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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-79940; File No. SR-IEX-2017-03]

Self-Regulatory Organizations: Investors Exchange LLC; Notice of Filing of Proposed Rule Change to Amend IEX Rule 16.135 to Adopt Generic Listing Standards for Managed Fund Shares

February 2, 2017

Pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 (the “Act”)² and Rule 19b-4 thereunder,³ notice is hereby given that, on January 19, 2017, the Investors Exchange LLC (“IEX” or the “Exchange”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the self-regulatory organization. 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

Pursuant to the provisions of Section 19(b)(1) under the Securities Exchange Act of 1934 (“Act”),⁴ and Rule 19b-4 thereunder,⁵ Investors Exchange LLC (“IEX” or “Exchange”) is filing with the Commission a proposed rule change to amend IEX Rule 16.135 to adopt generic listing standards for Managed Fund Shares.

¹ 15 U.S.C. 78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

⁴ 15 U.S.C. 78s(b)(1).

⁵ 17 CFR 240.19b-4.

The text of the proposed rule change is available at the Exchange's website at www.iextrading.com, at the principal office of the Exchange, and at the Commission's Public Reference Room.

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

In its filing with the Commission, the self-regulatory organization 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 self-regulatory organization 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

Overview

The Exchange proposes to amend IEX Rule 16.135 to adopt generic listing standards for Managed Fund Shares. The proposed rule change is substantially identical to existing rules of the Nasdaq Stock Market ("Nasdaq").

The Exchange proposes to amend IEX Rule 16.135 to adopt generic listing standards for Managed Fund Shares, as well as to make additional changes as described below. Under the Exchange's current rules, a proposed rule change would need to be filed with the Commission for the listing and trading of each new series of Managed Fund Shares. The Exchange believes that it is appropriate to codify certain rules within Rule 16.135 that would generally eliminate the need for such proposed rule changes, which would create greater efficiency and promote uniform

standards in the listing process.⁶

The Exchange does not currently list any Managed Fund Shares. The proposed rule change would be applicable in the event IEX lists Managed Fund Shares.

Background

Rule 16.135 sets forth certain rules related to the listing and trading of Managed Fund Shares.⁷ Under Rule 16.135(c)(1), the term “Managed Fund Share” means a security that:

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

Effectively, Managed Fund Shares are securities issued by an actively-managed open-end Investment Company (i.e., an actively-managed exchange-traded fund (“ETF”)). Because Managed Fund Shares are actively managed, they do not seek to replicate the performance of a

⁶ This proposed rule change is substantially identical to changes approved by the Commission to Nasdaq Rule 5735. See, Securities Exchange Act Release No. 78918 (September 23, 2016), 81 FR 67033 (September 29, 2016) (SR-NASDAQ-2016-104).

⁷ IEX Rule 16.135 was approved in connection with IEX’s approval as a national securities exchange. See, Securities Exchange Act Release No. 34-78101 at 47 (June 17, 2016), 81 FR 41141 (June 23, 2016) (File No. 10-222).

specified passive index of securities. Instead, they generally use an active investment strategy to seek to meet their investment objectives. In contrast, an open-end Investment Company that issues Index Fund Shares, listed and traded on the Exchange pursuant to IEX Rule 16.105(b), seeks to provide investment results that generally correspond to the price and yield performance of a specific foreign or domestic stock index, fixed income securities index, or combination thereof.

All Managed Fund Shares listed and/or traded pursuant to Rule 16.135 (including pursuant to unlisted trading privileges) are subject to the full panoply of Exchange rules and procedures that currently govern the trading of equity securities on the Exchange.⁸

In addition, Rule 16.135(d) currently provides for the criteria that Managed Fund Shares must satisfy for initial and continued listing on the Exchange, including, for example, that a minimum number of Managed Fund Shares are required to be outstanding at the time of commencement of trading on the Exchange. However, the current process for listing and trading new series of Managed Fund Shares on the Exchange would require that the Exchange submit a proposed rule change with the Commission. In this regard, Rule 16.135(b)(1) specifies that the Exchange will file separate proposals under Section 19(b) of the Act (hereinafter, a “proposed rule change”) before listing and trading shares of an issue of Managed Fund Shares.

Proposed Changes to Rule 16.135

The Exchange proposes to amend Rule 16.135(b)(1) to specify that the Exchange may approve Managed Fund Shares for listing and/or trading (including pursuant to unlisted trading privileges) pursuant to SEC Rule 19b-4(e) under the Act, which pertains to derivative securities

⁸ See Rule 11.120.

products (“SEC Rule 19b-4(e)”).⁹ SEC Rule 19b-4(e)(1) provides that the listing and trading of a new derivative securities product by a self-regulatory organization (“SRO”) is not deemed a proposed rule change, pursuant to paragraph (c)(1) of Rule 19b-4,¹⁰ if the Commission has approved, pursuant to Section 19(b) of the Act, the SRO’s trading rules, procedures and listing standards for the product class that would include the new derivative securities product and the SRO has a surveillance program for the product class. It is the Exchange’s understanding that this is the current method pursuant to which “passive” ETFs are listed on Nasdaq and NYSE Arca, Inc. (“NYSE Arca”).

