

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-87421; File No. SR-CboeBZX-2019-068)

October 30, 2019

Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change, as Modified by Amendment No. 1, to List and Trade Shares of the iShares California Short Maturity Muni Bond ETF of the iShares U.S. ETF Trust Under Rule 14.11(i), Managed Fund Shares

I. Introduction

On July 19, 2019, Cboe BZX Exchange, Inc. (“Exchange” or “BZX”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to amend Cboe BZX Rule 14.11(c) to list and trade shares (“Shares”) of the iShares California Short Maturity Muni Bond ETF (“Fund”) of the iShares U.S. ETF Trust under BZX Rule 14.11(i). The proposed rule change was published for comment in the Federal Register on August 7, 2019.³ On September 19, 2019, pursuant to Section 19(b)(2) of the Act,⁴ the Commission designated a longer period within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to approve or disapprove the proposed rule change.⁵ On October 1, 2019, the Exchange filed Amendment No. 1 to the proposed rule change, which replaced in its entirety the proposed rule change as

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 86546 (Aug. 1, 2019), 84 FR 38689.

⁴ 15 U.S.C. 78s(b)(2).

⁵ See Securities Exchange Act Release No. 87018, 84 FR 50501 (Sep. 25, 2019). The Commission designated November 5, 2019 as the date by which the Commission shall approve or disapprove, or institute proceedings to determine whether to approve or disapprove, the proposed rule change.

originally submitted.⁶ The Commission has received no comments on the proposal. The Commission is publishing this order to institute proceedings pursuant to Section 19(b)(2)(B) of the Act⁷ to determine whether to approve or disapprove the proposed rule change, as modified by Amendment No. 1.

II. Summary of the Proposed Rule Change, as Modified by Amendment No. 1⁸

BZX Rule 14.11(i) permits the Exchange to generically list Managed Fund Shares⁹ issued by a fund whose portfolio components satisfy certain criteria. The Exchange must file separate proposals under Section 19(b) of the Act to list and trade shares of a series of Managed Fund Shares with portfolio components that do not satisfy the applicable generic listing criteria (including portfolio components not specified in the generic listing standards).¹⁰

According to the Exchange, the Fund will satisfy all of the applicable generic listing requirements except for BZX Rule 14.11(i)(4)(C)(ii)(a),¹¹ which requires that fixed income securities in a fund's portfolio that in the aggregate account for at least 75% of the fixed income weight of the portfolio each have a minimum principal amount outstanding of \$100 million or more. Accordingly, the Exchange filed the pending proposal to seek Commission approval to list and trade the Shares.

⁶ Amendment No. 1 is available at: <https://www.sec.gov/comments/sr-cboebzx-2019-068/srcboebzx2019068-6362715-196411.pdf>.

⁷ 15 U.S.C. 78s(b)(2)(B).

⁸ For a full description of the proposal, see Amendment No. 1, supra note 6.

⁹ “Managed Fund Shares” is defined in BZX Rule 14.11(i)(3)(A).

¹⁰ See BZX Rule 14.11(i)(4)(C).

¹¹ See Amendment No. 1, supra note 6, 84 FR at 14.

BlackRock Fund Advisors (“Adviser”) is the investment adviser to the Fund.¹² The Fund will seek to maximize tax-free current income from a portfolio composed of short maturity, investment-grade municipal bonds issued in the State of California. To achieve its objective, the Fund will invest, under Normal Market Conditions,¹³ at least 80% of its net assets in U.S.-dollar denominated investment-grade short-term fixed- and floating-rate Municipal Securities, as defined below, with remaining maturities of five years or less, issued in the State of California by or on behalf of California state or local governments or agencies, whose interest payments are exempt from U.S. federal, including the federal alternative minimum tax, and California state income taxes. Under Normal Market Conditions, the Fund will seek to maintain a weighted average maturity that is less than three years.¹⁴

Municipal Securities include only the following instruments: general obligation bonds; limited obligation bonds (or revenue bonds); municipal notes; municipal commercial paper; tender option bonds; variable rate demand notes and demand obligations; municipal lease

¹² BFA is an indirect wholly owned subsidiary of BlackRock, Inc.

¹³ The term “Normal Market Conditions” includes, but is not limited to, the absence of trading halts in the applicable financial markets generally; operational issues causing dissemination of inaccurate market information or system failures; or force majeure type events such as natural or man-made disaster, act of God, armed conflict, act of terrorism, riot or labor disruption, or any similar intervening circumstance. In the absence of Normal Market Conditions, the Fund may temporarily depart from its normal investment process, provided that such departure is, in the opinion of the Adviser, consistent with the Fund’s investment objective and in the best interest of the Fund. For example, the Fund may hold a higher than normal proportion of its assets in cash in response to adverse market, economic or political conditions. See id. at 7, n.8.

