

## OMB APPROVAL

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Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 40	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2020 - * 018 Amendment No. (req. for Amendments *)
Filing by Cboe 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 type="checkbox"/> Section 19(b)(3)(A) * <input checked="" type="checkbox"/> Section 19(b)(3)(B) * <input type="checkbox"/>	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 checked="" type="checkbox"/> 19b-4(f)(6)
Pilot <input type="checkbox"/> Extension of Time Period for Commission Action * <input type="checkbox"/> Date Expires *		
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"/>
Exhibit 2 Sent As Paper Document <input type="checkbox"/> Exhibit 3 Sent As Paper Document <input type="checkbox"/>		
<b>Description</b> Provide a brief description of the action (limit 250 characters, required when Initial is checked *). <div border="1" style="padding: 5px; margin-top: 10px;">           The Exchange proposes to allow the Franklin Liberty International Aggregate Bond Fund (the "Fund") of the Franklin Templeton ETF Trust (the "Trust") to hold certain instruments in a manner that may not comply with Rule 14.11(i) ("Managed Fund Shares").         </div>		
<b>Contact Information</b> 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. <div 10px;"="" margin-top:="" style="">           First Name * Sarah Last Name * Tadtman            Title * Counsel            E-mail * stadtman@cboe.com            Telephone * (913) 815-7203 Fax          </div>		
<b>Signature</b> 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. <div 10px;"="" margin-top:="" right;="" style="" text-align:="">         (Title *)          Vice President, Associate General Counsel       </div> <div 10px;"="" display:="" flex;="" justify-content:="" margin-top:="" space-between;="" style=""> <div>           Date 02/13/2020            By Kyle Murray            (Name *)         </div> <div border="1" style="padding: 5px; width: 300px;">           Vice President, Associate General Counsel         </div> </div> <div 10px;"="" margin-top:="" style="">         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.         <div 1px="" 5px;="" 5px;"="" black;="" border:="" display:="" inline-block;="" margin-top:="" padding:="" solid="" style="">kmurray@cboe.com</div> </div>		

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFT 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

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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

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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

(a) 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> Cboe BZX Exchange, Inc. (the “Exchange” or “BZX”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to allow the Franklin Liberty International Aggregate Bond Fund (the “Fund”) of the Franklin Templeton ETF Trust (the “Trust”) to hold certain instruments in a manner that may not comply with Rule 14.11(i) (“Managed Fund Shares”).

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

(a) The Exchange’s President (or designee) pursuant to delegated authority approved the proposed rule change on January 13, 2020.

(b) Please refer questions and comments on the proposed rule change to Patrick Sexton, Executive Vice President, General Counsel and Corporate Secretary, (312) 786-7462, or Sarah Tadtman, Counsel, (913) 815-7203.

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

(a) Purpose

The shares of the Fund (the “Shares”) are currently listed and traded on the Exchange pursuant to the generic listing standards applicable to Managed Fund Shares under Rule 14.11(i) (the “Generic Listing Standards”) and began trading on June 1, 2018.

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

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

While the Fund currently meets all of the Generic Listing Standards, Franklin Templeton Investment Management Limited, the Fund's investment adviser (the "Adviser"), and Franklin Advisers, Inc., the Fund's sub-adviser (the "Sub-Adviser" and collectively with the Adviser, the "Advisers") would like to increase the flexibility of the Fund's holdings in a way that might not meet such requirements. As such, the Exchange submits this proposal in order to allow the Shares to continue listing and trading on the Exchange while holding over-the-counter ("OTC") Currency Derivatives, as defined below, in a manner that may not comply with Exchange Rule 14.11(i)(4)(C)(v)<sup>3</sup> of the Generic Listing Standards.

The Shares are offered by the Franklin Templeton ETF Trust, which was established as a Delaware statutory trust on October 9, 2015. Franklin Templeton Investment Management Limited acts as adviser to the Fund. Franklin Advisers, Inc. acts as sub-adviser to the Fund. The Trust is registered with the Commission as an investment company and has filed a registration statement on Form N-1A ("Registration Statement") with the Commission on behalf of the Fund.<sup>4</sup>

Exchange Rule 14.11(i)(7) provides that, if the investment adviser to the investment company issuing Managed Fund Shares is affiliated with a broker-dealer, such investment adviser shall erect and maintain a "fire wall" between the investment

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<sup>3</sup> Rule 14.11(i)(4)(C)(v) provides that a fund's 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).

<sup>4</sup> See Registration Statement for the Trust (File Nos. 333-208873 and 811-23124). The Exchange notes that the Trust will file a Form 497 Supplement to its Registration Statement in connection with the proposed changes contained herein.

adviser and the broker-dealer with respect to access to information concerning the composition and/or changes to such investment company portfolio.<sup>5</sup> In addition, Exchange Rule 14.11(i)(7) further requires that personnel who make decisions on the investment company's portfolio composition must be subject to procedures designed to prevent the use and dissemination of material nonpublic information regarding the applicable investment company portfolio. The Exchange notes that the Advisers are not registered as broker-dealers but are affiliated with a broker-dealer and have implemented and will maintain a fire wall with respect to such broker-dealer affiliate regarding access to information concerning the composition and/or changes to the portfolio. In addition, Adviser personnel who make decisions regarding the Fund's portfolio are subject to procedures designed to prevent the use and dissemination of material nonpublic information regarding the Fund's portfolio. In the event that (a) the Adviser or the Sub-Adviser becomes registered as a broker-dealer or newly affiliated with a broker-dealer, or

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<sup>5</sup> An investment adviser to an open-end fund is required to be registered under the Investment Advisers Act of 1940 (the "Advisers Act"). As a result, the Adviser and its related personnel are subject to the provisions of Rule 204A-1 under the Advisers Act relating to codes of ethics. This Rule requires investment advisers to adopt a code of ethics that reflects the fiduciary nature of the relationship to clients as well as compliance with other applicable securities laws. Accordingly, procedures designed to prevent the communication and misuse of non-public information by an investment adviser must be consistent with Rule 204A-1 under the Advisers Act. In addition, Rule 206(4)-7 under the Advisers Act makes it unlawful for an investment adviser to provide investment advice to clients unless such investment adviser has (i) adopted and implemented written policies and procedures reasonably designed to prevent violation, by the investment adviser and its supervised persons, of the Advisers Act and the Commission rules adopted thereunder; (ii) implemented, at a minimum, an annual review regarding the adequacy of the policies and procedures established pursuant to subparagraph (i) above and the effectiveness of their implementation; and (iii) designated an individual (who is a supervised person) responsible for administering the policies and procedures adopted under subparagraph (i) above.

(b) any new adviser or sub-adviser is a registered broker-dealer or becomes affiliated with a broker-dealer, it will implement and maintain a fire wall with respect to its relevant personnel or such broker-dealer affiliate, as applicable, regarding access to information concerning the composition and/or changes to the portfolio, and will be subject to procedures designed to prevent the use and dissemination of material non-public information regarding such portfolio.

