

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 90	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - 2016 - * 104	Amendment No. (req. for Amendments *)
Filing by NASDAQ Stock Market Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934				
Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>
			Section 19(b)(3)(B) * <input type="checkbox"/>	
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	Rule <input type="checkbox"/> 19b-4(f)(1) <input type="checkbox"/> 19b-4(f)(4) <input type="checkbox"/> 19b-4(f)(2) <input type="checkbox"/> 19b-4(f)(5) <input type="checkbox"/> 19b-4(f)(3) <input type="checkbox"/> 19b-4(f)(6)	
Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010 Section 806(e)(1) * <input type="checkbox"/>			Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934 Section 3C(b)(2) * <input type="checkbox"/>	
Exhibit 2 Sent As Paper Document <input type="checkbox"/>		Exhibit 3 Sent As Paper Document <input type="checkbox"/>		
<b>Description</b> Provide a brief description of the action (limit 250 characters, required when Initial is checked *). <input type="text" value="Proposal to amend Nasdaq Rule 5735 to adopt generic listing standards for Managed Fund Shares."/>				
<b>Contact Information</b> Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action. First Name * <input type="text" value="Jurij"/> Last Name * <input type="text" value="Trypupenko"/> Title * <input type="text" value="Associate General Counsel"/> E-mail * <input type="text" value="Jurij.Trypupenko@nasdaq.com"/> Telephone * <input type="text" value="(301) 978-8132"/> Fax <input type="text"/>				
<b>Signature</b> Pursuant to the requirements of the Securities Exchange Act of 1934, has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized. (Title *) Date <input type="text" value="07/25/2016"/> Executive Vice President and General Counsel By <input type="text" value="Edward S. Knight"/> <input type="text" value="edward.knight@nasdaq.com"/> (Name *) NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.				

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

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

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

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

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

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

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

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

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Exhibit Sent As Paper Document

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

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

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Exhibit Sent As Paper Document

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

**Exhibit 4 - Marked Copies**

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

**Exhibit 5 - Proposed Rule Text**

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

**Partial Amendment**

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

1. Text of the Proposed Rule Change

(a) The NASDAQ Stock Market LLC (“Nasdaq” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4,<sup>2</sup> is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposal to amend Nasdaq Rule 5735 to adopt generic listing standards for Managed Fund Shares.

A notice of the proposed rule change for publication in the Federal Register is attached as Exhibit 1. The text of the proposed rule change is attached as Exhibit 5.

(b) The Exchange does not believe that the proposed rule change will have any direct effect, or any significant indirect effect, on any other Exchange rule in effect at the time of this filing.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by its Board of Directors (the “Board”) on July 1, 2015. No other action is necessary for the filing of the rule change.

Questions and comments on the proposed rule change may be directed to:

Jurij Trypupenko  
Associate General Counsel  
Nasdaq, Inc.  
(301) 978-8132

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

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

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

a. Purpose

The Exchange proposes to amend Nasdaq Rule 5735 to adopt generic listing standards for Managed Fund Shares. Under the Exchange's current rules, a proposed rule change must 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 5735 that would generally eliminate the need for such proposed rule changes, which would create greater efficiency and promote uniform standards in the listing process.<sup>3</sup>

Background

Rule 5735 sets forth certain rules related to the listing and trading of Managed Fund Shares.<sup>4</sup> Under Rule 5735(c)(1), the term "Managed Fund Share" means a security that:

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<sup>3</sup> This proposed rule change is substantively identical to changes approved by the Commission to NYSE Arca Equities Rule 8.600. See Securities Exchange Act Release No. 78397 (July 22, 2016) (SR-NYSEArca-2015-110) (order approving generic listing standards for Managed Fund Shares listed per NYSE Arca Equities Rule 8.600). Non-substantive changes are made in order to conform the proposal to the structure of the Exchange's current rules. See also, Securities Exchange Act Release No. 78396 (July 22, 2016) (SR-BATS-2015-100) (order approving generic BATS listing standards for Managed Fund Shares).

<sup>4</sup> See Securities Exchange Act Release No. 57962 (June 13, 2008), 73 FR 35175 (June 20, 2008) (SR-NASDAQ-2008-039) (order approving Nasdaq Rule 4420(o) and listing and trading of shares of certain issues of Managed Fund Shares) (the "Approval Order"). The Approval Order approved, among other things, the rules permitting the listing and trading of Managed Fund Shares. Rule 4420(o) was subsequently relocated to Rule 5735. See Securities Exchange Act Release No. 59663 (March 31, 2009), 74 FR 15552 (April 6, 2009) (SR-NASDAQ-2009-018).

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

Effectively, Managed Fund Shares are securities issued by an actively-managed 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 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 Nasdaq Rule 5705(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 5735 (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.<sup>5</sup>

In addition, Rule 5735(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 requires that the Exchange submit a proposed rule change with the Commission. In this regard, Rule 5735(b)(1) specifies that the Exchange will file separate proposals under Section 19(b) of the Act (hereafter, a “proposed rule change”) before listing and trading shares of an issue of Managed Fund Shares.

#### Proposed Changes to Rule 5735

The Exchange proposes to amend Rule 5735(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 products (“SEC Rule 19b-4(e)").<sup>6</sup> SEC Rule 19b-4(e)(1) provides that the listing and trading of a new derivative securities product by a self-regulatory organization (“SRO”) is not deemed a proposed rule change, pursuant to paragraph (c)(1)

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<sup>5</sup> See Approval Order, note 4 above, at 35177.

<sup>6</sup> 17 CFR 240.19b-4(e). As provided under SEC Rule 19b-4(e), the term “new derivative securities product” means any type of option, warrant, hybrid securities product, or any other security, other than a single equity option or a security futures product, whose value is based, in whole or in part, upon the performance of, or interest in, an underlying instrument.

of Rule 19b-4,<sup>7</sup> if the Commission has approved, pursuant to section 19(b) of the Act, the SRO's trading rules, procedures, and listing standards for the product class that would include the new derivative securities product and the SRO has a surveillance program for the product class. This is the current method pursuant to which "passive" ETFs are listed under Nasdaq Rule 5705.

The Exchange would also specify within Rule 5735(b)(1) that components of Managed Fund Shares listed pursuant to SEC Rule 19b-4(e) must satisfy, on an initial and continued basis, certain specific criteria, which the Exchange would include within Rule 5735(b)(1), as described in greater detail below. As proposed, the Exchange would continue to file separate proposed rule changes before the listing and trading of Managed Fund Shares with components that do not satisfy the additional criteria described below or components other than those specified below. For example, if the components of a Managed Fund Share exceeded one of the applicable thresholds, the Exchange would file a separate proposed rule change before listing and trading such Managed Fund Share. Similarly, if the components of a Managed Fund Share included a security or asset that is not specified below, the Exchange would file a separate proposed rule change.

The Exchange would also add to the criteria of Rule 5735(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

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<sup>7</sup> 17 CFR 240.19b-4(c)(1). As provided under SEC Rule 19b-4(c)(1), a stated policy, practice, or interpretation of the SRO shall be deemed to be a proposed rule change unless it is reasonably and fairly implied by an existing rule of the SRO.

strike price for any options, the quantity of each security or other asset held as measured by select metrics, maturity date, coupon rate, effective date, market value, and percentage weight of the holding in the portfolio.<sup>8</sup>

In addition, the Exchange would amend Rule 5735(d) to specify that all Managed Fund Shares must have a stated investment objective, which must be adhered to under normal market conditions.<sup>9</sup>

Finally, the Exchange would also amend the continued listing requirement in Rule 5735(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 Nasdaq Rule 4120(b)).

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<sup>8</sup> Proposed rule changes for previously-listed series of Managed Fund Shares have similarly included disclosure requirements with respect to each portfolio holding, as applicable to the type of holding. See, e.g., Securities Exchange Act Release No. 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 and at 14147. See also, NYSE Arca proposal approved by Commission at 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.

<sup>9</sup> The Exchange would also add a new defined term under Rule 5735(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 natural or man-made disaster, act of God, armed conflict, act of terrorism, riot or labor disruption or any similar intervening circumstance.



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, Derivative Securities Products, and Index-Linked Securities are based in large part on the existing equity security standards applicable to Index Fund Shares in Rule 5705(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 5705(b)(4). Many of the standards proposed for other types of holdings in a Managed Fund Share portfolio are based on previous proposed rule changes for specific series of Managed Fund Shares.<sup>10</sup>

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<sup>10</sup> 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, NYSE Arca proposals approved by Commission at 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

Proposed Rule 5735(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,<sup>11</sup> Non-U.S. Component Stocks,<sup>12</sup> Derivative Securities Products,<sup>13</sup> and Index-Linked Securities<sup>14</sup> listed on a national securities exchange. For Derivative Securities Products and Index-Linked Securities, no more than 25% of the equity weight of the portfolio could include leveraged and/or inverse leveraged Derivative Securities Products or Index-Linked Securities. In addition, proposed rule 5735(b)(1)(A) would provide that, to the extent that a portfolio includes convertible securities, the equity security into which

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(March 12, 2010), 75 FR 13616 (March 22, 2010) (SR-NYSEArca-2010-04) (the “WisdomTree Real Return Approval”); and 67054 (May 24, 2012), 77 FR 32161 (May 31, 2012) (SR-NYSEArca-2012-25) (the “WisdomTree Brazil Bond Approval”). Certain standards proposed herein for Managed Fund Shares are also based on previous proposed 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”).

<sup>11</sup> For the purposes of Rule 5735(b)(1) and this proposal, the term “U.S. Component Stocks” would have the same meaning as defined in Rule 5705(b)(1)(D).

<sup>12</sup> For the purposes of Rule 5735(b)(1) and this proposal, the term “Non-U.S. Component Stocks” would have the same meaning as defined in Rule 5705(b)(1)(E).

<sup>13</sup> For the purposes of Rule 5735(b)(1)(A) and this proposal, the term “Derivative Securities Products” would mean Index Fund Shares and the securities described in Rule 4120 have the same meaning as defined under Rule 5705(b)(3).

<sup>14</sup> Index-Linked Securities are securities that qualify for Exchange listing and trading under Rule 5710. The securities described in Rule 5705, Rule 5710, and Rule 4120, as referenced above, would include securities listed on another national securities exchange pursuant to substantially equivalent listing rules.

such security is converted would be required to meet the criteria of 5735(b)(1)(A) after converting.

As proposed in Rule 5735(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 Derivative Securities Products and Index-Linked Securities) that in the aggregate account for at least 90% of the weight of the portfolio (excluding such Derivative Securities Products and Index-Linked Securities) each must have a minimum market value of at least \$75 million;<sup>15</sup>
- (2) Component stocks (excluding Derivative Securities Products and Index-Linked Securities) that in the aggregate account for at least 70% of the weight of the portfolio (excluding such Derivative Securities Products and Index-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;<sup>16</sup>
- (3) The most heavily weighted component stock (excluding Derivative Securities Products and Index-Linked Securities) must not exceed 30% of the weight of the portfolio, and, to the extent applicable, the five most heavily weighted component

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<sup>15</sup> This proposed text is materially similar to the corresponding text of Rule 5705 (b)(3)(A)(i)a., except for the omission of the reference to “index,” which is not applicable, and the addition of the reference to Index-Linked Securities.

<sup>16</sup> This proposed text is materially similar to the corresponding text of Rule 5705 (b)(3)(A)(i)b., except for the omission of the reference to “index,” which is not applicable, and the addition of the reference to Index-Linked Securities.

