolio may also include cash. In addition, the percentage weighting criteria in BZX Rule 14.11(c)(4)(B)(i)(b), BZX Rule 14.11(c)(4)(B)(i)(d), and BZX Rule 14.11(c)(4)(B)(i)(f) each would be amended to make clear that such criteria would be applied only to the Fixed Income Securities portion of an index or portfolio. For example, in applying the criteria in proposed Rule 14.11(i)(4)(B)(i)(b),<sup>9</sup> if 90% of the weight of an index or portfolio consists of Fixed Income Securities and 10% of the index weight is cash, the requirement that Fixed Income Securities accounting for at least 75% of the weight of the index or portfolio have a minimum original principal amount outstanding of \$100 million would be applied only to the 90% portion of the index or portfolio that consists of Fixed Income Securities.

The Exchange notes that the Commission has previously approved Exchange rules allowing portfolios held by issues of Managed Fund Shares (actively-managed exchange-traded funds) under BZX Rule 14.11(i)(4)(C) to include cash.<sup>10</sup> Like the provision in BZX Rule 14.11(i)(4)(C)(iii), which states that there is no limit to cash

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<sup>9</sup> Proposed 14.11(c)(4)(B)(i)(b) would provide that Fixed Income Security components that in aggregate account for at least 75% of the Fixed Income Securities portion of the weight of the index or portfolio each shall have a minimum original principal amount outstanding of \$100 million or more.

<sup>10</sup> See BZX Rule 14.11(i)(4)(C)(iii).

holdings by an issue of Managed Fund Shares listed under BZX Rule 14.11(i)(4)(C), there is no proposed limit to the weighting of cash in an index underlying a series of Shares. The Exchange believes this is appropriate in that cash does not, in itself, impose investment or market risk.

The Exchange believes the proposed amendments, by permitting inclusion of cash as a component of indexes underlying series of Shares, would provide issuers of Shares with additional choice in indexes permitted to underlie Shares that are permitted to list and trade on the Exchange pursuant to the Rule 19b-4(e), which would enhance competition among market participants, to the benefit of investors and the marketplace. In addition, the proposed amendments would provide investors with greater ability to hold Shares based on underlying indexes that may accord more closely with an investor's assessment of market risk, in that some investors may view cash as a desirable component of an underlying index under certain market conditions.

b. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,<sup>11</sup> in general, and furthers the objectives of Sections 6(b)(5) of the Act,<sup>12</sup> in particular, because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove

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<sup>11</sup> 15 U.S.C. 78f(b).

<sup>12</sup> 15 U.S.C. 78f(b)(5).



impediments to, and perfect the mechanisms of, a free and open market and a national market system and, in general, to protect investors and the public interest and because it is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange has in place surveillance procedures that are adequate to properly monitor trading in Shares in all trading sessions and to deter and detect violations of Exchange rules and applicable federal securities laws.

The Exchange notes that, as described above, the percentage weighting criteria in BZX Rule 14.11(c)(3)(A)(i)(a) through (d) (U.S. index or portfolio) each would be amended to make clear that such criteria would apply only to the U.S. Component Stocks portion of an index or portfolio; BZX Rule 14.11(c)(3)(A)(ii)(a) through (d) (international or global index or portfolio) each would be amended to make clear that such criteria would be applied only to the combined U.S. and Non-U.S. Component Stocks portions of an index or portfolio; and the percentage weighting criteria in BZX Rule 14.11(c)(4)(B)(i)(b), (d), and (f) (fixed income index or portfolio) each would be amended to make clear that such criteria would be applied only to the Fixed Income Securities portion of an index or portfolio. Such applications of the proposed amendments would assure that the weighting requirements in Rules 14.11(c)(3) and 14.11(c)(4) would continue to be applied only to securities in an index or portfolio, and would not be diluted as a result of inclusion of a cash component. In addition, the addition of cash as a permitted component of indexes underlying Shares listed and traded on the Exchange pursuant to Rule 19b-4(e) does not raise regulatory issues because cash does not, in itself, impose investment or market risk and is not susceptible to

manipulation.

The Exchange believes the proposed amendments, by explicitly permitting inclusion of cash as a component of indexes underlying series of Shares, would provide issuers of Shares with additional choice in indexes permitted to underlie Shares that are permitted to list and trade on the Exchange pursuant to the Rule 19b-4(e), which would enhance competition among market participants, to the benefit of investors and the marketplace. In addition, the proposed amendments would provide investors with greater ability to hold Shares based on underlying indexes that may accord more closely with an investor's assessment of market risk.