The Fund intends to qualify each year as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended.

While the Fund seeks to hold both exchange-listed derivatives and OTC derivatives, it does not seek an exemption for its holdings in exchange-listed derivatives under Rule 14.11(i)(4)(C)(iv). Specifically, the Exchange submits this proposal in order to allow the Fund to hold only OTC Currency Derivatives, as defined below, in a manner that does not comply with Exchange Rule 14.11(i)(4)(C)(v).<sup>6</sup> Otherwise, the Fund will comply with all other listing requirements on an initial and continued listing basis under the Generic Listings Standards.

Franklin Liberty International Aggregate Bond Fund

As set forth in the Registration Statement, the Fund is an actively managed exchange-traded fund that will seek total investment return consisting of a combination of interest income and capital appreciation. When choosing investments for the Fund, the Advisers allocate the Fund's assets based upon their assessment of changing market,

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<sup>6</sup> In particular, the Fund may not meet the requirement under Exchange Rule 14.11(i)(4)(C)(v) that the aggregate gross notional value of OTC currency derivatives shall not exceed 20% of the weight of the portfolio (including gross notional exposures).

political and economic conditions. The Advisers consider various factors, including evaluation of interest rates, currency exchange rate changes and credit risks.

The Fund seeks to achieve its investment objective by investing, under Normal Market Conditions,<sup>7</sup> at least 80% of its net assets in bonds<sup>8</sup> and investments that provide exposure to bonds.<sup>9</sup> The Fund invests predominantly in fixed and floating-rate bonds issued by governments, government agencies and governmental-related or corporate issuers located outside the U.S. The Fund may also invest in securities or structured products that are linked to or derive their value from another security, asset or currency of any nation. The Fund may invest in debt securities of any maturity or duration. Although the Fund may buy bonds rated in any category, including securities in default, it focuses on “investment grade” bonds.<sup>10</sup> The Fund may only invest up to 20% of its total assets in bonds that are rated below investment grade or, if unrated, determined by the Advisers to

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<sup>7</sup> 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. In response to adverse market, economic, political, or other conditions, the Fund reserves the right to invest in U.S. government securities, other money market instruments (as defined below), and cash, without limitation, as determined by the Advisers. In the event the Fund engages in these temporary defensive strategies that are inconsistent with its investment strategies, the Fund’s ability to achieve its investment objectives may be limited.

<sup>8</sup> For purposes of this proposal, the term “bonds” include debt obligations of any maturity, such as bonds, notes, bills and debentures.

<sup>9</sup> As noted in the Fund’s prospectus, derivatives that provide exposure to bonds may be used to satisfy the Fund’s 80% policy.

<sup>10</sup> “Investment grade” bonds refer to issues rated in the top four rating categories at the time of purchase by at least one independent rating agency, such as Standard & Poor’s (S&P®) or Moody’s Investors Service (Moody’s) or, if unrated, determined by the Fund’s Advisers to be of comparable quality.

be of comparable quality.

Currently, under Normal Market Conditions, the Fund holds only the following instruments:

- Fixed income instruments;<sup>11</sup>
- Cash and Cash Equivalents;<sup>12</sup>
- Exchange-listed currency futures;
- Interest rate/bond futures;
- Equity securities and investments including convertible securities, preferred stock, warrants, and rights;
- Depository receipts;
- Securities of other investment companies, including ETFs;

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<sup>11</sup> As provided in Rule 14.11(i)(4)(C)(ii), the term “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 Rule 14.11(i)(4)(C)(ii) after converting.

<sup>12</sup> As defined in Exchange Rule 14.11(i)(4)(C)(iii)(b), Cash Equivalents are short-term instruments with maturities of less than three months, which includes only the following: (i) 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; (ii) certificates of deposit issued against funds deposited in a bank or savings and loan association; (iii) bankers acceptances, which are short-term credit instruments used to finance commercial transactions; (iv) repurchase agreements and reverse repurchase agreements; (v) 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; (vi) commercial paper, which are short-term unsecured promissory notes; and (vii) money market funds.



- Deliverable currency forwards;
- Non-deliverable currency forwards; and
- OTC interest rate swap agreements.

As stated previously, the Fund's holdings set forth above meet all of the generic listing standards of rule 14.11(i)(4)(C)(v). Thus, the OTC interest rate swap agreements noted above will not exceed 20% of the weight of the portfolio (including gross notional exposures).

However, the Advisers now seek to manage the Fund's currency risk by hedging substantially all of the Fund's foreign currency exposure in its portfolio (the "Currency Hedge"), up to a 100% hedge.<sup>13</sup> Under Normal Market Conditions,<sup>14</sup> the Fund will primarily achieve the Currency Hedge by using OTC deliverable and non-deliverable currency forwards and exchange-listed currency futures. In certain conditions, the Fund may also achieve the Currency Hedge by using exchange-listed currency options, including exchange-listed and OTC options on currency futures, OTC synthetic non-deliverable currency forwards, currency swaps, and OTC currency options (collectively, with OTC deliverable and non-deliverable currency forwards and exchange-listed currency futures, referred to as the "Currency Derivatives").

As noted above, all of the Fund's holdings will meet the Generic Listing

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<sup>13</sup> The Fund expects to primarily invest its net assets in fixed and floating-rate bonds issued by governments, government agencies and governmental-related or corporate issuers located outside the U.S. The Fund expects that the gross notional value of the Currency Hedge would be equal to the value of the unhedged currency exposure associated with its primary holdings, which would be approximately 50% of the weight of the portfolio (including gross notional exposures).

<sup>14</sup> See Exchange Rule 14.11(i)(3)(E).

Standards with the exception of its holdings in OTC Currency Derivatives, which may not meet the requirement under Rule 14.11(i)(4)(C)(v) that prevents the aggregate gross notional value of OTC derivatives from exceeding 20% of the weight of the portfolio (including gross notional exposures).

#### Precedent and Policy Discussion

As described above, the Fund will meet all of the Generic Listing Standards except as it may relate to its holdings in OTC Currency Derivatives, which will be used, in conjunction with its holdings in exchange-listed Currency Derivatives, to achieve its Currency Hedge.<sup>15</sup> The Exchange believes that this proposal does not raise any substantive issues for the Commission to review because there are numerous instances in which the Commission has approved the listing and trading of series of Managed Fund Shares that employ substantially similar hedging strategies,<sup>16</sup> especially when compared

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<sup>15</sup> The Exchange notes that the Fund's holdings in exchange-listed derivatives will meet the requirements set forth in Exchange Rule 14.11(i)(4)(C)(iv).