- stocks (excluding Derivative Securities Products and Index-Linked Securities) must not exceed 65% of the weight of the portfolio;<sup>17</sup>
- (4) Where the equity portion of the portfolio does not include Non-U.S. Component Stocks, the equity portion of the portfolio shall include a minimum of 13 component stocks; provided, however, that there shall be no minimum number of component stocks if (a) one or more series of Derivative Securities Products or Index-Linked Securities constitute, at least in part, components underlying a series of Managed Fund Shares, or (b) one or more series of Derivative Securities Products or Index-Linked Securities account for 100% of the equity weight of the portfolio of a series of Managed Fund Shares;<sup>18</sup>
- (5) Except as provided in proposed Rule 5735(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;<sup>19</sup> and
- (6) American Depositary Receipts (“ADRs”) may be exchange-traded or non-exchange-traded. However no more than 10% of the equity weight of the portfolio shall consist of non-exchange-traded ADRs.<sup>20</sup>

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<sup>17</sup> This proposed text is materially similar to the corresponding text of Rule 5705(b)(3)(A)(i)c., except for the omission of the reference to “index,” which is not applicable, and the addition of the reference to Index-Linked Securities.

<sup>18</sup> This proposed text is materially similar to the corresponding text of Rule 5705(b)(3)(A)(i)d., except for the omission of the reference to “index,” which is not applicable, the addition of the reference to Index-Linked Securities, and the reference to the 100% limit applying to the “equity portion” of the portfolio.

<sup>19</sup> 17 CFR 240.600. This proposed text is materially similar to the corresponding text of Rule 5705(b)(3)(A)(i)e., 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.

As proposed in Rule 5735(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;<sup>21</sup>
- (2) Non-U.S. Component Stocks each shall have a minimum global monthly trading volume of 250,000 shares, or minimum global notional volume traded per month of \$25,000,000, averaged over the last six months;<sup>22</sup>
- (3) The most heavily weighted Non-U.S. Component Stock shall not exceed 25% of the equity weight of the portfolio, and, to the extent applicable, the five most

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<sup>20</sup> 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, NYSE Arca proposal approved by Commission at 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).

<sup>21</sup> 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 28, below. The proposed text is also materially similar to the corresponding text of Rule 5705(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 5705(b)(3)(A)(ii)a.

<sup>22</sup> 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 28, below. This proposed text also is materially similar to the corresponding text of Rule 5705(b)(3)(A)(ii)b., except for the omission of the reference to “index,” which is not applicable.

- heavily weighted Non-U.S. Component Stocks shall not exceed 60% of the equity weight of the portfolio;<sup>23</sup>
- (4) Where the equity portion of the portfolio includes Non-U.S. Component Stocks, the equity portion of the portfolio shall include a minimum of 20 component stocks; provided, however, that there shall be no minimum number of component stocks if (i) one or more series of Derivative Securities Products or Index-Linked Securities constitute, at least in part, components underlying a series of Managed Fund Shares, or (ii) one or more series of Derivative Securities Products or Index-Linked Securities account for 100% of the equity weight of the portfolio of a series of Managed Fund Shares<sup>24</sup>; and
- (5) Each Non-U.S. Component Stock shall be listed and traded on an exchange that has last-sale reporting.<sup>25</sup>

The Exchange notes that it is not proposing to require that any of the equity portions 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

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<sup>23</sup> This proposed text is materially similar to the corresponding text of Rule 5705(b)(3)(A)(ii)c., except for the omission of the reference to “index,” which is not applicable.

<sup>24</sup> This proposed text is materially similar to the corresponding text of Rule 5705(b)(3)(A)(ii)d., except for the omission of the reference to “index,” which is not applicable, the addition of the reference to Index-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 5735(b) permit the inclusion of non-equity securities, whereas Rule 5705 applies only to equity securities.

<sup>25</sup> This proposed text is similar to Rule 5705(b)(3)(A)(ii)e. as it relates to Non-U.S. Component Stocks.

market with which the Exchange has a comprehensive surveillance sharing agreement (“CSSA”).<sup>26</sup> 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 5705 do not include specific ISG or CSSA requirements.<sup>27</sup> In addition, the Commission has approved listing and trading on the Exchange of shares of an issue of Managed Fund Shares under Rule 5735 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 the Exchange has in place a CSSA.<sup>28</sup>

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<sup>26</sup> ISG is comprised of an international group of exchanges, market centers, and market regulators that perform front-line market surveillance in their respective jurisdictions. See [www.isgportal.org](http://www.isgportal.org). A list of ISG members is available at [www.isgportal.org](http://www.isgportal.org).

<sup>27</sup> Under Rule 5705(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.

<sup>28</sup> 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, NYSE Arca proposal approved by Commission at 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

Proposed Rule 5735(b)(1)(B) would describe the standards for a Managed Fund Share portfolio that holds fixed income securities, which are debt securities<sup>29</sup> that are notes, bonds, debentures, or evidence of indebtedness that include, but are not limited to, U.S. Department of Treasury securities (“Treasury Securities”), government-sponsored entity securities (“GSE Securities”), municipal securities, trust preferred securities, supranational debt and debt of a foreign country or a subdivision thereof, investment grade and high yield corporate debt, bank loans, mortgage and asset backed securities, 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 5735(b)(1)(B) after converting:

- (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;<sup>30</sup>
- (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

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Exchange of shares of the SPDR SSgA Global Managed Volatility ETF under NYSE Arca Equities Rule 8.600) (“SSgA Global Managed Volatility Release”).

<sup>29</sup> Debt securities include a variety of fixed income obligations, including, but not limited to, corporate debt securities, government securities, municipal securities, convertible securities, and mortgage-backed securities. Debt securities include investment-grade securities, non-investment-grade securities, and unrated securities. Debt securities also include variable and floating rate securities.

<sup>30</sup> This text of proposed Rule 5735(b)(1)(B)(i) is based on the corresponding text of Rule 5705(b)(4)(A)(ii).



- in the portfolio (excluding Treasury Securities and GSE Securities) must not in the aggregate account for more than 65% of the fixed income weight of the portfolio;<sup>31</sup>
- (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 5735(b)(1)(A).<sup>32</sup>
- (4) Component securities that in aggregate account for at least 90% of the fixed income weight of the portfolio must be either (a) from issuers that are required to file reports pursuant to Sections 13 and 15(d) of the Act; (b) from issuers that have a worldwide market value of its outstanding common equity held by non-affiliates of \$700 million or more; (c) from issuers that have outstanding securities that are notes, bonds debentures, or evidence of indebtedness having a total remaining principal amount of at least \$1 billion<sup>33</sup>; (d) exempted securities as

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<sup>31</sup> This proposed text is materially similar to the corresponding text of 5705(b)(4)(A)(iv), except for the omission of the reference to “index,” which is not applicable.

<sup>32</sup> This proposed text is similar to the corresponding text of Rule 5705(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 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 5735(b)(1)(A).

<sup>33</sup> 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.

- defined in Section 3(a)(12) of the Act; or (e) from issuers that are a government of a foreign country or a political subdivision of a foreign country; and
- (5) Non-agency, non-GSE, and privately-issued mortgage-related and other asset-backed securities components of a portfolio shall not account, in the aggregate, for more than 20% of the weight of the fixed income portion of the portfolio.<sup>34</sup>

Proposed Rule 5735(b)(1)(C) would describe the standards for a Managed Fund Share portfolio that holds cash and cash equivalents.<sup>35</sup> Specifically, the portfolio may hold short-term instruments with maturities of less than 3 months. There would be no limitation to the percentage of the portfolio invested in such holdings. Short-term instruments would include the following:<sup>36</sup>

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<sup>34</sup> Proposed rule changes for previously-listed series of Managed Fund Shares have similarly included the ability for such Managed Fund Share holdings to include 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, NYSE Arca proposal approved by Commission at 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).

<sup>35</sup> Proposed rule changes for previously-listed series of Managed Fund Shares have similarly included the ability for such Managed Fund Share holdings to include cash and cash equivalents. See, e.g., note 10 above regarding approval of NYSE Arca's SPDR Blackstone/GSO Senior Loan, at 19768-69; and First Trust Preferred Securities and Income Approval, at 76150.

<sup>36</sup> Proposed rule changes for previously-listed series of Managed Fund Shares have similarly specified short-term instruments with respect to their inclusion in Managed Fund Share holdings. See, e.g., note 10 above, regarding NYSE Arca's First Trust Preferred Securities and Income Approval, at 76150-51.

- (1) U.S. Government securities, including bills, notes, and bonds differing as to maturity and rates of interest, which are either issued or guaranteed by the U.S. Treasury or by U.S. Government agencies or instrumentalities;
- (2) certificates of deposit issued against funds deposited in a bank or savings and loan association;
- (3) bankers' acceptances, which are short-term credit instruments used to finance commercial transactions;
- (4) repurchase agreements and reverse repurchase agreements;
- (5) bank time deposits, which are monies kept on deposit with banks or savings and loan associations for a stated period of time at a fixed rate of interest;
- (6) commercial paper, which are short-term unsecured promissory notes; and
- (7) money market funds.

Proposed Rule 5735(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.<sup>37</sup> There would be no limitation to 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

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<sup>37</sup> Proposed rule changes for previously-listed series of Managed Fund Shares have similarly included the ability for such Managed Fund Share holdings to include listed derivatives. See, e.g., note 10 above, regarding NYSE Arca's WisdomTree Real Return Approval, at 13617; and WisdomTree Brazil Bond Approval, at 32163.

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

Proposed Rule 5735(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.<sup>38</sup> Proposed Rule 5735(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

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<sup>38</sup> A proposed rule change for series of Index Fund Shares previously listed and traded on the Exchange pursuant to 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 do not satisfy the requirements of Rule 5705. See, e.g., note 10 above, regarding NYSE Arca U.S. Equity Synthetic Reverse Convertible Index Fund Approval, at 23602.

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 5735(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 Rule 5735(b)(1)(A) and (B) (including gross notional exposures), respectively.

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

The following examples illustrate how certain of the proposed generic criteria of Rule 5735 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 5735(b)(1)(B). The ETF also holds an OTC 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 5735(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 5735(b)(1)(F), the 25% total weight would exceed the 20% limit for non-agency GSE and privately-issued

mortgage-related securities in 5735(b)(1)(B)(v). The portfolio, therefore, would not meet the proposed generic criteria of Rule 5735.

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 5735(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 5735(b)(1)(F), that is, the S&P 500 Index meets the criteria in Rule 5735(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 5735(b)(1)(D)(ii). The portfolio, therefore, would not meet the proposed generic criteria of Rule 5735.

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 5735(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 5735 because the exposure to XYZ at 46.7% exceeds the 30% concentration limitation of proposed Rule 5735(b)(1)(D)(ii).

The Exchange believes that the proposed standards would continue to 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.<sup>39</sup> These proposed standards would also work in conjunction with the existing

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<sup>39</sup> See note 4 above, Approval Order, at 35177.

initial and continued listing criteria related to surveillance procedures and trading guidelines.

In support of this proposal, the Exchange represents that:<sup>40</sup>

- (1) the Managed Fund Shares will continue to conform to the initial and continued listing criteria under Rule 5735;
- (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 Equity Trader Alert ("Alert" or "ETA") 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 2090A and 2111A, the risks involved in trading the Managed Fund Shares during the Pre-Market and Post Market Sessions when an updated Portfolio Indicative Value will not be calculated or publicly disseminated, information regarding the Portfolio Indicative Value and the Disclosed Portfolio, prospectus delivery requirements, and other trading information. In addition, the Alert will disclose that the Managed Fund Shares are subject to various fees and expenses, as described in the applicable

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<sup>40</sup> The Exchange made similar representations in the Approval Order. See id. at 35177 – 35178.



- registration statement, and will discuss any exemptive, no-action, and interpretive relief granted by the Commission from any rules under the Act. Finally, the Alert 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 Nasdaq Rule 5600 Series.

