8011-01p
SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-74297; File No. SR-BATS-2014-056)

February 18, 2015

Self-Regulatory Organizations; BATS Exchange, Inc.; Order Granting Approval of a Proposed Rule Change, as Modified by Amendment No. 1 Thereto, to List and Trade Shares of the iShares U.S. Fixed Income Balanced Risk ETF of the iShares U.S. ETF Trust under Rule 14.11(i)

I. Introduction

On December 19, 2014, BATS Exchange, Inc. ("BATS" or the "Exchange") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act" or "Exchange Act")[1] and Rule 19b-4 thereunder,[2] a proposed rule change to list and trade the shares ("Shares") of the iShares U.S. Fixed Income Balanced Risk ETF ("Fund") under BATS Rule 14.11(i). The proposed rule change was published for comment in the Federal Register on January 6, 2015.[3] On February 12, 2015, BATS filed Amendment No. 1 to the proposal.[4] The Commission received no comments on the proposal. This order grants approval of the proposed rule change, as modified by Amendment No. 1 thereto.

II. Description of the Proposed Rule Change

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1 15 U.S.C.78s(b)(1).

2 17 CFR 240.19b-4.

3 See Securities Exchange Act Release No. 73965 (December 30, 2014), 80 FR 585 ("Notice").

4 In Amendment No. 1, the Exchange amended the proposed rule change to note that all of the exchange listed investment company securities and futures in which the Fund will invest will trade on markets that are a member of the Intermarket Surveillance Group ("ISG") or with which the Exchange has in a place a comprehensive surveillance sharing agreement. Amendment No. 1 provided clarification to the proposed rule change, and because it does not materially affect the substance of the proposed rule change or raise novel or unique regulatory issues, Amendment No. 1 is not subject to notice and comment.

A. The Exchange's Proposal

The Exchange proposes to list and trade Shares of the Fund under BATS Rule 14.11(i), which governs the listing and trading of Managed Fund Shares on the Exchange. The Shares will be offered by the iShares U.S. ETF Trust ("Trust"), a Delaware statutory trust, which is registered with the Commission as an open-end investment company.[5]

BlackRock Fund Advisors will be the investment adviser ("BFA" or "Adviser") to the Fund.[6] The Exchange represents that the (i) Adviser is not a registered broker-dealer, but is affiliated with multiple broker-dealers and has implemented fire walls with respect to such broker dealer affiliates regarding access to information concerning the composition of or changes to the Fund's portfolio, and (ii) 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.[7] BlackRock Investments, LLC serves as

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5 See Registration Statement on Form N-1A for the Trust, dated April 21, 2014 (File Nos. 333-179904 and 811-22649) ("Registration Statement"). In addition, the Exchange states that the Trust has obtained certain exemptive relief under the Investment Company Act of 1940 ("1940 Act"). See Investment Company Act Release No. 29571 (January 24, 2011) (File No. 812-13601) ("Exemptive Order").

6 BlackRock Fund Advisors is an indirect wholly owned subsidiary of BlackRock, Inc.

7 BATS 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, the investment adviser shall erect a firewall between the investment adviser and the broker-dealer with respect to access to information concerning the composition of or changes to the investment company portfolio. In addition, 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 misuse and dissemination of material nonpublic information regarding the applicable investment company portfolio. The Exchange states that, in the event that (a) the 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, such adviser or sub-adviser will implement a firewall with respect to its relevant personnel or such broker-dealer affiliate, as applicable, regarding access to information concerning the composition of or changes to the portfolio, and will be subject to procedures designed to prevent the

the distributor of the Fund's Shares, and State Street Bank and Trust Company is the administrator, custodian, and transfer agent for the Trust.

