

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-63636; File No. SR-NYSEArca-2010-121)

January 3, 2011

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Proposed Rule Change Relating to the Listing and Trading of FactorShares Funds

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> notice is hereby given that, on December 22, 2010, NYSE Arca, Inc. (“Exchange” or “NYSE Arca”) filed with the Securities and Exchange Commission (“Commission” or “SEC”) 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 proposes to list and trade shares of the following pursuant to NYSE Arca Equities Rule 8.200: FactorShares 2X: S&P500 Bull/TBond Bear; FactorShares 2X: TBond Bull/S&P500 Bear; FactorShares 2X: S&P500 Bull/USD Bear; FactorShares 2X: Oil Bull/S&P500 Bear; and FactorShares 2X: Gold Bull/S&P500 Bear. The text of the proposed rule change is available at the Exchange, the Commission’s Public Reference Room, and [www.nyse.com](http://www.nyse.com).

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 self-regulatory organization 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 those statements may be examined at the places

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

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

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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

NYSE Arca Equities Rule 8.200, Commentary .02, permits the trading of Trust Issued Receipts (“TIRs”) either by listing or pursuant to unlisted trading privileges (“UTP”).<sup>3</sup> The Exchange proposes to list and trade the shares of the following pursuant to NYSE Arca Equities Rule 8.200: FactorShares 2X: S&P500 Bull/TBond Bear; FactorShares 2X: TBond Bull/S&P500 Bear; FactorShares 2X: S&P500 Bull/USD Bear; FactorShares 2X: Oil Bull/S&P500 Bear; and FactorShares 2X: Gold Bull/S&P500 Bear (each a “Fund” and, collectively, the “Funds”).<sup>4</sup> All Funds except for the FactorShares 2X: TBond Bull/S&P500 Bear are also referred to as “Leveraged Funds,” and FactorShares 2X: TBond Bull/S&P500 Bear is referred to as the “Leveraged Inverse Fund.”<sup>5</sup>

The Exchange notes that the Commission has previously approved the listing and trading

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<sup>3</sup> Commentary .02 to NYSE Arca Equities Rule 8.200 applies to TIRs that invest in “Financial Instruments.” The term “Financial Instruments,” as defined in Commentary .02(b)(4) to NYSE Arca Equities Rule 8.200, means any combination of investments, including cash; securities; options on securities and indices; futures contracts; options on futures contracts; forward contracts; equity caps, collars and floors; and swap agreements.

<sup>4</sup> See Pre-Effective Amendment No. 3 to Form S-1, dated November 3, 2010, for each Fund (individually, a “Registration Statement,” and, collectively, the “Registration Statements”) (File Nos. 333-164754, 333-164758, 333-164757, 333-164756 and 333-164755, respectively). The description of the Funds and the Shares contained herein are based on the Registration Statements.

<sup>5</sup> Terms relating to the Funds and the Indexes referred to, but not defined, herein are defined in the common Prospectus within the Registration Statements.

of other issues of TIRs on the American Stock Exchange LLC (“Amex”),<sup>6</sup> trading on NYSE Arca pursuant to UTP,<sup>7</sup> and listing on NYSE Arca.<sup>8</sup> In addition, the Commission has approved other exchange-traded fund-like products linked to the performance of underlying commodities.<sup>9</sup>

Each of the Funds was formed on January 26, 2010 as a separate Delaware statutory trust, and each Fund will issue and offer common units of beneficial interest (“Shares”), which represent units of fractional beneficial undivided interest in and ownership of such Fund.

Factor Capital Management, LLC, (“Managing Owner”), a Delaware limited liability company, will serve as the Managing Owner of each Fund. Interactive Brokers LLC, a Connecticut limited liability company, will serve as each Fund’s clearing broker (“Commodity Broker”). The Commodity Broker is registered with the Commodity Futures Trading Commission (“CFTC”) as a futures commission merchant and is a member of the National Futures Association in such capacity. Each Fund has appointed State Street Bank and Trust Company, (“State Street”), as the Administrator, the Transfer Agent and the Custodian of each

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<sup>6</sup> See, e.g., Securities Exchange Act Release No. 58161 (July 15, 2008), 73 FR 42380 (July 21, 2008) (SR-Amex-2008-39) (order approving amendments to Amex Rule 1202, Commentary .07, and listing on Amex of 14 funds of the Commodities and Currency Trust).

<sup>7</sup> See, e.g., Securities Exchange Act Release No. 58162 (July 15, 2008), 73 FR 42391 (July 21, 2008) (SR-NYSEArca-2008-73) (notice of effectiveness of UTP trading on NYSE Arca of 14 funds of the Commodities and Currency Trust).

<sup>8</sup> See, e.g., Securities Exchange Act Release No. 58457 (September 3, 2008), 73 FR 52711 (September 10, 2008) (SR-NYSEArca-2008-91) (order approving listing on NYSE Arca of 14 funds of the Commodities and Currency Trust).

<sup>9</sup> See, e.g., Securities Exchange Act Release Nos. 55585 (April 5, 2007), 72 FR 18500 (April 12, 2007) (SR-NYSE-2006-75) (approving for NYSE listing the iShares GS Commodity Light Energy Indexed Trust; iShares GS Commodity Industrial Metals Indexed Trust; iShares GS Commodity Livestock Indexed Trust and iShares GS Commodity Non-Energy Indexed Trust); 56932 (December 7, 2007), 72 FR 71178 (December 14, 2007) (SR-NYSEArca-2007-112) (order granting accelerated approval to list iShares S&P GSCI Commodity-Indexed Trust); and 59895 (May 8, 2009), 74 FR 22993 (May 15, 2009) (SR-NYSEArca-2009-40) (order granting accelerated approval for NYSE Arca listing the ETFs Gold Trust).

Fund.

Each Fund has appointed Foreside Fund Services, LLC as the Distributor to assist the Managing Owner and the Funds with certain functions and duties relating to distribution, compliance of sales and marketing materials, and certain regulatory compliance matters. The Distributor will not open or maintain customer accounts or handle orders for any of the Funds.

Overview of the Standard & Poor's Factor Index Series ("Indexes")

According to the Registration Statements, the Indexes are intended to reflect the daily spreads, or the differences, in the relative return, positive or negative, between the corresponding sub-indexes constructed from futures contracts ("Index Futures Contracts") of each Index. Each Index is comprised of a long sub-index ("Long Sub-Index") and a short sub-index ("Short Sub-Index") (individually, a "Sub-Index" and, collectively, the "Sub-Indexes"). The Long Sub-Index is composed of the long front Index Futures Contract ("Long Index Futures Contract").<sup>10</sup> The Short Sub-Index is composed of the short front Index Futures Contract ("Short Index Futures Contract").<sup>11</sup> Each Index is calculated to reflect the corresponding relative return, or spread, which is the difference in the daily changes, positive or negative, between the value of the Long Sub-Index and the value of the Short Sub-Index, plus the return on a risk free component.

The objective of each Index is to track the daily price spreads, or difference between the Sub-Indexes, and in turn, the underlying Index Futures Contracts. Although each Index is calculated to reflect both an excess return and a total return, each Fund tracks an Index that is calculated to reflect a total return. Standard & Poor's Financial Services LLC is the Index Sponsor for the Indexes and is the calculation agent for the Indexes and Sub-Indexes.<sup>12</sup>

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<sup>10</sup> The term "long front" refers to a long position in the near month contract.

<sup>11</sup> The term "short front" refers to a short position in the near month contract.

<sup>12</sup> Standard & Poor's Financial Services LLC is the Index Sponsor with respect to the

Each Index is intended to reflect the difference in the daily return between two market segments. The Long Sub-Index tracks the changes in the Long Index Futures Contract. The Short Sub-Index tracks the changes in the Short Index Futures Contract.

The Sub-Indexes, Index Futures Contracts, trading hours of the applicable Index Futures Contracts, and related information are set forth in the chart below.