The Exchange, on a periodic basis and no less than annually, will review issues of Managed Fund Shares listed pursuant to Rule 5735, 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 5735(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 5735(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 Nasdaq Rule 5735.

Prior to listing pursuant to proposed amended Rule 5735(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 the Nasdaq Rule 5800 Series.

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

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>41</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>42</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest.

The proposed rule change is designed to perfect the mechanism of a free and open market and, in general, to protect investors and the public interest because it would facilitate the listing and trading of additional Managed Fund Shares, which would enhance competition among market participants, to the benefit of investors and the marketplace.

Specifically, after more than six years under the current process, whereby the Exchange is required to file a proposed rule change with the Commission for the listing and trading of each new series of Managed Fund Shares, the Exchange believes that it is

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<sup>41</sup> 15 U.S.C. 78f(b).

<sup>42</sup> 15 U.S.C. 78f(b)(5).

appropriate to codify certain rules within Rule 5735 that would generally eliminate the need for separate proposed rule changes.

The Exchange believes that this would facilitate the listing and trading of additional types of Managed Fund Shares that have investment portfolios that are similar to investment portfolios for Index Fund Shares, which have been approved for listing and trading, thereby creating greater efficiencies in the listing process for the Exchange and the Commission.

In this regard, the Exchange notes that the standards proposed for Managed Fund Share portfolios that include U.S. Component Stocks, Non-U.S. Component Stocks, Derivative Securities Products, and Index-Linked Securities are based in large part on the existing equity security standards applicable to Index Fund Shares in Rule 5705(b)(3) and that the standards proposed for Managed Fund Share portfolios that include fixed income securities are based in large part on the existing fixed income standards applicable to Index Fund Shares in Rule 5705(b)(4). Additionally, many of the standards proposed for other types of holdings of series of Managed Fund Shares are based on previous proposed rule changes for specific series of Managed Fund Shares.<sup>43</sup>

With respect to the proposed addition to the criteria of Rule 5735(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 Exchange notes that proposed rule changes approved by the Commission for previously-listed series

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<sup>43</sup>

See note 10 above.

of Managed Fund Shares have similarly included disclosure requirements with respect to each portfolio holding, as applicable to the type of holding.<sup>44</sup>

With respect to the proposed definition of the term “normal market conditions” in proposed Rule 5735(c)(5), such definition is similar to the definition of normal market conditions approved by the Commission for other issues of Managed Fund Shares.<sup>45</sup> In addition, proposed Rule 5735(d)(1)(C), would specify that a series of Managed Fund Shares would be required to adhere to its stated investment objective during normal market conditions.

With respect to the proposed amendment to the continued listing requirement in Rule 5735(d)(2)(A) to require dissemination of a Portfolio Indicative Value at least every 15 seconds during the Regular Market Session (as defined in Rule 4120(b)), such requirement conforms to the requirement applicable to the dissemination of the Intraday Indicative Value for Index Fund Shares in Rule 5705(b)(3)(C) and Rule 5705(b)(6)(A). In addition, such dissemination is consistent with representations made in proposed rule changes for issues of Managed Fund Shares previously approved by the Commission.<sup>46</sup>

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<sup>44</sup> See note 8 above.

<sup>45</sup> See, e.g., Securities Exchange Act Release No. 73140 (September 18, 2014) 79 FR 57144 (September 24, 2014) (SR-NASDAQ-2014-073) (order approving listing and trading of the First Trust Emerging Markets Local Currency Bond ETF of First Trust Exchange-Traded Fund III. See also, NYSE Arca proposal approved by Commission at Securities Exchange Act Release No. 74338 (February 20, 2015), 80 FR 10556 (February 26, 2015) (SR-NYSEArca-2014-143) (order approving listing and trading of shares of the SPDR Doubletree Total Return Tactical ETF under NYSE Arca Equities Rule 8.600).

<sup>46</sup> See, e.g., Approval Order, note 4 above; and International Bear Approval, note 10 above.

With respect to the proposed requirement in Rule 5735(b)(1)(A) that no more than 25% of the equity weight of the portfolio shall consist of leveraged and/or inverse leveraged Derivative Securities Products or Index-Linked Securities, such requirement would assure that only a relatively small proportion of a fund's investments could consist of such leveraged and/or inverse securities. In addition, such limitation would apply to both U.S. Component Stocks and Non-U.S. Component Stocks comprising the equity portion of a portfolio.

With respect to the proposed provision in Rule 5735(b)(1)(A) that, to the extent a portfolio includes a convertible security, the equity security into which such security is converted must meet the criteria in Rule 5735(b)(1)(A) after converting, such requirement would assure that the equity securities into which a convertible security could be converted meet the liquidity and other criteria in Rule 5735(b)(1)(A) applicable to such equity securities.

With respect to the proposed exclusion of Derivatives Securities Products and Index-Linked Securities from the requirements of proposed Rule 5735(b)(1)(A), the Exchange believes it is appropriate to exclude Index-Linked Securities as well as Derivative Securities Products from certain component stock eligibility criteria for Managed Fund Shares in so far as Derivative Securities Products and Index-Linked Securities are themselves subject to specific quantitative listing and continued listing requirements of a national securities exchange on which such securities are listed. Derivative Securities Products and Index-Linked Securities that are components of a fund's portfolio would have been listed and traded on a national securities exchange pursuant to a proposed rule change approved by the Commission pursuant to Section

19(b)(2) of the Act<sup>47</sup> or submitted by a national securities exchange pursuant to Section 19(b)(3)(A) of the Act<sup>48</sup> or would have been listed by a national securities exchange pursuant to the requirements of Rule 19b-4(e) under the Act.<sup>49</sup>

The Exchange also notes that Derivative Securities Products and Index-Linked Securities are derivatively priced, and, therefore, the Exchange believes that it would not be necessary to apply the proposed generic quantitative criteria (e.g., market capitalization, trading volume, or portfolio component weighting) applicable to equity securities other than Derivative Securities Products or Index-Linked Securities (e.g., common stocks) to such products.<sup>50</sup>

With respect to the proposed criteria applicable to U.S. Component Stocks, the Exchange notes that such criteria are similar to those in Rule 5705(b)(3) relating to criteria applicable to an index or portfolio of U.S. Component Stocks. In addition, Non-U.S. Component Stocks also will be required to meet criteria similar to certain generic listing standards in Rule 5705(b)(3) relating to criteria applicable to an index or portfolio of U.S. Component Stocks and Non-U.S. Component Stocks underlying a series of Index

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<sup>47</sup> 15 U.S.C. 78s(b)(2).

<sup>48</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>49</sup> 17 CFR 240.19b-4(e).

<sup>50</sup> See e.g., Securities Exchange Act Release Nos. 57561 (March 26, 2008), 73 FR 17390 (April 1, 2008) (SR-NYSEArca-2008-29) (notice of filing of proposed rule change to amend eligibility criteria for components of an index underlying Investment Company Units); 57751 (May 1, 2008), 73 FR 25818 (May 7, 2008) (SR-NYSEArca-2008-29) (order approving proposed rule change to amend eligibility criteria for components of an index underlying Investment Company Units).

Fund Shares to be listed and traded on the Exchange pursuant to Rule 19b-4(e) under the Act.

With respect to the proposed requirement in Rule 5735(b)(1)(A)(i)f. that ADRs in a portfolio may be exchange-traded or non-exchange-traded and that no more than 10% of the equity weight of the portfolio shall consist of non-exchange-traded ADRs, the Exchange notes that such requirement will ensure that unsponsored ADRs, which are traded OTC and which generally have less market transparency than sponsored ADRs, as well as any sponsored ADRs traded OTC, could account for only a small percentage of the equity weight of a portfolio. Further, the requirement is consistent with representations made in proposed rule changes for issues of Managed Fund Shares previously approved by the Commission.<sup>51</sup>

With respect to the proposed provision in Rule 5735(b)(1)(B) that, to the extent a portfolio includes convertible securities, the fixed income security into which such security is converted must meet the criteria in paragraph (B) of Rule 5735(b)(1) after converting, such requirement would assure that the fixed income securities into which a convertible security could be converted meet the liquidity and other criteria in Rule 5735(b)(1)(B) applicable to fixed income securities.

As proposed, pursuant to Rule 5735(b)(1)(B)(iii), an underlying portfolio (excluding exempted securities) that includes fixed income securities must include a minimum of 13 non-affiliated issuers, but there would be no minimum number of non-affiliated issuers required for fixed income securities if at least 70% of the weight of the portfolio consists of equity securities, as described in Rule 5735(b)(1)(A). The Exchange

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See note 20 above.

notes that, when evaluated in conjunction with proposed Rule 5735(b)(1)(B)(ii), the proposed rule is consistent with Rules 5705(b)(4)(A)(iv) and 5705(b)(4)(A)(v) in that it provides for a maximum weighting of a fixed income security in the fixed income portion of the portfolio of a fund that is comparable to the existing rules applicable to Index Fund Shares based on fixed income indexes.

With respect to the proposed requirement in Rule 5735(b)(1)(B)(v) that non-agency, non-GSE and privately-issued mortgage-related and other asset-backed securities components of a portfolio shall not account, in the aggregate, for more than 20% of the weight of the fixed income portion of the portfolio, the Exchange notes that such requirement is consistent with representations made in proposed rule changes for issues of Managed Fund Shares previously approved by the Commission.<sup>52</sup>

With respect to the proposed amendment to Rule 5735(b)(1)(c) relating to cash and cash equivalents, while there is no limitation on the amount of cash and cash equivalents that can make up the portfolio, such instruments are short-term, highly liquid, and of high credit quality, making them less susceptible than other asset classes both to price manipulation and volatility. Further, the requirement is consistent with representations made in proposed rule changes for issues of Managed Fund Shares previously approved by the Commission.<sup>53</sup>

With respect to proposed Rule 5735(b)(1)(D)(i) relating to listed derivatives, the Exchange believes that it is appropriate that there be no limit to the percentage of a portfolio invested in such holdings, provided that, in the aggregate, at least 90% of the

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<sup>52</sup> See note 34 above.

<sup>53</sup> See note 35 above.



weight of such holdings invested in futures, exchange-traded options, and listed swaps would consist of futures, options, and swaps for which the Exchange may obtain information via ISG from other members or affiliates or for which the principal market is a market with which the Exchange has a CSSA. Such a requirement would facilitate information sharing among market participants trading shares of a series of Managed Fund Shares as well as futures and options that such series may hold. In addition, listed swaps would be centrally cleared, reducing counterparty risk and thereby furthering investor protection.<sup>54</sup>

With respect to proposed Rule 5735(b)(1)(D)(ii), requiring percentage caps on the aggregate gross notional value of listed derivatives based on any five or fewer underlying reference assets or based on any single underlying reference asset, the Exchange believes such requirements will help ensure that listed derivatives utilized by a fund are adequately diversified and not unduly concentrated.

With respect to proposed Rule 5735(b)(1)(E) relating to OTC derivatives, the Exchange believes that the limitation to 20% of a fund's assets would assure that the preponderance of fund investments would not be in derivatives that are not listed and centrally cleared. The Exchange believes that such a limitation is sufficient to mitigate the risks associated with price manipulation because a 20% cap on OTC derivatives will ensure that any series of Managed Fund Shares will be sufficiently broad-based in scope

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<sup>54</sup> The Commission has noted that “[c]entral clearing mitigates counterparty risk among dealers and other institutions by shifting that risk from individual counterparties to [central counterparties (“CCPs”)], thereby protecting CCPs from each other’s potential failures.” See Securities Exchange Act Release No. 67286 (June 28, 2012) (File No. S7-44-10) (Process for Submissions for Review of Security-Based Swaps for Mandatory Clearing and Notice Filing Requirements for Clearing Agencies).

to minimize potential manipulation associated with OTC derivatives and because the remaining 80% of the portfolio will consist of instruments subject to numerous restrictions designed to prevent manipulation, including equity securities (which, as proposed, would be subject to market cap, trading volume, and diversity requirements, among others), fixed income securities (which, as proposed, would be subject to principal amount outstanding, diversity, and issuer requirements, among others), cash and cash equivalents (which, as proposed, would be limited to short-term, highly liquid, and high credit quality instruments), and/or listed derivatives (which would be subject to the limitations in proposed Rule 5735(b)(1)(D)).