B. The Exchange's Description of the Fund

The Exchange has made the following additional representations and statements in describing the Fund and its investment strategy, including portfolio holdings and investment restrictions.[8]

Principal Investments

According to the Exchange, the Fund will seek total return and preservation of capital. The Fund is an actively-managed fund that does not seek to replicate the performance of a specified index. The Fund intends to achieve its investment objective by investing, under normal circumstances,[9] at least 80% of its net assets in a portfolio of U.S. dollar-denominated investment-grade and high-yield fixed-income securities ("Fixed Income Securities"), futures, and swaps, as described below. The Fund seeks to provide exposure to a portfolio of Fixed Income Securities where the expected contribution of interest rate risk and credit spread risk are approximately equal.

The Fund may invest, without limitation, in high-yield securities rated CCC or higher by

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use and dissemination of material non-public information regarding the portfolio.

8 The Commission notes that additional information regarding the Fund, the Trust, and the Shares, including investment strategies, risks, creation and redemption procedures, fees, portfolio holdings disclosure policies, distributions, and taxes, among other things, can be found in the Notice and the Registration Statement, as applicable. See Notice, supra note 3, and Registration Statement, supra note 5, respectively.

9 The term "under normal circumstances" includes, but is not limited to, the absence of adverse market, economic, political, or other conditions, including extreme volatility or trading halts in the fixed income markets or the financial markets generally; operational issues causing dissemination of inaccurate market information; or force majeure type events such as systems failure, natural or man-made disaster, act of God, armed conflict, act of terrorism, riot, or labor disruption, or any similar intervening circumstance.

Moody's Investors Service, Inc. or equivalently rated by Standard & Poor's Financial Services LLC and/or Fitch, or, if unrated, determined by the Adviser to be of equivalent quality.[10] Under normal circumstances, the Fund will invest primarily in fixed-rate Fixed Income Securities of varying maturities.

Fixed Income Securities in which the Fund may invest will include only the following instruments:[11] fixed and floating rate debt securities, such as corporate bonds[12] and government bonds; agency securities;[13] instruments of non-U.S. issuers;[14] privately-issued securities;[15]

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[10] According to the Exchange, the Adviser may determine that unrated Fixed Income Securities are of "equivalent quality" based on such credit quality factors that it deems appropriate, which may include among other things, performing an analysis similar, to the extent possible, to that performed by a nationally recognized statistical ratings organization when rating similar securities and issuers. In making such a determination, the Adviser may consider internal analyses and risk ratings, third party research and analysis, and other sources of information, as deemed appropriate by the Adviser.

[11] The Exchange represents that the Fund's portfolio will meet the following requirements of Rule 14.11(c)(4)(B)(i), which governs the listing and trading of fixed income based Index Fund Shares: (1) components that in the aggregate account for at least 75% of the weight of the index or portfolio must have a minimum original principal amount outstanding of $100 million or more (Rule 14.11(c)(4)(B)(i)(b)); (2) a component may be a convertible security, however, once the convertible security component converts to an underlying equity security, the component is removed from the index or portfolio (Rule 14.11(c)(4)(B)(i)(c)); and (3) no component fixed-income security (excluding Treasury Securities) will represent more than 30% of the weight of the portfolio, and the five highest weighted component fixed-income securities do not in the aggregate account for more than 65% of the weight of the portfolio (Rule 14.11(c)(4)(B)(i)(d)). For the purposes of this footnote, the term "fixed income securities" includes all holdings of the Fund.

[12] While the Fund is permitted to invest without restriction in corporate bonds, the Exchange states that, under normal circumstances, the Fund will generally invest in corporate bond issuances that have at least $250 million par amount outstanding.

[13] The Exchange states that "agency securities" for this purpose generally includes securities issued by the following entities: Government National Mortgage Association (Ginnie Mae), Federal National Mortgage Association (Fannie Mae), Federal Home Loan Banks (FHLBanks), Federal Home Loan Mortgage Corporation (Freddie Mac), Farm Credit System (FCS) Farm Credit Banks (FCBanks), Student Loan Marketing Association (Sallie Mae), Resolution Funding Corporation (REFCORP), Financing

municipal bonds; money market securities;[16] and exchange traded and non-exchange traded investment companies (including investment companies advised by the Adviser or its affiliates) that invest in such Fixed Income Securities.[17]

The Adviser will utilize a model-based proprietary investment process to assemble an investment portfolio comprised of (i) long positions in U.S. dollar denominated investment-grade corporate bonds selected by BFA based on certain criteria determined by BFA to be indicators of

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Corporation (FICO), and the Farm Credit System (FCS) Financial Assistance Corporation (FAC). Agency securities may include, but are not limited to, mortgage-backed securities.