Index <sup>13</sup>	Sub-Indexes and Index Futures Contracts	Exchange <sup>14</sup> (Symbol)	Contract Months	Trading Hours (Eastern Time)
S&P U.S. Equity Risk Premium Total Return Index	<u>Long Sub-Index:</u> S&P 500® Futures Excess Return Index  <u>Long Index Futures Contract:</u> E-mini Standard and Poor's 500 Stock Price Index™ Futures	CME  (ES)	March  June  September  December	Monday – Thursday: 6:00 p.m. - 4:15 p.m. (next day) & 4:30 p.m. - 5:30 p.m.; Sunday: 6:00 p.m. -

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Indexes and is not affiliated with a broker-dealer. The Index Sponsor has implemented procedures designed to prevent the use and dissemination of material, non-public information regarding the Indexes.

<sup>13</sup> The Base Date for each Index is September 9, 1997 and each Sub-Index Base Weight is 100%.

<sup>14</sup> “CME” means the Chicago Mercantile Exchange, Inc. “ICE” means the Intercontinental Exchange, Inc. “NYMEX” means the New York Mercantile Exchange. “COMEX” means the COMEX division of NYMEX.

Index <sup>13</sup>	Sub-Indexes and Index Futures Contracts	Exchange <sup>14</sup> (Symbol)	Contract Months	Trading Hours (Eastern Time)
				4:15 p.m. (next day)
	<u>Short Sub-Index:</u> S&P 30-Year Treasury Bond Futures Excess Return Index <u>Short Index Futures Contract:</u> 30-Year U.S. Treasury Bond Futures	CME  (US)		Monday - Friday 8:20 a.m.- 3:00 p.m.
S&P 500® Non-US Dollar Index <sup>15</sup>	<u>Long Sub-Index:</u> S&P 500® Futures Excess Return Index <u>Long Index Futures Contract:</u> E-mini Standard and Poor's 500 Stock Price Index™ Futures	CME  (ES)	March June September December	Monday – Thursday: 6:00 p.m. - 4:15 p.m. (next day) & 4:30 p.m. - 5:30 p.m.; Sunday: 6:00 p.m. - 4:15 p.m. (next day)

<sup>15</sup> The S&P 500® Non-US Dollar Index is calculated on a Total Return basis.

Index <sup>13</sup>	Sub-Indexes and Index Futures Contracts	Exchange <sup>14</sup> (Symbol)	Contract Months	Trading Hours (Eastern Time)
	<u>Short Sub-Index:</u> S&P U.S. Dollar Futures Excess Return Index <u>Short Index Futures Contract:</u> U.S. Dollar Index® Futures	ICE  (DX)		Monday - Friday 8:00 p.m. - 6:00 p.m. (next day) Sunday: 6:00 p.m. - 6:00 p.m. (next day)
S&P Crude Oil - Equity Spread Total Return Index	<u>Long Sub-Index:</u> S&P GSCI® Crude Oil Excess Return Index <u>Long Index Futures Contracts:</u> Light Sweet Crude Oil Futures	NYMEX  (CL)	Rolled  pursuant to  S&P GSCI®  schedule	Monday – Friday 9:00 a.m. - 2:30 p.m.
	<u>Short Sub-Index:</u> S&P 500® Futures Excess Return Index <u>Short Index Futures Contract:</u> E-mini Standard and Poor’s 500 Stock	CME  (ES)	March  June  September  December	Monday – Thursday: 6:00 p.m. - 4:15 p.m. (next day) &

Index <sup>13</sup>	Sub-Indexes and Index Futures Contracts	Exchange <sup>14</sup> (Symbol)	Contract Months	Trading Hours (Eastern Time)
	Price Index <sup>TM</sup> Futures			4:30 p.m. - 5:30 p.m.; Sunday: 6:00 p.m. - 4:15 p.m. (next day)
S&P Gold - Equity Spread Total Return Index	<u>Long Sub-Index:</u> S&P GSCI® Gold Excess Return Index <u>Long Index Futures Contract:</u> Gold Futures	COMEX  (GC)	Rolled  pursuant to  S&P  GSCI®  schedule	Monday – Friday 8:20 a.m. - 1:30 p.m.
	<u>Short Sub-Index:</u> S&P 500® Futures Excess Return Index <u>Short Index Futures Contract:</u> E-mini Standard and Poor’s 500 Stock Price Index <sup>TM</sup> Futures	CME  (ES)	March  June  September  December	Monday – Thursday: 6:00 p.m. - 4:15 p.m. (next day) & 4:30 p.m. - 5:30 p.m.; Sunday:



Index <sup>13</sup>	Sub-Indexes and Index Futures Contracts	Exchange <sup>14</sup> (Symbol)	Contract Months	Trading Hours (Eastern Time)
				6:00 p.m. - 4:15 p.m. (next day)

### Operation of the Funds

According to the Registration Statements, the objective of each Fund will be to reflect the spread, or the difference, in daily return, on a leveraged basis, between two predetermined market segments. Each Fund will represent a relative value or “spread” strategy seeking to track the differences in daily returns between two futures-based Index components (as discussed above under “Overview of the Indexes”). By simultaneously buying and selling two benchmark Index Futures Contracts, (or, as necessary, substantively equivalent combinations of Substitute Futures and Financial Instruments),<sup>16</sup> each Leveraged Fund and Leveraged Inverse Fund will target a daily return equivalent to approximately +200% and -200%, respectively, of the spread, or the difference, in daily return between a long futures contract and a short futures contract (before

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<sup>16</sup> According to the Registration Statements, the term “Substitute Futures” refers to futures contracts other than the specific Index Futures Contracts that underlie the applicable Index that the Managing Owner expects will tend to exhibit trading prices or returns that generally correlate with an Index Futures Contract. The term “Financial Instruments” refers to forward agreements and swaps that the Managing Owner expects will tend to exhibit trading prices or returns that generally correlate with an Index Futures Contract. Shareholders may review a Fund’s monthly Account Statement that will be posted on the Fund’s website at [www.factorshares.net](http://www.factorshares.net) or a Fund’s periodic reports on Form 10-Q and/or Form 10-K as filed with the SEC at [www.sec.gov](http://www.sec.gov) for additional information. In addition, investors will have access to the current portfolio composition of the Funds through the Funds’ website, as described below.

fees, expenses and interest income).

Each Fund will hold a portfolio of Index Futures Contracts, each of which are traded on various futures markets in the United States. In the event a Fund reaches position limits imposed by the CFTC or a futures exchange with respect to an Index Futures Contract, the Managing Owner, may in its commercially reasonable judgment, cause the Fund to invest in Substitute Futures or Financial Instruments referencing the particular Index Futures Contract, or Financial Instruments not referencing the particular Index Futures Contract, if such instruments tend to exhibit trading prices or returns that correlate with the corresponding Index or any Index Futures Contract and will further the investment objective of the Fund.<sup>17</sup> A Fund may also invest in Substitute Futures or Financial Instruments if the market for a specific Index Futures Contract experiences emergencies (such as a natural disaster, terrorist attack or an act of God) or disruptions (such as a trading halt or flash crash) that prevent the Fund from obtaining the appropriate amount of investment exposure to the affected Index Futures Contract.<sup>18</sup>

Each Fund also will hold cash and United States Treasury securities and other high credit quality short-term fixed income securities (“Fixed Income Instruments”) for deposit with its Commodity Broker as margin. No Fund will be “managed” by traditional methods, which typically involve effecting changes in the composition of a portfolio on the basis of judgments relating to economic, financial and market considerations with a view to obtaining positive results under changing market conditions.

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<sup>17</sup> To the extent practicable, a Fund will invest in swaps cleared through the facilities of a centralized clearing house.

<sup>18</sup> According to the Registration Statements, the Managing Owner will also attempt to mitigate each Fund’s credit risk by transacting only with large, well-capitalized institutions using measures designed to determine the creditworthiness of a counterparty. The Managing Owner will take various steps to limit counterparty credit risk, as described under the section “Financial Instrument Counterparties” in the Registration Statements.

According to the Registration Statements, each Leveraged Fund will allow investors to potentially profit from the daily return of a Long Index Futures Contract in excess of the daily return of a Short Index Futures Contract (each term as defined above). The Leveraged Inverse Fund will allow investors to potentially profit from the daily return of a Short Index Futures Contract in excess of the daily return of a Long Index Futures Contract.