The Exchange would also specify within Rule 16.135(b)(1) that components of Managed Fund Shares listed pursuant to SEC Rule 19b-4(e) must satisfy, upon initial listing and on a continual basis, certain specific criteria, which the Exchange would include within Rule 16.135(b)(1), as described in greater detail below. As proposed, the Exchange would file separate proposed rule changes before the listing and trading of Managed Fund Shares with components that do not satisfy the additional criteria described below or components other than those specified below. For example, if the components of a Managed Fund Share exceeded one of the applicable thresholds, the Exchange would file a separate proposed rule change before listing and trading such Managed Fund Share. Similarly, if the components of a Managed Fund Share included a security or asset that is not specified below, the Exchange would file a separate proposed rule change.

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

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

The Exchange would also add to Rule 16.135(c) to provide that the website for each series of Managed Fund Shares shall disclose certain information regarding the Disclosed Portfolio, to the extent applicable. The required information includes the following, to the extent applicable: ticker symbol, CUSIP or other identifier, a description of the holding, identity of the asset upon which the derivative is based, the strike price for any options, the quantity of each security or other asset held as measured by select metrics, maturity date, coupon rate, effective date, market value, and percentage weight of the holding in the portfolio.¹¹

In addition, the Exchange would amend Rule 16.135(d) to specify that all Managed Fund Shares must have a stated investment objective, which must be adhered to under normal market conditions.¹²

Finally, the Exchange would also amend the continued listing requirements in Rule 16.135(d)(2)(A) by changing the requirement that an Intraday Indicative Value for Managed Fund Shares be widely disseminated by one or more major market data vendors at least every 15 seconds during the time when the Managed Fund Shares trade on the Exchange to a requirement that an Intraday Indicative Value be widely disseminated by one or more major market data vendors at least every 15 seconds during the Regular Market Session (as defined in Rule

¹¹ Proposed rule changes for series of Managed Fund Shares previously listed on Nasdaq have similarly included disclosure requirements with respect to each portfolio holding, as applicable to the type of holding. See, e.g., Securities Exchange Act Release No. 77688 (April 22, 2016), 81 FR 25467 (April 28, 2016) (SR-NASDAQ-2016-030) (the “Elkhorn Dorsey Wright Commodity Rotation Portfolio of Elkhorn ETF Trust Approval”), generally. See also Securities Exchange Act Release No. 72666 (July 3, 2014), 79 FR 44224 (July 30, 2014) (SR-NYSEArca-2013-122) (the “PIMCO Total Return Use of Derivatives Approval”), generally and at 44227.

¹² The Exchange would also add a new defined term under Rule 16.135(c)(5) to specify that the term “normal market conditions” includes, but is not limited to, the absence of trading halts in the applicable financial markets generally; operational issues (e.g., systems failure) causing dissemination of inaccurate market information; or force majeure type events such as a natural or man-made disaster, act of God, armed conflict, act of terrorism, riot or labor disruption or any similar intervening circumstance.

1.160(gg)).

Proposed Managed Fund Share Portfolio Standards

The Exchange is proposing standards that would pertain to Managed Fund Shares to qualify for listing and trading pursuant to SEC Rule 19b-4(e). These standards would be grouped according to security or asset type. The Exchange notes that the standards proposed for a Managed Fund Share portfolio that holds U.S. Component Stocks, Non-U.S. Component Stocks, Exchange Traded Derivative Securities, and Linked Securities are based in large part on the existing equity security standards applicable to Index Fund Shares in Rule 16.105(b)(3).

The standards proposed for a Managed Fund Share portfolio that holds fixed income securities are based in large part on the existing fixed income security standards applicable to Index Fund Shares in Rule 16.105(b)(4). Many of the standards proposed for other types of holdings in a Managed Fund Share portfolio are based on previous rule changes by Nasdaq and NYSE Arca for specific series of Managed Fund Shares.¹³

¹³ See, e.g., Securities Exchange Act Release No. 77688 (April 22, 2016), 81 FR 25467 (April 28, 2016) (SR-NASDAQ-2016-030) (order approving listing and trading of Elkhorn Dorsey Wright Commodity Rotation Portfolio of Elkhorn ETF Trust). See also Securities Exchange Act Release Nos. 72728 (July 31, 2014) 79 FR 45852 (August 6, 2014) (SR-NASDAQ-2014-059) (order approving listing and trading of Global X Commodities Strategy ETF) 72506 (July 1, 2014), 79 FR 38631 (July 8, 2014) (SR-NASDAQ-2014-050) (order approving listing and trading of First Trust Strategic Income ETF); 69464 (April 26, 2013), 78 FR 25774 (May 2, 2013) (SR-NASDAQ-2013-036) (order approving listing and trading of First Trust Senior Loan Fund); and 66489 (February 29, 2012), 77 FR 13379 (March 6, 2012) (SR-NASDAQ-2012-004) (order approving listing and trading of WisdomTree Emerging Markets Corporate Bond Fund). See also Securities Exchange Act Release Nos. 66321 (February 3, 2012), 77 FR 6850 (February 9, 2012) (SR-NYSEArca-2011-95) (the “PIMCO Total Return Approval”); 69244 (March 27, 2013), 78 FR 19766 (April 2, 2013) (SR-NYSEArca-2013-08) (the “SPDR Blackstone/GSO Senior Loan Approval”); 68870 (February 8, 2013), 78 FR 11245 (February 15, 2013) (SR-NYSEArca-2012-139) (the “First Trust Preferred Securities and Income Approval”); 69591 (May 16, 2013), 78 FR 30372 (May 22, 2013) (SR-NYSEArca-2013-33) (the “International Bear Approval”); 61697 (March 12, 2010), 75 FR 13616 (March 22, 2010) (SR-NYSEArca-2010-04) (the “WisdomTree Real Return