14 The Exchange states that "instruments of non-U.S. issuers" means U.S. dollar-denominated fixed income securities issued by non-U.S. corporate or sovereign entities.

15 The Exchange states that "privately-issued securities" generally includes Rule 144A securities and, in this context, may include both mortgage-backed and non-mortgage 144A securities. The Exchange represents that, to the extent that the Fund's holding of privately-issued securities include non-agency mortgage-backed securities or illiquid assets, such holdings will be subject to the limitations established in the "Other Investments" and "Investment Restrictions" sections set forth below, as applicable.

16 The Exchange represents that, under normal circumstances, the Fund intends to invest in money market securities in a manner consistent with its investment objective in order to help manage cash flows in and out of the Fund, such as in connection with payment of dividends or expenses, and to satisfy margin requirements, to provide collateral or to otherwise back investments in derivative instruments. For these purposes, money market securities include: short-term, high-quality obligations issued or guaranteed by the U.S. Treasury or the agencies or instrumentalities of the U.S. government; short-term, high-quality securities issued or guaranteed by non-U.S. governments, agencies and instrumentalities; repurchase agreements; money market mutual funds; commercial paper; and deposits and other obligations of U.S. and non-U.S. banks and financial institutions. All money market securities acquired by the Fund will be rated investment grade. The Fund does not intend to invest in any unrated money market securities. However, it may do so, to a limited extent, such as where a rated money market security becomes unrated, if such money market security is determined by the Adviser to be of comparable quality. See supra note 10.

17 The Exchange states that the Fund currently anticipates investing in only registered open-end investment companies, including mutual funds and the open-end investment company funds described in BATS Rule 14.11, but notes that the Exemptive Order allows the Fund to invest in "shares of other ETFs, shares of money market mutual funds, or other investment companies."

creditworthiness; (ii) long positions in U.S. dollar-denominated high-yield corporate bonds selected by BFA based on certain criteria determined by BFA to be indicators of creditworthiness; (iii) long positions in U.S. dollar-denominated agency mortgage backed securities; (iv) long positions in U.S. dollar denominated agency mortgage to-be-announced transactions; (v) long positions in U.S. Treasury securities; (vi) short positions in U.S. Treasury futures; and (vii) short positions in U.S. Treasury securities through transactions in interest rate swaps. The Fund seeks to invest in a portfolio of Fixed Income Securities that in the aggregate has approximately equal exposure to credit spread risk and interest rate risk, which is measured by the Adviser as the volatility of returns of a security associated with changes in the security's credit spread or changes in interest rates.

The Fund will adjust the allocation among its underlying securities in an effort to achieve a target credit spread risk and interest rate risk for the Fund's portfolio. When necessary to balance the Fund's exposure to interest rate risk against its exposure to credit spread risk, the Fund may take short or long positions in U.S. Treasury futures and, through transactions in interest rate swaps, take short positions in U.S. Treasury securities. The Adviser will determine the aggregate credit spread risk and interest rate risk of the Fund's portfolio. The Fund may also invest in other interest rate futures contracts, including but not limited to, Eurodollar and Federal Funds futures.[18]

In selecting corporate securities for the Fund, the Adviser may employ a credit screening process centered on research and analysis of issuer credit quality to reduce exposure to credit issuers that have potential for experiencing credit deterioration. The remaining credit portfolio is

[18] The Exchange represents that derivatives held as part of the Fund's principal investment strategy will be exchange traded and/or centrally cleared, and they will be collateralized.

then constructed to match the key target risk characteristics which BFA determines to be relevant in prevailing market conditions.