A Fund's Index consists of two Sub-Indexes. A Long Sub-Index reflects a passive exposure to a certain near-month long Index Futures Contract. A Short Sub-Index reflects a passive exposure to a certain near-month short Index Futures Contract.<sup>19</sup> Each Index is designed to reflect +100% of the spread, or the difference, in daily return, positive or negative, between the Long Sub-Index and the Short Sub-Index plus the return on a risk free component.

Each Fund intends to track its corresponding Index on a leveraged basis by creating a portfolio of long and short positions. The Managing Owner will determine the type, quantity and combination of Index Futures Contracts, and, as applicable, Substitute Futures and Financial Instruments, the Managing Owner believes may produce daily returns consistent with the applicable Fund's daily and leveraged objective.

Each Index is rebalanced daily as of the Index Calculation Time (as defined below) in order to continue to reflect the spread, or the difference in the daily return between two specific market segments. By rebalancing each Index on a daily basis as of the Index Calculation Time, each Index will then be comprised of equal notional amounts (i.e., +100% and -100%, respectively) of both of its Long Index Futures Contracts and Short Index Futures Contracts in accordance with its daily objectives. Daily rebalancing of each Index will lead to different results than would otherwise occur if an Index, and in turn, its corresponding Fund, were to be

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<sup>19</sup> The Long Sub-Index, Long Index Futures Contract, Short Sub-Index and Short Index Futures Contract for each Fund are set forth in the chart above.

rebalanced less frequently or more frequently than daily.

Because each Fund will seek to achieve its daily investment objective by tracking its corresponding Index on a daily and leveraged basis, each Fund will seek to rebalance daily both its long and short positions around the net asset value (“NAV”) Calculation Time (as described below under “Net Asset Value”). The purpose of daily rebalancing is to reposition each Fund’s investments in accordance with its daily investment objective.

As described in the Registration Statements, each Fund will have a leverage ratio of approximately 4:1<sup>20</sup> upon daily rebalancing, which increases the potential for trading profits and losses. The use of leverage increases the potential for both trading profits and losses, depending on the changes in market value of the Long Index Futures Contracts positions, the Short Index Futures Contracts positions (and/or Substitute Futures and Financial Instruments, as applicable), of each Fund. Holding futures positions with a notional amount in excess of each Fund’s NAV constitutes a form of leverage. Because the notional value of each Fund’s Index Futures Contracts (and/or Substitute Futures and Financial Instruments, as applicable), will rise or fall throughout each trading day and prior to rebalancing, the leverage ratio could be higher or lower than an approximately 4:1 leverage ratio between the notional value of a Fund’s portfolio and a Fund’s Equity (estimated NAV) immediately after rebalancing. As the ratio increases, an investor’s losses may increase correspondingly.

Each Sub-Index, which is comprised of a certain Index Futures Contract, includes provisions for the replacement (also referred to as “rolling”) of its Index Futures Contract as it approaches its expiration date. “Rolling” is a procedure which involves closing out the Index Futures Contract that will soon expire and establishing a position in a new Index Futures

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<sup>20</sup> See also discussion regarding dollar neutrality in the following section “Examples Explaining the Initial Allocation of the Funds.”

Contract with a later expiration date pursuant to the rules of each Sub-Index. In turn, each Fund will seek to roll its Index Futures Contracts in a manner consistent with its Sub-Index's provisions for the replacement of an Index Futures Contract that is approaching maturity.

#### Examples Explaining the Initial Allocation of the Funds

As described below, each Fund will seek to invest in a manner such that the dollar value (i.e., described as Fund Equity below) of a Fund's holdings of both its Long Index Futures Contracts and Short Index Futures Contracts will be approximately equal, which is commonly referred to as "dollar neutrality."

Each Fund's daily performance will reflect the gain or loss from the spread, or the difference between the applicable Long Index Futures Contracts and Short Index Futures Contracts, any income from a Fund's collateral, and a decrease in the NAV of the Fund due to its fees and expenses.

#### Leveraged Funds

For a Leveraged Fund, a long position is established in the Long Index Futures Contract seeking to provide a leveraged exposure to the Long Sub-Index. A Leveraged Fund will purchase a sufficient number of Long Index Futures Contracts targeting a long notional exposure equivalent to approximately +200% of a Fund's estimated NAV, or Fund Equity. Additionally, a Leveraged Fund will establish a short position in the Short Index Futures Contracts seeking to provide a leveraged exposure to the Short Sub-Index. Accordingly, a Leveraged Fund will sell a sufficient number of Short Index Futures Contracts targeting a short notional exposure equivalent to approximately -200% of Fund Equity. Therefore, immediately after establishing each of these positions, the target gross notional exposure of a Leveraged Fund's aggregate Long Index Futures Contracts and Short Index Futures Contracts will equal approximately +400% (i.e.,

+200% long and +200% short) of Fund Equity.

For example, assume that Fund Equity is \$100 million. A Leveraged Fund may seek to purchase a quantity of Long Index Futures Contracts with a total long notional value of approximately + \$200 million (i.e., +200% of \$100 million). Additionally, a Leveraged Fund may seek to sell a quantity of Short Index Futures Contracts with a total short notional value of approximately -\$200 million (i.e., -200% of \$100 million). Consequently, a Leveraged Fund may seek to hold Long Index Futures Contracts and Short Index Futures Contracts with a gross notional value of approximately +\$400 million (i.e., +\$200 million long and + \$200 million short). A Leveraged Fund will experience a gain or loss depending predominantly on the Fund's beginning exposure to its Index Futures Contracts, and the ensuing return of the Index Futures Contracts.

As described previously, assume initially that Fund Equity was \$100 million. Prior to any changes in the value of Fund Equity, the beginning exposure to the Long Index Futures Contract would be + \$200 million and the beginning exposure to the Short Index Futures Contract would be - \$200 million. Therefore, the Leveraged Fund would be positioned to return +200% of the spread, or the difference in return between the Long Index Futures Contract and the Short Index Futures Contract.

#### Leveraged Inverse Fund

For the Leveraged Inverse Fund, a long position is established in the Short Index Futures Contract seeking to provide a leveraged exposure to the Short Sub-Index. The Leveraged Inverse Fund will purchase a sufficient number of Short Index Futures Contracts targeting a long notional exposure equivalent to approximately +200% of Fund Equity. Additionally, the Leveraged Inverse Fund will establish a short position in the Long Index Futures Contracts

seeking to provide a leveraged exposure to the Long Sub-Index. Accordingly, the Leveraged Inverse Fund will sell a sufficient number of Long Index Futures Contracts targeting a short notional exposure equivalent to approximately  $-200\%$  of Fund Equity. Therefore, immediately after establishing each of these positions, the target gross notional exposure of the Leveraged Inverse Fund's aggregate Long Index Futures Contracts and Short Index Futures Contracts will equal approximately  $+400\%$  (i.e.,  $+200\%$  long and  $+200\%$  short) of Fund Equity.

For example, assume that Fund Equity is \$100 million. As illustrated below, the Leveraged Inverse Fund may seek to purchase a quantity of Short Index Futures Contracts with a total long notional value of approximately  $+\$200$  million (i.e.,  $+200\%$  of \$100 million). Additionally, the Leveraged Inverse Fund may seek to sell a quantity of Long Index Futures Contracts with a total short notional value of approximately  $-\$200$  million (i.e.,  $-200\%$  of \$100 million). Consequently, the Leveraged Inverse Fund may seek to hold Long Index Futures Contracts and Short Index Futures Contracts with a gross notional value of approximately  $+\$400$  million (i.e.,  $+\$200$  million long and  $+\$200$  million short).

The Leveraged Inverse Fund will experience a gain or loss depending predominantly on the Fund's beginning exposure to its Index Futures Contracts and the ensuing return of the Index Futures Contracts.

As described previously, assume initially that Fund Equity was \$100 million. Prior to any changes in the value of Fund Equity, the beginning exposure to the Short Index Futures Contract would be  $+\$200$  million and the beginning exposure to the Long Index Futures Contract would be  $-\$200$  million. Therefore, the Leveraged Inverse Fund would be positioned to return  $-200\%$  of the spread, or the difference in return between the Long Index Futures Contract and the Short Index Futures Contract.

