

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-67985; File No. SR-NYSEArca-2012-92)

October 4, 2012

Self-Regulatory Organizations; NYSE Arca, Inc.; Order Granting Approval of Proposed Rule Change Relating to the Listing and Trading of iShares 2018 S&P AMT-Free Municipal Series and iShares 2019 S&P AMT-Free Municipal Series under NYSE Arca Equities Rule 5.2(j)(3), Commentary .02

I. Introduction

On August 16, 2012, NYSE Arca, Inc. (“Exchange” or “NYSE Arca”) filed with the Securities and Exchange Commission (“Commission”), 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> a proposed rule change to list and trade shares (“Shares”) of the iShares 2018 S&P AMT-Free Municipal Series (“2018 Fund”) and iShares 2019 S&P AMT-Free Municipal Series (“2019 Fund” and, collectively, “Funds”). The proposed rule change was published for comment in the Federal Register on August 30, 2012.<sup>3</sup> The Commission received no comments on the proposed rule change. This order grants approval of the proposed rule change.

II. Description of the Proposed Rule Change

The Exchange proposes to list and trade Shares of the Funds pursuant to NYSE Arca Equities Rule 5.2(j)(3), Commentary .02, which governs the listing and trading of Investment Company Units (“Units”) based on fixed income securities indexes. The Funds are two series of iShares Trust (“Trust”).<sup>4</sup> Blackrock Fund Advisors (“Investment Adviser”) is the investment

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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> See Securities Exchange Act Release No. 67729 (August 24, 2012), 77 FR 52776 (“Notice”).

<sup>4</sup> The Trust is registered under the Investment Company Act of 1940 (“1940 Act”). On June 29, 2012, the Trust filed with the Commission Post-Effective Amendment No. 745

adviser for the Funds. SEI Investments Distribution Co. is the Funds' distributor ("Distributor").

iShares 2018 S&P AMT-Free Municipal Series

The 2018 Fund will seek investment results that correspond generally to the price and yield performance, before fees and expenses, of the S&P AMT-Free Municipal Series 2018 Index<sup>TM</sup> ("2018 Index").<sup>5</sup> The 2018 Fund will not seek to return any predetermined amount at maturity. The 2018 Index measures the performance of investment-grade U.S. municipal bonds maturing in 2018. According to the Exchange, as of May 1, 2012, there were 1,443 issues in the 2018 Index.

The 2018 Index includes municipal bonds primarily from issuers that are state or local governments or agencies (including the Commonwealth of Puerto Rico and U.S. territories such as the U.S. Virgin Islands and Guam) such that the interest on the bonds is exempt from U.S. federal income taxes and the federal alternative minimum tax ("AMT"). According to the exchange, each bond eligible for inclusion in the 2018 Index must have a rating of at least BBB- by S&P, Baa3 by Moody's Investors Service, Inc. ("Moody's"), or BBB- by Fitch, Inc., and

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(with respect to the 2018 Fund, "2018 Registration Statement") and Post-Effective Amendment No. 746 (with respect to the 2019 Fund, "2019 Registration Statement") to the Trust's registration statement on Form N-1A under the Securities Act of 1933 and the 1940 Act (File Nos. 333-92935 and 811-09729) (collectively, "Registration Statements"). In addition, the Commission has issued an order granting certain exemptive relief to the Trust under the 1940 Act. See Investment Company Act Release No. 27608 (December 21, 2006) (File No. 812-13208).

<sup>5</sup> Each of the 2018 Index and 2019 Index (as defined below) (collectively, "Underlying Indexes") is sponsored by an organization ("Index Provider") that is independent of the Funds and the Investment Adviser. The Index Provider determines the composition and relative weightings of the securities in the Underlying Indexes and publishes information regarding the market value of the Underlying Indexes. The Index Provider with respect to the Underlying Indexes is Standard & Poor's Financial Services LLC (a subsidiary of The McGraw-Hill Companies) ("S&P"). The Index Provider is not a broker-dealer or affiliated with a broker-dealer and has implemented procedures designed to prevent the use and dissemination of material, non-public information regarding the Underlying Indexes.

must have a minimum maturity par amount of \$2 million. To remain in the 2018 Index, bonds must maintain a minimum par amount greater than or equal to \$2 million as of each rebalancing date. All bonds in the 2018 Index will mature between June 1 and August 31 of 2018. When a bond matures in the 2018 Index, an amount representing its value at maturity will be included in the 2018 Index throughout the remaining life of the 2018 Index, and any such amount will be assumed to earn a rate equal to the performance of the S&P's Weekly High Grade Index, which consists of Moody's Investment Grade-1 municipal tax-exempt notes that are not subject to federal AMT. By August 31, 2018, the 2018 Index is expected to consist entirely of cash carried in this manner. The 2018 Index is a market value weighted index and is rebalanced after the close on the last business day of each month.