<sup>16</sup> See Securities Exchange Act Release Nos. 84143 (September 14, 2018), 83 FR 47659 (September 20, 2018) (SR-CboeBZX-2018-019) (order approving the listing and trading of eighteen series of Managed Fund Shares that allowed each series to hedge its foreign equity position with up to 50% gross notional exposure to OTC currency swaps) (the "Hedged ADR Approval Order"); 85474 (March 29, 2019), 84 FR 13371 (April 4, 2019) (SR-CboeBZX-2019-019); 84818 (December 13, 2018), 83 FR 65189 (December 19, 2018) (SR-NYSEArca-2018-75) (order approving the listing and trading of a series of Managed Fund Shares that may hold up to 50% of the aggregate gross notional value of the fund's portfolio in OTC derivatives for the purpose of reducing currency, interest rate, credit, or duration risk, in addition to allowing the fund to hold an additional 20% of non-hedging OTC derivatives); 82591 (January 26, 2018) 83 FR 4707 (February 1, 2018) (SR-BatsBZX-2017-54) (the "Inflation Hedged Fund") (order approving the listing and trading of a series of Managed Fund Shares that could gain up to 50% gross notional exposure to OTC derivatives in order to hedge against inflation in the fund's portfolio); and 83363 (June 1, 2018), 83 FR 26531 (June 7, 2018) (SR-CboeBZX-2018-036) (notice of filing and immediate effectiveness of

to the Hedged ADR Approval Order. Specifically, the Hedged ADR Approval Order approved the listing and trading of eighteen series of Managed Fund Shares (the “Hedged ADR Funds”), each of which consisted of only two components: (i) a single ADR; and (ii) OTC currency swaps used to hedge against fluctuations in the exchange rate between the U.S. dollar and the local currency of the foreign security underlying the ADR. In addition to not meeting Rule 14.11(i)(4)(C)(v) related to the OTC derivatives used to hedge currency exposure, each series of the Hedged ADR Funds also did not meet the concentration<sup>17</sup> and diversity<sup>18</sup> requirements related to their respective equity holdings. Stated another way, the Fund is proposing to implement a Currency Hedge using similar instruments as the Hedged ADR Funds, but does not require the additional relief from the fixed income concentration<sup>19</sup> and diversity<sup>20</sup> requirements holdings portion of the Generic Listing Standards that was necessary (as it pertained to equity holdings) for the Hedged ADR Funds to list and trade. While the Fund intends to use primarily OTC deliverable and non-deliverable currency forwards and exchange-listed currency futures to hedge its currency risk rather than currency swaps, the policy concerns surrounding the fact that the Fund will not meet Rule 14.11(i)(4)(C)(v) are the same, and those concerns are mitigated for the same reasons, as discussed below.

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a proposal to allow the Inflation Hedged Fund to increase its potential exposure to OTC derivative instruments from 50% to 60% of the fund’s gross notional value).

<sup>17</sup> See Rule 14.11(i)(4)(C)(i)(a)(3).

<sup>18</sup> See Rule 14.11(i)(4)(C)(i)(a)(4).

<sup>19</sup> See Rule 14.11(i)(4)(C)(ii)(c).

<sup>20</sup> See Rule 14.11(i)(4)(C)(ii)(d).

The Exchange believes that, while the portfolio of the Fund might not meet Rule 14.11(i)(4)(C)(v), the policy issues that the rule is intended to address are otherwise mitigated by the structure and purpose of the Currency Hedge within the Fund.<sup>21</sup> Specifically, the Exchange believes that the policy issues that Rule 14.11(i)(4)(C)(v) is intended to address are mitigated by the way that the Fund will use OTC Currency Derivatives. The rule is intended to mitigate concerns around the manipulability of a particular underlying reference asset or derivatives contract. While the Currency Hedge positions taken by the Fund may not meet the Generic Listing Standards related to OTC derivatives holdings, the policy concerns about limiting exposure to potentially manipulable underlying reference assets that the Generic Listing Standards are intended to address are otherwise mitigated by the liquidity in the underlying spot currency market that prevents manipulation of the reference prices used by the Currency Hedge.<sup>22</sup> The Fund will attempt to limit counterparty risk in OTC derivatives by: (i) entering into such contracts only with counterparties the Advisers believe are creditworthy; (ii) limiting the Fund's exposure to each counterparty; and (iii) monitoring the creditworthiness of each counterparty and the Fund's exposure to each counterparty on an ongoing basis.

#### Availability of Information

As noted above, the Fund will each comply with the requirements for Managed Fund Shares related to Disclosed Portfolio, Net Asset Value, and the Intraday Indicative

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<sup>21</sup> As described above, the Fund expects to invest in excess of 80% of its net assets in bonds and investments that provide exposure to bonds in a manner that will comply with the Generic Listing Standards.

<sup>22</sup> Based on statistics reported by the Bank for International Settlements, there is significant liquidity in the spot market. See "Turnover of OTC foreign exchange instruments, by currency" available at: <https://stats.bis.org/statx/srs/table/d11.3>.

Value. Additionally, the intra-day, closing and settlement prices of the component fixed income securities will be readily available from the securities exchanges on which such securities are traded, as well as published or other public sources, or online information services such as Bloomberg or Reuters. Intraday price quotations on the OTC Currency Derivatives are available from major broker-dealer firms and from third-parties, which may provide prices free with a time delay or in real-time for a paid fee. Price information for cash equivalents will be available from major market data vendors. The Fund's Disclosed Portfolio will be available on the issuer's website

([www.https://www.franklintempleton.com/](https://www.franklintempleton.com/)) free of charge. The Fund's website will include the prospectus and additional information related to NAV and other applicable quantitative information. Information regarding market price and trading volume of the Shares will be continuously available throughout the day on brokers' computer screens and other electronic services. Information regarding the previous day's closing price and trading volume for the Shares will be published daily in the financial section of newspapers. Trading in the Shares may be halted for market conditions or for reasons that, in the view of the Exchange, make trading inadvisable. The Exchange deems the Shares to be equity securities, thus rendering trading in the Shares subject to the Exchange's existing rules governing the trading of equity securities. The Exchange has appropriate rules to facilitate trading in the shares during all trading sessions.

#### Surveillance

The Exchange believes that its surveillance procedures are adequate to properly monitor the trading of the Fund on the Exchange during all trading sessions and to deter and detect violations of Exchange rules and the applicable federal securities laws.

Trading of the Fund through the Exchange will continue to be subject to the Exchange's surveillance procedures for derivative products, including Managed Fund Shares. The issuer has represented to the Exchange that it will advise the Exchange of any failure by the Fund to comply with the continued listing requirements, and, pursuant to its obligations under Section 19(g)(1) of the 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 proceedings under Rule 14.12. The Exchange may obtain information regarding trading in the Fund via the ISG, from other exchanges that are members or affiliates of the ISG, or with which the Exchange has entered into a comprehensive surveillance sharing agreement.

Additionally, the Exchange or FINRA, on behalf of the Exchange, are able to access, as needed, trade information for certain fixed income instruments reported to TRACE.

(b) Statutory Basis

The Exchange believes that the proposal is consistent with Section 6(b) of the Act<sup>23</sup> in general and Section 6(b)(5) of the Act<sup>24</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 foster cooperation and coordination with persons engaged in facilitating transactions in securities, 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. Specifically, the Exchange believes that the proposal is consistent with Rule 6(b)(5) of the Act in that is designed to prevent

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<sup>23</sup> 15 U.S.C. 78f.