To adjust the exposure to interest rate risks, the Adviser may employ short positions primarily in U.S. Treasury futures and interest rate swaps. By taking these short positions, the Adviser seeks to mitigate, but not eliminate, the impact of Treasury interest rates on the performance of the underlying bonds. The short positions are not intended to mitigate other factors influencing the price of bonds.

In the absence of normal circumstances, the Fund may temporarily depart from its normal investment process, provided that such departure is, in the opinion of the Adviser, consistent with the Fund's investment objective and in the best interests of the Fund. For example, the Fund may hold a higher than normal proportion of its assets in cash in response to adverse market, economic, or political conditions.

Other Investments

In addition to the derivatives holdings described above as part of the Fund's principal investment strategy, the Fund may also, to a limited extent (under normal circumstances, less than 20% of the Fund's net assets), engage in transactions in the following instruments in order to serve additional investment objectives of the Fund:[19] treasury futures, interest rate swaps, credit default swaps, asset-backed Fixed Income Securities,[20] non-agency mortgage-backed

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[19] In addition to the uses described above, the Exchange states that derivatives might be included in the Fund's investments to serve additional investment objectives of the Fund, which uses are limited to the following: using a combination of treasury futures, interest rate swaps, and credit default swaps to equitize coupon income and cash holdings. The Exchange represents that the derivatives in which the Fund will invest will be exchange traded and/or centrally cleared, and they will be collateralized.

[20] The Exchange states that asset-backed securities are fixed-income securities that are backed by a pool of assets, usually loans such as installment sale contracts or credit card

fixed-income securities,[21] and structured securities.[22]

Investment Restrictions

The Fund may hold up to an aggregate amount of 15% of its net assets in illiquid assets (calculated at the time of investment), including Rule 144A securities deemed illiquid by the Adviser[23] under the 1940 Act. The Fund will monitor its portfolio liquidity on an ongoing basis to determine whether, in light of current circumstances, an adequate level of liquidity is being maintained, and will consider taking appropriate steps in order to maintain adequate liquidity if, through a change in values, net assets, or other circumstances, more than 15% of the Fund's net assets are held in illiquid assets. Illiquid assets include securities subject to contractual or other restrictions on resale and other instruments that lack readily available markets as determined in

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receivables.

21 The Exchange states that mortgage-backed securities are asset-backed securities based on a particular type of asset, a mortgage. The Exchange states that there are a wide variety of mortgage-backed securities involving commercial or residential, fixed-rate or adjustable rate mortgages, and mortgages issued by banks or government agencies.

22 The Exchange states that "structured securities" generally include privately-issued and publicly-issued structured securities, including certain publicly-issued structured securities that are not agency securities, excluding agency mortgage backed securities. Examples include, but are not limited to: asset-backed securities backed by assets such as consumer receivables, credit cards, student loans, and equipment leases; asset-backed commercial paper; credit linked notes; and secured funding notes. Structured securities do not include agency mortgage-backed securities.

23 In reaching liquidity decisions, the Adviser may consider factors including: the frequency of trades and quotes for the security; the number of dealers wishing to purchase or sell the security and the number of other potential purchasers; dealer undertakings to make a market in the security; the nature of the security and the nature of the marketplace in which it trades (e.g., the time needed to dispose of the security, the method of soliciting offers, and the mechanics of transfer); any legal or contractual restrictions on the ability to transfer the security or asset; significant developments involving the issuer or counterparty specifically (e.g., default, bankruptcy, etc.) or the securities markets generally; and settlement practices, registration procedures, limitations on currency conversion or repatriation, and transfer limitations (for foreign securities or other assets).

accordance with Commission staff guidance.

The Fund's investments will be consistent with the Fund's investment objective and will not be used to achieve leveraged or inverse leveraged returns (i.e. two times or three times the Fund's benchmark).