## Overview of the Funds

### FactorShares 2X: S&P500 Bull/TBond Bear

The FactorShares 2X: S&P500 Bull/TBond Bear is designed for investors who believe the large-cap U.S. equity market segment will increase in value relative to the long-dated U.S. Treasury market segment. According to its Registration Statement, the objective of the FactorShares 2X: S&P500 Bull/TBond Bear will be to seek to track approximately +200% of the daily return of the S&P U.S. Equity Risk Premium Total Return Index. The Fund will seek to track the spread, or the difference in daily returns between the U.S. equity and interest rate market segments by primarily establishing a leveraged long position in the E-mini Standard and Poor's 500 Stock Price Index<sup>TM</sup> Futures ("Equity Index Futures Contract"), and a leveraged short position in the 30-Year U.S. Treasury Bond Futures ("Treasury Index Futures Contract").

The Equity Index Futures Contract provides an exposure to a major benchmark index with respect to large-cap U.S. equities known as the S&P 500® Index. The Equity Index Futures Contract is a futures contract that provides and permits investors to invest in a substitute instrument in place of the underlying, speculate or hedge, as applicable, in large-cap U.S. equities. The Equity Index Futures Contract serves as a proxy for large-cap U.S. equities because the performance of the Equity Index Futures Contract is dependent upon and reflects the changes in the S&P 500®, which is an index that reflects the performance of each of the underlying 500 large-cap U.S. equities. The Treasury Index Futures Contract provides an exposure to the interest rate market segment with respect to 30-Year U.S. Treasury Bonds. The Treasury Index Futures Contract is a futures contract that provides and permits investors to invest in a substitute instrument in place of the underlying, speculate or hedge, as applicable, in the direction of interest rates with respect to long-term Treasury Bonds. The Treasury Index



Futures Contract serves as a proxy for 30-Year U.S. Treasury Bonds because the performance of the Treasury Index Futures Contract is dependent upon and reflects the changes in the price of the underlying 30-Year U.S. Treasury Bonds.

In order to pursue its investment objective, the FactorShares 2X: S&P500 Bull/TBond Bear will seek to invest approximately +200% of the value of its Fund Equity (i.e., the estimated NAV) in the front month Equity Index Futures Contract and/or Substitute Futures and Financial Instruments, as applicable. Simultaneously, the Fund seeks to invest approximately –200% of the value of its Fund Equity in the front month Treasury Index Futures Contract and/or Substitute Futures and Financial Instruments, as applicable. Around the NAV Calculation Time, and in order to continue to pursue its daily investment objective, the Fund seeks to rebalance daily its front month Equity Index Futures Contracts and/or Substitute Futures and Financial Instruments, as applicable, to equal approximately +200% of the value of its Fund Equity. Similarly, around the NAV Calculation Time, the Fund will seek to rebalance daily its front month Treasury Index Futures Contract and/or Substitute Futures and Financial Instruments, as applicable, to equal approximately –200% of the value of its Fund Equity.

FactorShares 2X: TBond Bull/S&P500 Bear

The FactorShares 2X: TBond Bull/S&P500 Bear is designed for investors who believe the long-dated U.S. Treasury market segment will increase in value relative to the large-cap U.S. equity market segment. According to its Registration Statement, the objective of the FactorShares 2X: TBond Bull/S&P500 Bear will be to seek to track approximately -200% of the daily return of the S&P U.S. Equity Risk Premium Total Return Index. The Fund will seek to track the spread or the difference in daily returns between the interest rate and U.S. equity market segments by primarily establishing a leveraged long position in the Treasury Index Futures

Contract and a leveraged short position in the Equity Index Futures Contract.

The Treasury Index Futures Contract provides an exposure to the interest rate market segment with respect to 30-Year U.S. Treasury Bonds. The Treasury Index Futures Contract is a futures contract that provides and permits investors to invest in a substitute instrument in place of the underlying, speculate or hedge, as applicable, in the direction of interest rates with respect to long-term Treasury Bonds. The Treasury Index Futures Contract serves as a proxy for 30-Year U.S. Treasury Bonds because the performance of the Treasury Index Futures Contract is dependent upon and reflects the changes in the price of the underlying 30-Year U.S. Treasury Bonds. The Equity Index Futures Contract provides an exposure to the S&P 500® Index. The Equity Index Futures Contract is a futures contract that provides and permits investors to invest in a substitute instrument in place of the underlying, speculate or hedge, as applicable, in large-cap U.S. equities. The Equity Index Futures Contract serves as a proxy for large-cap U.S. equities because the performance of the Equity Index Futures Contract is dependent upon and reflects the changes in the S&P 500®.

In order to pursue its investment objective, the FactorShares 2X: TBond Bull/S&P500 Bear will seek to invest approximately +200% of the value of its Fund Equity (i.e., the estimated NAV) in the front month Treasury Index Futures Contract and/or Substitute Futures and Financial Instruments, as applicable. Simultaneously, the Fund will seek to invest approximately -200% of the value of its Fund Equity in the front month Equity Index Futures Contract and/or Substitute Futures and Financial Instruments, as applicable. Around the NAV Calculation Time, and in order to continue to pursue its daily investment objective, the Fund will seek to rebalance daily its front month Treasury Index Futures Contracts and/or Substitute Futures and Financial Instruments, as applicable, to equal approximately +200% of the value of its Fund Equity.

Similarly, around the NAV Calculation Time, the Fund will seek to rebalance daily its front month Equity Index Futures Contract and/or Substitute Futures and Financial Instruments, as applicable, to equal approximately –200% of the value of its Fund Equity.

FactorShares 2X: S&P500 Bull/USD Bear

The FactorShares 2X: S&P500 Bull/USD Bear is designed for investors who believe the large-cap U.S. equity market segment will increase in value relative to the general indication of the international value of the U.S. dollar. According to its Registration Statement, the objective of the FactorShares 2X: S&P500 Bull/USD Bear will be to seek to track approximately +200% of the daily return of the S&P 500 Non-U.S. Dollar Index. The Fund will seek to track the spread or the difference in daily returns between the U.S. equity and currency market segments by primarily establishing a leveraged long position in the Equity Index Futures Contract, and a leveraged short position in the U.S. Dollar Index® Futures (“Currency Index Futures Contract”).

The Equity Index Futures Contract provides an exposure to the S&P 500® Index. The Equity Index Futures Contract is a futures contract that provides and permits investors to invest in a substitute instrument in place of the underlying, speculate or hedge, as applicable, in large-cap U.S. equities. The Equity Index Futures Contract serves as a proxy for large-cap U.S. equities because the performance of the Equity Index Futures Contract is dependent upon and reflects the changes in the S&P 500®. The Currency Index Futures Contract provides an exposure to the international value of the U.S. dollar. The Currency Index Futures Contract is a futures contract that provides and permits investors to invest in a substitute instrument in place of the underlying, speculate or hedge, as applicable, in the direction of the U.S. dollar relative to a basket of six major world currencies. The Currency Index Futures Contract serves as a proxy for the international value of the U.S. dollar relative to the six major world currencies because the

performance of the Currency Index Futures Contract is dependent upon and reflects the changes in the U.S. Dollar Index (USD<sup>®</sup>), which is an index which reflects the performance of each of the underlying basket of six major world currencies relative to the U.S. dollar.

In order to pursue its investment objective, the FactorShares 2X: S&P500 Bull/USD Bear will seek to invest approximately +200% of the value of its Fund Equity (i.e., the estimated NAV) in the front month Equity Index Futures Contract and/or Substitute Futures and Financial Instruments, as applicable. Simultaneously, the Fund seeks to invest approximately –200% of the value of its Fund Equity in the front month Currency Index Futures Contract and/or Substitute Futures and Financial Instruments, as applicable. Around the NAV Calculation Time, and in order to continue to pursue its daily investment objective, the Fund seeks to rebalance daily its front month Equity Index Futures Contracts and/or Substitute Futures and Financial Instruments, as applicable, to equal approximately +200% of the value of its Fund Equity. Similarly, around the NAV Calculation Time, the Fund will seek to rebalance daily its front month Currency Index Futures Contract and/or Substitute Futures and Financial Instruments, as applicable, to equal approximately –200% of the value of its Fund Equity.