The Exchange notes that a fund's investments in derivative instruments would be subject to limits on leverage imposed by the 1940 Act. Section 18(f) of the 1940 Act and related Commission guidance limit the amount of leverage an investment company can obtain. A fund's investments would be consistent with its investment objective and would not be used to enhance leverage. To limit the potential risk associated with a fund's use of derivatives, a fund will segregate or " earmark " assets determined to be liquid by a fund in accordance with the 1940 Act (or, as permitted by applicable regulation, enter into certain offsetting positions) to cover its obligations under derivative instruments.

With respect to proposed Rule 5735(b)(1)(F) relating to a fund's use of listed or OTC derivatives to gain exposure to individual equities and/or fixed income securities, or to indexes of equities and/or indexes of fixed income securities, the Exchange notes that the aggregate gross notional value of such exposure would be required to meet the

numerical and other criteria set forth in proposed Rules 5735(b)(1)(A) and 5735(b)(1)(B) (including gross notional exposures), respectively.

Quotation and other market information relating to listed futures and options is available from the exchanges listing such instruments as well as from market data vendors. With respect to centrally-cleared swaps<sup>55</sup> and non-centrally-cleared swaps regulated by the CFTC,<sup>56</sup> the Dodd-Frank Act mandates that swap information be reported to swap data repositories (“SDRs”).<sup>57</sup> SDRs provide a central facility for swap data reporting and recordkeeping and are required to comply with data standards set by the CFTC, including real-time public reporting of swap transaction data to a derivatives clearing organization or SEF.<sup>58</sup> SDRs require real-time reporting of all OTC and centrally cleared derivatives, including public reporting of the swap price and size. The parties responsible for reporting swaps information are CFTC-registered swap dealers (“RSDs”), major swap participants, and swap execution facilities (“SEFs”). If swap counterparties do not fall into the above categories, then one of the parties to the swap must report the trade to the SDR. Cleared swaps regulated by the CFTC must be executed

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<sup>55</sup> There are currently five categories of swaps eligible for central clearing: interest rate swaps; credit default swaps; foreign exchange swaps; equity swaps; and commodity swaps. The following entities provide central clearing for OTC derivatives: ICE Clear Credit (US); ICE Clear (EU); CME Group; LCH.Clearnet; and Eurex.

<sup>56</sup> Pursuant to the Dodd-Frank Act, OTC and centrally-cleared swaps are regulated by the CFTC with the exception of security-based swaps, which are regulated by the Commission.

<sup>57</sup> The following entities are provisionally registered with the CFTC as SDRs: BSDR LLC., Chicago Mercantile Exchange, Inc., DTCC Data Repository, and ICE Trade Vault.

<sup>58</sup> Approximately eighteen entities are currently registered with the CFTC as SEFs.

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

With respect to security-based swaps regulated by the Commission, the Commission has adopted Regulation SBSR under the Act implementing requirements for regulatory reporting and public dissemination of security-based swap transactions set forth in Title VII of the Dodd-Frank Act. Regulation SBSR provides for the reporting of security-based swap information to registered security-based swap data repositories (“Registered SDRs”) or the Commission, and the public dissemination of security-based swap transaction, volume, and pricing information by Registered SDRs.<sup>59</sup>

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

A fund’s investments will not be used to seek performance that is the multiple or inverse multiple (i.e., 2Xs and 3Xs) of a fund’s broad-based securities market index (as

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<sup>59</sup> See Securities Exchange Act Release No. 74244 (February 11, 2015), 80 FR 14564 (March 19, 2015) (Regulation SBSR – Reporting and Dissemination of Security-Based Swap Information).

defined in Form N-1A).<sup>60</sup> In addition, the Exchange notes that, under proposed Rule 5735(b)(1)(A), for Derivative Securities Products and Index-Linked Securities, no more than 25% of the equity weight of a fund's portfolio could include leveraged and/or inverse leveraged Derivative Securities Products or Index-Linked Securities.

The proposed rule change is also designed to protect investors and the public interest because Managed Fund Shares listed and traded pursuant to Rule 5735, 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.<sup>61</sup>

The proposed rule change is also designed to protect investors and the public interest as well as to promote just and equitable principles of trade in that any Non-U.S. Component Stocks will each meet the following criteria initially and on a continuing basis: (1) have a minimum market value of at least \$100 million; (2) have a minimum global monthly trading volume of 250,000 shares, or minimum global notional volume traded per month of \$25,000,000, averaged over the last six months; (3) most heavily weighted Non-U.S. Component Stock shall not exceed 25% of the equity weight of the portfolio, and, to the extent applicable, the five most heavily weighted Non-U.S. Component Stocks shall not exceed 60% of the equity weight of the portfolio; and (4) each Non-U.S. Component Stock shall be listed and traded on an exchange that has last-sale reporting.

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<sup>60</sup> See, e.g., Securities Exchange Act Release No. 74842 (April 29, 2015), 86 FR 25723 (May 5, 2015) (SR-NYSEArca-2014-89) (order approving listing and trading of shares of eight PIMCO exchange-traded funds).

<sup>61</sup> See note 4 above, Approval Order, at 35177.

The Exchange believes that such quantitative criteria are sufficient to mitigate any concerns that may arise on the basis of a series of Managed Fund Shares potentially holding 100% of its assets in Non-U.S. Component Stocks that are neither listed on members of ISG nor exchanges with which the Exchange has in place a CSSA because, as stated above, such criteria are either the same or more stringent than the portfolio requirements for Index Fund Shares that hold Non-U.S. Component Stocks and there are no such requirements related to such securities being listed on an exchange that is a member of ISG or with which the Exchange has in place a CSSA.

Further, the Exchange has not encountered and is not aware of any instances of manipulation or other negative impact in any series of Index Fund Shares that has occurred by virtue of the Index Fund Shares holding such Non-U.S. Component Stocks. Therefore, the Exchange believes that there should be no difference in the portfolio requirements for Managed Fund Shares and Index Fund Shares as it relates to holding Non-U.S. Component Stocks that are not listed on an exchange that is a member of ISG or with which the Exchange has in place a CSSA.

The Exchange believes that the proposed rule change is designed to prevent fraudulent and manipulative acts and practices because the Managed Fund Shares will be listed and traded on the Exchange pursuant to the initial and continued listing criteria in Rule 5735. 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 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 5735(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 5735(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 5735(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 5735.

Prior to listing pursuant to proposed amended Rule 5735(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 the Nasdaq Rule 5800 Series.

For these reasons, the Exchange believes that the proposal is consistent with the Act.

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

In accordance with Section 6(b)(8) of the Act,<sup>62</sup> the Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. Instead, the Exchange believes that the proposed rule change would facilitate the listing and trading of additional types of Managed Fund Shares and result in a significantly more efficient process surrounding the listing and trading of Managed Fund Shares, which will enhance competition among market participants, to the benefit of investors and the marketplace. The Exchange believes that this would reduce the time frame for bringing Managed Fund Shares to market, thereby reducing the burdens on issuers and other market participants and promoting competition. In turn, the Exchange believes that the proposed change would make the process for listing Managed Fund Shares more competitive by applying uniform listing standards with respect to Managed Fund Shares.

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<sup>62</sup> 15 U.S.C. 78f(b)(8).



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

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

The Exchange does not consent to an extension of the time period for Commission action.

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

The Exchange respectfully requests accelerated effectiveness of this proposed rule change pursuant to Section 19(b)(2) of the Act.<sup>63</sup> The Exchange believes that there is good cause for the Commission to accelerate effectiveness because the proposed rule change is substantively identical to the rules recently approved by the Commission for NYSE Arca and BATS<sup>64</sup> and raises no regulatory or investor protection issues not considered in connection with the approval of those rule changes.

Granting accelerated effectiveness will lead to a consistent set of generic listing standards across all exchanges that list Managed Fund Shares, and thereby reduce potential confusion. Furthermore, accelerated effectiveness will serve to more quickly reduce the burden on the sponsors of Managed Fund Shares that wish to list their products on the Exchange. Without accelerated effectiveness, these market participants

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<sup>63</sup> 15 U.S.C. 78s(b)(2).

<sup>64</sup> See Securities Exchange Act Release No. 78397 (July 22, 2016) (SR-NYSEArca-2015-110) (order approving generic listing standards for Managed Fund Shares listed per NYSE Arca Equities Rule 8.600). Non-substantive changes are made in order to conform the proposal to the structure of the Exchange's current rules. See also, Securities Exchange Act Release No. 78396 (July 22, 2016) (SR-BATS-2015-100) (order approving generic BATS listing standards for Managed Fund Shares).

would be subjected to a rule filing process that the Commission has already determined is unnecessary for products that meet the requirements proposed herein. Accordingly, granting accelerated effectiveness will also enhance competition across exchanges by eliminating this time-consuming burden that no longer exists on other exchanges. The rule filing process for these products would also impose additional work on the Commission.

For these reasons, the Exchange believes that no regulatory purpose would be served by delaying effectiveness of the proposal and that the purposes of the Act would be served by accelerating effectiveness. Accordingly, the Exchange reiterates its request for accelerated effectiveness.

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 Exchange consents, the Commission will:

- A. by order approve or disapprove such proposed rule change, or
  - B. institute proceedings to determine whether the proposed rule change should be disapproved.
8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

This proposal is substantially similar to SR-NYSEArca-2015-110 and SR-BATS-2015-100.<sup>65</sup>

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act  
Not applicable.

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<sup>65</sup> Id.

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

Not applicable.

11. Exhibits

1. Notice of proposed rule for publication in the Federal Register.
5. Text of the proposed rule change.

**EXHIBIT 1**

## SECURITIES AND EXCHANGE COMMISSION

(Release No. \_\_\_\_\_ ; File No. SR-NASDAQ-2016-104)

August \_\_, 2016

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing of Proposed Rule Change to Amend Nasdaq Rule 5735 to Adopt Generic Listing Standards for Managed Fund Shares

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup>, and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on July 25, 2016, The Nasdaq Stock Market LLC (“Nasdaq” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to amend Nasdaq Rule 5735 (“Managed Fund Shares”) to adopt generic listing standards for Managed Fund Shares.

The text of the proposed rule change is available on the Exchange’s Website at <http://nasdaq.cchwallstreet.com>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

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

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

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The Exchange proposes to amend Nasdaq Rule 5735 to adopt generic listing standards for Managed Fund Shares. Under the Exchange's current rules, a proposed rule change must 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 5735 that would generally eliminate the need for such proposed rule changes, which would create greater efficiency and promote uniform standards in the listing process.<sup>3</sup>

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<sup>3</sup> This proposed rule change is substantively identical to changes approved by the Commission to NYSE Arca Equities Rule 8.600. See Securities Exchange Act Release No. 78397 (July 22, 2016) (SR-NYSEArca-2015-110) (order approving generic listing standards for Managed Fund Shares listed per NYSE Arca Equities Rule 8.600). Non-substantive changes are made in order to conform the proposal to the structure of the Exchange's current rules. See also Securities Exchange Act Release No. 78396 (July 22, 2016) (SR-BATS-2015-100) (order approving generic BATS listing standards for Managed Fund Shares).

