

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-101655; File No. SR-CboeBZX-2024-112)

November 19, 2024

Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Notice of Filing of a Proposed Rule Change to Expand BZX Rule 14.11(l) to Permit the Generic Listing and Trading of Multi-Class ETF Shares

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on November 8, 2024, 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, 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

Cboe BZX Exchange, Inc. (“BZX” or the “Exchange”) is filing with the Securities and Exchange Commission (“Commission” or “SEC”) a proposed rule change to amend Rule 14.11(l) to provide that the Exchange may approve a series of Exchange-Traded Fund (“ETF”) Shares for listing and/or trading on the Exchange that operates in reliance on exemptive relief to Rule 6c-11 under the Investment Company Act of 1940 (the “Investment Company Act”) that permits the trust issuing the ETF Shares to offer an exchange-traded fund class in addition to classes of shares that are not exchange-traded.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 proposes to amend Rule 14.11(l) to provide that the Exchange may approve a series of ETF Shares for listing and/or trading on the Exchange where such series operates in reliance on exemptive relief to Rule 6c-11 under the Investment Company Act that permits the trust issuing the ETF Shares to offer ETF Shares in addition to classes of shares that are not exchange-traded ("Multi-class ETF Shares") of an open-end fund.³ There are numerous applications for exemptive relief for Multi-class ETF Shares currently before the Commission⁴

³ The Exchange notes that it had previously submitted a version of this filing on April 15, 2024. See Securities Exchange Act Release No. 34-100034 (May 1, 2024) 89 FR 35255. That filing was withdrawn on November 8, 2024 and submitted this proposal.

⁴ See Perpetual US Services, LLC (filed February 7, 2023); DFA Investment Dimensions Group Inc. and Dimensional Investment Group Inc. (filed July 12, 2023); F/m Investments LLC (August 22, 2023); Fidelity Hastings Street Trust and Fidelity Management & Research Company (filed October 24, 2023); Morgan Stanley Institutional Fund Trust and Morgan Stanley Investment Management Inc. (filed January 29, 2024); First Trust Series Fund and First Trust Variable Insurance Trust (filed January 24, 2024); Guinness Atkinson Funds (filed February 27, 2024); and Metropolitan West Funds, TCW ETF Trust, and TCW Funds, Inc. (filed March 20, 2024).

that request exemptive relief similar to that previously granted to other funds that are not listed on the Exchange.⁵ This proposed amendment would provide for the “generic” listing and/or trading of Multi-class ETF Shares under Rule 14.11(l) on the Exchange immediately upon the Commission’s applicable order granting exemptive relief to the outstanding applications. This proposal is not intended to amend any other part of Rule 14.11(l) and the Exchange submits this proposal only to prevent any unnecessary delay in listing additional Multi-Class ETF Shares generically under Rule 14.11(l) when and if such requests are granted by the Commission.

Background

Starting in 2000, the Commission began granting limited relief for The Vanguard Group, Inc. (“Vanguard”) to offer certain index-based open-end management investment companies with Multi-class ETF Shares.⁶ After this relief was granted, there was limited public discourse about Multi-class ETF Shares until 2019, when the prospect of providing blanket exemptive relief to Multi-class ETF Shares was addressed in the Commission’s adoption of Rule 6c-11 under the Investment Company Act (the “ETF Rule”).⁷ The ETF Rule permits ETFs that satisfy certain conditions to operate without the expense or delay of obtaining an exemptive order. However, the ETF Rule did not provide blanket exemptive relief to allow for Multi-class ETF

⁵ Infra note 6.

⁶ See Vanguard Index Funds, Investment Company Act Release Nos. 24680 (Oct. 6, 2000) (notice) and 24789 (Dec. 12, 2000) (order). The Commission itself, as opposed to the Commission staff acting under delegated authority, considered the original Vanguard application and determined that the relief was appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act. In the process of granting the order, the Commission also considered and denied a hearing request on the original application, as reflected in the final Commission order. See also the Vanguard Group, Inc., Investment Company Act Release Nos. 26282 (Dec. 2, 2003) (notice) and 26317 (Dec. 30, 2003) (order); Vanguard International Equity Index Funds, Investment Company Act Release Nos. 26246 (Nov. 3, 2003) (notice) and 26281 (Dec. 1, 2003) (order); Vanguard Bond Index Funds, Investment Company Act Release Nos. 27750 (Mar. 9, 2007) (notice) and 27773 (April 2, 2007) (order) (collectively referred to as the “Vanguard Orders”).

⁷ See Securities Exchange Act Release No. 33-10695 (October 24, 2019) 84 FR 57162 (the “ETF Rule Adopting Release”).