Proposed Rule 16.135(b)(1)(A) would describe the standards for a Managed Fund Share portfolio that holds equity securities, which are defined to be U.S. Component Stocks,¹⁴ Non-U.S. Component Stocks,¹⁵ Exchange Traded Derivative Securities,¹⁶ and Linked Securities¹⁷ listed on a national securities exchange. For Exchange Traded Derivative Securities and Linked Securities, no more than 25% of the equity weight of the portfolio could include leveraged and/or inverse leveraged Exchange Traded Derivative Securities or Linked Securities. In addition, proposed Rule 16.135(b)(1)(A) would provide that, to the extent that a portfolio includes convertible securities, the equity security into which such security is converted would be

Approval”); and 67054 (May 24, 2012), 77 FR 32161 (May 31, 2012) (SR-NYSEArca-2012-25) (the “WisdomTree Brazil Bond Approval”). Certain standards proposed herein for Managed Fund Shares are also based on previous proposed Nasdaq rule changes for specific series of Index Fund Shares for which Commission approval for listing was required due to the Index Fund Shares not satisfying certain standards of Rule 5705(b)(3) and 5705(b)(4). On NYSE Arca, similar products under NYSE Commentary .01 and .02 to NYSE Arca Equities Rule 5.2(j)(3) are called Investment Company Units. See, e.g., Securities Exchange Act Release No. 69373 (April 15, 2013), 78 FR 23601 (April 19, 2013) (SR-NYSEArca-2012-108) (the “NYSE Arca U.S. Equity Synthetic Reverse Convertible Index Fund Approval”).

¹⁴ For purposes of Rule 16.135(b)(1) and this proposal, the term “U.S. Component Stocks” would have the same meaning as defined in Rule 16.105(b)(1)(D).

¹⁵ For purposes of Rule 16.135(b)(1) and this proposal, the term “Non-U.S. Component Stocks” would have the same meaning as defined in Rule 16.105(b)(1)(E).

¹⁶ For the purposes of Rule 16.135(b)(1)(A) and this proposal, proposed Rule 16.135(c)(6) would define the term “Exchange Traded Derivative Securities” to mean the securities described in Rules 16.105(a) (Portfolio Depository Receipts); 16.105(b) (Index Fund Shares); 16.120 (Trust Issued Receipts); 16.111(d) (Commodity-Based Trust Shares); 16.111(e) (Currency Trust Shares); 16.111(f), (Commodity Index Trust Shares); 16.111(g) (Commodity Futures Trust Shares); 16.111(h) (Partnership Units); 16.111(i) (Trust Units); 16.135 (Managed Fund Shares); and 16.111(j) (Managed Trust Securities). This proposed definition is more narrow than the term “Derivative Securities Product,” as defined in Rule 16.170(d)(1).

¹⁷ Linked Securities are securities that qualify for Exchange listing and trading under Rule 16.110. The securities described in Rules 16.105, 16.110, and 16.135(c)(6), as referenced above, would include securities listed on another national securities exchange pursuant to substantially equivalent listing rules.

required to meet the criteria of Rule 16.135(b)(1)(A) after converting.

As proposed in Rule 16.135(b)(1)(A)(i), the component stocks of the equity portion of a portfolio that are U.S. Component Stocks shall meet the following criteria initially and on a continuing basis:

- (1) Component stocks (excluding Exchange Traded Derivative Securities and Linked Securities) that in the aggregate account for at least 90% of the equity weight of the portfolio (excluding such Exchange Traded Derivative Securities and Linked Securities) each must have a minimum market value of at least \$75 million;¹⁸
- (2) Component stocks (excluding Exchange Traded Derivative Securities and Linked Securities) that in the aggregate account for at least 70% of the equity weight of the portfolio (excluding such Exchange Traded Derivative Securities and Linked Securities) each must have a minimum monthly trading volume of 250,000 shares or minimum notional volume traded per month of \$25,000,000, averaged, over the last six months;¹⁹
- (3) The most heavily weighted component stock (excluding Exchange Traded Derivative Securities and Linked Securities) must not exceed 30% of the equity weight of the portfolio, and, to the extent applicable, the five most heavily weighted component stocks (excluding Exchange Traded Derivative Securities and Linked Securities) must not

¹⁸ This proposed text is substantively identical to the corresponding text of Rule 16.105(b)(3)(A)(i)(b), except for the omission of the reference to “index,” which is not applicable, the substitution of a more narrow exclusion for “Exchange Traded Derivative Securities” instead of for “Derivative Securities Products,” and the addition of the reference to Linked Securities.

¹⁹ This proposed text is substantively identical to the corresponding text of Rule 16.105(b)(3)(A)(i)(c), except for the omission of the reference to “index,” which is not applicable, the substitution of a more narrow exclusion for “Exchange Traded Derivative Securities” instead of for “Derivative Securities Products,” and the addition of the reference to Linked Securities.

exceed 65% of the equity weight of the portfolio;²⁰

(4) Where the equity portion of the portfolio does not include Non-U.S. Component Stocks, the equity portion of the portfolio shall include a minimum of 13 component stocks; provided, however, that there shall be no minimum number of component stocks if (a) one or more series of Exchange Traded Derivative Securities or Linked Securities constitute, at least in part, components underlying a series of Managed Fund Shares, or (b) one or more series of Exchange Traded Derivative Securities or Linked Securities account for 100% of the equity weight of the portfolio of a series of Managed Fund Shares;²¹

(5) Except as provided in proposed Rule 16.135(b)(1)(A), equity securities in the portfolio must be U.S. Component Stocks listed on a national securities exchange and must be NMS Stocks as defined in Rule 600 of Regulation NMS;²² and

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

²⁰ This proposed text is substantively identical to the corresponding text of Rule 16.105(b)(3)(A)(i)(d), except for the omission of the reference to “index,” which is not applicable, the substitution of a more narrow exclusion for “Exchange Traded Derivative Securities” instead of for “Derivative Securities Products,” and the addition of the reference to Linked Securities.