<sup>24</sup> 15 U.S.C. 78f(b)(5).

fraudulent and manipulative acts and practices because the policy concerns about limiting exposure to potentially manipulable underlying reference assets that the Generic Listing Standards are intended to address, specifically Rule 14.11(i)(4)(C)(v) related to OTC holdings, are otherwise mitigated by the liquidity in the underlying spot currency market that prevents manipulation of the reference prices used by the Currency Hedge.

Specifically, the Exchange believes that the policy issues that Rule 14.11(i)(4)(C)(v) is intended to address are mitigated by the way that the Fund will use OTC Currency Derivatives. The rule is intended to mitigate concerns around the manipulability of a particular underlying reference asset or derivatives contract. As noted above, while the Currency Hedge positions that might be taken by the Fund may not meet the Generic Listing Standards related to OTC derivatives holdings, the policy concerns about limiting exposure to potentially manipulable underlying reference assets that the Generic Listing Standards are intended to address are otherwise mitigated by the liquidity in the underlying spot currency market that prevents manipulation of the reference prices used by the Currency Hedge. The Fund will attempt to limit counterparty risk in OTC derivatives by: (i) entering into such contracts only with counterparties the Advisers believe are creditworthy; (ii) limiting the Fund's exposure to each counterparty; and (iii) monitoring the creditworthiness of each counterparty and the Fund's exposure to each counterparty on an ongoing basis.

The Exchange also notes that there are numerous instances in which the Commission has approved the listing and trading of series of Managed Fund Shares that

employ nearly identical or substantially similar hedging strategies.<sup>25</sup> Specifically, the Hedged ADR Approval Order approved the listing and trading the Hedged ADR Funds, each of which consisted of only two components: (i) a single ADR; and (ii) OTC currency swaps used to hedge against fluctuations in the exchange rate between the U.S. dollar and the local currency of the foreign security underlying the ADR. In addition to not meeting Rule 14.11(i)(4)(C)(v) related to the OTC currency swaps used to hedge currency exposure, each series of the Hedged ADR Funds also did not meet the concentration<sup>26</sup> and diversity<sup>27</sup> requirements related to their respective equity holdings. Stated another way, the Fund is proposing to implement a Currency Hedge using similar instruments as the Hedged ADR Funds, but do not require the additional relief from the

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<sup>25</sup> See Securities Exchange Act Release Nos. 84143 (September 14, 2018), 83 FR 47659 (September 20, 2018) (SR-CboeBZX-2018-019) (order approving the listing and trading of eighteen series of Managed Fund Shares that allowed each series to hedge its foreign equity position with up to 50% gross notional exposure to OTC currency swaps) (the “Hedged ADR Approval Order”); 84818 (December 13, 2018), 83 FR 65189 (December 19, 2018) (SR-NYSEArca-2018-75) (order approving the listing and trading of a series of Managed Fund Shares that may hold up to 50% of the aggregate gross notional value of the fund’s portfolio in OTC derivatives for the purpose of reducing currency, interest rate, credit, or duration risk, in addition to allowing the fund to hold an additional 20% of non-hedging OTC derivatives); 82591 (January 26, 2018) 83 FR 4707 (February 1, 2018) (SR-BatsBZX-2017-54) (the “Inflation Hedged Fund”) (order approving the listing and trading of a series of Managed Fund Shares that could gain up to 50% gross notional exposure to OTC derivatives in order to hedge against inflation in the fund’s portfolio); and 83363 (June 1, 2018), 83 FR 26531 (June 7, 2018) (SR-CboeBZX-2018-036) (notice of filing and immediate effectiveness of a proposal to allow the Inflation Hedged Fund to move increase its potential exposure to OTC derivative instruments from 50% to 60% of the fund’s gross notional value).

<sup>26</sup> See Rule 14.11(i)(4)(C)(i)(a)(3).

<sup>27</sup> See Rule 14.11(i)(4)(C)(i)(a)(4).



fixed income concentration<sup>28</sup> and diversity<sup>29</sup> requirements holdings portion of the Generic Listing Standards that was necessary (as it pertained to equity holdings) for the Hedged ADR Funds to list and trade.

The Exchange believes that its surveillance procedures are adequate to properly monitor the trading of the Fund on the Exchange during all trading sessions and to deter and detect violations of Exchange rules and the applicable federal securities laws. Trading of the Fund through the Exchange will be subject to the Exchange's surveillance procedures for derivative products, including Managed Fund Shares. All statements and representations made in this filing regarding the description of the portfolio or reference assets, limitations on portfolio holdings or reference assets, dissemination and availability of reference assets and intraday indicative values, and the applicability of Exchange listing rules specified in this filing shall constitute continued listing requirements for the Fund. The Trust, on behalf of the Fund, has represented to the Exchange that it will advise the Exchange of any failure by the Fund or the Shares to comply with the continued listing requirements, and, pursuant to its obligations under Section 19(g)(1) of the Act, the Exchange will surveil for compliance with the continued listing requirements. If the Fund or the Shares are not in compliance with the applicable listing requirements, the Exchange will commence delisting procedures under Exchange Rule 14.12.

As described above, the Exchange may obtain information regarding trading in the Fund via the ISG, from other exchanges that are members or affiliates of the ISG, or

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<sup>28</sup> See Rule 14.11(i)(4)(C)(ii)(c).

<sup>29</sup> See Rule 14.11(i)(4)(C)(ii)(d).

with which the Exchange has entered into a comprehensive surveillance sharing agreement. Additionally, the Exchange or FINRA, on behalf of the Exchange, are able to access, as needed, trade information for certain fixed income instruments reported to TRACE.

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. The Exchange notes that the proposed rule change will facilitate the listing and trading of additional series of Managed Fund Shares that will 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.

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

The Exchange believes that the foregoing proposed rule change may take effect upon filing with the Commission pursuant to Section 19(b)(3)(A)<sup>30</sup> of the Act and Rule

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<sup>30</sup> 15 U.S.C. 78s(b)(3)(A).

19b-4(f)(6) thereunder<sup>31</sup> because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate.

Furthermore, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

The Exchange believes that its rule change proposal is appropriate for filing on an immediately effective basis under paragraph (f)(6) of Rule 19b-4. The Exchange believes the proposed rule change will not significantly affect the protection of investors or the public interest because the proposal contains no new issues that the Commission has not previously contemplated. As specifically laid out above, the Fund is proposing to implement a Currency Hedge using similar instruments as the Hedged ADR Funds. Further, the Fund does not require the additional relief from the fixed income concentration<sup>32</sup> and diversity<sup>33</sup> requirements holdings portion of the Generic Listing Standards that was necessary (as it pertained to equity holdings) for the Hedged ADR Funds to list and trade. Thus, the proposed listing rule will be stricter than the listing rules governing the Hedged ADR Funds.