FactorShares 2X: Oil Bull/S&P500 Bear

The FactorShares 2X: Oil Bull/S&P500 Bear is designed for investors who believe that crude oil will increase in value relative to the large-cap U.S. equity market segment. According to its Registration Statement, the objective of the FactorShares 2X: Oil Bull/S&P500 Bear will be to seek to track approximately +200% of the daily return of the S&P Crude Oil-Equity Spread Total Return Index. The Fund will seek to track the spread or the difference in daily returns between the oil and U.S. equity market segments by primarily establishing a leveraged long position in the Oil Index Futures Contract, as defined below, and a leveraged short position in the

Equity Index Futures Contract.

The Oil Index Futures Contract provides an exposure to the oil market segment with respect to light sweet crude oil. The Oil Index Futures Contract is a futures contract that provides and permits investors to invest in a substitute instrument in place of the underlying, speculate or hedge, as applicable, in the direction of the value of light sweet crude oil. The Oil Index Futures Contract serves as a proxy for light sweet crude oil because the performance of the Oil Index Futures Contract is dependent upon and reflects the changes in the price of light sweet crude oil. The Equity Index Futures Contract provides an exposure to the S&P 500® Index. The Equity Index Futures Contract is a futures contract that provides and permits investors to invest in a substitute instrument in place of the underlying, speculate or hedge, as applicable, in large-cap U.S. equities. The Equity Index Futures Contract serves as a proxy for large-cap U.S. equities because the performance of the Equity Index Futures Contract is dependent upon and reflects the changes in the S&P 500®.

In order to pursue its investment objective, the FactorShares 2X: Oil Bull/S&P500 Bear will seek to invest approximately +200% of the value of its Fund Equity (i.e., the estimated NAV) in the front month Oil Index Futures Contract and/or Substitute Futures and Financial Instruments, as applicable. Simultaneously, the Fund will seek to invest approximately –200% of the value of its Fund Equity in the front month Equity Index Futures Contract and/or Substitute Futures and Financial Instruments, as applicable. Around the NAV Calculation Time, and in order to continue to pursue its daily investment objective, the Fund will seek to rebalance daily its front month Oil Index Futures Contracts and/or Substitute Futures and Financial Instruments, as applicable, to equal approximately +200% of the value of its Fund Equity. Similarly, around the NAV Calculation Time, the Fund will seek to rebalance daily its front

month Equity Index Futures Contract and/or Substitute Futures and Financial Instruments, as applicable, to equal approximately –200% of the value of its Fund Equity.

FactorShares 2X: Gold Bull/S&P500 Bear

The FactorShares 2X: Gold Bull/S&P500 Bear is designed for investors who believe that gold will increase in value relative to the large-cap U.S. equity market segment. According to its Registration Statement, the objective of the FactorShares 2X: Gold Bull/S&P500 Bear will be to seek to track approximately +200% of the daily return of the S&P Gold-Equity Spread Total Return Index. The Fund will seek to track the spread or the difference in daily returns between the gold and U.S. equity market segments by primarily establishing a leveraged long position in the Gold Index Futures Contract, as defined below, and a leveraged short position in the Equity Index Futures Contract.

The Gold Index Futures Contract provides an exposure to the precious metals market segment with respect to gold. The Gold Index Futures Contract is a futures contract that provides and permits investors to invest in a substitute instrument in place of the underlying, speculate or hedge, as applicable, in the direction of the value of gold. The Gold Index Futures Contract serves as a proxy for gold because the performance of the Gold Index Futures Contract is dependent upon and reflects the changes in the price of gold. The Equity Index Futures Contract provides an exposure to the S&P 500® Index. The Equity Index Futures Contract is a futures contract that provides and permits investors to invest in a substitute instrument in place of the underlying, speculate or hedge, as applicable, in large-cap U.S. equities. The Equity Index Futures Contract serves as a proxy for large-cap U.S. equities because the performance of the Equity Index Futures Contract is dependent upon and reflects the changes in the S&P 500®.

In order to pursue its investment objective, the FactorShares 2X: Gold Bull/S&P500 Bear

will seek to invest approximately +200% of the value of its Fund Equity (i.e., the estimated NAV) in the front month Gold Index Futures Contract and/or Substitute Futures and Financial Instruments, as applicable. Simultaneously, the Fund will seek to invest approximately –200% of the value of its Fund Equity in the front month Equity Index Futures Contract and/or Substitute Futures and Financial Instruments, as applicable. Around the NAV Calculation Time, and in order to continue to pursue its daily investment objective, the Fund will seek to rebalance daily its front month Gold Index Futures Contracts and/or Substitute Futures and Financial Instruments, as applicable, to equal approximately +200% of the value of its Fund Equity. Similarly, around the NAV Calculation Time, the Fund will seek to rebalance daily its front month Equity Index Futures Contract and/or Substitute Futures and Financial Instruments, as applicable, to equal approximately –200% of the value of its Fund Equity.

#### Net Asset Value

According to each Registration Statement, NAV, in respect of a Fund, means the total assets of the applicable Fund including, but not limited to, all cash and cash equivalents or other debt securities less total liabilities of such Fund, each determined on the basis of generally accepted accounting principles in the United States, consistently applied under the accrual method of accounting. In particular, NAV includes any unrealized profit or loss on open futures contracts, Financial Instruments (if any), and any other credit or debit accruing to a Fund but unpaid or not received by a Fund. All open futures contracts traded on a United States exchange are calculated at their then current market value, which are based upon the settlement price for that particular futures contract traded on the applicable United States exchange on the date with respect to which NAV is being determined; provided, that if a futures contract traded on a United States exchange could not be liquidated on such day, due to the operation of daily limits or other

rules of the exchange upon which that position is traded or otherwise, the settlement price on the most recent day on which the position could have been liquidated will be the basis for determining the market value of such position for such day. The current market value of all open futures contracts traded on a non-United States exchange, to the extent applicable, are based upon the settlement price for that particular futures contract traded on the applicable non-United States exchange on the date with respect to which NAV is being determined; provided further, that if a futures contract traded on a non-United States exchange, to the extent applicable, could not be liquidated on such day, due to the operation of daily limits (if applicable) or other rules of the exchange upon which that position is traded or otherwise, the settlement price on the most recent day on which the position could have been liquidated will be the basis for determining the market value of such position for such day. The Managing Owner may in its discretion (and under extraordinary circumstances, including, but not limited to, periods during which a settlement price of a futures contract is not available due to exchange limit orders or force majeure type events such as systems failure, natural or man-made disaster, act of God, armed conflict, act of terrorism, riot or labor disruption or any similar intervening circumstance) value any asset of a Fund pursuant to such other principles as the Managing Owner deems fair and equitable so long as such principles are consistent with normal industry standards. Interest earned on any Fund's futures brokerage account, if applicable, will be accrued at least monthly. The amount of any distribution will be a liability of such Fund from the day when the distribution is declared until it is paid.

The NAV of each Fund is calculated as of the first to settle of the corresponding Index Futures Contracts, provided that no Fund will calculate its NAV after 4:00 p.m. Eastern Time ("E.T."). For example, the futures exchanges on which the E-mini Standard and Poor's 500



Stock Price Index™ Futures (Long Index Futures Contracts) and the 30-Year U.S. Treasury Bond Futures (Short Index Futures Contracts) of the FactorShares 2X: S&P500 Bull/TBond Bear fund settle at 4:15 p.m. E.T. and 3:00 p.m. E.T., respectively. Therefore, as detailed in the table below, the FactorShares 2X: S&P500 Bull/TBond Bear fund will calculate its NAV, or NAV Calculation Time, as of 3:00 p.m. E.T.

Fund NAV Calculation Times (E.T.):

Fund	Long Index Futures Contract: Settlement Time	Short Index Futures Contract: Settlement Time	First to Settle / NAV Calculation Time <sup>21</sup>
FactorShares 2X: S&P500 Bull/TBond Bear	E-mini Standard and Poor's 500 Stock Price Index™ Futures: 4:15 p.m.	30 Year U.S. Treasury Bond Futures: 3:00 p.m.	3:00 p.m.
FactorShares 2X: TBond Bull/S&P500 Bear	30 Year U.S. Treasury Bond Futures: 3:00 p.m.	E-mini Standard and Poor's 500 Stock Price Index™ Futures: 4:15 p.m.	3:00 p.m.