The Exchange submitted this proposed rule change because the 2018 Index for the 2018 Fund does not meet all of the "generic" listing requirements of Commentary .02(a) to NYSE Arca Equities Rule 5.2(j)(3) applicable to the listing of Units based on fixed income securities indexes. The 2018 Index meets all such requirements except for those set forth in Commentary .02(a)(2).<sup>6</sup> Specifically, as of May 1, 2012, only 9.95% of the weight of the 2018 Index components have a minimum original principal amount outstanding of \$100 million or more.

According to the Exchange, the 2018 Fund generally will invest at least 80% of its assets in the securities of the 2018 Index, except during the last months of such Fund's operations, as described below. The 2018 Fund may at times invest up to 20% of its assets in cash and cash equivalents (including money market funds affiliated with the Investment Adviser), as well as in municipal bonds not included in the 2018 Index, but which the Investment Adviser believes will

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<sup>6</sup> Commentary .02(a)(2) to NYSE Arca Equities Rule 5.2(j)(3) provides that components that in the aggregate account for at least 75% of the weight of the index or portfolio each shall have a minimum original principal amount outstanding of \$100 million or more.

help the 2018 Fund track the 2018 Index. For example, the 2018 Fund may invest in municipal bonds not included in the 2018 Index in order to reflect prospective changes in the 2018 Index (such as 2018 Index reconstitutions, additions, and deletions). The 2018 Fund will generally hold municipal bond securities issued by state and local municipalities whose interest payments are exempt from U.S. federal income tax, the federal AMT and, effective beginning in 2013, a federal Medicare contribution tax of 3.8% on “net investment income,” including dividends, interest, and capital gains. In addition, the 2018 Fund may invest any cash assets in one or more affiliated municipal money market funds. In the last months of operation, as the bonds held by the 2018 Fund mature, the proceeds will not be reinvested in bonds but instead will be held in cash and cash equivalents, including without limitation, AMT-free tax-exempt municipal notes, variable rate demand notes and obligations, tender option bonds, and municipal commercial paper. These cash equivalents may not be included in the 2018 Index. On or about August 31, 2018, the 2018 Fund will wind up and terminate, and its net assets will be distributed to then-current shareholders.

#### iShares 2019 S&P AMT-Free Municipal Series

The 2019 Fund will seek investment results that correspond generally to the price and yield performance, before fees and expenses, of the S&P AMT-Free Municipal Series 2019 Index™ (“2019 Index”).<sup>7</sup> The 2019 Fund will not seek to return any predetermined amount at maturity. The 2019 Index measures the performance of investment-grade U.S. municipal bonds maturing in 2019. As of May 1, 2012, there were 1,157 issues in the 2019 Index.

The 2019 Index includes municipal bonds primarily from issuers that are state or local governments or agencies (including the Commonwealth of Puerto Rico and U.S. territories such

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<sup>7</sup> S&P is the 2019 Fund’s Index Provider. See note 5, supra.

as the U.S. Virgin Islands and Guam) such that the interest on the bonds is exempt from U.S. federal income taxes and the federal AMT. According to the Exchange, each bond must have a rating of at least BBB- by S&P, Baa3 by Moody's, or BBB- by Fitch, Inc. and must have a minimum maturity par amount of \$2 million to be eligible for inclusion in the 2019 Index. To remain in the 2019 Index, bonds must maintain a minimum par amount greater than or equal to \$2 million as of each rebalancing date. All bonds in the 2019 Index will mature between June 1 and August 31 of 2019. When a bond matures in the 2019 Index, an amount representing its value at maturity will be included in the 2019 Index throughout the remaining life of the 2019 Index, and any such amount will be assumed to earn a rate equal to the performance of the S&P's Weekly High Grade Index, which consists of Moody's Investment Grade-1 municipal tax-exempt notes that are not subject to federal AMT. By August 31, 2019, the 2019 Index is expected to consist entirely of cash carried in this manner. The 2019 Index is a market value weighted index and is rebalanced after the close on the last business day of each month.