The Fund is a non-diversified fund and therefore may invest a greater portion of its assets in the securities of one or more issuers than a diversified fund. The Fund, however, will not purchase the securities of issuers conducting their principal business activity in the same industry if, immediately after the purchase and as a result thereof, the value of the Fund's investments in that industry would equal or exceed 25% of the current value of the Fund's total assets, provided that this restriction does not limit the Fund's: (i) investments in securities of other investment companies, (ii) investments in securities issued or guaranteed by the U.S. government, its agencies, or instrumentalities, or (iii) investments in repurchase agreements collateralized by U.S. government securities.

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change, as modified by Amendment No. 1 thereto, is consistent with the requirements of Section 6 of the Act[24] and the rules and regulations thereunder applicable to a national securities exchange.[25] In particular, the Commission finds that the proposed rule change is consistent with the requirements of Section 6(b)(5) of the Act,[26] which requires, among other things, that the Exchange's rules be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles

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[24] 15 U.S.C. 78(f).

[25] In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

[26] 15 U.S.C. 78f(b)(5).

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. The Commission also finds that the proposal to list and trade the Shares on the Exchange is consistent with Section 11A(a)(1)(C)(iii) of the Act,[27] which sets forth Congress' finding that it is in the public interest and appropriate for the protection of investors and the maintenance of fair and orderly markets to assure the availability to brokers, dealers, and investors of information with respect to quotations for, and transactions in, securities. The Commission notes that the Fund and the Shares must comply with the requirements of BATS Rule 14.11(i) to be listed and traded on the Exchange.

According to the Exchange, quotation and last-sale information for the Shares will be available on the facilities of the Consolidated Tape Association ("CTA"), and the previous day's closing price and trading volume information for the Shares will be published daily in the financial section of newspapers.[28] Additionally, information regarding market price and trading volume of the Shares will be continually available on a real-time basis throughout the day on brokers' computer screens and other electronic services.[29] Daily trading volume information for the Fund will also be available in the financial section of newspapers, through subscription services such as Bloomberg, Thomson Reuters, and International Data Corporation, which can be accessed by authorized participants and other investors, as well as through other electronic

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[27] 15 U.S.C. 78k-1(a)(1)(C)(iii).

[28] See Notice, supra, note 3, 80 FR at 590.

[29] See id.

services, including major public websites.[30] The Exchange states that intraday, executable price quotations for the underlying Fixed Income Securities and non-exchange traded derivatives, including non-exchange listed investment companies, are available from major broker-dealer firms and, for the underlying exchange-traded assets, including investment companies and futures, such intraday information is available directly from the applicable listing exchange.[31] Further, the Exchange states that intraday price information for all such instruments is available through subscription services, such as Bloomberg, Thomson Reuters and International Data Corporation, which can be accessed by authorized participants and other investors.[32]

In addition, the Intraday Indicative Value of the Fund,[33] as defined in BATS Rule 14.11(i)(3)(C), that reflects an estimated intraday value of the Fund's portfolio, will be updated and widely disseminated by one or more major market data vendors at least every 15 seconds during the Exchange's Regular Trading Hours.[34] On each business day, before commencement of trading in Shares during Regular Trading Hours[35] on the Exchange, the Fund will disclose on its website the identities and quantities of the portfolio of securities and other assets held by the Fund that will form the basis for the Fund's calculation of NAV at the end of the business day

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30 See id.

31 See id.

32 See id.

33 According to the Exchange, the Intraday Indicative Value will be based upon the current value for the components of the Disclosed Portfolio. The quotations of certain of the Fund's holdings may not be updated during U.S. trading hours if such holdings do not trade in the United States or if updated prices cannot be ascertained. See id.

34 See id. Currently, it is the Exchange's understanding that several major market data vendors display and/or make widely available Intraday Indicative Values published via the CTA or other data feeds. See id.