### Background

Rule 5735 sets forth certain rules related to the listing and trading of Managed Fund Shares.<sup>4</sup> Under Rule 5735(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 (hereafter “Adviser”) consistent with the Investment Company’s investment objectives and policies;
- (b) is issued in a specified aggregate minimum number in return for a deposit of a specified portfolio of securities and/or a cash amount with a value equal to the next determined net asset value; and
- (c) when aggregated in the same specified minimum number, may be redeemed at a holder’s request, which holder will be paid a specified portfolio of securities and/or cash with a value equal to the next determined net asset value.

Effectively, Managed Fund Shares are securities issued by an actively-managed open-end Investment Company (i.e., an actively-managed exchange-traded fund

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<sup>4</sup> See Securities Exchange Act Release No. 57962 (June 13, 2008), 73 FR 35175 (June 20, 2008) (SR-NASDAQ-2008-039) (order approving Nasdaq Rule 4420(o) and listing and trading of shares of certain issues of Managed Fund Shares) (the “Approval Order”). The Approval Order approved, among other things, the rules permitting the listing and trading of Managed Fund Shares. Rule 4420(o) was subsequently relocated to Rule 5735. See Securities Exchange Act Release No. 59663 (March 31, 2009), 74 FR 15552 (April 6, 2009) (SR-NASDAQ-2009-018).

(“ETF”). Because Managed Fund Shares are actively-managed, they do not seek to replicate the performance of a specified passive index of securities. Instead, they generally use an active investment strategy to seek to meet their investment objectives. In contrast, an open-end Investment Company that issues Index Fund Shares, listed and traded on the Exchange pursuant to Nasdaq Rule 5705(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 5735 (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.<sup>5</sup>

In addition, Rule 5735(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 requires that the Exchange submit a proposed rule change with the Commission. In this regard, Rule 5735(b)(1) specifies that the Exchange will file separate proposals under Section 19(b) of the Act (hereafter, a “proposed rule change”) before listing and trading shares of an issue of Managed Fund Shares.

#### Proposed Changes to Rule 5735

The Exchange proposes to amend Rule 5735(b)(1) to specify that the Exchange may approve Managed Fund Shares for listing and/or trading (including pursuant to

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<sup>5</sup> See Approval Order, note 4 above, at 35177.

unlisted trading privileges) pursuant to SEC Rule 19b-4(e) under the Act, which pertains to derivative securities products (“SEC Rule 19b-4(e”).<sup>6</sup> SEC Rule 19b-4(e)(1) provides that the listing and trading of a new derivative securities product by a self-regulatory organization (“SRO”) is not deemed a proposed rule change, pursuant to paragraph (c)(1) of Rule 19b-4,<sup>7</sup> if the Commission has approved, pursuant to section 19(b) of the Act, the SRO’s trading rules, procedures, and listing standards for the product class that would include the new derivative securities product and the SRO has a surveillance program for the product class. This is the current method pursuant to which “passive” ETFs are listed under Nasdaq Rule 5705.

The Exchange would also specify within Rule 5735(b)(1) that components of Managed Fund Shares listed pursuant to SEC Rule 19b-4(e) must satisfy, on an initial and continued basis, certain specific criteria, which the Exchange would include within Rule 5735(b)(1), as described in greater detail below. As proposed, the Exchange would continue to file separate proposed rule changes before the listing and trading of Managed Fund Shares with components that do not satisfy the additional criteria described below or components other than those specified below. For example, if the components of a Managed Fund Share exceeded one of the applicable thresholds, the Exchange would file a separate proposed rule change before listing and trading such Managed Fund Share.

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<sup>6</sup> 17 CFR 240.19b-4(e). As provided under SEC Rule 19b-4(e), the term “new derivative securities product” means any type of option, warrant, hybrid securities product, or any other security, other than a single equity option or a security futures product, whose value is based, in whole or in part, upon the performance of, or interest in, an underlying instrument.

<sup>7</sup> 17 CFR 240.19b-4(c)(1). As provided under SEC Rule 19b-4(c)(1), a stated policy, practice, or interpretation of the SRO shall be deemed to be a proposed rule change unless it is reasonably and fairly implied by an existing rule of the SRO.



Similarly, if the components of a Managed Fund Share included a security or asset that is not specified below, the Exchange would file a separate proposed rule change.

The Exchange would also add to the criteria of Rule 5735(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.<sup>8</sup>

In addition, the Exchange would amend Rule 5735(d) to specify that all Managed Fund Shares must have a stated investment objective, which must be adhered to under normal market conditions.<sup>9</sup>

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<sup>8</sup> Proposed rule changes for previously-listed series of Managed Fund Shares have similarly included disclosure requirements with respect to each portfolio holding, as applicable to the type of holding. See, e.g., Securities Exchange Act Release No. 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 and at 14147. See also, NYSE Arca proposal approved by Commission at 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.

<sup>9</sup> The Exchange would also add a new defined term under Rule 5735(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 natural or man-made disaster, act of God, armed conflict, act of terrorism, riot or labor disruption or any similar intervening circumstance.

Finally, the Exchange would also amend the continued listing requirement in Rule 5735(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 Nasdaq Rule 4120(b)).

#### 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, Derivative Securities Products, and Index-Linked Securities are based in large part on the existing equity security standards applicable to Index Fund Shares in Rule 5705(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 5705(b)(4). Many of the standards proposed for other types of holdings in a Managed Fund Share portfolio are based on previous proposed rule changes for specific series of Managed Fund Shares.<sup>10</sup>

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<sup>10</sup> 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

Proposed Rule 5735(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,<sup>11</sup> Non-U.S. Component Stocks,<sup>12</sup> Derivative Securities Products,<sup>13</sup> and Index-

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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, NYSE Arca proposals approved by Commission at 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 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 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”).

<sup>11</sup> For the purposes of Rule 5735(b)(1) and this proposal, the term “U.S. Component Stocks” would have the same meaning as defined in Rule 5705(b)(1)(D).

<sup>12</sup> For the purposes of Rule 5735(b)(1) and this proposal, the term “Non-U.S. Component Stocks” would have the same meaning as defined in Rule 5705(b)(1)(E).

<sup>13</sup> For the purposes of Rule 5735(b)(1)(A) and this proposal, the term “Derivative Securities Products” would mean Index Fund Shares and the securities described in Rule 4120 have the same meaning as defined under Rule 5705(b)(3).

Linked Securities<sup>14</sup> listed on a national securities exchange. For Derivative Securities Products and Index-Linked Securities, no more than 25% of the equity weight of the portfolio could include leveraged and/or inverse leveraged Derivative Securities Products or Index-Linked Securities. In addition, proposed rule 5735(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 required to meet the criteria of 5735(b)(1)(A) after converting.

As proposed in Rule 5735(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 Derivative Securities Products and Index-Linked Securities) that in the aggregate account for at least 90% of the weight of the portfolio (excluding such Derivative Securities Products and Index-Linked Securities) each must have a minimum market value of at least \$75 million;<sup>15</sup>
- (2) Component stocks (excluding Derivative Securities Products and Index-Linked Securities) that in the aggregate account for at least 70% of the weight of the portfolio (excluding such Derivative Securities Products and Index-Linked Securities) each must have a minimum monthly trading volume of 250,000 shares

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<sup>14</sup> Index-Linked Securities are securities that qualify for Exchange listing and trading under Rule 5710. The securities described in Rule 5705, Rule 5710, and Rule 4120, as referenced above, would include securities listed on another national securities exchange pursuant to substantially equivalent listing rules.

<sup>15</sup> This proposed text is materially similar to the corresponding text of Rule 5705 (b)(3)(A)(i)a., except for the omission of the reference to “index,” which is not applicable, and the addition of the reference to Index-Linked Securities.

- or minimum notional volume traded per month of \$25,000,000, averaged, over the last six months;<sup>16</sup>
- (3) The most heavily weighted component stock (excluding Derivative Securities Products and Index-Linked Securities) must not exceed 30% of the weight of the portfolio, and, to the extent applicable, the five most heavily weighted component stocks (excluding Derivative Securities Products and Index-Linked Securities) must not exceed 65% of the weight of the portfolio;<sup>17</sup>
- (4) Where the equity portion of the portfolio does not include Non-U.S. Component Stocks, the equity portion of the portfolio shall include a minimum of 13 component stocks; provided, however, that there shall be no minimum number of component stocks if (a) one or more series of Derivative Securities Products or Index-Linked Securities constitute, at least in part, components underlying a series of Managed Fund Shares, or (b) one or more series of Derivative Securities Products or Index-Linked Securities account for 100% of the equity weight of the portfolio of a series of Managed Fund Shares;<sup>18</sup>

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<sup>16</sup> This proposed text is materially similar to the corresponding text of Rule 5705 (b)(3)(A)(i)b., except for the omission of the reference to “index,” which is not applicable, and the addition of the reference to Index-Linked Securities.

<sup>17</sup> This proposed text is materially similar to the corresponding text of Rule 5705(b)(3)(A)(i)c., except for the omission of the reference to “index,” which is not applicable, and the addition of the reference to Index-Linked Securities.

<sup>18</sup> This proposed text is materially similar to the corresponding text of Rule 5705(b)(3)(A)(i)d., except for the omission of the reference to “index,” which is not applicable, the addition of the reference to Index-Linked Securities, and the reference to the 100% limit applying to the “equity portion” of the portfolio.

- (5) Except as provided in proposed Rule 5735(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;<sup>19</sup> and
- (6) American Depositary Receipts (“ADRs”) may be exchange-traded or non-exchange-traded. However no more than 10% of the equity weight of the portfolio shall consist of non-exchange-traded ADRs.<sup>20</sup>

As proposed in Rule 5735(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;<sup>21</sup>

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<sup>19</sup> 17 CFR 240.600. This proposed text is materially similar to the corresponding text of Rule 5705(b)(3)(A)(i)e., 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.

<sup>20</sup> 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, NYSE Arca proposal approved by Commission at 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).

<sup>21</sup> 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 28, below. The proposed text is also materially similar to the corresponding text of Rule 5705(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 5705(b)(3)(A)(ii)a.

- (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;<sup>22</sup>
- (3) The most heavily weighted Non-U.S. Component Stock shall not exceed 25% of the equity weight of the portfolio, and, to the extent applicable, the five most heavily weighted Non-U.S. Component Stocks shall not exceed 60% of the equity weight of the portfolio;<sup>23</sup>
- (4) Where the equity portion of the portfolio includes Non-U.S. Component Stocks, the equity portion of the portfolio shall include a minimum of 20 component stocks; provided, however, that there shall be no minimum number of component stocks if (i) one or more series of Derivative Securities Products or Index-Linked Securities constitute, at least in part, components underlying a series of Managed Fund Shares, or (ii) one or more series of Derivative Securities Products or Index-Linked Securities account for 100% of the equity weight of the portfolio of a series of Managed Fund Shares<sup>24</sup>; and

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<sup>22</sup> 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 28, below. This proposed text also is materially similar to the corresponding text of Rule 5705(b)(3)(A)(ii)b., except for the omission of the reference to “index,” which is not applicable.

<sup>23</sup> This proposed text is materially similar to the corresponding text of Rule 5705(b)(3)(A)(ii)c., except for the omission of the reference to “index,” which is not applicable.

<sup>24</sup> This proposed text is materially similar to the corresponding text of Rule 5705(b)(3)(A)(ii)d., except for the omission of the reference to “index,” which is not applicable, the addition of the reference to Index-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

- (5) Each Non-U.S. Component Stock shall be listed and traded on an exchange that has last-sale reporting.<sup>25</sup>

The Exchange notes that it is not proposing to require that any of the equity portions of the equity portfolio composed of Non-U.S. Component Stocks be listed on markets that are either a member of the Intermarket Surveillance Group (“ISG”) or a market with which the Exchange has a comprehensive surveillance sharing agreement (“CSSA”).<sup>26</sup> However, as further detailed below, the 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 5705 do not include specific ISG or CSSA requirements.<sup>27</sup> In addition, the Commission has approved listing and trading on the Exchange of shares of an issue of Managed Fund Shares under Rule 5735 where non-U.S. equity securities in

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5735(b) permit the inclusion of non-equity securities, whereas Rule 5705 applies only to equity securities.