²¹ This proposed text is substantively identical to the corresponding text of Rule 16.105(b)(3)(A)(i)(e), except for the omission of the reference to “index,” which is not applicable, the addition of the reference to Linked Securities, the substitution of a more narrow exclusion for “Exchange Traded Derivative Securities” instead of for “Derivative Securities Products,” and the reference to the 100% limit applying to the “equity portion” of the portfolio.

²² 17 CFR 240.600. This proposed text is substantively identical to the corresponding text of Rule 16.105(b)(3)(A)(i)(f), except for the addition of “equity” to make clear that the standard applies to “equity securities,” the exclusion of unsponsored ADRs, and the omission of the reference to “index,” which is not applicable.

non-exchange-traded ADRs.²³

As proposed in Rule 16.135(b)(1)(A)(ii), the component stocks of the equity portion of a portfolio that are Non-U.S. Component Stocks shall meet the following criteria initially and on a continuing basis:

(1) Non-U.S. Component Stocks each shall have a minimum market value of at least \$100 million;²⁴

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

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

²³ Proposed rule changes for previously-listed series of Managed Fund Shares have similarly included the ability for such Managed Fund Shareholdings to include not more than 10% of net assets in unsponsored ADRs (which are not exchange listed). See, e.g., Securities Exchange Act Release No. 73480 (October 31, 2014), 79 FR 66022 (November 6, 2014) (SR-NASDAQ-2014-090) (order approving the Listing and Trading of Shares of the Validea Market Legends ETFs). See also Securities Exchange Act Release No. 71067 (December 12, 2013), 78 FR 76669 (December 18, 2013) (order approving listing and trading of shares of the SPDR MFS Systematic Core Equity ETF, SPDR MFS Systematic Growth Equity ETF, and SPDR MFS Systematic Value Equity ETF under NYSE Arca Equities Rule 8.600).

²⁴ The proposed text is identical to the corresponding representations from the First Trust Approval Order and the SSgA Global Managed Volatility Release, as noted in footnote 31, below. The proposed text is also substantively identical to the corresponding text of Rule 16.105(b)(3)(A)(ii)(a), except for the omission of the reference to “index,” which is not applicable, and that each Non-U.S. Component Stock must have a minimum market value of at least \$100 million instead of the 90% required under Rule 16.105(b)(3)(A)(ii)(a).

²⁵ The proposed text is identical to the corresponding representations from the First Trust Approval Order and the SSgA Global Managed Volatility Release, as noted in footnote 3131, below. This proposed text also is substantively identical to the corresponding text of Rule 16.105(b)(3)(A)(ii)(b), except for the omission of the reference to “index,” which is not applicable.

weighted Non-U.S. Component Stocks shall not exceed 60% of the equity weight of the portfolio;²⁶

(4) Where the equity portion of the portfolio includes Non-U.S. Component Stocks, the equity portion of the portfolio shall include a minimum of 20 component stocks; provided, however, that there shall be no minimum number of component stocks if (i) one or more series of Exchange Traded Derivative Securities or Linked Securities constitute, at least in part, components underlying a series of Managed Fund Shares, or (ii) one or more series of Exchange Traded Derivative Securities or Linked Securities account for 100% of the equity weight of the portfolio of a series of Managed Fund Shares²⁷; and

(5) Each Non-U.S. Component Stock shall be listed and traded on an exchange that has last-sale reporting.²⁸

The Exchange notes that it is not proposing to require that any of the equity portion of the equity portfolio composed of Non-U.S. Component Stocks be listed on markets that are either a member of the Intermarket Surveillance Group (“ISG”) or a market with which the

²⁶ This proposed text is substantively identical to the corresponding text of Rule 16.105(b)(3)(A)(ii)(c), except for the omission of the reference to “index,” which is not applicable.

²⁷ This proposed text is substantively identical to the corresponding text of Rule 16.105(b)(3)(A)(ii)(d), except for the omission of the reference to “index,” which is not applicable, the substitution of a more narrow exclusion for “Exchange Traded Derivative Securities” instead of for “Derivative Securities Products,” the addition of the reference to Linked Securities, the reference to the equity portion of the portfolio including Non-U.S. Component Stocks, and the reference to the 100% limitation applying to the “equity weight” of the portfolio, which is included because the proposed standards in Rule 16.135(b) permit the inclusion of non-equity securities, whereas Rule 16.105 applies only to equity securities.

²⁸ This proposed text is substantively identical to Rule 16.105(b)(3)(A)(ii)(e). as it relates to Non-U.S. Component Stocks.

Exchange has a comprehensive surveillance sharing agreement (“CSSA”).²⁹ However, as further detailed below, the regulatory staff of the Exchange, or the Financial Industry Regulatory Authority, Inc. (“FINRA”), on behalf of the Exchange, will communicate as needed regarding trading in Managed Fund Shares with other markets that are members of the ISG, including U.S. securities exchanges on which the components are traded.

