

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-88752; File No. SR-CboeBZX-2020-035)

April 27, 2020

Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Regarding the Listing Rule of the Hartford Core Bond ETF

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on April 16, 2020, Cboe BZX Exchange, Inc. (“Exchange” or “BZX”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange filed the proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act³ and Rule 19b-4(f)(6) thereunder.⁴ 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

Cboe BZX Exchange, Inc. (the “Exchange” or “BZX”) is filing with the Securities and Exchange Commission (“Commission”) a proposed rule change to allow the Hartford Core Bond ETF (the “Fund”), a series of the Hartford Funds Exchange-Traded Trust (the “Trust”), to expand the over-the-counter (“OTC”) derivative product types the Fund may hold and also to allow the Fund to hold credit default swap indices that are either listed or OTC derivatives.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A)(iii).

⁴ 17 CFR 240.19b-4(f)(6).

The text of the proposed rule change is also available on the Exchange's website (http://markets.cboe.com/us/equities/regulation/rule_filings/bzx/), at the Exchange's Office of the Secretary, 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 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 adopted a rule to permit the listing and trading the Shares.⁵ On February 20, 2020, the Exchange commenced trading in the Shares. The Exchange now proposes to continue listing and trading the Shares pursuant to Rule 14.11(i) and expand the realm of derivatives in which the Fund may invest pursuant to the Initial Filing and allow the Fund to hold credit default swap indices that are either listed or OTC derivatives. As proposed, the Shares would continue to comply with all of the generic listing standards with the exception of the requirement of Rule 14.11(i)(4)(C)(ii)(d),⁶ as described in the Initial Filing.

⁵ See Securities Exchange Act No. 88107 (January 31, 2020) 85 FR 6988 (February 6, 2020) (SR-CboeBZX-2020-008) (the "Initial Filing").

⁶ Rule 14.11(i)(4)(C)(ii)(d) provides that "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

As noted in the Initial Filing, the Exchange proposed a Rule amendment in order to allow the listing and trading of the Shares which would not meet the requirements of Rule 14.11(i)(4)(C)(ii)(d), which requires that component securities that in aggregate account for at least 90% of the fixed income weight of the portfolio must satisfy at least one of five conditions. Therefore, the Exchange proposed that the fixed income portion of the portfolio excluding Non-Agency ABS and MBS⁷ would satisfy the 90% requirement. In the Initial Filing, the Exchange also provided that the Fund would generally invest up to 20%, but may exceed 20%, of its assets in cash and Cash Equivalents,⁸ certain listed derivatives,⁹ and certain OTC derivatives.¹⁰ Further, the Exchange provided that the Fund's holdings in cash and Cash Equivalents, listed derivatives, and OTC derivatives would be in compliance with all generic listing standards, including those

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 Act; or (e) from issuers that are a government of a foreign country or a political subdivision of a foreign country.”

⁷ As noted in the Initial Filing, non-Agency ABS and MBS refers to non-agency, non-GSE (i.e., a type of financial services corporation created by the United States Congress, which include Fannie Mae and Freddie Mac), and privately-issued mortgage-related and other asset-backed securities.

⁸ As defined in Exchange Rule 14.11(i)(4)(C)(iii)(b), Cash Equivalents are short-term instruments with maturities of less than three months, which includes only the following: (i) 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; (ii) certificates of deposit issued against funds deposited in a bank or savings and loan association; (iii) bankers acceptances, which are short-term credit instruments used to finance commercial transactions; (iv) repurchase agreements and reverse repurchase agreements; (v) 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; (vi) commercial paper, which are short-term unsecured promissory notes; and (vii) money market funds.

⁹ As noted in the Initial Filing, listed derivatives include only the following instruments: Treasury futures, U.S. interest rate futures, and Eurodollar futures.

¹⁰ As noted in the Initial Filing, OTC derivatives include only the following instruments: interest rate swaps, currency forwards, and credit default swap indices.

in Rules 14.11(i)(4)(C)(iii), 14.11(i)(4)(C)(iv), 14.11(i)(4)(C)(v), and 14.11(i)(4)(C)(vi).

Pursuant to the Initial Filing the Fund is permitted to invest in the following listed derivatives:

- Treasury futures;
- U.S. interest rate futures; and
- Eurodollar futures.

Additionally, pursuant to the Initial Filing, the Fund is permitted to invest in the following OTC Derivatives:

- Interest rate swaps;
- Currency forwards; and
- Credit default swap indices.

Now, the Exchange proposes to amend that credit default swap indices will continue to be held by the Fund, but may be listed derivatives or OTC derivatives. Therefore, the Exchange proposes that the Fund may invest in the following listed derivatives:

- Treasury futures;
- U.S. interest rate futures;
- Eurodollar futures; and
- Credit default swap indices.