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<sup>31</sup> 17 CFR 240.19b-4(f)(6).

<sup>32</sup> See Rule 14.11(i)(4)(C)(ii)(c).

<sup>33</sup> See Rule 14.11(i)(4)(C)(ii)(d).

This proposal also includes similar representations regarding the requirements for the Fund's holdings as are included in the Hedged ADR Approval Order related to the limits on investments in OTC derivatives. As such, the Exchange believes that listing the Shares on the Exchange raises no substantive issues for the Commission. For the foregoing reasons, this rule filing qualifies for immediate effectiveness as a "non-controversial" rule change under paragraph (f)(6) of Rule 19b-4.

The Exchange respectfully requests that the Commission waive the 30-day operative delay so that the proposed rule change may become effective and operative upon filing with the Commission pursuant to Section 19(b)(3)(A) of the Act<sup>34</sup> and paragraph (f)(6) of Rule 19b-4 thereunder.<sup>35</sup> Waiver of the 30-day operative delay will allow the Fund to fully implement its Currency Hedge without unnecessary delay. The Exchange does not believe that there is any reason for delay because, as noted above, the Fund is proposing to implement a Currency Hedge using similar instruments as the Hedged ADR Funds and requiring the 30-day delay before the filing becomes operative will not further any underlying policy goals related to the protection of investors and the public interest. Waiver of the 30-day operative delay will more quickly facilitate the Advisers' ability to fully implement its Currency Hedge, which will enhance competition among market participants, to the benefit of investors and the marketplace. As such, waiver of the operative delay is consistent with the protection of investors and the public interest for the reasons described above.

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<sup>34</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>35</sup> 17 CFR 240.19b-4(f)(6).

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 – 5: Not applicable.

EXHIBIT 1**SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34- ; File No. SR-CboeBZX-2020-018]

[Insert date]

Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Allow the Franklin Liberty International Aggregate Bond Fund (the “Fund”) of the Franklin Templeton ETF Trust (the “Trust”) to Hold Certain Instruments in a Manner that may not Comply with Rule 14.11(i) (“Managed 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 [insert date], Cboe BZX Exchange, Inc. (the “Exchange” or “BZX”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Exchange filed the proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder.<sup>4</sup> 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**

Cboe BZX Exchange, Inc. (the “Exchange” or “BZX”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to allow the Franklin Liberty International Aggregate Bond Fund (the “Fund”) of the Franklin

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

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

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

<sup>4</sup> 17 CFR 240.19b-4(f)(6).

Templeton ETF Trust (the “Trust”) to hold certain instruments in a manner that may not comply with Rule 14.11(i) (“Managed Fund Shares”).

The text of the proposed rule change is also available on the Exchange’s website ([http://markets.cboe.com/us/equities/regulation/rule\\_filings/bzx/](http://markets.cboe.com/us/equities/regulation/rule_filings/bzx/)), at the Exchange’s Office of the Secretary, 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 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 aspects of such statements.

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

#### **1. Purpose**

The shares of the Fund (the “Shares”) are currently listed and traded on the Exchange pursuant to the generic listing standards applicable to Managed Fund Shares under Rule 14.11(i) (the “Generic Listing Standards”) and began trading on June 1, 2018. While the Fund currently meets all of the Generic Listing Standards, Franklin Templeton Investment Management Limited, the Fund’s investment adviser (the “Adviser”), and Franklin Advisers, Inc., the Fund’s sub-adviser (the “Sub-Adviser” and collectively with the Adviser, the “Advisers”) would like to increase the flexibility of the Fund’s holdings in a way that might not meet such requirements. As such, the Exchange submits this proposal in order to allow the Shares to continue listing and trading on the Exchange

while holding over-the-counter (“OTC”) Currency Derivatives, as defined below, in a manner that may not comply with Exchange Rule 14.11(i)(4)(C)(v)<sup>5</sup> of the Generic Listing Standards.

The Shares are offered by the Franklin Templeton ETF Trust, which was established as a Delaware statutory trust on October 9, 2015. Franklin Templeton Investment Management Limited acts as adviser to the Fund. Franklin Advisers, Inc. acts as sub-adviser to the Fund. The Trust is registered with the Commission as an investment company and has filed a registration statement on Form N-1A (“Registration Statement”) with the Commission on behalf of the Fund.<sup>6</sup>

Exchange Rule 14.11(i)(7) provides that, if the investment adviser to the investment company issuing Managed Fund Shares is affiliated with a broker-dealer, such investment adviser shall erect and maintain a “fire wall” between the investment adviser and the broker-dealer with respect to access to information concerning the composition and/or changes to such investment company portfolio.<sup>7</sup> In addition,

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<sup>5</sup> Rule 14.11(i)(4)(C)(v) provides that a fund’s 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).

<sup>6</sup> See Registration Statement for the Trust (File Nos. 333-208873 and 811-23124). The Exchange notes that the Trust will file a Form 497 Supplement to its Registration Statement in connection with the proposed changes contained herein.

<sup>7</sup> An investment adviser to an open-end fund is required to be registered under the Investment Advisers Act of 1940 (the “Advisers Act”). As a result, the Adviser and its related personnel are subject to the provisions of Rule 204A-1 under the Advisers Act relating to codes of ethics. This Rule requires investment advisers to adopt a code of ethics that reflects the fiduciary nature of the relationship to clients as well as compliance with other applicable securities laws. Accordingly, procedures designed to prevent the communication and misuse of non-public



Exchange Rule 14.11(i)(7) further requires that personnel who make decisions on the investment company's portfolio composition must be subject to procedures designed to prevent the use and dissemination of material nonpublic information regarding the applicable investment company portfolio. The Exchange notes that the Advisers are not registered as broker-dealers but are affiliated with a broker-dealer and have implemented and will maintain a fire wall with respect to such broker-dealer affiliate regarding access to information concerning the composition and/or changes to the portfolio. In addition, Adviser personnel who make decisions regarding the Fund's portfolio are subject to procedures designed to prevent the use and dissemination of material nonpublic information regarding the Fund's portfolio. In the event that (a) the Adviser or the Sub-Adviser becomes registered as a broker-dealer or newly affiliated with a broker-dealer, or (b) any new adviser or sub-adviser is a registered broker-dealer or becomes affiliated with a broker-dealer, it will implement and maintain a fire wall with respect to its relevant personnel or such broker-dealer affiliate, as applicable, regarding access to information concerning the composition and/or changes to the portfolio, and will be subject to procedures designed to prevent the use and dissemination of material non-public information regarding such portfolio.

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information by an investment adviser must be consistent with Rule 204A-1 under the Advisers Act. In addition, Rule 206(4)-7 under the Advisers Act makes it unlawful for an investment adviser to provide investment advice to clients unless such investment adviser has (i) adopted and implemented written policies and procedures reasonably designed to prevent violation, by the investment adviser and its supervised persons, of the Advisers Act and the Commission rules adopted thereunder; (ii) implemented, at a minimum, an annual review regarding the adequacy of the policies and procedures established pursuant to subparagraph (i) above and the effectiveness of their implementation; and (iii) designated an individual (who is a supervised person) responsible for administering the policies and procedures adopted under subparagraph (i) above.