<sup>25</sup> This proposed text is similar to Rule 5705(b)(3)(A)(ii)e. as it relates to Non-U.S. Component Stocks.

<sup>26</sup> ISG is comprised of an international group of exchanges, market centers, and market regulators that perform front-line market surveillance in their respective jurisdictions. See [www.isgportal.org](http://www.isgportal.org). A list of ISG members is available at [www.isgportal.org](http://www.isgportal.org).

<sup>27</sup> Under Rule 5705(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.



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 the Exchange has in place a CSSA.<sup>28</sup>

Proposed Rule 5735(b)(1)(B) would describe the standards for a Managed Fund Share portfolio that holds fixed income securities, which are debt securities<sup>29</sup> that are notes, bonds, debentures, or evidence of indebtedness that include, but are not limited to, U.S. Department of Treasury securities ("Treasury Securities"), government-sponsored entity securities ("GSE Securities"), municipal securities, trust preferred securities, supranational debt and debt of a foreign country or a subdivision thereof, investment grade and high yield corporate debt, bank loans, mortgage and asset backed securities, 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 5735(b)(1)(B) after converting:

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<sup>28</sup> 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, NYSE Arca proposal approved by Commission at 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").

<sup>29</sup> Debt securities include a variety of fixed income obligations, including, but not limited to, corporate debt securities, government securities, municipal securities, convertible securities, and mortgage-backed securities. Debt securities include investment-grade securities, non-investment-grade securities, and unrated securities. Debt securities also include variable and floating rate securities.

- (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;<sup>30</sup>
- (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 more than 65% of the fixed income weight of the portfolio;<sup>31</sup>
- (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 5735(b)(1)(A).<sup>32</sup>
- (4) Component securities that in aggregate account for at least 90% of the fixed income weight of the portfolio must be either (a) from issuers that are required to

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<sup>30</sup> This text of proposed Rule 5735(b)(1)(B)(i) is based on the corresponding text of Rule 5705(b)(4)(A)(ii).

<sup>31</sup> This proposed text is materially similar to the corresponding text of 5705(b)(4)(A)(iv), except for the omission of the reference to “index,” which is not applicable.

<sup>32</sup> This proposed text is similar to the corresponding text of Rule 5705(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 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 5735(b)(1)(A).

- file reports pursuant to Sections 13 and 15(d) of the Act; (b) from issuers that have a worldwide market value of its outstanding common equity held by non-affiliates of \$700 million or more; (c) from issuers that have outstanding securities that are notes, bonds debentures, or evidence of indebtedness having a total remaining principal amount of at least \$1 billion<sup>33</sup>; (d) exempted securities as defined in Section 3(a)(12) of the Act; or (e) from issuers that are a government of a foreign country or a political subdivision of a foreign country; and
- (5) Non-agency, non-GSE, and privately-issued mortgage-related and other asset-backed securities components of a portfolio shall not account, in the aggregate, for more than 20% of the weight of the fixed income portion of the portfolio.<sup>34</sup>
- Proposed Rule 5735(b)(1)(C) would describe the standards for a Managed Fund Share portfolio that holds cash and cash equivalents.<sup>35</sup> Specifically, the portfolio may

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<sup>33</sup> 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.

<sup>34</sup> Proposed rule changes for previously-listed series of Managed Fund Shares have similarly included the ability for such Managed Fund Share holdings to include 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, NYSE Arca proposal approved by Commission at 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).

<sup>35</sup> Proposed rule changes for previously-listed series of Managed Fund Shares have similarly included the ability for such Managed Fund Share holdings to include cash and cash equivalents. See, e.g., note 10 above regarding approval of NYSE

hold short-term instruments with maturities of less than 3 months. There would be no limitation to the percentage of the portfolio invested in such holdings. Short-term instruments would include the following:<sup>36</sup>

- (1) U.S. Government securities, including bills, notes, and bonds differing as to maturity and rates of interest, which are either issued or guaranteed by the U.S. Treasury or by U.S. Government agencies or instrumentalities;
- (2) certificates of deposit issued against funds deposited in a bank or savings and loan association;
- (3) bankers' acceptances, which are short-term credit instruments used to finance commercial transactions;
- (4) repurchase agreements and reverse repurchase agreements;
- (5) bank time deposits, which are monies kept on deposit with banks or savings and loan associations for a stated period of time at a fixed rate of interest;
- (6) commercial paper, which are short-term unsecured promissory notes; and
- (7) money market funds.

Proposed Rule 5735(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

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Arca's SPDR Blackstone/GSO Senior Loan, at 19768-69; and First Trust Preferred Securities and Income Approval, at 76150.

<sup>36</sup> Proposed rule changes for previously-listed series of Managed Fund Shares have similarly specified short-term instruments with respect to their inclusion in Managed Fund Share holdings. See, e.g., note 10 above, regarding NYSE Arca's First Trust Preferred Securities and Income Approval, at 76150-51.

rates, and volatility) or a basket or index of any of the foregoing.<sup>37</sup> There would be no limitation to 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 derivatives based on any single underlying reference asset shall not exceed 30% of the weight of the portfolio (including gross notional exposures).

Proposed Rule 5735(b)(1)(E) would describe the standards for a Managed Fund Share portfolio that holds over the counter (“OTC”) derivatives, including forwards,

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<sup>37</sup> Proposed rule changes for previously-listed series of Managed Fund Shares have similarly included the ability for such Managed Fund Share holdings to include listed derivatives. See, e.g., note 10 above, regarding NYSE Arca's WisdomTree Real Return Approval, at 13617; and WisdomTree Brazil Bond Approval, at 32163.

options and swaps on commodities, currencies and financial instruments (e.g., stocks, fixed income, interest rates, and volatility) or a basket or index of any of the foregoing.<sup>38</sup> Proposed Rule 5735(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 5735(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 Rule 5735(b)(1)(A) and (B) (including gross notional exposures), respectively.

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

The following examples illustrate how certain of the proposed generic criteria of Rule 5735 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 5735(b)(1)(B). The ETF

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<sup>38</sup> A proposed rule change for series of Index Fund Shares previously listed and traded on the Exchange pursuant to 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 do not satisfy the requirements of Rule 5705. See, e.g., note 10 above, regarding NYSE Arca U.S. Equity Synthetic Reverse Convertible Index Fund Approval, at 23602.

also holds an OTC 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 5735(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 5735(b)(1)(F), the 25% total weight would exceed the 20% limit for non-agency GSE and privately-issued mortgage-related securities in 5735(b)(1)(B)(v). The portfolio, therefore, would not meet the proposed generic criteria of Rule 5735.

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 5735(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 5735(b)(1)(F), that is, the S&P 500 Index meets the criteria in Rule 5735(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 5735(b)(1)(D)(ii). The portfolio, therefore, would not meet the proposed generic criteria of Rule 5735.

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 5735(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 5735 because the exposure to XYZ at 46.7% exceeds the 30% concentration limitation of proposed Rule 5735(b)(1)(D)(ii).

The Exchange believes that the proposed standards would continue to 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.<sup>39</sup> 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:<sup>40</sup>

- (1) the Managed Fund Shares will continue to conform to the initial and continued listing criteria under Rule 5735;
- (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 Equity Trader Alert ("Alert" or "ETA") 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 2090A and 2111A, the risks involved in trading the Managed Fund Shares during the Pre-Market and

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<sup>39</sup> See note 4 above, Approval Order, at 35177.

<sup>40</sup> The Exchange made similar representations in the Approval Order. See *id.* at 35177 – 35178.

Post Market Sessions when an updated Portfolio Indicative Value will not be calculated or publicly disseminated, information regarding the Portfolio Indicative Value and the Disclosed Portfolio, prospectus delivery requirements, and other trading information. In addition, the Alert 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 Alert 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 Nasdaq Rule 5600 Series.

The Exchange, on a periodic basis and no less than annually, will review issues of Managed Fund Shares listed pursuant to Rule 5735, 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 5735(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 5735(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 Nasdaq Rule 5735.

Prior to listing pursuant to proposed amended Rule 5735(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 the Nasdaq Rule 5800 Series.

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

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>41</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>42</sup> in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest.

The proposed rule change is designed to perfect the mechanism of a free and open market and, in general, to protect investors and the public interest because it would facilitate the listing and trading of additional Managed Fund Shares, which would

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<sup>41</sup> 15 U.S.C. 78f(b).

<sup>42</sup> 15 U.S.C. 78f(b)(5).

enhance competition among market participants, to the benefit of investors and the marketplace.

Specifically, after more than six years under the current process, whereby the Exchange is required to file a proposed rule change with the Commission for the listing and trading of each new series of Managed Fund Shares, the Exchange believes that it is appropriate to codify certain rules within Rule 5735 that would generally eliminate the need for separate proposed rule changes.

The Exchange believes that this would facilitate the listing and trading of additional types of Managed Fund Shares that have investment portfolios that are similar to investment portfolios for Index Fund Shares, which have been approved for listing and trading, thereby creating greater efficiencies in the listing process for the Exchange and the Commission.

In this regard, the Exchange notes that the standards proposed for Managed Fund Share portfolios that include U.S. Component Stocks, Non-U.S. Component Stocks, Derivative Securities Products, and Index-Linked Securities are based in large part on the existing equity security standards applicable to Index Fund Shares in Rule 5705(b)(3) and that the standards proposed for Managed Fund Share portfolios that include fixed income securities are based in large part on the existing fixed income standards applicable to Index Fund Shares in Rule 5705(b)(4). Additionally, many of the standards proposed for other types of holdings of series of Managed Fund Shares are based on previous proposed rule changes for specific series of Managed Fund Shares.<sup>43</sup>

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See note 10 above.

With respect to the proposed addition to the criteria of Rule 5735(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 Exchange notes that proposed rule changes approved by the Commission for previously-listed series of Managed Fund Shares have similarly included disclosure requirements with respect to each portfolio holding, as applicable to the type of holding.<sup>44</sup>

With respect to the proposed definition of the term “normal market conditions” in proposed Rule 5735(c)(5), such definition is similar to the definition of normal market conditions approved by the Commission for other issues of Managed Fund Shares.<sup>45</sup> In addition, proposed Rule 5735(d)(1)(C), would specify that a series of Managed Fund Shares would be required to adhere to its stated investment objective during normal market conditions.

With respect to the proposed amendment to the continued listing requirement in Rule 5735(d)(2)(A) to require dissemination of a Portfolio Indicative Value at least every 15 seconds during the Regular Market Session (as defined in Rule 4120(b)), such requirement conforms to the requirement applicable to the dissemination of the Intraday Indicative Value for Index Fund Shares in Rule 5705(b)(3)(C) and Rule 5705(b)(6)(A).

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<sup>44</sup> See note 8 above.

<sup>45</sup> See, e.g., Securities Exchange Act Release No. 73140 (September 18, 2014) 79 FR 57144 (September 24, 2014) (SR-NASDAQ-2014-073) (order approving listing and trading of the First Trust Emerging Markets Local Currency Bond ETF of First Trust Exchange-Traded Fund III. See also, NYSE Arca proposal approved by Commission at Securities Exchange Act Release No. 74338 (February 20, 2015), 80 FR 10556 (February 26, 2015) (SR-NYSEArca-2014-143) (order approving listing and trading of shares of the SPDR Doubletree Total Return Tactical ETF under NYSE Arca Equities Rule 8.600).