¹⁴ Weighted average maturity is a U.S. dollar-weighted average of the remaining term to maturity of the underlying securities in the Fund’s portfolio. For the purposes of determining the Fund’s weighted average maturity, a security’s final maturity date will be used for calculation purposes.

obligations, stripped securities; structured securities;¹⁵ zero coupon securities; and shares of exchange-traded and non-exchange-traded investment companies that principally invest in such Municipal Securities.

Other Portfolio Holdings. The Fund may also, to a limited extent (under Normal Market Conditions, less than 20% of the Fund's net assets), invest in certain futures, options and swap contracts;¹⁶ cash and cash equivalents; as well as in Municipal Securities of issuers located outside of California whose interest payments are exempt from regular federal income taxes.¹⁷ The Fund may also enter into repurchase and reverse repurchase agreements for Municipal Securities (collectively, "Repurchase Agreements"). The Fund may also invest in short-term instruments ("Short-Term Instruments"),¹⁸ which includes exchange traded and non-exchange traded investment companies that invest in money market instruments.

¹⁵ Structured securities, when combined with those instruments held as part of the other portfolio holdings described below, will not exceed 20% of the Fund's net assets. See id. at 9, n.20

¹⁶ Such futures, options and swap contracts will include only the following: interest rate futures, interest rate options, and interest rate swaps. The derivatives will be centrally cleared and they will be collateralized. At least 90% of the Fund's net assets that are invested in listed derivatives will be invested in instruments that trade in markets that are members or affiliates of members of the Intermarket Surveillance Group or are parties to a comprehensive surveillance sharing with the Exchange. See id. at 10, n.24.

¹⁷ Issuers located outside of California may be states, territories and possessions of the U.S., including the District of Columbia, and their political subdivisions, agencies and instrumentalities.

¹⁸ The Fund may invest in Short-Term Instruments, including money market instruments, on an ongoing basis to provide liquidity or for other reasons. Money market instruments are generally short-term investments that include only the following: (i) shares of money market funds; (ii) obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities (including government-sponsored enterprises); (iii) negotiable certificates of deposit, bankers' acceptances, fixed-time deposits and other obligations of U.S. and non-U.S. banks (including non-U.S. branches) and similar institutions; (iv) commercial paper, including asset-backed commercial paper; (v) non-convertible corporate debt securities (e.g., bonds and debentures) with remaining maturities at the date of purchase of not more than 397 days and that satisfy the rating requirements set

Investment Restrictions. The Fund may hold up to an aggregate amount of 15% of its net assets in illiquid assets (calculated at the time of investment), as deemed illiquid by the Adviser under the 1940 Act. The Fund will monitor its portfolio liquidity on an ongoing basis to determine whether, in light of current circumstances, an adequate level of liquidity is being maintained, and will consider taking appropriate steps in order to maintain adequate liquidity if, through a change in values, net assets, or other circumstances, more than 15% of the Fund's net assets are held in illiquid assets.¹⁹

Additionally, the Exchange states that the Fund will launch with at least 300,000 Shares outstanding. The Exchange also states: (1) the portfolio will hold a minimum of 15 different Municipal Securities from at least 15 unique issuers when at least six creation units are outstanding, but will never hold fewer than 10 different Municipal Securities from at least 10 unique issuers; (2) no single obligor will account for more than 10% of the weight of the Fund's

forth in Rule 2a-7 under the 1940 Act; and (vi) short-term U.S. dollar-denominated obligations of non-U.S. banks (including U.S. branches) that, in the opinion of BFA, are of comparable quality to obligations of U.S. banks which may be purchased by the Fund. All money market securities acquired by the Fund will be rated investment grade. The Fund does not intend to invest in any unrated money market securities. However, it may do so, to a limited extent, such as where a rated money market security becomes unrated, if such money market security is determined by the Adviser to be of comparable quality. BFA may determine that unrated securities are of comparable quality based on such credit quality factors that it deems appropriate, which may include, among other things, performing an analysis similar, to the extent possible, to that performed by a nationally recognized statistical rating organization rating similar securities and issuers.

