

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-82844; File No. SR-CboeBZX-2018-016)

March 9, 2018

Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Delist the Shares of the iShares Edge U.S. Fixed Income Balanced Risk ETF from Listing Pursuant to Rule 14.11(i) and Approval Orders Issued by the Commission as a Series of Managed Fund Shares, and to Re-List Pursuant to Rule 14.11(c)(4) as a Series of Index Fund Shares

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on February 28, 2018, Cboe BZX Exchange, Inc. (the “Exchange” or “BZX”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange has designated this proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(6)(iii) thereunder,<sup>4</sup> which renders it effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange filed a proposal to delist the shares of the iShares Edge U.S. Fixed Income Balanced Risk ETF (the “Fund”) from listing pursuant to Rule 14.11(i) and approval orders issued by the Commission as a series of Managed Fund Shares, and to re-list pursuant to Rule 14.11(c)(4) as a series of Index Fund Shares.

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

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

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

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

The text of the proposed rule change is available at the Exchange’s website at [www.markets.cboe.com](http://www.markets.cboe.com), at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

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

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

1. Purpose

The Exchange proposes to delist the shares of the Fund (the “Shares”) from listing pursuant to an approval order issued by the Commission under Rule 14.11(i) related to Managed Fund Shares and re-listing pursuant to Rule 14.11(c)(4) related to Index Fund Shares<sup>5</sup> based on Fixed Income Securities.<sup>6,7</sup> The Exchange is submitting this proposal because the index that the

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<sup>5</sup> As provided in Rule 14.11(c)(1)(A)(i), the term “Index Fund Share” means a security that is issued by an open-end management investment company based on a portfolio of stocks or fixed income securities or a combination thereof, that seeks to provide investment results that correspond generally to the price and yield performance or total return performance of a specified foreign or domestic stock index, fixed income securities index, or combination thereof.

<sup>6</sup> The Exchange notes that all necessary steps to delist and re-list the Fund have been taken, including but not limited to: (1) filing an information statement and prospectus on Form N-14 with the SEC that notified shareholders of the reorganization and specifically of the background and reasons for the reorganization, the financial highlights of the Fund, the principal investment risks, shareholder rights and obligations and the form of the Agreement and Plan of Reorganization; and (2) obtaining the board approval for the reorganization.

Fund proposes to track meets all of the generic listing standards of Rule 14.11(c)(4)(B)(i) except that the Index includes exposure to U.S. Treasury futures contracts, which are not contemplated as Index constituents under Rule 14.11(c).

The Shares began trading on the Exchange on February 26, 2015 after the Commission issued an order<sup>8</sup> approving the listing and trading of the Shares on the Exchange,<sup>9</sup> which included a number of Continued Listing Representations.<sup>10</sup> At that time, the Exchange was required to file separate proposals under Section 19(b) of the Act before the listing of any funds listed pursuant to Rule 14.11(i) (“Managed Fund Shares”). While the Shares would be listed as a series of Index Fund Shares instead of Managed Fund Shares, the Fund’s holdings will continue meet the applicable Continued Listing Representations from the Order, except that the Fund plans to track the investment results of an index, specifically the Bloomberg Barclays U.S. Fixed Income Balanced Risk Index (the “Index”).<sup>11</sup>

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<sup>7</sup> As defined in Rule 14.11(c)(4), “Fixed Income Securities” are debt securities that are notes, bonds, debentures or evidence of indebtedness that include, but are not limited to U.S. Department of Treasury securities, government-sponsored entity securities (“GSE Securities”), municipal securities, trust preferred securities, supranational debt and debt of a foreign country or subdivision thereof.

<sup>8</sup> See Securities Exchange Act Release No. 74297 (February 18, 2015), 80 FR 9788 (February 24, 2015) (SR-BATS-2014-056) (the “Order”).

<sup>9</sup> The Order states that “the Fund is an actively-managed fund that does not seek to replicate the performance of a specified index.”

<sup>10</sup> As defined in Rule 14.11(a), “Continued Listing Representations” means any of the statements or representations regarding the index composition, the description of the portfolio or reference assets, limitations on portfolio holdings or reference assets, dissemination and availability of index, reference asset, and intraday indicative values (as applicable), or the applicability of Exchange listing rules specified in any filing to list a series of Other Securities.