In addition, such dissemination is consistent with representations made in proposed rule changes for issues of Managed Fund Shares previously approved by the Commission.<sup>46</sup>

With respect to the proposed requirement in Rule 5735(b)(1)(A) that no more than 25% of the equity weight of the portfolio shall consist of leveraged and/or inverse leveraged Derivative Securities Products or Index-Linked Securities, such requirement would assure that only a relatively small proportion of a fund's investments could consist of such leveraged and/or inverse securities. In addition, such limitation would apply to both U.S. Component Stocks and Non-U.S. Component Stocks comprising the equity portion of a portfolio.

With respect to the proposed provision in Rule 5735(b)(1)(A) that, to the extent a portfolio includes a convertible security, the equity security into which such security is converted must meet the criteria in Rule 5735(b)(1)(A) after converting, such requirement would assure that the equity securities into which a convertible security could be converted meet the liquidity and other criteria in Rule 5735(b)(1)(A) applicable to such equity securities.

With respect to the proposed exclusion of Derivatives Securities Products and Index-Linked Securities from the requirements of proposed Rule 5735(b)(1)(A), the Exchange believes it is appropriate to exclude Index-Linked Securities as well as Derivative Securities Products from certain component stock eligibility criteria for Managed Fund Shares in so far as Derivative Securities Products and Index-Linked Securities are themselves subject to specific quantitative listing and continued listing requirements of a national securities exchange on which such securities are listed.

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<sup>46</sup> See, e.g., Approval Order, note 4 above; and International Bear Approval, note 10 above.

Derivative Securities Products and Index-Linked Securities that are components of a fund's portfolio would have been listed and traded on a national securities exchange pursuant to a proposed rule change approved by the Commission pursuant to Section 19(b)(2) of the Act<sup>47</sup> or submitted by a national securities exchange pursuant to Section 19(b)(3)(A) of the Act<sup>48</sup> or would have been listed by a national securities exchange pursuant to the requirements of Rule 19b-4(e) under the Act.<sup>49</sup>

The Exchange also notes that Derivative Securities Products and Index-Linked Securities are derivatively priced, and, therefore, the Exchange believes that it would not be necessary to apply the proposed generic quantitative criteria (e.g., market capitalization, trading volume, or portfolio component weighting) applicable to equity securities other than Derivative Securities Products or Index-Linked Securities (e.g., common stocks) to such products.<sup>50</sup>

With respect to the proposed criteria applicable to U.S. Component Stocks, the Exchange notes that such criteria are similar to those in Rule 5705(b)(3) relating to criteria applicable to an index or portfolio of U.S. Component Stocks. In addition, Non-U.S. Component Stocks also will be required to meet criteria similar to certain generic

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<sup>47</sup> 15 U.S.C. 78s(b)(2).

<sup>48</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>49</sup> 17 CFR 240.19b-4(e).

<sup>50</sup> See e.g., Securities Exchange Act Release Nos. 57561 (March 26, 2008), 73 FR 17390 (April 1, 2008) (SR-NYSEArca-2008-29) (notice of filing of proposed rule change to amend eligibility criteria for components of an index underlying Investment Company Units); 57751 (May 1, 2008), 73 FR 25818 (May 7, 2008) (SR-NYSEArca-2008-29) (order approving proposed rule change to amend eligibility criteria for components of an index underlying Investment Company Units).

listing standards in Rule 5705(b)(3) relating to criteria applicable to an index or portfolio of U.S. Component Stocks and Non-U.S. Component Stocks underlying a series of Index Fund Shares to be listed and traded on the Exchange pursuant to Rule 19b-4(e) under the Act.

With respect to the proposed requirement in Rule 5735(b)(1)(A)(i)f. that ADRs in a portfolio may be exchange-traded or non-exchange-traded and that no more than 10% of the equity weight of the portfolio shall consist of non-exchange-traded ADRs, the Exchange notes that such requirement will ensure that unsponsored ADRs, which are traded OTC and which generally have less market transparency than sponsored ADRs, as well as any sponsored ADRs traded OTC, could account for only a small percentage of the equity weight of a portfolio. Further, the requirement is consistent with representations made in proposed rule changes for issues of Managed Fund Shares previously approved by the Commission.<sup>51</sup>

With respect to the proposed provision in Rule 5735(b)(1)(B) that, to the extent a portfolio includes convertible securities, the fixed income security into which such security is converted must meet the criteria in paragraph (B) of Rule 5735(b)(1) after converting, such requirement would assure that the fixed income securities into which a convertible security could be converted meet the liquidity and other criteria in Rule 5735(b)(1)(B) applicable to fixed income securities.

As proposed, pursuant to Rule 5735(b)(1)(B)(iii), an underlying portfolio (excluding exempted securities) that includes fixed income securities must include a minimum of 13 non-affiliated issuers, but there would be no minimum number of non-

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<sup>51</sup> See note 20 above.



affiliated issuers required for fixed income securities if at least 70% of the weight of the portfolio consists of equity securities, as described in Rule 5735(b)(1)(A). The Exchange notes that, when evaluated in conjunction with proposed Rule 5735(b)(1)(B)(ii), the proposed rule is consistent with Rules 5705(b)(4)(A)(iv) and 5705(b)(4)(A)(v) in that it provides for a maximum weighting of a fixed income security in the fixed income portion of the portfolio of a fund that is comparable to the existing rules applicable to Index Fund Shares based on fixed income indexes.

With respect to the proposed requirement in Rule 5735(b)(1)(B)(v) that non-agency, non-GSE and privately-issued mortgage-related and other asset-backed securities components of a portfolio shall not account, in the aggregate, for more than 20% of the weight of the fixed income portion of the portfolio, the Exchange notes that such requirement is consistent with representations made in proposed rule changes for issues of Managed Fund Shares previously approved by the Commission.<sup>52</sup>

With respect to the proposed amendment to Rule 5735(b)(1)(c) relating to cash and cash equivalents, while there is no limitation on the amount of cash and cash equivalents that can make up the portfolio, such instruments are short-term, highly liquid, and of high credit quality, making them less susceptible than other asset classes both to price manipulation and volatility. Further, the requirement is consistent with representations made in proposed rule changes for issues of Managed Fund Shares previously approved by the Commission.<sup>53</sup>

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<sup>52</sup> See note 34 above.

<sup>53</sup> See note 35 above.

With respect to proposed Rule 5735(b)(1)(D)(i) relating to listed derivatives, the Exchange believes that it is appropriate that there be no limit to the percentage of a portfolio invested in such holdings, provided that, in the aggregate, at least 90% of the weight of such holdings invested in futures, exchange-traded options, and listed swaps would consist of futures, options, and swaps for which the Exchange may obtain information via ISG from other members or affiliates or for which the principal market is a market with which the Exchange has a CSSA. Such a requirement would facilitate information sharing among market participants trading shares of a series of Managed Fund Shares as well as futures and options that such series may hold. In addition, listed swaps would be centrally cleared, reducing counterparty risk and thereby furthering investor protection.<sup>54</sup>

With respect to proposed Rule 5735(b)(1)(D)(ii), requiring percentage caps on the aggregate gross notional value of listed derivatives based on any five or fewer underlying reference assets or based on any single underlying reference asset, the Exchange believes such requirements will help ensure that listed derivatives utilized by a fund are adequately diversified and not unduly concentrated.

With respect to proposed Rule 5735(b)(1)(E) relating to OTC derivatives, the Exchange believes that the limitation to 20% of a fund's assets would assure that the preponderance of fund investments would not be in derivatives that are not listed and

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<sup>54</sup> The Commission has noted that “[c]entral clearing mitigates counterparty risk among dealers and other institutions by shifting that risk from individual counterparties to [central counterparties (“CCPs”)], thereby protecting CCPs from each other’s potential failures.” See Securities Exchange Act Release No. 67286 (June 28, 2012) (File No. S7-44-10) (Process for Submissions for Review of Security-Based Swaps for Mandatory Clearing and Notice Filing Requirements for Clearing Agencies).

centrally cleared. The Exchange believes that such a limitation is sufficient to mitigate the risks associated with price manipulation because a 20% cap on OTC derivatives will ensure that any series of Managed Fund Shares will be sufficiently broad-based in scope to minimize potential manipulation associated with OTC derivatives and because the remaining 80% of the portfolio will consist of instruments subject to numerous restrictions designed to prevent manipulation, including equity securities (which, as proposed, would be subject to market cap, trading volume, and diversity requirements, among others), fixed income securities (which, as proposed, would be subject to principal amount outstanding, diversity, and issuer requirements, among others), cash and cash equivalents (which, as proposed, would be limited to short-term, highly liquid, and high credit quality instruments), and/or listed derivatives (which would be subject to the limitations in proposed Rule 5735(b)(1)(D)).

The Exchange notes that a fund's investments in derivative instruments would be subject to limits on leverage imposed by the 1940 Act. Section 18(f) of the 1940 Act and related Commission guidance limit the amount of leverage an investment company can obtain. A fund's investments would be consistent with its investment objective and would not be used to enhance leverage. To limit the potential risk associated with a fund's use of derivatives, a fund will segregate or " earmark " assets determined to be liquid by a fund in accordance with the 1940 Act (or, as permitted by applicable regulation, enter into certain offsetting positions) to cover its obligations under derivative instruments.

With respect to proposed Rule 5735(b)(1)(F) relating to a fund's use of listed or OTC derivatives to gain exposure to individual equities and/or fixed income securities, or

to indexes of equities and/or indexes of fixed income securities, the Exchange notes that the aggregate gross notional value of such exposure would be required to meet the numerical and other criteria set forth in proposed Rules 5735(b)(1)(A) and 5735(b)(1)(B) (including gross notional exposures), respectively.

Quotation and other market information relating to listed futures and options is available from the exchanges listing such instruments as well as from market data vendors. With respect to centrally-cleared swaps<sup>55</sup> and non-centrally-cleared swaps regulated by the CFTC,<sup>56</sup> the Dodd-Frank Act mandates that swap information be reported to swap data repositories (“SDRs”).<sup>57</sup> SDRs provide a central facility for swap data reporting and recordkeeping and are required to comply with data standards set by the CFTC, including real-time public reporting of swap transaction data to a derivatives clearing organization or SEF.<sup>58</sup> SDRs require real-time reporting of all OTC and centrally cleared derivatives, including public reporting of the swap price and size. The parties responsible for reporting swaps information are CFTC-registered swap dealers (“RSDs”), major swap participants, and swap execution facilities (“SEFs”). If swap

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<sup>55</sup> There are currently five categories of swaps eligible for central clearing: interest rate swaps; credit default swaps; foreign exchange swaps; equity swaps; and commodity swaps. The following entities provide central clearing for OTC derivatives: ICE Clear Credit (US); ICE Clear (EU); CME Group; LCH.Clearnet; and Eurex.

<sup>56</sup> Pursuant to the Dodd-Frank Act, OTC and centrally-cleared swaps are regulated by the CFTC with the exception of security-based swaps, which are regulated by the Commission.

<sup>57</sup> The following entities are provisionally registered with the CFTC as SDRs: BSDR LLC., Chicago Mercantile Exchange, Inc., DTCC Data Repository, and ICE Trade Vault.

<sup>58</sup> Approximately eighteen entities are currently registered with the CFTC as SEFs.

counterparties do not fall into the above categories, then one of the parties to the swap must report the trade to the SDR. Cleared swaps regulated by the CFTC must be executed on a Designated Contract Market (“DCM”) or SEF. Such cleared swaps have the same reporting requirements as futures, including end-of-day price, volume, and open interest. CFTC swaps reporting requirements require public dissemination of, among other items, product ID (if available); asset class; underlying reference asset, reference issuer, or reference index; termination date; date and time of execution; price, including currency; notional amounts, including currency; whether direct or indirect counterparties include an RSD; whether cleared or uncleared; and platform ID of where the contract was executed (if applicable).

