

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-80136; File No. SR-BatsBZX-2017-14)

March 1, 2017

Self-Regulatory Organizations; Bats BZX Exchange, Inc.; Notice of Filing of a Proposed Rule Change to List and Trade Shares of the Amplify YieldShares Oil Hedged MLP Fund, a Series of the Amplify ETF Trust, under Rule 14.11(i), Managed 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 17, 2017, Bats BZX Exchange, Inc. (the “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 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 list and trade shares of the Amplify YieldShares Oil Hedged MLP Fund (the “Fund”), a series of the Amplify ETF Trust (the “Trust”), under Rule 14.11(i) (“Managed Fund Shares”). The shares of the Fund are referred to herein as the “Shares.”

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

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

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

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 list and trade the Shares under Rule 14.11(i), which governs the listing and trading of Managed Fund Shares on the Exchange.<sup>3</sup> The Fund will be an actively managed exchange-traded fund that invests in equity securities of energy master limited partnerships (“MLPs”) and will selectively hedge these positions to limit the correlation of its performance to the price of West Texas Intermediate Crude Oil (“WTI Crude Oil”).<sup>4</sup> The

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<sup>3</sup> The Commission originally approved BZX Rule 14.11(i) in Securities Exchange Act Release No. 65225 (August 30, 2011), 76 FR 55148 (September 6, 2011) (SR-BATS-2011-018) and subsequently approved generic listing standards for Managed Fund Shares under Rule 14.11(i) in Securities Exchange Act Release No. 78396 (July 22, 2016), 81 FR 49698 (July 28, 2016) (SR-BATS-2015-100).

<sup>4</sup> The Trust plans to list the Fund on the Exchange pursuant to the generic listing rules for Managed Fund Shares under Rule 14.11(i)(4)(C) (the “Generic Listing Rules”) regardless of the timing and posture of this proposal. As noted further below, the Fund can achieve its investment objective by meeting the Generic Listing Rules, but the Exchange is submitting this proposal in order to allow the Fund to hold listed derivatives in a manner that does not comply with Rule 14.11(i)(4)(C).

Exchange submits this proposal in order to allow the Fund to hold listed derivatives, in particular WTI Crude Oil futures, in a manner that does not comply with Rule 14.11(i)(4)(C)(iv)(b).<sup>5</sup>

The Shares are offered by the Trust, which was established as a Massachusetts business trust on January 6, 2015.<sup>6</sup> The Trust is registered with the Commission as an investment company and has filed a registration statement on Form N-1A (“Registration Statement”) with the Commission.<sup>7</sup> The Fund is a series of the Trust.

The Commodity Futures Trading Commission (“CFTC”) has recently adopted substantial amendments to CFTC Rule 4.5 relating to the permissible exemptions and conditions for reliance on exemptions from registration as a commodity pool operator. The Trust, on behalf of the Fund, has filed a notice of eligibility for exclusion from the definition of the term “commodity pool operator” in accordance with CFTC Rule 4.5, and, therefore, the Fund would not be subject to registration or regulation as a commodity pool operator under the Commodity Exchange Act (“CEA”) to the extent that it complies with the requirements of the rule. To the extent that the Fund makes investments regulated by the CFTC, it will do so in accordance with Rule 4.5 under the CEA.

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<sup>5</sup> Rule 14.11(i)(4)(C)(iv)(b) provides that “the aggregate gross notional value of listed derivatives based on any five or fewer underlying reference assets shall not exceed 65% of the weight of the portfolio (including gross notional exposures), and the aggregate gross notional value of listed derivatives based on any single underlying reference asset shall not exceed 30% of the weight of the portfolio (including gross notional exposures).”

<sup>6</sup> The Commission has issued an order, upon which the Trust may rely, granting certain exemptive relief under the 1940 Act. See Investment Company Act Release No. 31582 (April 28, 2015) (File No. 812-14423) (the “Exemptive Relief”).

<sup>7</sup> See Post-Effective Amendment No. 27 to Registration Statement on Form N-1A for the Trust, dated January 6, 2017 (File Nos. 333-207937 and 811-23108). The descriptions of the Fund and the Shares contained herein are based, in part, on information in the Registration Statement.

The Fund intends to qualify each year as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended.

Amplify YieldShares Oil Hedged MLP Fund

According to the Registration Statement, the Fund will be an actively managed exchange-traded fund that invests in equity securities of MLPs and will selectively hedge these positions to limit the correlation of its performance to the price of WTI Crude Oil. WTI Crude Oil, also known as Texas light sweet, is a grade of crude oil used as a benchmark in oil futures contracts pricing. The Fund will use a benchmark, the Oil Hedged MLP Index (the “Benchmark”), which is developed, maintained and sponsored by ETP Ventures LLC. The Fund will seek to exceed the performance of the Benchmark by actively selecting investments for the Fund from the underlying components of the Benchmark. The Fund is not an index tracking exchange-traded fund and is not required to invest in all of the components of the Benchmark. However, the Fund will generally seek to hold similar instruments to those included in the Benchmark with investments in MLPs and short exposure oil futures contracts included in the Benchmark.

In order to achieve its investment objective, under Normal Market Conditions,<sup>8</sup> the Fund will invest at least 80% of its total assets in equity securities of MLPs.<sup>9</sup> As noted above, the

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<sup>8</sup> As defined in Rule 14.11(i)(3)(E), 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.