The Exchange submitted this proposed rule change because the 2019 Index for the 2019 Fund does not meet all of the "generic" listing requirements of Commentary .02(a) to NYSE Arca Equities Rule 5.2(j)(3) applicable to listing of Units based on fixed income securities indexes. The 2019 Index meets all such requirements except for those set forth in Commentary .02(a)(2).<sup>8</sup> Specifically, as of May 1, 2012, 9.62% of the weight of the 2019 Index components have a minimum original principal amount outstanding of \$100 million or more.

According to the Exchange, the 2019 Fund generally will invest at least 80% of its assets in the securities of the 2019 Index, except during the last months of the 2019 Fund's operations, as described below. The Fund may at times invest up to 20% of its assets in cash and cash

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<sup>8</sup> See note 6, supra.

equivalents (including money market funds affiliated with the Investment Adviser), as well as in municipal bonds not included in the 2019 Index, but which the Investment Adviser believes will help the 2019 Fund track the 2019 Index. For example, the 2019 Fund may invest in municipal bonds not included in the 2019 Index in order to reflect prospective changes in the 2019 Index (such as 2019 Index reconstitutions, additions, and deletions). The 2019 Fund will generally hold municipal bond securities issued by state and local municipalities whose interest payments are exempt from U.S. federal income tax, the federal AMT and, effective beginning in 2013, a federal Medicare contribution tax of 3.8% on “net investment income,” including dividends, interest, and capital gains. In addition, the 2019 Fund may invest any cash assets in one or more affiliated municipal money market funds. In the last months of operation, as the bonds held by the 2019 Fund mature, the proceeds will not be reinvested in bonds but instead will be held in cash and cash equivalents, including without limitation, AMT-free tax-exempt municipal notes, variable rate demand notes and obligations, tender option bonds, and municipal commercial paper. These cash equivalents may not be included in the 2019 Index. On or about August 31, 2019, the 2019 Fund will wind up and terminate, and its net assets will be distributed to then-current shareholders.

Additional information regarding the Trust, the Funds, and the Shares, including investment strategies, risks, creation and redemption procedures, fees, portfolio holdings disclosure policies, distributions, and taxes, among other things, is included in the Notice and Registration Statements, as applicable.<sup>9</sup>

### III. Discussion and Commission’s Findings

After careful review, the Commission finds that the proposed rule change is consistent with

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<sup>9</sup> See Notice and Registration Statements, supra notes 3 and 4, respectively.

the requirements of Section 6 of the Act<sup>10</sup> and the rules and regulations thereunder applicable to a national securities exchange.<sup>11</sup> In particular, the Commission finds that the proposal is consistent with Section 6(b)(5) of the Act,<sup>12</sup> which requires, among other things, that the Exchange's rules be 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 Commission notes that the Funds and the Shares must comply with the requirements of NYSE Arca Equities Rules 5.2(j)(3) and 5.5(g)(2) to be listed and traded on the Exchange.

The Commission finds that the proposal to list and trade the Shares on the Exchange is consistent with Section 11A(a)(1)(C)(iii) of the Act,<sup>13</sup> which sets forth Congress' finding that it is in the public interest and appropriate for the protection of investors and the maintenance of fair and orderly markets to assure the availability to brokers, dealers, and investors of information with respect to quotations for, and transactions in, securities. Quotation and last-sale information for the Shares will be available via the Consolidated Tape Association ("CTA") high-speed line. The 2018 Index and 2019 Index values, calculated and disseminated at least once daily, as well as the components of the 2018 Index and 2019 Index and their percentage weightings, will be available from major market data vendors. In addition, an Intraday Indicative Value ("IIV") for the Shares of each Fund will be disseminated at least every 15 seconds during the Core Trading Session (9:30 a.m. to 4:00 p.m. Eastern Time) by one or more major market data vendors.<sup>14</sup>

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<sup>10</sup> 15 U.S.C. 78f.

<sup>11</sup> In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>12</sup> 17 U.S.C. 78f(b)(5).

<sup>13</sup> 15 U.S.C. 78k-1(a)(1)(C)(iii).