35 Regular Trading Hours are 9:30 a.m. to 4:00 p.m. Eastern Time.

("Disclosed Portfolio").[36] The Net Asset Value ("NAV") of the Fund's Shares will generally be calculated once daily as of the close of regular trading on the Exchange, generally 4:00 p.m. Eastern Time on each day that the Exchange is open for trading.[37] The Adviser will make available through the National Securities Clearing Corporation on each business day, prior to the opening of business on the Exchange, the list of names and the required number or par value of each security, as well as the amount of the cash, comprising the creation basket of the Fund for

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36 On a daily basis, the Disclosed Portfolio displayed on the Fund's website will include the following information regarding each portfolio holding, as applicable to the type of holding: ticker symbol, if any; CUSIP number or other identifier, if any; a description of the holding (including the type of holding, such as the type of swap); the identity of the security or other asset or instrument underlying the holding, if any; quantity held (as measured by, for example, par value, notional value or number of shares, contracts, or units); maturity date, if any; coupon rate, if any; market value of the holding; and the percentage weighting of the holding in the Fund's portfolio. The website information will be publicly available at no charge. See id.

37 See id. at 588. The NAV per Share is calculated by dividing the Fund's net assets by the number of Fund Shares outstanding. According to the Exchange, for purposes of calculating NAV, the Fund values non-exchange traded Fixed Income Securities using prices provided directly from one or more broker-dealers, market makers, independent third-party pricing services which may use matrix pricing and valuation models to derive values, or, for investment companies, NAV. Exchange traded instruments, including exchange traded Fixed Income Securities and futures, will be valued at market closing price or, if no sale has occurred, at the last quoted bid price on the primary exchange on which they are traded. Price information for exchange traded instruments, including exchange traded derivatives, will be taken from the exchange where the security is primarily traded. Over-the-counter derivatives are valued based upon quotations from market makers or by a pricing service in accordance with valuation procedures approved by the Fund's board of directors. Certain short-term debt securities will be valued on the basis of amortized cost. Generally, trading in certain Fixed Income Securities and derivatives is substantially completed each day at various times prior to the close of business on the Exchange, and the values of such securities and derivatives used in computing the NAV of the Fund are determined at such times. When market quotations are not readily available or are believed by the Adviser to be unreliable, the Fund's investments are valued at fair value by the Adviser in accordance with policies and procedures approved by the Fund's board of directors and in accordance with the 1940 Act. Id.

that day.[38] The website for the Fund will include a form of the prospectus for the Fund and additional data relating to NAV and other applicable quantitative information.[39]

The Commission further believes that the proposal to list and trade the Shares is reasonably designed to promote fair disclosure of information that may be necessary to price the Shares appropriately and to prevent trading when a reasonable degree of transparency cannot be assured. The Exchange will obtain a representation from the issuer of the Shares that the NAV will be calculated daily and that the NAV and the Disclosed Portfolio will be made available to all market participants at the same time.[40] Further, trading in the Shares will be subject to BATS Rules 11.18 and 14.11(i)(4)(B)(iv), which set forth circumstances under which trading in Shares of the Fund may be halted.[41] Trading may be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable. These may include: (1) the extent to which trading is not occurring in the securities and/or the financial instruments composing the Disclosed Portfolio of the Fund; or (2) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present.[42] Further, the Commission notes that the Reporting Authority that provides the Disclosed Portfolio must implement and maintain, or be subject to, procedures designed to prevent the use and dissemination of material, non-public information regarding the actual components of the portfolio.[43] The Exchange represents that it prohibits the distribution of material, non-public

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38 See id. at 589.

39 See id. at 592.

40 See id. at 590.

41 See id.

42 See id.

43 See BATS Rule 14.11(i)(4)(B)(ii)(b).

information by its employees.[44] The Exchange also states that the Adviser is not a broker-dealer, but is affiliated with multiple broker-dealers and has implemented fire walls with respect to such broker dealer affiliates regarding access to information concerning the composition of or changes to the portfolio.[45] The Exchange may obtain information regarding trading in the Shares and the underlying shares in exchange traded investment companies and futures via the ISG, from other exchanges who are members or affiliates of the ISG, or with which the Exchange has entered into a comprehensive surveillance sharing agreement. In addition, the Exchange is able to access, as needed, trade information for certain fixed income instruments reported to Financial Industry Reporting Authority's ("FINRA") Trade Reporting and Compliance Engine ("TRACE").[46]

The Exchange represents that 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

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44 See Notice, supra note 3, 80 FR at 591.