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

In accordance with Section 6(b)(8) of the Act,<sup>13</sup> the Exchange believes that the proposed rule change would not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change would explicitly permit Exchange listing and trading under Rule 19b-4(e) of Shares based on indexes that include cash as a component, which would enhance competition among market participants, to the benefit of investors and the marketplace.

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.

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<sup>13</sup> 15 U.S.C. 78f(b)(8).

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 – 4: Not applicable.

Exhibit 5: Text of the Proposed Rule Change.

EXHIBIT 1

## SECURITIES AND EXCHANGE COMMISSION

(Release No. 34-\_\_\_\_\_; File No. SR-BatsBZX-2017-26)

Self-Regulatory Organizations; Bats BZX Exchange, Inc.; Notice of Filing of a Proposed Rule Change to BZX Rule 14.11, Other Securities, to Provide for the Inclusion of Cash in an Index Underlying a Series of Index Fund Shares

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”) 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 filed a proposal to amend BZX Rule 14.11, Other Securities, to provide for the inclusion of cash in an index underlying a series of Index Fund Shares.

The text of the proposed rule change is available at the Exchange’s website at [www.bats.com](http://www.bats.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

The Exchange proposes to amend BZX Rule 14.11(c), Index Fund Shares, to provide for the inclusion of cash in an index underlying a series of Index Fund Shares (“Shares”).<sup>3</sup> More specifically, BZX Rules 14.11(c)(3) and 14.11(c)(4) provide “generic” criteria permitting listing and trading of Shares pursuant to Rule 19b-4(e) under the Act<sup>4</sup> when the underlying index or portfolio satisfies the criteria set forth in BZX Rules 14.11(c)(3) related to equity securities or 14.11(c)(4) related to fixed income securities.

The Exchange understands that certain index providers have included, or intend to include, cash as a component in indexes that also include equity or fixed income securities components. An index provider may, for example, provide a certain index weighting allocation to cash or may periodically change an allocation to cash based on the index provider's assessment of market risk associated with other asset classes in the applicable index. Accordingly, the Exchange proposes to amend BZX Rules 14.11(c)(3)

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<sup>3</sup> Index Fund Shares are securities issued by an open-end management investment company based on a portfolio of stocks or fixed income securities or a combination thereof, that seeks to provide investment results that correspond generally to the price and yield performance or total return performance of a specified foreign or domestic stock index, fixed income securities index or combination thereof.

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

and 14.11(c)(4) to explicitly permit listing and trading of Shares based on an index or portfolio that includes cash as a component.

BZX Rule 14.11(c)(3)(A)(i) currently provides that the component stocks of an index or portfolio of U.S. Component Stocks<sup>5</sup> underlying a series of Shares must meet certain requirements related to the market cap, trading volume, weighting, diversity, and security requirements. BZX Rule 14.11(c)(3)(A)(ii) currently provides that the components of an index or portfolio underlying a series of Shares that consist of either only Non-U.S. Component Stocks<sup>6</sup> or both U.S. Component Stocks and Non-U.S. Component Stocks must meet certain similar requirements related to the market cap, trading volume, weighting, diversity, and security requirements that are either equally or more restrictive than for an index or portfolio of U.S. Component Stocks. Finally, BZX Rule 14.11(c)(4)(B)(i) provides that each component of an index or portfolio that underlies a series of Shares shall meet the following criteria: the index or portfolio must consist of Fixed Income Securities<sup>7</sup> as well as certain requirements related to original

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<sup>5</sup> Pursuant to BZX Rule 14.11(c)(1)(D), the term "U.S. Component Stock" shall mean an equity security that is registered under Sections 12(b) or 12(g) of the Act, or an American Depositary Receipt, the underlying equity security of which is registered under Sections 12(b) or 12(g) of the Act.

<sup>6</sup> Pursuant to BZX Rule 14.11(c)(1)(E), the term "Non-U.S. Component Stock" shall mean an equity security that (a) is not registered under Sections 12(b) or 12(g) of the Act, (b) is issued by an entity that is not organized, domiciled or incorporated in the United States, and (c) is issued by an entity that is an operating company (including Real Estate Investment Trusts (REITs) and income trust, but excluding investment trusts, unit trusts, mutual funds, and derivatives).