The Fund intends to qualify each year as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended.

While the Fund seeks to hold both exchange-listed derivatives and OTC derivatives, it does not seek an exemption for its holdings in exchange-listed derivatives under Rule 14.11(i)(4)(C)(iv). Specifically, the Exchange submits this proposal in order to allow the Fund to hold only OTC Currency Derivatives, as defined below, in a manner that does not comply with Exchange Rule 14.11(i)(4)(C)(v).<sup>8</sup> Otherwise, the Fund will comply with all other listing requirements on an initial and continued listing basis under the Generic Listings Standards.

#### Franklin Liberty International Aggregate Bond Fund

As set forth in the Registration Statement, the Fund is an actively managed exchange-traded fund that will seek total investment return consisting of a combination of interest income and capital appreciation. When choosing investments for the Fund, the Advisers allocate the Fund's assets based upon their assessment of changing market, political and economic conditions. The Advisers consider various factors, including evaluation of interest rates, currency exchange rate changes and credit risks.

The Fund seeks to achieve its investment objective by investing, under Normal Market Conditions,<sup>9</sup> at least 80% of its net assets in bonds<sup>10</sup> and investments that provide

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<sup>8</sup> In particular, the Fund may not meet the requirement under Exchange Rule 14.11(i)(4)(C)(v) that the aggregate gross notional value of OTC currency derivatives shall not exceed 20% of the weight of the portfolio (including gross notional exposures).

<sup>9</sup> 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

exposure to bonds.<sup>11</sup> The Fund invests predominantly in fixed and floating-rate bonds issued by governments, government agencies and governmental-related or corporate issuers located outside the U.S. The Fund may also invest in securities or structured products that are linked to or derive their value from another security, asset or currency of any nation. The Fund may invest in debt securities of any maturity or duration. Although the Fund may buy bonds rated in any category, including securities in default, it focuses on “investment grade” bonds.<sup>12</sup> The Fund may only invest up to 20% of its total assets in bonds that are rated below investment grade or, if unrated, determined by the Advisers to be of comparable quality.

Currently, under Normal Market Conditions, the Fund holds only the following instruments:

- Fixed income instruments;<sup>13</sup>

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circumstance. In response to adverse market, economic, political, or other conditions, the Fund reserves the right to invest in U.S. government securities, other money market instruments (as defined below), and cash, without limitation, as determined by the Advisers. In the event the Fund engages in these temporary defensive strategies that are inconsistent with its investment strategies, the Fund’s ability to achieve its investment objectives may be limited.

<sup>10</sup> For purposes of this proposal, the term “bonds” include debt obligations of any maturity, such as bonds, notes, bills and debentures.

<sup>11</sup> As noted in the Fund’s prospectus, derivatives that provide exposure to bonds may be used to satisfy the Fund’s 80% policy.

<sup>12</sup> “Investment grade” bonds refer to issues rated in the top four rating categories at the time of purchase by at least one independent rating agency, such as Standard & Poor’s (S&P®) or Moody’s Investors Service (Moody’s) or, if unrated, determined by the Fund’s Advisers to be of comparable quality.

<sup>13</sup> As provided in Rule 14.11(i)(4)(C)(ii), the term “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

- Cash and Cash Equivalents;<sup>14</sup>
- Exchange-listed currency futures;
- Interest rate/bond futures;
- Equity securities and investments including convertible securities, preferred stock, warrants, and rights;
- Depository receipts;
- Securities of other investment companies, including ETFs;
- Deliverable currency forwards;
- Non-deliverable currency forwards; and
- OTC interest rate swap agreements.

As stated previously, the Fund's holdings set forth above meet all of the generic listing standards of rule 14.11(i)(4)(C)(v). Thus, the OTC interest rate swap agreements noted above will not exceed 20% of the weight of the portfolio (including gross notional exposures).

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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 Rule 14.11(i)(4)(C)(ii) after converting.

<sup>14</sup> As defined in Exchange Rule 14.11(i)(4)(C)(iii)(b), Cash Equivalents are short-term instruments with maturities of less than three months, which includes only the following: (i) 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; (ii) certificates of deposit issued against funds deposited in a bank or savings and loan association; (iii) bankers acceptances, which are short-term credit instruments used to finance commercial transactions; (iv) repurchase agreements and reverse repurchase agreements; (v) 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; (vi) commercial paper, which are short-term unsecured promissory notes; and (vii) money market funds.

However, the Advisers now seek to manage the Fund's currency risk by hedging substantially all of the Fund's foreign currency exposure in its portfolio (the "Currency Hedge"), up to a 100% hedge.<sup>15</sup> Under Normal Market Conditions,<sup>16</sup> the Fund will primarily achieve the Currency Hedge by using OTC deliverable and non-deliverable currency forwards and exchange-listed currency futures. In certain conditions, the Fund may also achieve the Currency Hedge by using exchange-listed currency options, including exchange-listed and OTC options on currency futures, OTC synthetic non-deliverable currency forwards, currency swaps, and OTC currency options (collectively, with OTC deliverable and non-deliverable currency forwards and exchange-listed currency futures, referred to as the "Currency Derivatives").

As noted above, all of the Fund's holdings will meet the Generic Listing Standards with the exception of its holdings in OTC Currency Derivatives, which may not meet the requirement under Rule 14.11(i)(4)(C)(v) that prevents the aggregate gross notional value of OTC derivatives from exceeding 20% of the weight of the portfolio (including gross notional exposures).

#### Precedent and Policy Discussion

As described above, the Fund will meet all of the Generic Listing Standards except as it may relate to its holdings in OTC Currency Derivatives, which will be used,

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<sup>15</sup> The Fund expects to primarily invest its net assets in fixed and floating-rate bonds issued by governments, government agencies and governmental-related or corporate issuers located outside the U.S. The Fund expects that the gross notional value of the Currency Hedge would be equal to the value of the unhedged currency exposure associated with its primary holdings, which would be approximately 50% of the weight of the portfolio (including gross notional exposures).

<sup>16</sup> See Exchange Rule 14.11(i)(3)(E).

in conjunction with its holdings in exchange-listed Currency Derivatives, to achieve its Currency Hedge.<sup>17</sup> The Exchange believes that this proposal does not raise any substantive issues for the Commission to review because there are numerous instances in which the Commission has approved the listing and trading of series of Managed Fund Shares that employ substantially similar hedging strategies,<sup>18</sup> especially when compared to the Hedged ADR Approval Order. Specifically, the Hedged ADR Approval Order approved the listing and trading of eighteen series of Managed Fund Shares (the “Hedged ADR Funds”), each of which consisted of only two components: (i) a single ADR; and (ii) OTC currency swaps used to hedge against fluctuations in the exchange rate between the U.S. dollar and the local currency of the foreign security underlying the ADR. In addition to not meeting Rule 14.11(i)(4)(C)(v) related to the OTC derivatives used to hedge currency exposure, each series of the Hedged ADR Funds also did not meet the

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<sup>17</sup> The Exchange notes that the Fund’s holdings in exchange-listed derivatives will meet the requirements set forth in Exchange Rule 14.11(i)(4)(C)(iv).