45 See supra note 7 and accompanying text. The Exchange states that an investment adviser to an open-end fund is required to be registered under the Investment Advisers Act of 1940 ("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.

46 See Notice, supra note 3, 80 FR at 591.

equity securities.[47] In support of this proposal, the Exchange has made representations, including:

(1) The Shares will be subject to BATS Rule 14.11(i), which sets forth the initial and continued listing criteria applicable to Managed Fund Shares.

(2) The Exchange has appropriate rules to facilitate transactions in the Shares during all trading sessions.

(3) Trading of the Shares through the Exchange will be subject to the Exchange's surveillance procedures for derivative products, including Managed Fund Shares, which are adequate to properly monitor the trading of the Shares on the Exchange during all trading sessions and to deter and detect violations of Exchange rules and the applicable federal securities laws.

(4) Prior to the commencement of trading, the Exchange will inform its members in an Information Circular of the special characteristics and risks associated with trading the Shares. Specifically, the Information Circular will discuss the following: (a) the procedures for purchases and redemptions of Shares in creation units (and that Shares are not individually redeemable); (b) BATS Rule 3.7, which imposes suitability obligations on Exchange members with respect to recommending transactions in the Shares to customers; (c) how information regarding the Intraday Indicative Value and the Disclosed Portfolio is disseminated; (d) the risks involved in trading the Shares during the Pre-Opening and After Hours Trading Sessions when an updated Intraday Indicative Value will not be calculated or publicly disseminated; (e) the requirement that members

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[47] See id. at 590.

deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction; and (f) trading information.

(5) For initial and continued listing, the Fund must be in compliance with Rule 10A-3 under the Exchange Act.[48]

(6) A minimum of 100,000 Shares will be outstanding at the commencement of trading on the Exchange.

(7) The Fund will invest at least 80% of its assets, under normal market conditions, in U.S. dollar-denominated investment-grade and high-yield Fixed-Income Securities, futures, and swaps.

(8) Derivatives investments held by the Fund will be exchange traded and/or centrally cleared, and they will be collateralized.

(9) The Fund will generally invest in corporate bond issuances that have at least $250 million par amount outstanding.

(10) The Fund may hold up to an aggregate amount of 15% of its net assets in illiquid assets (calculated at the time of investment); will monitor its portfolio liquidity on an ongoing basis to determine whether, in light of current circumstances, an adequate level of liquidity is being maintained; and will consider taking appropriate steps in order to maintain adequate liquidity if, through a change in values, net assets, or other circumstances, more than 15% of the Fund's net assets are held in illiquid assets.

(11) All of the exchange listed investment company securities and futures that the Fund will invest in will trade on markets that are members of ISG or with which

[48] 17 CFR 240.10A-3.

the Exchange has in place a comprehensive surveillance sharing agreement.

(12) The Fund will not invest in non-U.S. equity securities.

(13) The Fund's investments will be consistent with the Fund's investment objective and will not be used to achieve leveraged or inverse leveraged returns (i.e. two times or three times the Fund's benchmark).

This approval order is based on all of the Exchange's representations and description of the Fund, including those set forth above and in the Notice, and the Exchange's description of the Fund.

For the foregoing reasons, the Commission finds that the proposed rule change, as modified by Amendment No. 1 thereto, is consistent with Section 6(b)(5) of the Act[49] and the rules and regulations thereunder applicable to a national securities exchange.

[49] 15 U.S.C. 78f(b)(5).

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[50] that the proposed rule change (SR-BATS-2014-056), as modified by Amendment No. 1 thereto, be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[51]

Brent J. Fields
Secretary

[FR Doc. 2015-03666 Filed 02/23/2015 at 8:45 am; Publication Date: 02/24/2015]

[50] 15 U.S.C. 78s(b)(2).

[51] 17 CFR 200.30-3(a)(12).