<sup>7</sup> Pursuant to BZX Rule 14.11(c)(4), 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,

principal outstanding, convertible securities, weighting, diversity, and certain issuer requirements. As described below, the proposed amendments to BZX Rule 14.11(c)(3) and 14.11(c)(4) would make clear that cash is permitted to be held as an index or portfolio component and how such cash component should be treated for calculation purposes.

The Exchange proposes to amend BZX Rule 14.11(c)(3)(A)(i) to make clear that the components of an index or portfolio underlying a series of Shares may also include cash. In addition, the percentage weighting criteria in BZX Rule 14.11(c)(3)(A)(i)(a) through (d) each would be amended to make clear that such criteria would be applied only to the U.S. Component Stocks portion of an index or portfolio. For example, in applying the criteria in proposed BZX Rule 14.11(c)(3)(A)(i)(a),<sup>8</sup> if 85% of the weight of an index consists of U.S. Component Stocks and 15% of the index weight is cash, the requirement that component stocks accounting for 90% of the weight of the index or portfolio have a minimum market value of \$75 million minimum would be applied only to the 85% portion consisting of U.S. Component Stocks.

The Exchange proposes to amend BZX Rule 14.11(c)(3)(A)(ii), which relates to international or global indexes or portfolios, in order to make clear that components of an index or portfolio underlying a series of Shares may consist of (a) only Non-U.S.

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trust preferred securities, supranational debt and debt of a foreign country or a subdivision thereof.

<sup>8</sup> Proposed changes to BZX Rule 14.11(c)(3)(A)(i)(a) would provide that component stocks (excluding Derivative Securities Products) that in the aggregate account for at least 90% of the weight of the U.S. Component Stocks portion of the index or portfolio (excluding such Derivative Securities Products) each shall have a minimum market value of at least \$75 million.

Component Stocks, (b) Non-U.S. Component Stocks and cash, (c) both U.S. Component Stocks and Non-U.S. Component Stocks, or (d) U.S. Component Stocks, Non-U.S. Component Stocks and cash. In addition, the percentage weighting criteria in BZX Rule 14.11(c)(3)(A)(ii)(a) thought (d) each would be amended to make clear that such criteria would be applied only to the combined US and Non-U.S. Component Stocks portions of an index or portfolio.

As noted above, BZX Rule 14.11(c)(4) provides generic criteria applicable to listing and trading of Shares whose underlying index or portfolio includes Fixed Income Securities. The Exchange proposes to amend BZX Rule 14.11(c)(4)(B)(i)(a) to make clear that the index or portfolio may also include cash. In addition, the percentage weighting criteria in BZX Rule 14.11(c)(4)(B)(i)(b), BZX Rule 14.11(c)(4)(B)(i)(d), and BZX Rule 14.11(c)(4)(B)(i)(f) each would be amended to make clear that such criteria would be applied only to the Fixed Income Securities portion of an index or portfolio. For example, in applying the criteria in proposed Rule 14.11(i)(4)(B)(i)(b),<sup>9</sup> if 90% of the weight of an index or portfolio consists of Fixed Income Securities and 10% of the index weight is cash, the requirement that Fixed Income Securities accounting for at least 75% of the weight of the index or portfolio have a minimum original principal amount outstanding of \$100 million would be applied only to the 90% portion of the index or portfolio that consists of Fixed Income Securities.

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<sup>9</sup> Proposed 14.11(c)(4)(B)(i)(b) would provide that Fixed Income Security components that in aggregate account for at least 75% of the Fixed Income Securities portion of the weight of the index or portfolio each shall have a minimum original principal amount outstanding of \$100 million or more.



The Exchange notes that the Commission has previously approved Exchange rules allowing portfolios held by issues of Managed Fund Shares (actively-managed exchange-traded funds) under BZX Rule 14.11(i)(4)(C) to include cash.<sup>10</sup> Like the provision in BZX Rule 14.11(i)(4)(C)(iii), which states that there is no limit to cash holdings by an issue of Managed Fund Shares listed under BZX Rule 14.11(i)(4)(C), there is no proposed limit to the weighting of cash in an index underlying a series of Shares. The Exchange believes this is appropriate in that cash does not, in itself, impose investment or market risk.

The Exchange believes the proposed amendments, by permitting inclusion of cash as a component of indexes underlying series of Shares, would provide issuers of Shares with additional choice in indexes permitted to underlie Shares that are permitted to list and trade on the Exchange pursuant to the Rule 19b-4(e), which would enhance competition among market participants, to the benefit of investors and the marketplace. In addition, the proposed amendments would provide investors with greater ability to hold Shares based on underlying indexes that may accord more closely with an investor's assessment of market risk, in that some investors may view cash as a desirable component of an underlying index under certain market conditions.