The Exchange notes that the generic listing standards for Index Fund Shares based on foreign indexes in Rule 16.105 do not include specific ISG or CSSA requirements.³⁰ In addition, the Commission has approved listing and trading on Nasdaq of shares of an issue of Managed Fund Shares under Nasdaq Rule 5735 (which is substantially identical to IEX Rule 16.135) where non-U.S. equity securities in such issue’s portfolio meet specified criteria and where there is no requirement that such non-U.S. equity securities are traded in markets that are members of ISG or with which Nasdaq has in place a CSSA.³¹

²⁹ ISG is comprised of an international group of exchanges, market centers, and market regulators that perform front-line market surveillance in their respective jurisdictions. See www.isgportal.org. A list of ISG members is available at www.isgportal.org.

³⁰ Under Rule 16.105(b)(3), Index Fund Shares with components that include Non-U.S. Component Stocks can hold a portfolio that is entirely composed of Non-U.S. Component Stocks that are listed on markets that are neither members of ISG, nor with which the Exchange has in place a CSSA.

³¹ See, e.g., Securities Exchange Act Release No. 77548 (April 6, 2016), 81 FR 21626 (April 12, 2016) (SR-NASDAQ-2015-161) (order approving listing and trading of the Shares of the First Trust RiverFront Dynamic Europe ETF, First Trust RiverFront Dynamic Asia Pacific ETF, First Trust RiverFront Dynamic Emerging Markets ETF, and First Trust RiverFront Dynamic Developed International ETF of First Trust Exchange-Traded Fund III) (the “First Trust Approval Order”). See also Securities Exchange Act Release No. 75023 (May 21, 2015), 80 FR 30519 (May 28, 2015) (SR-NYSEArca-2014-100) (order approving listing and trading on the Exchange of shares of the SPDR SSgA Global Managed Volatility ETF under NYSE Arca Equities Rule 8.600) (“SSgA Global Managed Volatility Release”).

Proposed Rule 16.135(b)(1)(B) would describe the standards for a Managed Fund Share portfolio that holds fixed income securities, which are debt securities³² 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.

In addition, to the extent that a portfolio includes convertible securities, the fixed income security into which such security is converted would be required to meet the criteria of Rule 16.135(b)(1)(B) after converting.

The components of the fixed income portion of the portfolio must meet the following criteria initially and on a continuing basis:

- (1) Components that in the aggregate account for at least 75% of the fixed income weight of the portfolio each shall have a minimum original principal amount outstanding of \$100 million or more;³³
- (2) No component fixed-income security (excluding Treasury Securities and GSE Securities) could represent more than 30% of the fixed income weight of the portfolio; and the five most heavily weighted component fixed income securities in the portfolio (excluding Treasury Securities and GSE Securities) must not in the aggregate account for

³² Debt securities include a variety of fixed income obligations, including, but not limited to, corporate debt securities, government securities, municipal securities, convertible securities, and mortgage-backed securities. Debt securities include investment-grade securities, non-investment-grade securities, and unrated securities. Debt securities also include variable and floating rate securities.

³³ This text of proposed Rule 16.135(b)(1)(B)(i) is based on the corresponding text of Rule 16.105(b)(4)(A)(ii).

more than 65% of the fixed income weight of the portfolio;³⁴

(3) An underlying portfolio (excluding exempted securities) that includes fixed income securities must include a minimum of 13 non-affiliated issuers; provided, however, that there shall be no minimum number of non-affiliated issuers required for fixed income securities if at least 70% of the weight of the portfolio consists of equity securities as described in proposed Rule 16.135(b)(1)(A);³⁵

(4) Component securities that in aggregate account for at least 90% of the fixed income weight of the portfolio must be either (a) from issuers that are required to file reports pursuant to Sections 13 and 15(d) of the Act; (b) from issuers that have a worldwide market value of outstanding common equity held by non-affiliates of \$700 million or more; (c) from issuers that have outstanding securities that are notes, bonds, debentures, or evidence of indebtedness having a total remaining principal amount of at least \$1 billion³⁶; (d) exempted securities as defined in Section 3(a)(12) of the Act; or (e) from issuers that are a government of a foreign country or a political subdivision of a foreign country; and

(5) Non-agency, non-GSE, and privately-issued mortgage-related and other asset backed

³⁴ This proposed text is substantively identical to the corresponding text of 16.105(b)(4)(A)(iv), except for the omission of the reference to “index,” which is not applicable.

³⁵ This proposed text is substantively identical to the corresponding text of Rule 16.105(b)(4)(A)(v), except for the omission of the reference to “index,” which is not applicable, the exclusion of the text “consisting entirely of exempted securities” and the provision that there shall be no minimum number of nonaffiliated issuers required for fixed income securities if at least 70% of the weight of the portfolio consists of equity securities as described in proposed Rule 16.135(b)(1)(A).