<sup>21</sup> The Commission previously has approved commodity-based or currency-based trust securities for which the NAV is calculated earlier than 4:00 p.m., E.T. See, e.g., Securities Exchange Act Release Nos. 50603 (October 28, 2004), 69 FR 64614 (November 5, 2004) (SR-NYSE-2004-22) (order approving listing of streetTRACKS Gold Trust); 52843 (November 28, 2005), 70 FR 72486 (December 5, 2005) (SR-NYSE-2005-65) (order approving listing of Euro Currency Trust); and 61219 (December 22, 2009), 74 FR 68886 (December 29, 2009) (SR-NYSEArca-2009-95) (order approving listing of ETFS Platinum Trust).

FactorShares 2X: S&P500 Bull/USD Bear	E-mini Standard and Poor's 500 Stock Price Index <sup>TM</sup> Futures: 4:15 p.m.	U.S. Dollar Index®  Futures: 3:00 p.m.	3:00 p.m.
FactorShares 2X: Oil Bull/S&P500 Bear <sup>22</sup>	Light Sweet Crude Oil  Futures: 2:30 p.m.	E-mini Standard and Poor's 500 Stock Price Index <sup>TM</sup> Futures: 4:15 p.m.	2:30 p.m.
FactorShares 2X: Gold Bull/S&P500 Bear	Gold Futures: 1:30 p.m.	E-mini Standard and Poor's 500 Stock Price Index <sup>TM</sup> Futures: 4:15 p.m.	1:30 p.m.

A Fund's daily NAV may reflect the closing settlement price and/or the last traded value just before the NAV Calculation Time, as applicable, for each of its Index Futures Contracts. A Fund's daily NAV will reflect the closing settlement price for each of its Index Futures Contracts if an Index Future Contract's closing settlement price is determined at or just before the NAV Calculation Time. If the exchange on which a Fund's Index Futures Contract does not determine the closing settlement price at or just before the NAV Calculation Time, then the last traded value for that Index Futures Contract up until (but excluding) the NAV Calculation Time will be reflected in the NAV.

<sup>22</sup> Because the first to settle Index Futures Contracts for the FactorShares 2X: Oil Bull/S&P500 Bear and FactorShares 2X: Gold Bull/S&P500 Bear funds are each different than the first to settle Index Futures Contracts for the remaining Funds, the NAV Calculation Time for each of the FactorShares 2X: Oil Bull/S&P500 Bear and FactorShares 2X: Gold Bull/S&P500 Bear funds differ from the remaining Funds.

For example, the closing settlement price of the 30-Year U.S. Treasury Bond Futures occurs at or around 3:00 p.m. E.T., or just before the NAV Calculation Time for the FactorShares 2X: S&P500 Bull/TBond Bear. Accordingly, the Index Futures Contract price used to determine the NAV for 30-Year U.S. Treasury Bond Futures positions held by the FactorShares 2X: S&P500 Bull/TBond Bear will be the corresponding closing settlement price of 30-Year U.S. Treasury Bond Futures as reported by CME. However, the closing settlement price for the E-mini Standard and Poor's 500 Stock Price Index™ Futures is determined at or around 4:15 p.m. E.T., which occurs 75 minutes after the NAV Calculation Time of FactorShares 2X: S&P500 Bull/TBond Bear. Therefore, the Index Futures Contract price used to determine the NAV for E-mini Standard and Poor's 500 Stock Price Index™ Futures positions held by the FactorShares 2X: S&P500 Bull/TBond Bear will be the last traded value for the E-mini Standard and Poor's 500 Stock Price Index™ Futures up until (but excluding) 3:00 p.m. E.T.

In calculating the NAV of a Fund, the settlement value of a Financial Instrument is determined by applying the terms as provided under the applicable Financial Instrument. However, in the event that an underlying Index Futures Contract is not trading due to the operation of daily limits or otherwise, the Managing Owner may in its sole discretion choose to value the Fund's Financial Instruments referencing such Index Futures Contract on a fair value basis in order to calculate the Fund's NAV.

NAV per Fund Share, in respect of a Fund, is the NAV of the Fund divided by the number of its outstanding Fund Shares.

#### Pricing Information Available on the NYSE Arca and Other Sources

According to the Registration Statements, the Index Sponsor will calculate the Indicative

Index Value (“IIV”) of each Index on a total return basis. In order to calculate the IIV, the Index Sponsor polls Reuters every 15 seconds of each trading day to determine the real-time value of each of the following components of each Index: price of the underlying Long Index Futures Contracts; price of the underlying Short Index Futures Contracts; and the pro-rated risk free rate, which is the 3-month U.S. Treasury bill, with respect to each applicable Index. The Index Sponsor then applies a set of rules to the above values to create the indicative level of each Long Sub-Index and each Short Sub-Index, and in turn, each Index. The IIV and closing level of each Index and Sub-Index will be calculated until the last to settle of NYSE Arca or the last to settle of the exchanges on which the Fund’s Index Futures Contracts are traded, provided, however, that no IIV will be calculated after 4:15 p.m. E.T. (“Index Calculation Time”). These rules are consistent with the rules which the Index Sponsor applies at the end of each trading day to calculate the closing level of each Index and Sub-Index. A similar polling process is applied to the U.S. Treasury bills, or any other applicable Fixed Income Instruments, to determine the indicative value of the Fixed Income Instruments held by each Fund every 15 seconds throughout the trading day.

An Index and Sub-Index value will be calculated on each business day as determined by the futures exchanges on which each Index’s Long Index Futures Contract and/or a Short Index Futures Contract trades. The Index Sponsor will continue to calculate each Index and Sub-Index even on days when the futures exchanges on which each Index’s Long Index Futures Contract and/or a Short Index Futures Contract are open and NYSE Arca is closed.

The IIV per Share of each Fund is calculated by applying the percentage price change of each Fund’s holdings in futures contracts (and/or Substitute Futures and Financial Instruments, as applicable) to the last published NAV of each Fund and will be disseminated (in U.S. dollars)

by one or more market data vendors every 15 seconds during the NYSE Arca Core Trading Session of 9:30 a.m. to 4:00 p.m. E.T.

The current trading price per Share of each Fund (quoted in U.S. dollars) will be published continuously under its own ticker symbol as trades occur throughout each trading day on the consolidated tape, Reuters and/or Bloomberg.

The Index Sponsor publishes the intra-day level of each Index and Sub-Index, which is available to subscribers. The intra-day level of each Index and Sub-Index is also published once every 15 seconds during the NYSE Arca Core Trading Session on the consolidated tape, Reuters and/or Bloomberg.

The Index Sponsor publishes the closing level of each Index and the Sub-Indexes daily at the Index Sponsor's website at [www.standardandpoors.com](http://www.standardandpoors.com). The most recent end-of-day closing level of each Index and Sub-Index is published under its own symbol as of the close of business for NYSE Arca each trading day on the consolidated tape, Reuters and/or Bloomberg, or any successor thereto.

The Managing Owner publishes the NAV of each Fund and the NAV per Share of each Fund daily. The most recent end-of-day NAV of each Fund is published under its own symbol as of the close of business on Reuters and/or Bloomberg and on the Managing Owner's website at [www.factorshares.net](http://www.factorshares.net), or any successor thereto. In addition, the most recent end-of-day NAV of each Fund is published the following morning on the consolidated tape.

The Funds will provide website disclosure of the portfolio holdings daily and will include, as applicable, the names and value (in U.S. dollars) of Index Futures Contracts, Substitute Futures and Financial Instruments, as applicable, and characteristics of these Index Futures Contracts and Substitute Futures and Financial Instruments, as applicable, and Fixed

Income Instruments, and the amount of cash held in the portfolio of the Funds. This website disclosure of the portfolio composition of the Funds will occur at the same time as the disclosure by the Managing Owner of the portfolio composition to Authorized Participants so that all market participants are provided portfolio composition information at the same time. Therefore, the same portfolio information will be provided on the Funds' public website as well as in electronic files provided to Authorized Participants. Accordingly, each investor will have access to the current portfolio composition of the Funds through the Managing Owner's website.