<sup>18</sup> See Securities Exchange Act Release Nos. 84143 (September 14, 2018), 83 FR 47659 (September 20, 2018) (SR-CboeBZX-2018-019) (order approving the listing and trading of eighteen series of Managed Fund Shares that allowed each series to hedge its foreign equity position with up to 50% gross notional exposure to OTC currency swaps) (the “Hedged ADR Approval Order”); 85474 (March 29, 2019), 84 FR 13371 (April 4, 2019) (SR-CboeBZX-2019-019); 84818 (December 13, 2018), 83 FR 65189 (December 19, 2018) (SR-NYSEArca-2018-75) (order approving the listing and trading of a series of Managed Fund Shares that may hold up to 50% of the aggregate gross notional value of the fund’s portfolio in OTC derivatives for the purpose of reducing currency, interest rate, credit, or duration risk, in addition to allowing the fund to hold an additional 20% of non-hedging OTC derivatives); 82591 (January 26, 2018) 83 FR 4707 (February 1, 2018) (SR-BatsBZX-2017-54) (the “Inflation Hedged Fund”) (order approving the listing and trading of a series of Managed Fund Shares that could gain up to 50% gross notional exposure to OTC derivatives in order to hedge against inflation in the fund’s portfolio); and 83363 (June 1, 2018), 83 FR 26531 (June 7, 2018) (SR-CboeBZX-2018-036) (notice of filing and immediate effectiveness of a proposal to allow the Inflation Hedged Fund to increase its potential exposure to OTC derivative instruments from 50% to 60% of the fund’s gross notional value).

concentration<sup>19</sup> and diversity<sup>20</sup> requirements related to their respective equity holdings. Stated another way, the Fund is proposing to implement a Currency Hedge using similar instruments as the Hedged ADR Funds, but does not require the additional relief from the fixed income concentration<sup>21</sup> and diversity<sup>22</sup> requirements holdings portion of the Generic Listing Standards that was necessary (as it pertained to equity holdings) for the Hedged ADR Funds to list and trade. While the Fund intends to use primarily OTC deliverable and non-deliverable currency forwards and exchange-listed currency futures to hedge its currency risk rather than currency swaps, the policy concerns surrounding the fact that the Fund will not meet Rule 14.11(i)(4)(C)(v) are the same, and those concerns are mitigated for the same reasons, as discussed below.

The Exchange believes that, while the portfolio of the Fund might not meet Rule 14.11(i)(4)(C)(v), the policy issues that the rule is intended to address are otherwise mitigated by the structure and purpose of the Currency Hedge within the Fund.<sup>23</sup> Specifically, the Exchange believes that the policy issues that Rule 14.11(i)(4)(C)(v) is intended to address are mitigated by the way that the Fund will use OTC Currency Derivatives. The rule is intended to mitigate concerns around the manipulability of a particular underlying reference asset or derivatives contract. While the Currency Hedge positions taken by the Fund may not meet the Generic Listing Standards related to OTC

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<sup>19</sup> See Rule 14.11(i)(4)(C)(i)(a)(3).

<sup>20</sup> See Rule 14.11(i)(4)(C)(i)(a)(4).

<sup>21</sup> See Rule 14.11(i)(4)(C)(ii)(c).

<sup>22</sup> See Rule 14.11(i)(4)(C)(ii)(d).

<sup>23</sup> As described above, the Fund expects to invest in excess of 80% of its net assets in bonds and investments that provide exposure to bonds in a manner that will comply with the Generic Listing Standards.

derivatives holdings, the policy concerns about limiting exposure to potentially manipulable underlying reference assets that the Generic Listing Standards are intended to address are otherwise mitigated by the liquidity in the underlying spot currency market that prevents manipulation of the reference prices used by the Currency Hedge.<sup>24</sup> The Fund will attempt to limit counterparty risk in OTC derivatives by: (i) entering into such contracts only with counterparties the Advisers believe are creditworthy; (ii) limiting the Fund's exposure to each counterparty; and (iii) monitoring the creditworthiness of each counterparty and the Fund's exposure to each counterparty on an ongoing basis.

#### Availability of Information

As noted above, the Fund will each comply with the requirements for Managed Fund Shares related to Disclosed Portfolio, Net Asset Value, and the Intraday Indicative Value. Additionally, the intra-day, closing and settlement prices of the component fixed income securities will be readily available from the securities exchanges on which such securities are traded, as well as published or other public sources, or online information services such as Bloomberg or Reuters. Intraday price quotations on the OTC Currency Derivatives are available from major broker-dealer firms and from third-parties, which may provide prices free with a time delay or in real-time for a paid fee. Price information for cash equivalents will be available from major market data vendors. The Fund's Disclosed Portfolio will be available on the issuer's website ([www.https://www.franklintempleton.com/](https://www.franklintempleton.com/)) free of charge. The Fund's website will include the prospectus and additional information related to NAV and other applicable

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<sup>24</sup> Based on statistics reported by the Bank for International Settlements, there is significant liquidity in the spot market. See "Turnover of OTC foreign exchange instruments, by currency" available at: <https://stats.bis.org/statx/srs/table/d11.3>.



quantitative information. Information regarding market price and trading volume of the Shares will be continuously available throughout the day on brokers' computer screens and other electronic services. Information regarding the previous day's closing price and trading volume for the Shares will be published daily in the financial section of newspapers. Trading in the Shares may be halted for market conditions or for reasons that, in the view of the Exchange, make trading inadvisable. The Exchange deems the Shares to be equity securities, thus rendering trading in the Shares subject to the Exchange's existing rules governing the trading of equity securities. The Exchange has appropriate rules to facilitate trading in the shares during all trading sessions.

#### Surveillance

The Exchange believes that its surveillance procedures are adequate to properly monitor the trading of the Fund on the Exchange during all trading sessions and to deter and detect violations of Exchange rules and the applicable federal securities laws. Trading of the Fund through the Exchange will continue to be subject to the Exchange's surveillance procedures for derivative products, including Managed Fund Shares. The issuer has represented to the Exchange that it will advise the Exchange of any failure by the Fund to comply with the continued listing requirements, and, pursuant to its obligations under Section 19(g)(1) of the 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 proceedings under Rule 14.12. The Exchange may obtain information regarding trading in the Fund via the ISG, from other exchanges that are members or affiliates of the ISG, or with which the Exchange has entered into a comprehensive surveillance sharing agreement.

Additionally, the Exchange or FINRA, on behalf of the Exchange, are able to access, as needed, trade information for certain fixed income instruments reported to TRACE.