³⁶ With respect to subparagraphs (b) and (c) above, the special purpose vehicle (“SPV”) that issues the fixed income security (e.g., an asset-backed or mortgage backed security) would itself be required to satisfy the \$700 million and \$1 billion criteria, respectively, and not the entity that controls, owns or is affiliated with the SPV.

securities components of a portfolio shall not account, in the aggregate, for more than 20% of the weight of the fixed income portion of the portfolio.³⁷

Proposed Rule 16.135(b)(1)(C) would describe the standards for a Managed Fund Share portfolio that holds cash and cash equivalents.³⁸ Specifically, the portfolio may hold short-term instruments with maturities of less than 3 months. There would be no limitation on the percentage of the portfolio invested in such holdings. Short-term instruments would include the following:³⁹

- (1) U.S. Government securities, including bills, notes, and bonds differing as to maturity and rates of interest, which are either issued or guaranteed by the U.S. Treasury or by U.S. Government agencies or instrumentalities;
- (2) certificates of deposit issued against funds deposited in a bank or savings and loan association;
- (3) bankers' acceptances, which are short-term credit instruments used to finance commercial transactions;

³⁷ Proposed rule changes for previously-listed series of Managed Fund Shares have similarly included the ability for such Managed Fund Share holdings to include up to 20% of net assets in non-agency, non-GSE and privately-issued mortgage related and other asset-backed securities. See, e.g., Securities Exchange Act Release No. 74742 (April 16, 2015) 80 FR 22584 (April 22, 2015) (SR-NASDAQ-2015-011) (order approving the listing and trading of shares of the First Trust Strategic Floating Rate ETF of First Trust Exchange-Traded Fund IV. See also, Securities Exchange Act Release No. 75566 (July 30, 2015), 80 FR 46612 (August 5, 2015) (SR-NYSEArca-2015-42) (order approving listing and trading of shares of Newfleet Multi-Sector Unconstrained Bond ETF under Rule 8.600).

³⁸ Proposed rule changes for previously-listed series of Managed Fund Shares have similarly included the ability for such Managed Fund Share holdings to include cash and cash equivalents. See, e.g., note 13 supra.

³⁹ Proposed rule changes for previously-listed series of Managed Fund Shares have similarly specified short-term instruments with respect to their inclusion in Managed Fund Share holdings. See, e.g., note 13 supra.

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

Proposed Rule 16.135(b)(1)(D) would describe the standards for a Managed Fund Share portfolio that holds listed derivatives, including futures, options, and swaps on commodities, currencies, and financial instruments (e.g., stocks, fixed income, interest rates, and volatility) or a basket or index of any of the foregoing.⁴⁰ There would be no limitation on the percentage of the portfolio invested in such holdings, subject to the following requirements:

- (1) in the aggregate, at least 90% of the weight of such holdings invested in futures, exchange-traded options, and listed swaps shall, on both an initial and continuing basis, consist of futures, options, and swaps for which the Exchange may obtain information via the ISG from other members or affiliates of the ISG or for which the principal market is a market with which the Exchange has a comprehensive surveillance sharing agreement (for purposes of calculating this limitation, a portfolio's investment in listed derivatives will be calculated as the aggregate gross notional value of the listed derivatives); and
- (2) the aggregate gross notional value of listed derivatives based on any five or fewer underlying reference assets shall not exceed 65% of the weight of the portfolio (including gross notional exposures), and the aggregate gross notional value of listed

⁴⁰ Proposed rule changes for previously-listed series of Managed Fund Shares have similarly included the ability for such Managed Fund Share holdings to include listed derivatives. See, e.g., note 13 supra.

derivatives based on any single underlying reference asset shall not exceed 30% of the weight of the portfolio (including gross notional exposures).

Proposed Rule 16.135(b)(1)(E) would describe the standards for a Managed Fund Share portfolio that holds over the counter (“OTC”) derivatives, including forwards, options and swaps on commodities, currencies and financial instruments (e.g., stocks, fixed income, interest rates, and volatility) or a basket or index of any of the foregoing.⁴¹ Proposed Rule 16.135(b)(1)(E) would provide that, on both an initial and continuing basis, no more than 20% of the assets in the portfolio may be invested in OTC derivatives. For purposes of calculating this limitation, a portfolio’s investment in OTC derivatives will be calculated as the aggregate gross notional value of the OTC derivatives.

Proposed Rule 16.135(b)(1)(F) would provide that, to the extent that listed or OTC derivatives are used to gain exposure to individual equities and/or fixed income securities, or to indexes of equities and/or fixed income securities, the aggregate gross notional value of such exposure shall meet the criteria set forth in Rules 16.135(b)(1)(A) and (B) (including gross notional exposures), respectively.

The following examples illustrate how certain of the proposed generic criteria of Rule 16.135 would be applied:

1. An actively managed ETF holds non-agency MBS that represent 15% of the weight of the fixed income portion of the portfolio. The fixed income portion of the portfolio meets all the requirements of Rule 16.135(b)(1)(B). The ETF also holds an OTC

⁴¹ A proposed rule change for series of Index Fund Shares previously listed and traded on Nasdaq pursuant to Nasdaq Rule 5705 similarly included the ability for such Index Fund Shares’ holdings to include OTC derivatives, specifically OTC down-and-in put options, which are not NMS Stocks as defined in Rule 600 of Regulation NMS and therefore did not satisfy the requirements of Nasdaq Rule 5705. See, e.g., note 1313 supra, regarding NYSE Arca U.S. Equity Synthetic Reverse Convertible Index Fund Approval.

swap on a non-agency MBS Index that represents 10% of the fixed income weight of the portfolio calculated on a notional value basis. Separately, the OTC swap and fixed income portion of the portfolio would meet the requirements of Rule 16.135(b)(1). However, when the 15% weight in non-agency MBS and the 10% weight in the non-agency MBS Index OTC swap are combined, as required by proposed 16.135(b)(1)(F), the 25% total weight would exceed the 20% limit for non-agency GSE and privately-issued mortgage-related securities in Rule 16.135(b)(1)(B)(v). The portfolio, therefore, would not meet the proposed generic criteria of Rule 16.135.