## 2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,<sup>11</sup> in general, and furthers the objectives of Sections 6(b)(5) of the Act,<sup>12</sup>

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<sup>10</sup> See BZX Rule 14.11(i)(4)(C)(iii).

<sup>11</sup> 15 U.S.C. 78f(b).

<sup>12</sup> 15 U.S.C. 78f(b)(5).

in particular, because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to, and perfect the mechanisms of, a free and open market and a national market system and, in general, to protect investors and the public interest and because it is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

The Exchange has in place surveillance procedures that are adequate to properly monitor trading in Shares in all trading sessions and to deter and detect violations of Exchange rules and applicable federal securities laws.

The Exchange notes that, as described above, the percentage weighting criteria in BZX Rule 14.11(c)(3)(A)(i)(a) through (d) (U.S. index or portfolio) each would be amended to make clear that such criteria would apply only to the U.S. Component Stocks portion of an index or portfolio; BZX Rule 14.11(c)(3)(A)(ii)(a) through (d) (international or global index or portfolio) each would be amended to make clear that such criteria would be applied only to the combined U.S. and Non-U.S. Component Stocks portions of an index or portfolio; and the percentage weighting criteria in BZX Rule 14.11(c)(4)(B)(i)(b), (d), and (f) (fixed income index or portfolio) each would be amended to make clear that such criteria would be applied only to the Fixed Income Securities portion of an index or portfolio. Such applications of the proposed amendments would assure that the weighting requirements in Rules 14.11(c)(3) and

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14.11(c)(4) would continue to be applied only to securities in an index or portfolio, and would not be diluted as a result of inclusion of a cash component. In addition, the addition of cash as a permitted component of indexes underlying Shares listed and traded on the Exchange pursuant to Rule 19b-4(e) does not raise regulatory issues because cash does not, in itself, impose investment or market risk and is not susceptible to manipulation.

The Exchange believes the proposed amendments, by explicitly permitting inclusion of cash as a component of indexes underlying series of Shares, would provide issuers of Shares with additional choice in indexes permitted to underlie Shares that are permitted to list and trade on the Exchange pursuant to the Rule 19b-4(e), which would enhance competition among market participants, to the benefit of investors and the marketplace. In addition, the proposed amendments would provide investors with greater ability to hold Shares based on underlying indexes that may accord more closely with an investor's assessment of market risk.

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

In accordance with Section 6(b)(8) of the Act,<sup>13</sup> the Exchange believes that the proposed rule change would not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change would explicitly permit Exchange listing and trading under Rule 19b-4(e) of Shares based on indexes that include cash as a component, which would enhance competition among market participants, to the benefit of investors and the marketplace.

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<sup>13</sup> 15 U.S.C. 78f(b)(8).

(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-BatsBZX-2017-26 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-BatsBZX-2017-26. 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-BatsBZX-2017-26 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>14</sup>

Robert W. Errett  
Deputy Secretary

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<sup>14</sup> 17 CFR 200.30-3(a)(12).

EXHIBIT 5

Proposed new language is underlined; proposed deletions are in [brackets].

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## Rule 14.11. Other Securities

(a)-(b) (No changes.)

(c) Index Fund Shares

(1)-(2) (No changes.)

(3) Equity. The Exchange may approve a series of Index Fund Shares for listing and trading pursuant to Rule 19b-4(e) under the Act provided each of the following criteria is satisfied:

(A) Eligibility Criteria for Index Components.

(i) U.S. Index or Portfolio. Upon the initial listing of a series of Index Fund Shares pursuant to 19b-4(e) under the Act, the component stocks of an index or portfolio of (a) only U.S. Component Stocks or (b) US Component Stocks and cash underlying a series of Index Fund Shares shall meet the following criteria:

(a) Component stocks (excluding Index Fund Shares, Portfolio Depositary Receipts, Trust Issued Receipts, and Managed Fund Shares collectively, “Derivative Securities Products”) that in the aggregate account for at least 90% of the weight of the U.S. Component Stocks portion of the index or portfolio (excluding such Derivative Securities Products) each shall have a minimum market value of at least \$75 million

(b) Component stocks (excluding Derivative Securities Products) that in the aggregate account for at least 70% of the weight of the U.S. Component Stocks portion of the index or portfolio (excluding such Derivative Securities Products) 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;