## 2. Statutory Basis

The Exchange believes that the proposal is consistent with Section 6(b) of the Act<sup>25</sup> in general and Section 6(b)(5) of the Act<sup>26</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 foster cooperation and coordination with persons engaged in facilitating transactions in securities, 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. Specifically, the Exchange believes that the proposal is consistent with Rule 6(b)(5) of the Act in that it is designed to prevent fraudulent and manipulative acts and practices because the policy concerns about limiting exposure to potentially manipulable underlying reference assets that the Generic Listing Standards are intended to address, specifically Rule 14.11(i)(4)(C)(v) related to OTC holdings, are otherwise mitigated by the liquidity in the underlying spot currency market that prevents manipulation of the reference prices used by the Currency Hedge. Specifically, the Exchange believes that the policy issues that Rule 14.11(i)(4)(C)(v) is intended to address are mitigated by the way that the Fund will use OTC Currency Derivatives. The rule is intended to mitigate concerns around the manipulability of a particular underlying reference asset or derivatives contract. As noted above, while the Currency Hedge positions that might be taken by the Fund may not meet the Generic

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<sup>25</sup> 15 U.S.C. 78f.

<sup>26</sup> 15 U.S.C. 78f(b)(5).

Listing Standards related to OTC derivatives holdings, the policy concerns about limiting exposure to potentially manipulable underlying reference assets that the Generic Listing Standards are intended to address are otherwise mitigated by the liquidity in the underlying spot currency market that prevents manipulation of the reference prices used by the Currency Hedge. The Fund will attempt to limit counterparty risk in OTC derivatives by: (i) entering into such contracts only with counterparties the Advisers believe are creditworthy; (ii) limiting the Fund's exposure to each counterparty; and (iii) monitoring the creditworthiness of each counterparty and the Fund's exposure to each counterparty on an ongoing basis.

The Exchange also notes that there are numerous instances in which the Commission has approved the listing and trading of series of Managed Fund Shares that employ nearly identical or substantially similar hedging strategies.<sup>27</sup> Specifically, the Hedged ADR Approval Order approved the listing and trading the Hedged ADR Funds,

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<sup>27</sup> See Securities Exchange Act Release Nos. 84143 (September 14, 2018), 83 FR 47659 (September 20, 2018) (SR-CboeBZX-2018-019) (order approving the listing and trading of eighteen series of Managed Fund Shares that allowed each series to hedge its foreign equity position with up to 50% gross notional exposure to OTC currency swaps) (the "Hedged ADR Approval Order"); 84818 (December 13, 2018), 83 FR 65189 (December 19, 2018) (SR-NYSEArca-2018-75) (order approving the listing and trading of a series of Managed Fund Shares that may hold up to 50% of the aggregate gross notional value of the fund's portfolio in OTC derivatives for the purpose of reducing currency, interest rate, credit, or duration risk, in addition to allowing the fund to hold an additional 20% of non-hedging OTC derivatives); 82591 (January 26, 2018) 83 FR 4707 (February 1, 2018) (SR-BatsBZX-2017-54) (the "Inflation Hedged Fund") (order approving the listing and trading of a series of Managed Fund Shares that could gain up to 50% gross notional exposure to OTC derivatives in order to hedge against inflation in the fund's portfolio); and 83363 (June 1, 2018), 83 FR 26531 (June 7, 2018) (SR-CboeBZX-2018-036) (notice of filing and immediate effectiveness of a proposal to allow the Inflation Hedged Fund to move increase its potential exposure to OTC derivative instruments from 50% to 60% of the fund's gross notional value).

each of which consisted of only two components: (i) a single ADR; and (ii) OTC currency swaps used to hedge against fluctuations in the exchange rate between the U.S. dollar and the local currency of the foreign security underlying the ADR. In addition to not meeting Rule 14.11(i)(4)(C)(v) related to the OTC currency swaps used to hedge currency exposure, each series of the Hedged ADR Funds also did not meet the concentration<sup>28</sup> and diversity<sup>29</sup> requirements related to their respective equity holdings. Stated another way, the Fund is proposing to implement a Currency Hedge using similar instruments as the Hedged ADR Funds, but do not require the additional relief from the fixed income concentration<sup>30</sup> and diversity<sup>31</sup> requirements holdings portion of the Generic Listing Standards that was necessary (as it pertained to equity holdings) for the Hedged ADR Funds to list and trade.

The Exchange believes that its surveillance procedures are adequate to properly monitor the trading of the Fund on the Exchange during all trading sessions and to deter and detect violations of Exchange rules and the applicable federal securities laws. Trading of the Fund through the Exchange will be subject to the Exchange's surveillance procedures for derivative products, including Managed Fund Shares. All statements and representations made in this filing regarding the description of the portfolio or reference assets, limitations on portfolio holdings or reference assets, dissemination and availability of reference assets and intraday indicative values, and the applicability of Exchange listing rules specified in this filing shall constitute continued listing requirements for the

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<sup>28</sup> See Rule 14.11(i)(4)(C)(i)(a)(3).

<sup>29</sup> See Rule 14.11(i)(4)(C)(i)(a)(4).

<sup>30</sup> See Rule 14.11(i)(4)(C)(ii)(c).

<sup>31</sup> See Rule 14.11(i)(4)(C)(ii)(d).

Fund. The Trust, on behalf of the Fund, has represented to the Exchange that it will advise the Exchange of any failure by the Fund or the Shares to comply with the continued listing requirements, and, pursuant to its obligations under Section 19(g)(1) of the Act, the Exchange will surveil for compliance with the continued listing requirements. If the Fund or the Shares are not in compliance with the applicable listing requirements, the Exchange will commence delisting procedures under Exchange Rule 14.12.

As described above, the Exchange may obtain information regarding trading in the Fund via the ISG, from other exchanges that are members or affiliates of the ISG, or with which the Exchange has entered into a comprehensive surveillance sharing agreement. Additionally, the Exchange or FINRA, on behalf of the Exchange, are able to access, as needed, trade information for certain fixed income instruments reported to TRACE.

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. The Exchange notes that the proposed rule change will facilitate the listing and trading of additional series of Managed Fund Shares that will enhance competition among market participants, to the benefit of investors and the marketplace.

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**

Because the foregoing proposed rule change does not:

- A. significantly affect the protection of investors or the public interest;
- B. impose any significant burden on competition; and
- C. become operative for 30 days from the date on which it was filed, or such

shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>32</sup> and Rule 19b-4(f)(6)<sup>33</sup> thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission will institute proceedings to determine whether the proposed rule change should be approved or disapproved.

**IV. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

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<sup>32</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>33</sup> 17 CFR 240.19b-4(f)(6).

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 Number SR-CboeBZX-2020-018 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 Number SR-CboeBZX-2020-018. 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, D.C. 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will 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 Number SR-CboeBZX-2020-018 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>34</sup>

Secretary

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<sup>34</sup> 17 CFR 200.30-3(a)(12).