2. An actively managed ETF holds a portfolio of non-U.S. equity securities, S&P 500 Index and gold futures. S&P 500 Index futures and the gold futures held by the fund are listed on an ISG member exchange. The equity portion of the portfolio consists of developed and emerging markets equity securities with a current aggregate market value of \$15 million and all components meet the requirements under Rule 16.135(b)(1)(A)(ii). The gold futures contract trading unit size is 100 troy ounces and an ounce of gold is currently worth \$1200. The fund holds 500 gold futures contracts with a notional value of \$60 million ($500 \times 100 \times \1200). One S&P 500 contract represents 250 units of the S&P 500 Index and the S&P 500 Index is trading at \$2,000. The portfolio holds 50 contracts, so the notional value of the S&P 500 Index futures position is \$25 million ($50 \times 250 \times \2000). The S&P 500 Index futures meet the requirement under Rule 16.135(b)(1)(F), that is, the S&P 500 Index meets the criteria in Rule 16.135(b)(1)(A). The weights of the components are as follows; equity securities represent 15% of the portfolio, gold futures represent 60% of the portfolio

- and S&P 500 Index futures represent 25% of the portfolio. The gold futures represent 60% of the portfolio and exceeds the 30% concentration limitation on any single underlying reference asset as outlined in proposed Rule 16.135(b)(1)(D)(ii). The portfolio, therefore, would not meet the proposed generic criteria of Rule 16.135.
3. An actively managed ETF holds a portfolio of equity securities and call option contracts on company XYZ. The equity portion of the portfolio meets the requirements under Rule 16.135(b)(1)(A). Company XYZ represents 20% of the weight of the equity portion of the portfolio. The equity portion of the fund has a market value of \$100 million and the market value of the fund's holdings in company XYZ has a market value of \$20 million. The fund also holds 10,000 call option contracts on company XYZ which has a current market price of \$50 a share and, therefore, a notional value of \$50 million ($50 \times 100 \times 10,000$) (that is, the \$50 market price per share times the multiplier of 100 times 10,000 contracts). The option contracts are traded on an ISG member exchange. The total exposure to company XYZ is therefore \$70 million and represents 46.7% ($\$70 \text{ million} / \$150 \text{ million} = 46.7\%$) of the portfolio. This fund would not meet the requirements of Rule 16.135 because the exposure to XYZ at 46.7% exceeds the 30% concentration limitation of proposed Rule 16.135(b)(1)(D)(ii).

The Exchange believes that the proposed standards would ensure transparency surrounding the listing process for Managed Fund Shares. Additionally, the Exchange believes that the proposed portfolio standards for listing and trading Managed Fund Shares, many of which track existing Exchange rules relating to Index Fund Shares, are reasonably designed to

promote a fair and orderly market for such Managed Fund Shares. These proposed standards would also work in conjunction with the existing initial and continued listing criteria related to surveillance procedures and trading guidelines.

In support of this proposal, the Exchange represents that:

1. any Managed Fund Shares listed and traded on IEX will conform to the initial and continued listing criteria under Rule 16.135;
2. the Exchange's surveillance procedures are adequate to continue to properly monitor the trading of the Managed Fund Shares in all trading sessions and to deter and detect violations of Exchange rules. Specifically, the Exchange intends to utilize its existing surveillance procedures applicable to derivative products, which will include Managed Fund Shares, to monitor trading in the Managed Fund Shares;
3. prior to the commencement of trading of a particular series of Managed Fund Shares, the Exchange will inform its members in an information circular ("Circular") of the special characteristics and risks associated with trading the Managed Fund Shares, including procedures for purchases and redemptions of Managed Fund Shares, suitability requirements under Rules 3.150 and 3.170, the risks involved in trading the Managed Fund Shares during the Pre-Market and Post-Market Sessions when an updated Intraday Indicative Value will not be calculated or publicly disseminated, information regarding the Intraday Indicative Value and the Disclosed Portfolio, prospectus delivery requirements, and other trading information. In addition, the Circular will disclose that the Managed Fund Shares are subject to various fees and expenses, as described in the applicable

registration statement, and will discuss any exemptive, no-action, and interpretive relief granted by the Commission from any rules under the Act. Finally, the Circular will disclose that the net asset value for the Managed Fund Shares will be calculated after 4 p.m., ET, each trading day; and

4. the issuer of a series of Managed Fund Shares will be required to comply with Rule 10A-3 under the Act for the initial and continued listing of Managed Fund Shares, as provided under the IEX Rule Series 14.400.

The Exchange, on a periodic basis and no less than annually, will review issues of Managed Fund Shares generically listed pursuant to Rule 16.135, and will provide a report to the Regulatory Oversight Committee of the Exchange's Board of Directors regarding the Exchange's findings. In addition, the Exchange will provide the Commission staff with a report each calendar quarter that includes the following information for issues of Managed Fund Shares listed during such calendar quarter under Rule 16.135(b)(1): (1) trading symbol and date of listing on the Exchange; (2) the number of active authorized participants and a description of any failure of an issue of Managed Fund Shares or of an authorized participant to deliver shares, cash, or cash and financial instruments in connection with creation or redemption orders; and (3) a description of any failure of an issue of Managed Fund Shares to comply with Rule 16.135.