#### Creation and Redemption of Shares

Each Fund creates and redeems Shares from time-to-time, but only in one or more Baskets. A Basket is a block of 100,000 Shares. Baskets may be created or redeemed only by Authorized Participants, as described in the Registration Statements, except that the initial Baskets will be created by the Initial Purchaser. Except when aggregated in Baskets, the Shares are not redeemable securities. Authorized Participants pay a transaction fee of \$500 in connection with each order to create or redeem one or more Baskets. Authorized Participants may sell the Shares included in the Baskets they purchase from the Funds to other investors.

On any business day, an Authorized Participant may place an order with the Distributor to create one or more Baskets. For purposes of processing both purchase and redemption orders, a "business day" means any day other than a day when banks in New York City are required or permitted to be closed. Purchase orders must be placed by no later than 5 hours prior to the close of NYSE Arca, which would be customarily 11:00 a.m. E.T. However, from time-to-time, NYSE Arca may have an early close at, for example, 1:00 p.m. E.T. (e.g., day after Thanksgiving). On these days, purchase orders must be placed by no later than 8:00 a.m. E.T., which would be 5 hours prior to the early close of NYSE Arca. The day on which the

Distributor receives a valid purchase order is the purchase order date. Purchase orders are irrevocable. By placing a purchase order, and prior to delivery of such Baskets, an Authorized Participant's DTC account will be charged the non-refundable transaction fee due for the purchase order.

#### Determination of Required Payment

The total cash payment required to create each Basket is the NAV of 100,000 Shares of the applicable Fund as of the NAV Calculation Time, on the purchase order date. Baskets are issued as of noon, E.T., on the business day immediately following the purchase order date at the applicable NAV per Share as of the NAV Calculation Time, on the purchase order date, but only if the required payment has been timely received.

Because orders to purchase Baskets must be placed by no later than 5 hours prior to the close of NYSE Arca, but the total payment required to create a Basket will not be determined until the NAV Calculation Time on the date the purchase order is received, Authorized Participants will not know the total amount of the payment required to create a Basket at the time they submit an irrevocable purchase order for the Basket. The NAV of a Fund and the total amount of the payment required to create a Basket could rise or fall substantially between the time an irrevocable purchase order is submitted and the NAV Calculation Time.

#### Redemption Procedures

The procedures by which an Authorized Participant can redeem one or more Baskets mirror the procedures for the creation of Baskets. On any business day, an Authorized Participant may place an order with the Distributor to redeem one or more Baskets. Redemption orders must be placed by no later than 5 hours prior to the close of NYSE Arca, which would be customarily 11:00 a.m. E.T. However, from time-to-time, NYSE Arca may have an early close

at, for example, 1:00 p.m. E.T. On these days, redemption orders must be placed by no later than 8:00 a.m. E.T., which would be 5 hours prior to the early close of NYSE Arca. The day on which the Distributor receives a valid redemption order is the redemption order date.

Redemption orders are irrevocable. The redemption procedures allow Authorized Participants to redeem Baskets. Individual shareholders may not redeem directly from a Fund. Instead, individual shareholders may only redeem Shares in integral multiples of 100,000 and only through an Authorized Participant.

By placing a redemption order, an Authorized Participant agrees to deliver the Baskets to be redeemed through DTC's book-entry system to the applicable Fund not later than noon, E.T., on the business day immediately following the redemption order date. By placing a redemption order, and prior to receipt of the redemption proceeds, an Authorized Participant's DTC account will be charged the non-refundable transaction fee due for the redemption order.

#### Determination of Redemption Proceeds

The redemption proceeds from a Fund consist of the cash redemption amount. The cash redemption amount is equal to the NAV of the number of Basket(s) of such Fund requested in the Authorized Participant's redemption order as of the NAV Calculation Time, on the redemption order date. The Distributor will instruct the Transfer Agent and the Custodian of redemption orders by close of business on the redemption order date. The Custodian will distribute the cash redemption amount at noon, E.T., on the business day immediately following the redemption order date through DTC to the account of the Authorized Participant as recorded on DTC's book-entry system, but only if the applicable Baskets have been timely received.

The redemption proceeds due from a Fund are delivered to the Authorized Participant at noon, E.T., on the business day immediately following the redemption order date if, by such time



on such business day immediately following the redemption order date, the Fund's DTC account has been credited with the Baskets to be redeemed. If the Fund's DTC account has not been credited with all of the Baskets to be redeemed by such time, the redemption distribution is delivered to the extent of whole Baskets received. Any remainder of the redemption distribution is delivered on the next business day to the extent of remaining whole Baskets received if the Transfer Agent receives the fee applicable to the extension of the redemption distribution date which the Transfer Agent after consulting with the Managing Owner may, from time-to-time, determine and the remaining Baskets to be redeemed are credited to the Fund's DTC account by noon, E.T., on such next business day. Any further outstanding amount of the redemption order will be cancelled. The Distributor, after consulting with the Managing Owner, will also be authorized to deliver the redemption distribution notwithstanding that the Baskets to be redeemed are not credited to the Fund's DTC account by noon, E.T., on the business day immediately following the redemption order date if the Authorized Participant has collateralized its obligation to deliver the Baskets through DTC's book-entry system on such terms as the Managing Owner may determine from time-to-time.

#### Availability of Information Regarding the Shares

The current trading price per Share of each Fund (quoted in U.S. dollars) will be published continuously under its ticker symbol as trades occur throughout each trading day on the consolidated tape, Reuters and/or Bloomberg.

The NAV for each Fund will be calculated by the Administrator once a day and will be disseminated daily to all market participants at the same time. The Exchange also will disseminate on a daily basis via the Consolidated Tape Association ("CTA") information with respect to the recent NAV, and Shares outstanding. The Exchange will also make available on

its website daily trading volume of each of the Shares. The closing price and settlement prices of the Index Futures Contracts are also readily available from the NYMEX, CME, COMEX and ICE, as applicable, and from automated quotation systems, published or other public sources, or on-line information services such as Bloomberg or Reuters. Quotation and last-sale information regarding the Shares will be disseminated through the facilities of the CTA.

The website for the Funds and/or the Exchange, which are publicly available at no charge, will contain the following information: (a) the current NAV per Share daily and the prior business day's NAV; (b) the reported closing price; (c) the Prospectus; and (d) other quantitative information.

The daily settlement prices for the Index Futures Contracts are publicly available on the website of the NYMEX, CME and COMEX at [www.cmegroup.com](http://www.cmegroup.com) and the ICE website at [www.theice.com](http://www.theice.com). In addition, various data vendors and news publications publish futures prices and data. The Exchange represents that futures quotes and last-sale information for the Index Futures Contracts are widely disseminated through a variety of major market data vendors worldwide, including Bloomberg and Reuters. In addition, the Exchange further represents that complete real-time data for the Index Futures Contracts is available by subscription from Reuters and Bloomberg. NYMEX, CME, COMEX and ICE also provide delayed futures information on current and past trading sessions and market news free of charge on their websites. The applicable specific contract specifications for the futures contracts are also available from such websites, as well as other financial informational sources.

The Funds will provide website disclosure of portfolio holdings daily and will include, as applicable, the names and value (in U.S. dollars) of Index Futures Contracts, Substitute Futures and Financial Instruments and characteristics of these Index Futures Contracts, Substitute

Futures and Financial Instruments, as applicable, and Fixed Income Instruments, and the amount of cash held in the portfolio of the Funds. This website disclosure of the portfolio composition of the Funds will occur at the same time as the disclosure by the Managing Owner of the portfolio composition to Authorized Participants so that all market participants are provided portfolio composition information at the same time. Therefore, the same portfolio information will be provided on the public website as well as in electronic files provided to Authorized Participants. Accordingly, each investor will have access to the current portfolio composition of the Funds through the Funds' website.

In addition, in order to provide updated information relating to each Fund for use by investors and market professionals, an IIV per Share of each Fund will be calculated, adjusted four times per minute throughout the NYSE Arca Core Trading Session to reflect the continuous price changes of such Fund's Index Futures Contracts, Substitute Futures and Financial Instruments, as applicable. The IIV will provide a continuously updated estimated NAV per Share and is calculated by using the prior day's closing NAV per Share of each Fund as a base and updating that value throughout the trading day to reflect changes in the value of the applicable Index Futures Contracts, Substitute Futures and Financial Instruments. The IIV disseminated during NYSE Arca Core Trading Session should not be viewed as an actual real-time update of each Fund's NAV, which is calculated only once a day.