<sup>14</sup> See NYSE Arca Equities Rule 5.2(j)(3), Commentary .02(c). According to the

Information regarding market price and trading volume of the Shares will be continually available on a real-time basis throughout the day on brokers' computer screens and other electronic services. The Funds' website at [www.iShares.com](http://www.iShares.com) will also include a form of the prospectus for the Funds, information relating to net asset value ("NAV"), and other applicable quantitative information. Additionally, the portfolio of securities held by the Funds will be disclosed on the Funds' website daily after the close of trading on the Exchange and prior to the opening of trading on the Exchange the following day.

The Commission believes that the proposal to list and trade the Shares is reasonably designed to promote fair disclosure of information that may be necessary to price the Shares appropriately and to prevent trading when a reasonable degree of transparency cannot be assured. The Exchange states that the Index Provider is not a broker-dealer or affiliated with a broker-dealer, and has implemented procedures designed to prevent the use and dissemination of material, non-public information regarding the Underlying Indexes.<sup>15</sup> Prior to the

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Exchange, several major market data vendors widely disseminate IIVs taken from the CTA or other data feeds. See Notice, supra note 3, at 52778, n.12.

<sup>15</sup> The Commission also notes that an investment adviser to an open-end fund is required to be registered under the Investment Advisers Act of 1940 ("Advisers Act"). As a result, the Investment Adviser and its personnel are subject to the provisions of Rule 204A-1 under the Advisers Act relating to codes of ethics. This Rule requires investment advisers to adopt a code of ethics that reflects the fiduciary nature of the relationship to clients as well as compliance with other applicable securities laws. Accordingly, procedures designed to prevent the communication and misuse of non-public information by an investment adviser must be consistent with Rule 204A-1 under the Advisers Act. In addition, Rule 206(4)-7 under the Advisers Act makes it unlawful for an investment adviser to provide investment advice to clients unless such investment adviser has (i) adopted and implemented written policies and procedures reasonably designed to prevent violation, by the investment adviser and its supervised persons, of the Advisers Act and the Commission rules adopted thereunder; (ii) implemented, at a minimum, an annual review regarding the adequacy of the policies and procedures established pursuant to subparagraph (i) above and the effectiveness of their implementation; and (iii) designated an individual (who is a supervised person) responsible for administering the policies and procedures adopted under subparagraph (i) above.



commencement of trading, the Exchange will inform its Equity Trading Permit Holders in an Information Bulletin of the special characteristics and risks associated with trading the Shares. With respect to trading halts, if the Exchange becomes aware that the NAV is not being disseminated to all market participants at the same time, it will halt trading in the Shares until such time as the NAV is available to all market participants. In addition, the Exchange may consider all relevant factors in exercising its discretion to halt or suspend trading in the Shares of the Funds. Trading may be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable. The Exchange represents that, if the IIV or the Underlying Index values are not being disseminated as required, the Exchange may halt trading during the day in which the interruption to the dissemination of the applicable IIV or Underlying Index value occurs. If the interruption to the dissemination of the applicable IIV or Underlying Index value persists past the trading day in which it occurred, the Exchange will halt trading. Moreover, trading in Shares of the Funds will be halted if the circuit breaker parameters in NYSE Arca Equities Rule 7.12 have been reached or because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable. Further, trading in the Shares will be subject to NYSE Arca Equities Rule 7.34, which sets forth additional circumstances under which Shares of the Funds may be halted. The Exchange states that it has in place surveillance procedures that are adequate to properly monitor trading in the Shares in all trading sessions and to deter and detect violations of Exchange rules and applicable federal securities laws. The Exchange may obtain information via the Intermarket Surveillance Group (“ISG”) from other exchanges that are members of ISG or with which the Exchange has entered into a comprehensive surveillance sharing agreement.

Based on the Exchange’s representations, the Commission believes that both the 2018