¹⁹ Illiquid assets are defined by Rule 22e-4. In reaching liquidity decisions, the Adviser may consider factors including: the frequency of trades and quotes for the security; the number of dealers wishing to purchase or sell the security and the number of other potential purchasers; dealer undertakings to make a market in the security; the nature of the security and the nature of the marketplace trades (e.g., the time needed to dispose of the security, the method of soliciting offers, and the mechanics of transfer); any legal or contractual restrictions on the ability to transfer the security or asset; significant developments involving the issuer or counterparty specifically (e.g., default, bankruptcy, etc.) or the securities markets generally; and settlement practices, registration procedures, limitations on currency conversion or repatriation, and transfer limitations (for foreign securities or other assets). See id. at 12-13.

portfolio and no 10 obligors will account for more than 75% of the weight of the Fund's portfolio.²⁰ Additionally, no more than 50% of the Fund's assets will be invested in issuers that are more than 5% of the value of the Fund's assets, and the Fund will not invest more than 25% of its assets in any single issuer.²¹

III. Proceedings to Determine Whether to Approve or Disapprove SR-CboeBZX-2019-068 and Grounds for Disapproval Under Consideration

The Commission is instituting proceedings pursuant to Section 19(b)(2)(B) of the Act²² to determine whether the proposed rule change, as modified by Amendment No. 1, should be approved or disapproved. Institution of such proceedings is appropriate at this time in view of the legal and policy issues raised by the proposal. Institution of proceedings does not indicate that the Commission has reached any conclusions with respect to any of the issues involved. Rather, as described below, the Commission seeks and encourages interested persons to provide comments on the proposal.

Pursuant to Section 19(b)(2)(B) of the Act,²³ the Commission is providing notice of the grounds for disapproval under consideration. The Commission is instituting proceedings to allow for additional analysis of the proposal's consistency with Section 6(b)(5) of the Act, which requires, among other things, that the rules of a national securities exchange be "designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade," and "to protect investors and the public interest."²⁴ Specifically, the Commission seeks comment regarding the following:

²⁰ See id. at 13.

²¹ See id. at 13-14.

²² 15 U.S.C. 78s(b)(2)(B).

²³ Id.

²⁴ 15 U.S.C. 78f(b)(5).

1. Would the proposed requirement that the portfolio hold a minimum of ten different Municipal Securities from at least ten unique issuers or, when at least six creation units are outstanding, fifteen different Municipal Securities from at least fifteen unique issuers be sufficient to ensure that the Fund's portfolio isn't susceptible to manipulation?

2. Would the proposed concentration limit, i.e., that no single obligor will account for more than 10% of the weight of the Fund's portfolio and no ten obligors will account for more than 75% of the weight of the Fund's portfolio, be sufficient to ensure that the Fund's portfolio isn't susceptible to manipulation?

3. Taken collectively, would the proposed listing requirements adequately ensure that the Fund's portfolio would not be susceptible to manipulation?

IV. Procedure: Request for Written Comments

The Commission requests that interested persons provide written submissions of their views, data, and arguments with respect to the issues identified above, as well as any other concerns they may have with the proposal. In particular, the Commission invites the written views of interested persons concerning whether the proposed rule change, as modified by Amendment No. 1, is consistent with Section 6(b)(5) or any other provision of the Act, or the rules and regulations thereunder. Although there do not appear to be any issues relevant to approval or disapproval that would be facilitated by an oral presentation of views, data, and arguments, the Commission will consider, pursuant to Rule 19b-4 under the Act,²⁵ any request for an opportunity to make an oral presentation.²⁶

²⁵ 17 CFR 240.19b-4.

²⁶ Section 19(b)(2) of the Act, as amended by the Securities Acts Amendments of 1975, Pub. L. 94-29 (June 4, 1975), grants the Commission flexibility to determine what type of proceeding—either oral or notice and opportunity for written comments—is appropriate for consideration of a particular proposal by a self-regulatory organization. See Securities

Interested persons are invited to submit written data, views, and arguments regarding whether the proposed rule change, as modified by Amendment No. 1, should be approved or disapproved by [insert date 21 days from publication in the Federal Register]. Any person who wishes to file a rebuttal to any other person’s submission must file that rebuttal by [insert date 35 days from publication in the Federal Register]. The Commission asks that commenters address the sufficiency of the Exchange’s statements in support of the proposal, which are set forth in Amendment No. 1,²⁷ in addition to any other comments they may wish to submit about the proposal.

In this regard, the Commission seeks comment on the Exchange’s proposed generic listing standards for Shares based on an index or portfolio of Municipal Securities. The Commission specifically seeks comment on whether the proposed requirement that an underlying index or portfolio must include a minimum of 500 component Municipal Securities is consistent with the requirement that the rules of a national securities exchange be “designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade,” and “to protect investors and the public interest.”²⁸

Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission’s Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CboeBZX-2019-068 on the subject line.

Acts Amendments of 1975, Senate Comm. on Banking, Housing & Urban Affairs, S. Rep. No. 75, 94th Cong., 1st Sess. 30 (1975).

²⁷ See supra note 6.

²⁸ 15 U.S.C. 78f(b)(5).

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-2019-068. 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-2019-068 and should be submitted by [insert date 21 days from publication in the Federal Register]. Rebuttal comments should be submitted by [insert date 35 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁹

²⁹ 17 CFR 200.30-3(a)(57).

Jill M. Peterson
Assistant Secretary