Prior to listing pursuant to proposed amended Rule 16.135(b)(1), an issuer would be required to represent to the Exchange that it will advise the Exchange of any failure by a series of Managed Fund Shares to comply with the continued listing requirements, and, pursuant to its obligations under Section 19(g)(1) of the Act, the Exchange will monitor for compliance with the continued listing requirements. If the Fund is not in compliance with the applicable listing requirements, the Exchange will commence delisting procedures under IEX Rule Series 14.500.

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

2. Statutory Basis

IEX believes that the proposed rule change is consistent with Section 6(b)⁴² of the Act in general, and furthers the objectives of Section 6(b)(5) of the Act,⁴³ 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.

The Exchange believes that the proposed change to adopt generic listing standards for Managed Fund Shares is designed to perfect the mechanism of a free and open market and, in general, to protect investors and the public interest because it would facilitate the potential listing and trading of Managed Fund Shares on the Exchange, which would enhance competition among market participants, to the benefit of investors and the marketplace. The proposed change would codify in Rule 16.135 specified criteria that have been the basis for proposed rule filings by Nasdaq and NYSE Arca with the Commission for the listing and trading of each new series of Managed Fund Shares. The Exchange believes that such codification is appropriate in that it would facilitate the listing and trading of additional types of Managed Fund Shares that have investment portfolios that are similar to investment portfolios for Index Fund Shares, which have been approved for listing and trading, thereby creating greater efficiencies in the listing process

⁴² 15 U.S.C. 78f(b).

⁴³ 15 U.S.C. 78f(b)(5).

for the Exchange and the Commission should the Exchange seek to list Managed Fund Shares. Moreover, the proposed generic standards for Managed Fund Shares are substantially identical to those that the Commission approved for Nasdaq, finding that such standards are consistent with the Section 6(b)(5) of the Act, noting that Nasdaq's proposal in turn was substantially identical to proposals the Commission had recently approved for NYSE Arca and Bats BZX Exchange (previously BATS Exchange).⁴⁴

The Exchange further believes that the proposed rule change is designed to protect investors and the public interest because Managed Fund Shares listed and traded pursuant to Rule 16.135, including pursuant to the proposed new portfolio standards, would continue to be subject to the full panoply of Exchange rules and procedures that currently govern the trading of equity securities on the Exchange.

The Exchange believes that the proposed rule change is designed to prevent fraudulent and manipulative acts and practices because the Managed Fund Shares will be listed and traded on the Exchange pursuant to the initial and continued listing criteria in Rule 16.135. The Exchange has in place surveillance procedures that are adequate to properly monitor trading in the Managed Fund Shares in all trading sessions and to deter and detect violations of Exchange rules and applicable federal securities laws. FINRA, on behalf of the Exchange, or the regulatory staff of the Exchange, will communicate as needed regarding trading in Managed Fund Shares with other markets that are members of the ISG, including all U.S. securities exchanges and futures exchanges on which the components are traded.

In addition, the Exchange may obtain information regarding trading in Managed Fund Shares from other markets that are members of the ISG, including all U.S. securities exchanges

⁴⁴ See, Securities Exchange Act Release No. 78918 (September 23, 2016), 81 FR 67033 (September 29, 2016) (SR-NASDAQ-2016-104).

and futures exchanges on which the components are traded, or with which the Exchange has in place a CSSA.

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

The Exchange, on a periodic basis and no less than annually, will review issues of Managed Fund Shares listed pursuant to Rule 16.135(b)(1), and will provide a report to the Regulatory Oversight Committee of the Exchange's Board of Directors regarding the Exchange's findings. In addition, the Exchange will provide the Commission staff with a report each calendar quarter that includes the following information for issues of Managed Fund Shares listed during such calendar quarter under Rule 16.135(b)(1): (1) trading symbol and date of listing on the Exchange; (2) the number of active authorized participants and a description of any failure of an issue of Managed Fund Shares listed pursuant to Rule 16.135(b)(1) or of an authorized participant to deliver shares, cash, or cash and financial instruments in connection with creation or redemption orders; and (3) a description of any failure of an issue of Managed Fund Shares to comply with Rule 16.135.

Prior to listing pursuant to proposed amended Rule 16.136(b)(1), an issuer would be required to represent to the Exchange that it will advise the Exchange of any failure by a series of Managed Fund Shares to comply with the continued listing requirements, and, pursuant to its obligations under Section 19(g)(1) of the Act, the Exchange will monitor for compliance with the

continued listing requirements. If the Fund is not in compliance with the applicable listing requirements, the Exchange will commence delisting procedures under IEX Rule Series 14.500.

Accordingly, based on the foregoing, the Exchange believes that the proposed generic listing standards for Managed Fund Shares are consistent with Section 6(b)(5) of the Act.

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

IEX does not believe that the proposed rule change will result in any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

The Exchange believes that the proposed change would facilitate the listing and trading of additional types of Managed Fund Shares and result in a significantly more efficient process for the listing and trading of Managed Fund Shares, thereby enhancing competition among market participants, including issuers and exchanges. Further, the Exchange believes that applying uniform and transparent listing standards would make the process for listing Managed Fund Shares more competitive.

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

Written comments were neither solicited nor received.

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

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period up to 90 days (i) as the Commission may designate if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

- A. by order approve or disapprove such proposed rule change; or
- B. institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

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

Electronic Comments:

- Use the Commission's Internet comment form

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

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-IEX-2017-03 in 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-IEX-2017-03. This file number should be included in the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing will also be available for inspection and copying at the

principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-IEX-2017-03 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.⁴⁵

Robert W. Errett
Deputy Secretary

⁴⁵ 17 CFR 200.30-3(a)(12).