Index and 2019 Index are sufficiently broad-based and liquid to deter potential manipulation. As of May 1, 2012, there were 1,443 issues in the 2018 Index and 1,157 issues in the 2019 Index. As of the same date, 81.50% of the weight of the 2018 Index components and 81.66% of the weight of the 2019 Index components were comprised of individual maturities that were part of an entire municipal bond offering with a minimum original principal amount outstanding of \$100 million or more for all maturities of the offering. In addition, the total dollar amount outstanding of issues in the 2018 Index was approximately \$16.59 billion, and the average dollar amount outstanding of issues in the 2018 Index was approximately \$11.50 million. The total dollar amount outstanding of issues in the 2019 Index was approximately \$13.50 billion, and the average dollar amount outstanding of issues in the 2019 Index was approximately \$11.67 million. Further, the most heavily weighted component represents 4.06% of the weight of the 2018 Index, and the five most heavily weighted components represent 8.20% of the weight of the 2018 Index.<sup>16</sup> The most heavily weighted component represents 3.67% of the weight of the 2019 Index, and the five most heavily weighted components represent 9.62% of the weight of the 2019 Index.<sup>17</sup> In addition, the average daily notional trading volume for 2018 Index components for the period April 1, 2011 to April 30, 2012 was \$12,417,528, and the sum of the notional trading volumes for the same period was approximately \$3.38 billion. The average daily notional trading volume for 2019 Index components for the period April 1, 2011 to April 30, 2012 was \$14,434,454, and the sum of the notional trading volumes for the same period was approximately

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<sup>16</sup> Commentary .02(a)(4) to NYSE Arca Equities Rule 5.2(j)(3) provides that no component fixed-income security (excluding Treasury Securities and GSE Securities, as defined therein) shall represent more than 30% of the weight of the index or portfolio, and the five most heavily weighted component fixed-income securities in the index or portfolio shall not in the aggregate account for more than 65% of the weight of the index or portfolio.

<sup>17</sup> See id.

\$3.93 billion. As of May 1, 2012, 54.78% of the 2018 Index weight and 52.52% of the 2019 Index weight consisted of issues with a rating of AA/Aa2 or higher.

In support of this proposal, the Exchange has made representations, including:

- (1) Except for Commentary .02(a)(2) to NYSE Arca Equities Rule 5.2(j)(3), the Shares of the Funds currently satisfy all of the generic listing standards under NYSE Arca Equities Rule 5.2(j)(3).
- (2) The continued listing standards under NYSE Arca Equities Rules 5.2(j)(3) and 5.5(g)(2) applicable to Units shall apply to the Shares.
- (3) The Shares will comply with all other requirements applicable to Units including, but not limited to, requirements relating to the dissemination of key information, such as the value of the Underlying Indexes and the applicable value of the IIV, rules governing the trading of equity securities, trading hours, trading halts, surveillance, information barriers, and the Information Bulletin to Equity Trading Permit Holders (each as described in more detail herein and in the Notice and Registration Statements, as applicable), as set forth in Exchange rules applicable to Units and prior Commission orders approving the generic listing rules applicable to the listing and trading of Units.
- (4) The Exchange has in place surveillance procedures that are adequate to properly monitor trading in the Shares in all trading sessions and to deter and detect violations of Exchange rules and applicable federal securities laws.
- (5) For initial and continued listing of the Shares, the Trust is required to comply with Rule 10A-3 under the Act.<sup>18</sup>

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<sup>18</sup> See 17 CFR 240.10A-3.

- (6) The 2018 Fund generally will invest at least 80% of its assets in the securities of the 2018 Index, and the 2019 Fund generally will invest at least 80% of its assets in the securities of the 2019 Index.
- (7) The Investment Adviser expects that over time each Fund's tracking error<sup>19</sup> will not exceed 5%.
- (8) The 2018 Fund may at times invest up to 20% of its assets in cash and cash equivalents (including money market funds affiliated with the Investment Adviser), as well as in municipal bonds not included in the 2018 Index, but which Investment Adviser believes will help the 2018 Fund track the 2018 Index. The 2019 Fund may at times invest up to 20% of its assets in cash and cash equivalents (including money market funds affiliated with Investment Adviser), as well as in municipal bonds not included in the 2019 Index, but which the Investment Adviser believes will help the 2019 Fund track the 2019 Index.

This approval order is based on all of the Exchange's representations, including those set forth above and in the Notice, and the Exchange's description of the Funds.

For the foregoing reasons, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act<sup>20</sup> and the rules and regulations thereunder applicable to a national securities exchange.

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<sup>19</sup> Tracking error is the difference between the performance (return) of a Fund's portfolio and that of the applicable Underlying Index.

<sup>20</sup> 15 U.S.C. 78f(b)(5).

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>21</sup> that the proposed rule change (SR-NYSEArca-2012-92) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>22</sup>

Kevin M. O'Neill  
Deputy Secretary

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<sup>21</sup> 15 U.S.C. 78s(b)(2).

<sup>22</sup> 17 CFR 200.30-3(a)(12).