Shares as part of the final rule. Instead, the Commission concluded that Multi-class ETF Shares should request relief through the exemptive application process so that the Commission may assess all relevant policy considerations in the context of the facts and circumstances of particular applicants. The Exchange adopted Rule 14.11(l)⁸ shortly after the implementation of the ETF Rule and, because there were no exemptive applications before the Commission and because none of the Multi-class ETF Shares that were previously granted exemptive relief listed on the Exchange, did not propose to include any language comparable to what is being proposed herein.

As noted above, a number of applications for exemptive relief to permit the applicable fund to offer Multi-class ETF Shares (the “Applications”) have been submitted to the Commission starting in early 2023. In general, the Applications state that the ability of a fund to offer Multi-class ETF Shares, i.e., both a class of mutual fund shares (each such class, a “Mutual Fund class” and such shares “Mutual Fund Shares”) and ETF Shares, could be beneficial to the fund and to shareholders of each type of class for various reasons, including more efficient portfolio management, better secondary market trading opportunities, and cost efficiencies, among others.⁹

⁸ See Securities Exchange Act No. 88566 (April 6, 2020) 85 FR 20312 (April 10, 2020) (SR-CboeBZX-2019-097) (Notice of Filing of Amendment No. 2 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 2, To Adopt BZX Rule 14.11(l) Governing the Listing and Trading of Exchange-Traded Fund Shares).

⁹ Specifically, the Applicants believe that a Mutual Fund class would benefit ETF class shareholders because investor cash flows through a Mutual Fund class can be used for efficient portfolio rebalancing. To the extent that cash flows come into a fund through a Mutual Fund class, a portfolio manager may be able to deploy that cash strategically to rebalance the portfolio. Second, cash flows through a Mutual Fund class may allow for greater creation basket flexibility for creations and redemptions through the ETF class, which could promote arbitrage efficiency and smaller spreads on the trading of ETF Shares in the secondary market. With respect to existing funds, ETF classes would permit investors that prefer the ETF structure to gain access to established funds’ investment strategies. Additionally, the establishment of an ETF class as part of an existing fund could lead to cost efficiencies. Specifically, in terms of fund expenses, an ETF class could have initial and ongoing advantages for its shareholders, where shareholders of an ETF class of a fund that already has substantial assets could immediately benefit from economies of scale. Finally, the tax-free conversion of shares from the Mutual Fund class to the ETF class may accelerate the

While Multi-class ETF Shares could potentially be listed under existing Exchange Rules 14.11(c) or 14.11(i), doing so would unnecessarily re-introduce the burdensome quantitative portfolio requirements and ongoing compliance obligations associated therewith that existed before the adoption of Rule 6c-11 and Exchange Rule 14.11(l).¹⁰ The Exchange is not aware of any clear policy rationale as to why those quantitative requirements should apply to Multi-class ETF Shares other than the rules are already in place. As such, listing Multi-class ETF Shares under these older rules would place undue burdens on both the Exchange and fund issuers because of the quantitative portfolio requirements that currently do not apply to ETFs meeting the requirements of Rule 6c-11 and Rule 14.11(l). Furthermore, while the Applicants generally seek the same exemptive relief as granted under those previous orders,¹¹ several Applicants have proposed different conditions to the relief that reflect the adoption of Rule 6c-11. Therefore, the Exchange believes there is a reasonable relationship between the Applications and the proposed rule change to allow for the Commission's evaluation of whether the proposed rule change is consistent with the Act. The Exchange also acknowledges that approval of this proposed rule change would not necessarily result in the listing and trading of the additional Multi-class ETF

development of an ETF shareholder base. Subsequent secondary market transactions by the ETF class shareholders could generate greater trading volume, resulting in lower trading spreads and/or premiums or discounts in the market prices of the ETF Shares to the benefit of ETF shareholders. The Applicants also believe that an ETF class would benefit Mutual Fund class shareholders because in-kind transactions through the ETF class may contribute to lower portfolio transaction costs and greater tax efficiency. Additionally, the conversion feature could allow Mutual Fund shareholders to convert Mutual Fund Shares for ETF Shares without adverse consequences to the Fund by allowing Mutual Fund shareholders to convert their shares into the ETF class of the same fund rather than redeeming their Mutual Fund Shares and buying shares of another ETF. In doing so, the converting shareholder could save on transaction costs and potential tax consequences that may otherwise be incurred in redeeming their existing shares and buying separate ETF Shares. The ETF class would also represent an additional distribution channel for a fund that could lead to additional asset growth and economies of scale; greater assets under management may lead to additional cost efficiencies and an improved tax profile for the fund may also assist the competitive position of the Fund for attracting prospective shareholders. Last, the class of ETF Shares could allow certain investors to engage in more frequent trading without disrupting the fund's portfolio.

¹⁰ See e.g., Exchange Rule 14.11(c) and 14.11(i).

¹¹ Supra note 6.