<sup>11</sup> The Index measures the performance of the corporate and mortgage portion of the Bloomberg Barclays U.S. Universal Index (the “Parent Index”) while targeting an equal allocation between interest rate and credit spread risk.

The Index uses a rules-based approach to calculate an equal volatility-weighted allocation to each of five segments of the Parent Index: (1) investment-grade corporate bonds 1-5 year; (2) investment-grade corporate bonds 5-10 year; (3) high yield corporate bonds rated BB or higher; (4) high yield corporate bonds rated below BB; and (5) U.S. agency mortgage-backed securities. Segments with lower credit spread volatility receive a higher weighting, and segments with higher credit spread volatility receive a lower weighting, with the result that the contribution of each segment to overall credit spread volatility is approximately equal. The Index adjusts interest rate risk so that it equals credit spread risk by adding either long positions in U.S. Treasury bonds or short positions in U.S. Treasury futures.

The Index meets all of the generic listing standards of Rule 14.11(c)(4)(B)(i) except that the Index includes exposure to U.S. Treasury futures contracts. The Index also meets all of the generic listing standards applicable to Managed Fund Shares under Rule 14.11(i), including the exposure to U.S. Treasury futures contracts. The Index also meets the Continued Listing Representations from the Order related to portfolio holdings. As noted above, the Exchange is submitting this proposal because the Index contains futures contracts (U.S. Treasury futures contracts) in a manner permitted pursuant to the Order, but for which Rule 14.11(c) does not currently contemplate. All U.S. Treasury futures contracts held by the Fund will trade on markets that are a member of the Intermarket Surveillance Group (“ISG”) or affiliated with a member of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.<sup>12</sup>

Based on the foregoing, the Exchange believes that the proposal is non-controversial and should be effective upon filing. Specifically, because: (i) the Index meets the generic listing

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<sup>12</sup> For a list of the current members and affiliate members of ISG, see [www.isgportal.com](http://www.isgportal.com). The Exchange notes that not all components of the Fund’s holdings may trade on markets that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.

standards applicable to Index Fund Shares except the portion of the Index that includes exposure to U.S. Treasury futures contracts, which are not contemplated as Index constituents under Rule 14.11(c); (ii) the Index would meet the generic listing standards for Managed Fund Shares under Rule 14.11(i)(4)(C), including the exposure to U.S. Treasury futures contracts under Rule 14.11(i)(4)(C)(iv);<sup>13</sup> (iii) the Index would meet all of the Continued Listing Representations, which formed the basis for the Commission’s approval in the Order;<sup>14</sup> (iv) all of the U.S. Treasury futures contracts included in the Index will be traded on markets that are a member of ISG or affiliated with a member of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement; and (v) the Index is largely a memorialization of the strategy previously employed by the Fund and the de-listing and re-listing is a technical matter of form without substantive change.

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<sup>13</sup> The Exchange believes that, while there are certain differences between Index Fund Shares and Managed Fund Shares, the policy considerations underpinning the approval of the generic listing standards for Managed Fund Shares, particularly related to a portfolio’s holdings in listed derivatives, are identical between Managed Fund Shares and Index Fund Shares, and, as such, an index underlying a series of Index Fund Shares that holds derivatives in a manner compliant with Rule 14.11(i)(4)(C)(iv) does not raise any issues that have not previously been contemplated by the Commission. See Securities Exchange Act Release No. 78396 (July 22, 2016), 81 FR 49698 (July 28, 2016) (SR-BATS-2015-100).

<sup>14</sup> As originally approved by the Commission for the listing and trading of the Fund as a series of Managed Fund Shares, the Commission determined in the Order that the proposal was consistent with the Act, stating that “the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act, which requires, among other things, that the Exchange’s rules be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.”

## 2. Statutory Basis

The Exchange believes that the proposal is consistent with Section 6(b) of the Act<sup>15</sup> in general and Section 6(b)(5) of the Act<sup>16</sup> in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to, and perfect the mechanism of a free and open market and, in general, to protect investors and the public interest. Specifically, the Exchange believes that the proposal is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to, and perfect the mechanism of a free and open market and, in general, to protect investors and the public interest.