Additionally, the Exchange proposes to expand the types of OTC derivatives in which the Fund may invest to be the following instruments:

- Interest rate swaps and consumer price index (“CPI”) swaps, credit default swaps, and total return swaps;
- Interest rate options, options on interest rate swaps (“swaptions”), and options on

credit default swaps;

- Currency forwards and bond forwards; and
- Credit default swap indices.¹¹

Rule 14.11(i)(4)(C)(v) is intended to mitigate concerns around the manipulability of a particular underlying reference asset or derivatives contract. As the proposal does not seek to allow the Fund to hold more than 20% of the weight of the portfolio (including gross notional exposures) in OTC derivatives, the Exchange believes the concerns around the manipulability of a particular underlying reference asset or derivatives contract are mitigated. Further, by allowing the Fund additional flexibility to further diversify its holdings to provide exposure to a broader array of OTC derivatives would allow the Fund to better achieve its investment objective, and, as such, benefit both investors and the Fund. As proposed, the Fund will continue to meet all generic listings standards related to OTC derivatives, including those in Rules 14.11(i)(4)(C)(v) and 14.11(i)(4)(C)(vi).

The Fund's investments, including those in derivatives, will continue to be consistent with the 1940 Act and the Fund's investment objective. Moreover, the Exchange represents that the Shares of the Fund will continue to comply with all other requirements applicable to Managed Fund Shares, which include the dissemination of key information such as the Disclosed Portfolio,¹² Net Asset Value,¹³ and the Intraday Indicative Value,¹⁴ suspension of trading or

¹¹ As noted in the Initial Filing, intraday price quotations for OTC derivatives are available from major broker-dealer firms and from third-parties, which may provide prices free with a time delay or in real-time for a paid fee.

¹² See Rule 14.11(i)(4)(A)(ii) and 14.11(i)(4)(B)(ii).

¹³ See Rule 14.11(i)(4)(A)(ii).

¹⁴ See Rule 14.11(i)(4)(B)(i).

removal,¹⁵ trading halts,¹⁶ surveillance,¹⁷ minimum price variation for quoting and order entry,¹⁸ the information circular,¹⁹ and firewalls²⁰ as set forth in Exchange rules applicable to Managed Fund Shares and the orders approving such rules.

2. Statutory Basis

The Exchange believes that the proposal is consistent with Section 6(b) of the Act²¹ in general and Section 6(b)(5) of the Act²² in particular in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest in that the Shares will meet each of the continued listing criteria in BZX Rule 14.11(i) with the exception of Rule 14.11(i)(4)(C)(ii)(d), as provided in the Initial Filing.

The Exchange believes the proposal to expand the types of derivatives in which the Fund may invest as discussed herein will allow the Fund additional flexibility to further diversify its holdings to better achieve its investment objective, and, as such, benefit both investors and the Fund. Further, as the proposal does not seek to allow the Fund to hold more than 20% of the weight of the portfolio (including gross notional exposures) in OTC derivatives, the Exchange

¹⁵ See Rule 14.11(i)(4)(B)(iii).

¹⁶ See Rule 14.11(i)(4)(B)(iv).

¹⁷ See Rule 14.11(i)(2)(C).

¹⁸ See Rule 14.11(i)(2)(B).

¹⁹ See Rule 14.11(i)(6).

²⁰ See Rule 14.11(i)(7).

²¹ 15 U.S.C. 78f(b).

²² 15 U.S.C. 78f(b)(5).

believes the concerns around the manipulability of a particular underlying reference asset or derivatives contract are mitigated. The Exchange also believes the proposal to clarify that credit default swap indices that the Fund may hold may be listed or OTC derivatives will eliminate any potential investor confusion as to the types of derivatives the Fund may hold. Lastly, the Fund's investments in cash and Cash Equivalents, listed derivatives, and OTC derivatives will continue to be in compliance with all generic listing standards, including those in Rules 14.11(i)(4)(C)(iii), 14.11(i)(4)(C)(iv), 14.11(i)(4)(C)(v), and 14.11(i)(4)(C)(vi). The Fund will comply with all representations made in the Initial Filing, aside from the changes specifically discussed herein related to permitted derivatives.

For the above reasons, the Exchange believes that the proposed rule change is consistent with the requirements of Section 6(b)(5) of the Act.

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 notes that the proposed rule change, rather, will facilitate the strategy of an actively-managed exchange-traded product that will allow the Fund to better compete in the marketplace, thus enhancing competition among both market participants and listing venues, to the benefit of investors and the marketplace.

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) of the Act²³ and Rule 19b-4(f)(6) thereunder.²⁴

A proposed rule change filed under Rule 19b-4(f)(6)²⁵ normally does not become operative for 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),²⁶ the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay to allow the Fund to immediately modify its permitted investments in derivatives. The Exchange represents that all derivatives would be held in compliance with BZX's generic listing standards, including those in Rules 14.11(i)(4)(C)(iii), 14.11(i)(4)(C)(iv), 14.11(i)(4)(C)(v), and 14.11(i)(4)(C)(vi), and therefore the proposal raises no novel or substantive issues. Therefore, the Commission believes that waiver of the 30-day operative delay

²³ 15 U.S.C. 78s(b)(3)(A).

²⁴ 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of 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.

²⁵ 17 CFR 240.19b-4(f)(6).

²⁶ 17 CFR 240.19b-4(f)(6)(iii).

is consistent with the protection of investors and the public interest and hereby waives the 30-day operative delay and designates the proposed rule change operative upon filing.²⁷

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 necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-CboeBZX-2020-035 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-2020-035. 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

²⁷ For purposes only of waiving the operative delay, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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-2020-035 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.²⁸

J. Matthew DeLesDernier
Assistant Secretary

²⁸ 17 CFR 200.30-3(a)(12).