With respect to security-based swaps regulated by the Commission, the Commission has adopted Regulation SBSR under the Act implementing requirements for regulatory reporting and public dissemination of security-based swap transactions set forth in Title VII of the Dodd-Frank Act. Regulation SBSR provides for the reporting of security-based swap information to registered security-based swap data repositories (“Registered SDRs”) or the Commission, and the public dissemination of security-based swap transaction, volume, and pricing information by Registered SDRs.<sup>59</sup>

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

A fund’s investments will not be used to seek performance that is the multiple or inverse multiple (i.e., 2Xs and 3Xs) of a fund’s broad-based securities market index (as

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<sup>59</sup> See Securities Exchange Act Release No. 74244 (February 11, 2015), 80 FR 14564 (March 19, 2015) (Regulation SBSR – Reporting and Dissemination of Security-Based Swap Information).

defined in Form N-1A).<sup>60</sup> In addition, the Exchange notes that, under proposed Rule 5735(b)(1)(A), for Derivative Securities Products and Index-Linked Securities, no more than 25% of the equity weight of a fund's portfolio could include leveraged and/or inverse leveraged Derivative Securities Products or Index-Linked Securities.

The proposed rule change is also designed to protect investors and the public interest because Managed Fund Shares listed and traded pursuant to Rule 5735, 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.<sup>61</sup>

The proposed rule change is also designed to protect investors and the public interest as well as to promote just and equitable principles of trade in that any Non-U.S. Component Stocks will each meet the following criteria initially and on a continuing basis: (1) have a minimum market value of at least \$100 million; (2) have a minimum global monthly trading volume of 250,000 shares, or minimum global notional volume traded per month of \$25,000,000, averaged over the last six months; (3) most heavily weighted Non-U.S. Component Stock shall not exceed 25% of the equity weight of the portfolio, and, to the extent applicable, the five most heavily weighted Non-U.S. Component Stocks shall not exceed 60% of the equity weight of the portfolio; and (4) each Non-U.S. Component Stock shall be listed and traded on an exchange that has last-sale reporting.

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<sup>60</sup> See, e.g., Securities Exchange Act Release No. 74842 (April 29, 2015), 86 FR 25723 (May 5, 2015) (SR-NYSEArca-2014-89) (order approving listing and trading of shares of eight PIMCO exchange-traded funds).

<sup>61</sup> See note 4 above, Approval Order, at 35177.

The Exchange believes that such quantitative criteria are sufficient to mitigate any concerns that may arise on the basis of a series of Managed Fund Shares potentially holding 100% of its assets in Non-U.S. Component Stocks that are neither listed on members of ISG nor exchanges with which the Exchange has in place a CSSA because, as stated above, such criteria are either the same or more stringent than the portfolio requirements for Index Fund Shares that hold Non-U.S. Component Stocks and there are no such requirements related to such securities being listed on an exchange that is a member of ISG or with which the Exchange has in place a CSSA.

Further, the Exchange has not encountered and is not aware of any instances of manipulation or other negative impact in any series of Index Fund Shares that has occurred by virtue of the Index Fund Shares holding such Non-U.S. Component Stocks. Therefore, the Exchange believes that there should be no difference in the portfolio requirements for Managed Fund Shares and Index Fund Shares as it relates to holding Non-U.S. Component Stocks that are not listed on an exchange that is a member of ISG or with which the Exchange has in place a CSSA.

The Exchange believes that the proposed rule change is designed to prevent fraudulent and manipulative acts and practices because the Managed Fund Shares will be listed and traded on the Exchange pursuant to the initial and continued listing criteria in Rule 5735. 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 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 5735(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 5735(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 5735(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 5735.



Prior to listing pursuant to proposed amended Rule 5735(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 the Nasdaq Rule 5800 Series.

For these reasons, the Exchange believes that the proposal is consistent with the Act.

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

In accordance with Section 6(b)(8) of the Act,<sup>62</sup> the Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. Instead, the Exchange believes that the proposed rule change would facilitate the listing and trading of additional types of Managed Fund Shares and result in a significantly more efficient process surrounding the listing and trading of Managed Fund Shares, which will enhance competition among market participants, to the benefit of investors and the marketplace. The Exchange believes that this would reduce the time frame for bringing Managed Fund Shares to market, thereby reducing the burdens on issuers and other market participants and promoting competition. In turn, the Exchange believes that the proposed change would make the process for listing Managed Fund Shares more competitive by applying uniform listing standards with respect to Managed Fund Shares.

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<sup>62</sup> 15 U.S.C. 78f(b)(8).

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

No written comments were either solicited or 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 (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission shall: (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](mailto:rule-comments@sec.gov). Please include File Number SR-NASDAQ-2016-104 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-NASDAQ-2016-104. This file number should be included on the subject line if e-mail is used. To help the Commission process

and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<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 also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-NASDAQ-2016-104 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>63</sup>

Robert W. Errett  
Deputy Secretary

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<sup>63</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

Deleted text is [bracketed]. New text is underlined.

**The NASDAQ Stock Market Rules**

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**5735. Managed Fund Shares**

(a) No Change.

(b) Applicability. Rule 5735 is applicable only to Managed Fund Shares. Except to the extent inconsistent with Rule 5735, or unless the context otherwise requires, the rules and procedures of the Board of Directors shall be applicable to the trading on Nasdaq of such securities. Managed Fund Shares are included within the definition of "security" or "securities" as such terms are used in the Rules of Nasdaq.

(1) [Nasdaq will file separate proposals under Section 19(b) of the Act before the listing of Managed Fund Shares.]Nasdaq may approve Managed Fund Shares for listing and/or trading (including pursuant to unlisted trading privileges) pursuant to Rule 19b-4(e) under the Securities Exchange Act of 1934. Components of a series of Managed Fund Shares listed pursuant to Rule 19b-4(e) shall satisfy the criteria set forth in this Rule 5735 upon initial listing and on a continual basis. Nasdaq will file separate proposals under Section 19(b) of the Securities Exchange Act of 1934 before the listing and trading of a series of Managed Fund Shares with components that do not satisfy the criteria set forth in this rule or components other than those specified below.

(A) Equity – Equity securities include the following: U.S. Component Stocks (as described in Rule 5705); Non-U.S. Component Stocks (as defined in Rule 5705); Derivative Securities Products (i.e., Index Fund Shares and securities described in Rule 5705(b) and defined in Rule 4120(b)); and Index-Linked Securities (as defined in Rule 5710). For Derivative Securities Products and Index-Linked Securities, no more than 25% of the equity weight of the portfolio shall consist of leveraged and/or inverse leveraged Derivative Securities Products or Index-Linked Securities. The securities described in Rules 5705, 5710, and Rule 4120, as referenced above, shall include securities listed on another national securities exchange pursuant to substantially equivalent listing rules. To the extent that a portfolio includes convertible securities, the equity security into which such securities is converted shall meet the criteria of this Rule 5735(b)(1)(A) after converting.

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

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

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

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

d. 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 (i) one or more series of Derivative Securities Products or Index-Linked Securities constitute, at least in part, components underlying a series of Managed Fund Shares, or (ii) one or more series of Derivative Securities Products or Index-Linked Securities account for 100% of the equity weight of the portfolio of a series of Managed Fund Shares;

e. Except as provided herein, equity securities in the portfolio shall be U.S. Component Stocks listed on a national securities exchange and shall be NMS Stocks as defined in Rule 600 of Regulation NMS under the Securities Exchange Act of 1934;

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

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

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

b. 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;

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

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

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

(B) Fixed Income – Fixed income securities are debt securities that are notes, bonds, debentures, or evidence of indebtedness that include, but are not limited to, U.S. Department of Treasury securities (“Treasury Securities”), government-sponsored entity securities (“GSE Securities”), municipal securities, trust preferred securities, supranational debt and debt of a foreign country or a subdivision thereof, investment grade and high yield corporate debt, bank loans, mortgage and asset backed securities, and commercial paper. To the extent that a portfolio includes convertible securities, the fixed income security into which such security is converted shall meet the criteria of this Rule 5735(b)(1)(B) after converting. The components of the fixed income portion of a portfolio shall meet the following criteria initially and on a continuing basis:

(i) 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;

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

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

(iv) 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 Securities Exchange Act of 1934; (b) from issuers that have a worldwide market value of its outstanding common equity held by non-affiliates of \$700 million or more; (c) from issuers that have outstanding securities that are notes, bonds debentures, or evidence of indebtedness having a total remaining principal amount of at least \$1 billion; (d) exempted securities as defined in Section 3(a)(12) of the Securities Exchange Act of 1934; or (e) from issuers that are a government of a foreign country or a political subdivision of a foreign country; and

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

(C) Cash and Cash Equivalents. Cash equivalents shall include short-term instruments with maturities of less than 3 months (as described herein). In addition, a portfolio may hold cash.

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

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

a. 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;

b. certificates of deposit issued against funds deposited in a bank or savings and loan association;

c. bankers' acceptances, which are short-term credit instruments used to finance commercial transactions;

d. repurchase agreements and reverse repurchase agreements;

e. 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;

f. commercial paper, which are short-term unsecured promissory notes; and

g. money market funds.

(D) Listed Derivatives. The portfolio may hold listed derivatives, including futures, options and swaps on commodities, currencies and financial instruments (e.g., stocks, fixed income, interest rates, and volatility) or a basket or index of any of the foregoing. There shall be no limitation to the percentage of the portfolio invested in such holdings, subject to the following requirements:

(i) in the aggregate, at least 90% of the weight of such holdings invested in futures, exchange-traded options, and listed swaps shall, on both an initial and continuing basis, consist of futures, options, and swaps for which the Exchange may obtain information via the Intermarket Surveillance Group (“ISG”), from other members of 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

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

(E) Over-the-Counter (“OTC”) Derivatives. The portfolio may hold OTC derivatives, including forwards, options, and swaps on commodities, currencies and financial instruments (e.g., stocks, fixed income, interest rates, and volatility) or a basket or index of any of the foregoing; however, 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.

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



(2) – (5) No Change.

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

(1) No change.

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

(A) ticker symbol;

(B) CUSIP or other identifier;

(C) description of the holding;

(D) with respect to holdings in derivatives, the identity of the security, commodity, index or other asset upon which the derivative is based;

(E) the strike price for any options;

(F) the quantity of each security or other asset held as measured by:

(i) par value,

(ii) notional value,

(iii) number of shares,

(iv) number of contracts, and

(v) number of units;

(G) maturity date;

(H) coupon rate;

(I) effective date;

(J) market value; and

(K) percentage weighting of the holding in the portfolio.

(3) – (4) No change.

(5) Normal Market Conditions. The term “normal market conditions” includes, but is not limited to, the absence of trading halts in the applicable financial markets generally; operational issues (e.g., systems failure) causing dissemination of inaccurate market information; or force majeure type events such as systems failure, natural or manmade disaster, act of God, armed conflict, act of terrorism, riot or labor disruption, or any similar intervening circumstance.

(d) Initial and Continued Listing — Managed Fund Shares will be listed and traded on Nasdaq subject to application of the following criteria:

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

(A) – (B) No change.

(C) All Managed Fund Shares shall have a stated investment objective, which shall be adhered to under normal market conditions.

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

(A) Intraday Indicative Value. The Intraday Indicative Value for Managed Fund Shares will be widely disseminated by one or more major market data vendors at least every 15 seconds during the [time when the Managed Fund Shares trade on Nasdaq] Regular Market Session (as defined in Nasdaq Rule 4120(b)).

(B) – (F) No change

(e) – (g) No change

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