<sup>9</sup> To qualify as an MLP, and not to be taxed as a corporation, a partnership must receive at least 90% of its income from qualifying sources as set forth in Section 7704(d) of the Internal Revenue Code of 1986, as amended (the “Code”). These qualifying sources include natural resource-based activities such as the exploration, development, mining, production, processing, refining, transportation, storage and marketing of mineral or natural resources.

Fund plans to hedge its positions in MLPs in order to limit the correlation of its performance to the price of WTI Crude Oil and achieves this hedge by holding listed and/or OTC derivative instruments in a manner that complies with Rule 14.11(i)(4)(C)(4)(iv) and (v). Rule 14.11(i)(4)(C)(4)(iv) prevents the Fund from holding listed derivatives based on any single underlying reference asset in excess of 30% of the weight of its portfolio (including gross notional exposures). The Exchange is proposing to allow the Fund to hold up to 50% of the weight of its portfolio (including gross notional exposures) in WTI Crude Oil futures contracts traded on the New York Mercantile Exchange and ICE Futures Europe (“WTI Crude Oil Futures”). Allowing the Fund to hold a greater portion of its portfolio in WTI Crude Oil Futures would mitigate the Fund’s dependency on holding OTC instruments, which would reduce the Fund’s operational burden by allowing the Fund to primarily use listed futures contracts to achieve its investment objective and would further reduce counter-party risk associated with holding OTC instruments. The Fund would continue to meet all other requirements of the Generic Listing Rules and other applicable requirements for Managed Fund Shares under Rule 14.11(i) including Rule 14.11(i)(4)(C)(iv)(a), because all of the futures contracts held by the Fund will trade on markets that are a member of 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>10</sup>

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<sup>10</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 Disclosed Portfolio for the Fund may trade on markets that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.

The Exchange notes that the Fund may also hold certain fixed income securities and cash and cash equivalents in compliance with Rules 14.11(i)(4)(C)(ii) and (iii) in order to collateralize its derivatives positions.

## 2. Statutory Basis

The Exchange believes that the proposal is consistent with Section 6(b) of the Act<sup>11</sup> in general and Section 6(b)(5) of the Act<sup>12</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 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.

The Exchange believes that the proposed rule change 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 initial and continued listing criteria in BZX Rule 14.11(i) with the exception Rule 14.11(i)(4)(C)(iv)(b), which requires that the aggregate gross notional value of listed derivatives based on any five or fewer underlying reference assets shall not exceed 65% of the weight of the portfolio (including gross notional exposures), and the aggregate gross notional value of listed derivatives based on any single underlying reference asset shall not exceed 30% of the weight of the portfolio (including gross notional exposures). The Exchange believes that

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<sup>11</sup> 15 U.S.C. 78f.

<sup>12</sup> 15 U.S.C. 78f(b)(5).

the liquidity in the WTI Crude Oil Futures markets mitigates the concerns that Rule 14.11(i)(4)(C)(iv)(b) is intended to address and that such liquidity would prevent the Shares from being susceptible to manipulation.<sup>13</sup> Further, allowing the Fund to hold a greater portion of its portfolio in WTI Crude Oil Futures would mitigate the Fund's dependency on holding OTC instruments, which would reduce the Fund's operational burden by allowing the Fund to primarily use listed futures contracts to achieve its investment objective and would further reduce counter-party risk associated with holding OTC instruments. The Exchange believes that its surveillance procedures are adequate to properly monitor the trading of the Shares on the Exchange during all trading sessions and to deter and detect violations of Exchange rules and the applicable federal securities laws. All of the 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. The Exchange may obtain information regarding trading in the Shares and the underlying futures contracts held by the Fund via the ISG from other exchanges who are members or affiliates of the ISG or with which the Exchange has entered into a comprehensive surveillance sharing agreement.<sup>14</sup> The Exchange further notes that the Fund will continue to meet and be subject to all other requirements of the Generic Listing Rules and other applicable continued listing requirements for Managed Fund Shares under Rule 14.11(i), including those requirements regarding the Disclosed

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<sup>13</sup> As of 1/31/2017 the average daily contract volume over the last year was 558,353, 307,289 and 110,208 respectively for the front, second and third month contracts. For the third month contract, at today's price levels, that equates to an average daily traded notional of approximately \$5.9 billion.

<sup>14</sup> See note 9, supra. [sic]

Portfolio,<sup>15</sup> Intraday Indicative Value,<sup>16</sup> suspension of trading or removal,<sup>17</sup> trading halts,<sup>18</sup> disclosure,<sup>19</sup> and firewalls.<sup>20</sup>

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 listing and trading of an additional actively-managed exchange-traded product that will enhance 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

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 of such date 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

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<sup>15</sup> See Rule 14.11(i)(4)(B)(i).

<sup>16</sup> See Rule 14.11(i)(4)(B)(ii).

<sup>17</sup> See Rule 14.11(i)(4)(B)(iii).

<sup>18</sup> See Rule 14.11(i)(4)(B)(iv).

<sup>19</sup> See Rule 14.11(i)(6).

<sup>20</sup> See Rule 14.11(i)(7).

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 (<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-BatsBZX-2017-14 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-BatsBZX-2017-14. 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; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-BatsBZX-2017-14 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>21</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>21</sup> 17 CFR 200.30-3(a)(12).