Shares under the proposed Rule until and unless the necessary relief was granted by the Division of Investment Management, but approving this proposal would address any potential concerns the Commission's division of Trading and Markets might have as it specifically relates to the listing and trading of Multi-class ETF Shares under proposed Rule 14.11(l) and would allow for a smooth launch process if and when such relief is granted.¹²

Proposal

The Exchange proposes to amend Rule 14.11(l)(4) to explicitly provide that any series of ETF Shares that is eligible to operate under exemptive relief under the Investment Company Act that permits the fund to offer a class of ETF Shares in addition to classes of shares that are not-exchange traded (i.e., Multi-class ETF Shares) may be approved by the Exchange for listing and/or trading (including pursuant to unlisted trading privileges) on the Exchange pursuant to Rule 19b-4(e) under the Act. The Exchange also proposes to explicitly provide that the requirements of any exemptive relief applicable to Multi-class ETF Shares must be satisfied by a series of ETF Shares on an initial and continued listing basis. Last, the Exchange proposes to amend Rule 14.11(l)(4)(B)(i)(a) to provide that any series of Multi-class ETF Shares that fails to meet the requirements of the applicable exemptive relief will be subject to the suspension of trading or removal provisions of Rule 14.11(l)(4)(B)(i).

¹² The Commission has in some instances historically approved Exchange listing rules even when no products would necessarily be permitted to list under those rules. Most recently, the Commission approved Exchange proposals to list and trade shares of ether-based exchange-traded products (“ETPs”) prior to any such products having an effective registration statement. As those ether-based ETPs could not trade on the Exchange without an effective registration statement, which were separately considered by the Commission's division of corporate finance, the Exchange could not list and trade those products even with proper Exchange Rules in place. The Exchange believes this example illustrates the reasonability of the Exchange pursuing the adoption a proposed Rule that would not immediately result in the listing and trading of the applicable products thereunder. See Securities Exchange Act No. 100224 (May 23, 2024) 89 FR 46937 (May 30, 2024) (Order Granting Accelerated Approval of Proposed Rule Changes, as Modified by Amendments Thereto, To List and Trade Shares of Ether-Based Exchange-Traded Products).

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Act and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.¹³ Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁴ requirements that the rules of an exchange 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 regulating, clearing, settling, processing information with respect to, and 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. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)¹⁵ requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes that permitting Multi-class ETF Shares to list on the Exchange is consistent with the applicable exemptive relief and will help perfect the mechanism of a free and open market and, in general, will protect investors and the public interest in that it will permit the listing and trading of Multi-class ETF Shares, consistent with the applicable exemptive relief, and in a manner that will benefit investors. Specifically, the Exchange believes that the relief proposed in the Applications and the expected benefits of the Multi-class ETF Shares described above would be to the benefit of investors. Eliminating any unnecessary delay for additional Multi-class ETF Shares listing on the Exchange under Rule 14.11(l) will simply

¹³ 15 U.S.C. 78f(b).

¹⁴ 15 U.S.C. 78f(b)(5).

¹⁵ Id.

help accrue those benefits to investors more expeditiously. Further, the Exchange is only proposing to amend its rules to allow such a series of Multi-class ETF Shares to list on the Exchange pursuant to Rule 14.11(l), a change to its rules that will only be meaningful if and when the Commission grants such relief to an Applicant. To the extent that the Commission does not grant Multi-class ETF Shares relief, the proposed change to Rule 14.11(l) will have no impact on series of ETF Shares listed on the Exchange.

The Exchange also believes that amending Rule 14.11(l) to explicitly provide that the initial and continued listing standards applicable to ETF Shares, including the suspension of trading or removal standards, would be applicable to Multi-class ETF Shares operating under any applicable exemptive relief, are designed to promote transparency and clarity in the Exchange's Rules. The Exchange believes that with these changes, Rule 14.11(l)(4) would clearly allow for the listing and trading of Multi-class ETF Shares upon the Commission's order of exemptive relief.

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 purposes of the Act. The Exchange believes the proposed rule change, by permitting the listing and trading of ETF Shares operating under Multi-class ETF Shares exemptive relief, would introduce additional competition among various ETF products to the benefit of investors.

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

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

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

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

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 (<https://www.sec.gov/rules/sro.shtml>); or
- Send an email to rule-comments@sec.gov. Please include file number SR-CboeBZX-2024-112 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-2024-112. This file number should be included on the subject line if email 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 (<https://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 a.m. and 3 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. Do not include personal identifiable information in submissions; you should submit only information that you wish to make available publicly. We may redact in part or withhold entirely from publication submitted material that is obscene or subject to copyright protection. All submissions should refer to file number SR-CboeBZX-2024-112 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁶

Sherry R. Haywood,

Assistant Secretary.

¹⁶ 17 CFR 200.30-3(a)(12).