The Index meets all of the generic listing standards of Rule 14.11(c)(4)(B)(i) except that the Index includes exposure to U.S. Treasury futures contracts. The Index also meets all of the generic listing standards applicable to Managed Fund Shares under Rule 14.11(i), including the exposure to U.S. Treasury futures contracts. The Index also meets the Continued Listing Representations from the Order related to portfolio holdings. As noted above, the Exchange is submitting this proposal because the Index contains futures contracts (U.S. Treasury futures contracts) in a manner permitted pursuant to the Order, but for which Rule 14.11(c) does not currently contemplate. All U.S. Treasury futures contracts held by the Fund will trade on markets that are a member of ISG or affiliated with a member of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.

Based on the foregoing, the Exchange believes that the proposal is non-controversial and should be effective upon filing. Specifically, because: (i) the Index meets the generic listing standards applicable to Index Fund Shares except the portion of the Index that includes exposure

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

<sup>16</sup> 15 U.S.C. 78f(b)(5).

to U.S. Treasury futures contracts, which are not contemplated as Index constituents under Rule 14.11(c); (ii) the Index would meet the generic listing standards for Managed Fund Shares under Rule 14.11(i)(4)(C), including the exposure to U.S. Treasury futures contracts under Rule 14.11(i)(4)(C)(iv);<sup>17</sup> (iii) the Index would meet all of the Continued Listing Representations, which formed the basis for the Commission’s approval in the Order;<sup>18</sup> (iv) all of the U.S. Treasury futures contracts included in the Index will be traded on markets that are a member of ISG or affiliated with a member of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement; and (v) the Index is largely a memorialization of the strategy previously employed by the Fund and the de-listing and re-listing is a technical matter of form without substantive change.

As such, the Exchange believes that the proposal is designed to prevent fraudulent and manipulative acts and practices, 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

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<sup>17</sup> The Exchange believes that, while there are certain differences between Index Fund Shares and Managed Fund Shares, the policy considerations underpinning the approval of the generic listing standards for Managed Fund Shares, particularly related to a portfolio’s holdings in listed derivatives, are identical between Managed Fund Shares and Index Fund Shares, and, as such, an index underlying a series of Index Fund Shares that holds derivatives in a manner compliant with Rule 14.11(i)(4)(C)(iv) does not raise any issues that have not previously been contemplated by the Commission. See Securities Exchange Act Release No. 78396 (July 22, 2016), 81 FR 49698 (July 28, 2016) (SR-BATS-2015-100).

<sup>18</sup> As originally approved by the Commission for the listing and trading of the Fund as a series of Managed Fund Shares, the Commission determined in the Order that the proposal was consistent with the Act, stating that “the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act, which requires, among other things, that the Exchange’s rules be designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.”

system, and, in general, to protect investors and the public interest because there are no substantive issues raised by this proposal that were not otherwise addressed by the Order.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purpose of the Act. The Exchange believes that the proposal to allow the Fund to be listed on the Exchange pursuant to the generic listing standards under Rule 14.11(i)(4)(C) will have no impact on competition.

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

The Exchange has neither solicited nor received written comments on the proposed rule change.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>19</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>20</sup>

A proposed rule change filed under Rule 19b-4(f)(6)<sup>21</sup> normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-

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<sup>19</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>20</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

<sup>21</sup> 17 CFR 240.19b-4(f)(6).



4(f)(6)(iii),<sup>22</sup> the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange requests that the Commission waive the 30-day operative delay to allow the Shares to immediately be listed and traded on the Exchange pursuant to Rule 14.11(c)(4) instead of Rule 14.11(i). The Exchange represents that the Index would meet the generic listing standards for Managed Fund Shares under Rule 14.11(i)(4)(C), including the exposure to U.S. Treasury futures contracts under Rule 14.11(i)(4)(C)(iv)<sup>23</sup> and the Index would meet all of the Continued Listing Representations, which formed the basis for the Commission's approval in the Order.<sup>24</sup> The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. Accordingly, the Commission hereby waives the 30-day operative delay and designates the proposed rule change operative upon filing.<sup>25</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

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<sup>22</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>23</sup> See supra text accompanying note 17.

<sup>24</sup> See supra text accompanying note 18.

<sup>25</sup> For purposes only of waiving the 30-day operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

#### 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-CboeBZX-2018-016 on the subject line.

##### Paper comments:

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

All submissions should refer to File Number SR-CboeBZX-2018-016. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 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. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-CboeBZX-2018-016, 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>26</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>26</sup> 17 CFR 200.30-3(a)(12).