(c) The most heavily weighted component stock (excluding Derivative Securities Products) shall not exceed 30% of the U.S. Component Stocks portion of the weight of the index or portfolio, and, to the extent applicable, the five most heavily

weighted component stocks (excluding Derivative Securities Products) shall not exceed 65% of the weight of the U.S. Component Stocks portion of the index or portfolio;

(d) The index or portfolio shall include a minimum of 13 component stocks; provided, however, that there shall be no minimum number of component stocks if (1) one or more series of Index Fund Shares or Portfolio Depositary Receipts constitute, at least in part, components underlying a series of Index Fund Shares, or (2) one or more series of Derivative Securities Products account for 100% of the U.S. Component Stocks portion of the weight of the index or portfolio; and

(e) (No changes.)

(ii) International or global index or portfolio. Upon the initial listing of a series of Index Fund Shares pursuant to Rule 19b-4(e) under the Act, the components of an index or portfolio underlying a series of Index Fund Shares that consist of [either](a) only Non-U.S. Component Stocks, (b) Non-U.S. Component Stocks and cash, (c) [or both ]U.S. Component Stocks and Non-U.S. Component Stocks, or (d) U.S. Component Stocks, Non-U.S. Component Stocks, and cash shall meet the following criteria:

(a) Component stocks (excluding Derivative Securities Products) that in the aggregate account for at least 90% of the weight of the combined U.S. and Non-U.S. Component Stocks portions of the index or portfolio (excluding such Derivative Securities Products) [each] shall have a minimum market value of at least \$100 million;

(b) Component stocks (excluding Derivative Securities Products) that in the aggregate account for at least 70% of the combined U.S. and Non-U.S. Component Stocks portions of the weight of the index or portfolio (excluding such Derivative Securities Products) [each] shall have a minimum worldwide monthly trading volume of at least 250,000 shares, or minimum worldwide notional volume traded per month of \$25,000,000, averaged over the last six months;

(c) The most heavily weighted component stock (excluding Derivative Securities Products) shall not exceed 25% of the combined U.S. and Non-U.S. Component Stocks portions of the weight of the index or portfolio, and, to the extent applicable, the five most heavily weighted component stocks (excluding Derivative Securities Products) shall not exceed 60% of the

combined U.S. and Non-U.S. Component Stocks portions of the weight of the index or portfolio;

(d) The index or portfolio shall include a minimum of 20 component stocks; provided, however, that there shall be no minimum number of component stocks if (i) one or more series of Index Fund Shares or Portfolio Depositary Receipts constitute, at least in part, components underlying a series of Index Fund Shares, or (ii) one or more series of Derivative Securities Products account for 100% of the combined U.S. and Non-U.S. Component Stocks portions of the weight of the index or portfolio; and

(e) (No changes.)

(iii) (No changes.)

(B)-(F) (No changes.)

(4) 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 subdivision thereof. The Exchange may approve a series of Index Fund Shares based on Fixed Income Securities for listing and trading pursuant to Rule 19b-4(e) under the Act provided such portfolio or index:

(A) (No changes.)

(B) the following criteria are satisfied:

(i) Eligibility Criteria for Index Components. Upon the initial listing of Index Fund Shares pursuant to Rule 19b-4(e) under the Act, each component of an index or portfolio that underlies a series of Index Fund Shares shall meet the following criteria:

(a) The index or portfolio must consist of (a) only Fixed Income Securities; or (b) Fixed Income Securities and cash;

(b) Fixed Income Security [C] components that in aggregate account for at least 75% of the Fixed Income Securities portion of the weight of the index or portfolio must have a minimum original principal amount outstanding of \$100 million or more;

(c) (No changes.)

(d) No component fixed-income security (excluding Treasury Securities) will represent more than 30% of the Fixed



Income Securities portion of the weight of the index or portfolio, and the five highest weighted component fixed-income securities do not in the aggregate account for more than 65% of the Fixed Income Securities portion of the weight of the index or portfolio;

(e) (No changes.)

(f) Component securities that in aggregate account for at least 90% of the Fixed Income Securities portion of the weight of the index or portfolio must be either: (1) from issuers that are required to file reports pursuant to Sections 13 and 15(d) of the Act; (2) from issuers that have a worldwide market value of its outstanding common equity held by non-affiliates of \$700 million or more; (3) 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; (4) exempted securities as defined in section 3(a)(12) of the Act; or (5) from issuers that are a government of a foreign country or a political subdivision of a foreign country.

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