As noted above, the IIV will be disseminated on a per Share basis by one or more major market data vendors every 15 seconds during NYSE Arca Core Trading Session. The value of a Share of a Fund may be influenced by non-concurrent trading hours between the NYSE Arca and the NYMEX, CME, COMEX and ICE Futures, which are the futures exchanges on which the Index Futures Contracts are traded (collectively, the "Futures Exchanges"). As a result,

during periods when the NYSE Arca is open and one or more of the Futures Exchanges is closed, trading spreads and the resulting premium or discount on the Shares may widen and, therefore, increase the difference between the price of the Shares and the NAV of the Shares.

The Exchange believes that dissemination of the IIV provides additional information regarding each Fund that is not otherwise available to the public and is useful to professionals and investors in connection with the related Shares trading on the Exchange or the creation or redemption of such Shares.

#### Trading Rules

The Exchange deems the Shares to be equity securities, thus rendering trading in the Shares subject to the Exchange's existing rules governing the trading of equity securities. Shares will trade on the NYSE Arca Marketplace from 4:00 a.m. to 8:00 p.m. E.T. The Exchange has appropriate rules to facilitate transactions in the Shares during all trading sessions. As provided in NYSE Arca Equities Rule 7.6, Commentary .03, the minimum price variation ("MPV") for quoting and entry of orders in equity securities traded on the NYSE Arca Marketplace is \$0.01, with the exception of securities that are priced less than \$1.00 for which the MPV for order entry is \$0.0001.

The trading of the Shares will be subject to NYSE Arca Equities Rule 8.200, Commentary .02(e), which sets forth certain restrictions on ETP Holders acting as registered Market Makers in Trust Issued Receipts to facilitate surveillance. See "Surveillance" below for more information.

With respect to trading halts, the Exchange may consider all relevant factors in exercising its discretion to halt or suspend trading in the Shares. Trading may be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares

inadvisable. These may include: (1) the extent to which trading is not occurring in the underlying Index Futures Contracts, or (2) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present. In addition, trading in Shares will be subject to trading halts caused by extraordinary market volatility pursuant to the Exchange's "circuit breaker" rule<sup>23</sup> or by the halt or suspension of trading of the underlying Index Futures Contracts.

The Fund will meet the initial and continued listing requirements applicable to Trust Issued Receipts in NYSE Arca Equities Rule 8.200 and Commentary .02 thereto. The Exchange represents that, for the initial and continued listing of the Shares, the Shares must be in compliance with NYSE Arca Equities Rule 5.3 and Rule 10A-3 under the Act.<sup>24</sup> A minimum of 100,000 Shares for each Fund will be outstanding as of the start of trading on the Exchange.

The Exchange represents that the Exchange may halt trading during the day in which the interruption to the dissemination of the IIV, the Indexes, the Sub-Indexes or the value of the underlying futures contracts occurs. If the interruption to the dissemination of the IIV, the Indexes, the Sub-Indexes or the value of the underlying futures contracts persists past the trading day in which it occurred, the Exchange will halt trading no later than the beginning of the trading day following the interruption. In addition, if the Exchange becomes aware that the NAV with respect to the Shares is not 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.

#### Surveillance

The Exchange intends to utilize its existing surveillance procedures applicable to derivative products, including Trust Issued Receipts, to monitor trading in the Shares. The

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<sup>23</sup> See NYSE Arca Equities Rule 7.12.

<sup>24</sup> 17 CFR 240.10A-3.

Exchange represents that these procedures are adequate to properly monitor Exchange trading of the Shares in all trading sessions and to deter and detect violations of Exchange rules and applicable federal securities laws.

The Exchange's current trading surveillances focus on detecting securities trading outside their normal patterns. When such situations are detected, surveillance analysis follows and investigations are opened, where appropriate, to review the behavior of all relevant parties for all relevant trading violations. The Exchange is able to obtain information regarding trading in the Shares, the physical commodities included in, or options, futures or options on futures on, Shares through ETP Holders, in connection with such ETP Holders' proprietary or customer trades which they effect through ETP Holders on any relevant market. The Exchange can obtain market surveillance information, including customer identity information, with respect to transactions occurring on the NYMEX, CME and COMEX in that CME Group, Inc., the parent company of NYMEX, CME and COMEX, is a member of the Intermarket Surveillance Group ("ISG").<sup>25</sup> In addition, ICE is a member of ISG, and the Exchange, therefore, can obtain market surveillance information from such exchange.

In addition, for components traded on exchanges, not more than 10% of the weight of a Fund's portfolio in the aggregate shall consist of components whose principal trading market is not a member of ISG or is a market with which the Exchange does not have a comprehensive surveillance sharing agreement.

The Exchange also has a general policy prohibiting the distribution of material, non-

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<sup>25</sup> For a list of the current members of ISG, see [www.isgportal.org](http://www.isgportal.org). The Exchange may obtain information from futures exchanges with which the Exchange has entered into a surveillance sharing agreement or that are ISG members. The Exchange notes that not all components of the portfolio for the Funds may trade on markets that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.

public information by its employees.

### Information Bulletin

Prior to the commencement of trading, the Exchange will inform its ETP Holders in an Information Bulletin of the special characteristics and risks associated with trading the Shares. Specifically, the Information Bulletin will discuss the following: (1) the risks involved in trading the Shares during the Opening and Late Trading Sessions when an updated IIV will not be calculated or publicly disseminated; (2) the procedures for purchases and redemptions of Shares in Creation Baskets and Redemption Baskets (and that Shares are not individually redeemable); (3) NYSE Arca Equities Rule 9.2(a), which imposes a duty of due diligence on its ETP Holders to learn the essential facts relating to every customer prior to trading the Shares; (4) how information regarding the IIV is disseminated; (5) the requirement that ETP Holders deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction; and (6) trading information.

In addition, the Information Bulletin will advise ETP Holders, prior to the commencement of trading, of the prospectus delivery requirements applicable to the Funds. The Exchange notes that investors purchasing Shares directly from the Funds will receive a Prospectus. ETP Holders purchasing Shares from the Funds for resale to investors will deliver a Prospectus to such investors. The Information Bulletin will also discuss any exemptive, no-action and interpretive relief granted by the Commission from any rules under the Act.

The Information Bulletin will further advise ETP Holders that FINRA has implemented increased customer margin requirements applicable to leveraged ETFs (which include the Shares) and options on leveraged ETFs, as described in FINRA Regulatory Notices 09-53 (August 2009) and 09-65 (November 2009).

In addition, the Information Bulletin will reference that the Funds are subject to various fees and expenses described in the Registration Statements. The Information Bulletin will also reference that the CFTC has regulatory jurisdiction over the trading of futures contracts traded on U.S. markets.

The Information Bulletin will also disclose the trading hours of the Shares of the Funds and that the NAV for the Shares is calculated after 4:00 p.m. E.T. each trading day. The Bulletin will disclose that information about the Shares of the Funds is publicly available on the Funds' website.

## 2. Statutory Basis

The proposed rule change is consistent with Section 6(b) of the Act,<sup>26</sup> in general, and furthers the objectives of Section 6(b)(5),<sup>27</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, and to remove impediments to and perfect the mechanism of a free and open market and a national market system. The Exchange believes that the proposed rule change will facilitate the listing and trading of an additional type of exchange-traded product that will enhance competition among market participants, to the benefit of investors and the marketplace. In addition, the listing and trading criteria set forth in Rule 8.200 are intended to protect investors and the public interest.

### 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.

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<sup>26</sup> 15 U.S.C. 78f(b).

<sup>27</sup> 15 U.S.C. 78f(b)(5).



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

No written comments were solicited or received with respect to 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 self-regulatory organization consents, the Commission will:

- (A) by order approve or disapprove the 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 (<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-NYSEArca-2010-121 on the subject line.

Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NYSEArca-2010-121. 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 20549-1090 on official business days between 10:00 a.m. and 3:00 p.m. Copies of the filing will also be available for inspection and copying at the Exchange's principal office. 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-

NYSEArca-2010-121 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>28</sup>

Elizabeth M. Murphy  
Secretary

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<sup>28</sup> 17 CFR 200.30-3(a)(12).