

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-75468; File No. SR-NYSEArca-2015-25)

July 16, 2015

Self-Regulatory Organizations; NYSE Arca, Inc.; Order Approving a Proposed Rule Change, as Modified by Amendment No. 1, to List and Trade Shares of the iShares iBonds Dec 2021 AMT-Free Muni Bond ETF and iShares iBonds Dec 2022 AMT-Free Muni Bond ETF under NYSE Arca Equities Rule 5.2(j)(3)

I. Introduction

On March 31, 2015, NYSE Arca, Inc. (“Exchange” or “NYSE Arca”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 (“Act” or “Exchange Act”)² and Rule 19b-4 thereunder,³ a proposed rule change to list and trade shares (“Shares”) of the following series of the iShares Trust: iShares iBonds Dec 2021 AMT-Free Muni Bond ETF and iShares iBonds Dec 2022 AMT-Free Muni Bond ETF (each a “Fund” and, collectively, the “Funds”) under NYSE Arca Equities Rule 5.2(j)(3), Commentary .02. On April 14, 2015, the Exchange filed Amendment No. 1 to the proposed rule change, which superseded the original filing. The proposed rule change, as modified by Amendment No. 1, was published for comment in the Federal Register on April 21, 2015.⁴ On June 2, 2015, the Commission designated a longer period to act upon the

¹ 15 U.S.C. 78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

⁴ See Securities Exchange Act Release No. 74730 (April 15, 2015), 80 FR 22234 (“Notice”).

proposed rule change.⁵ The Commission received no comments on the proposal. This order approves the proposed rule change, as modified by Amendment No.1.

II. The Exchange's Description of the Proposal⁶

NYSE Arca proposes to list and trade Shares of the Funds under NYSE Arca Equities Rule 5.2(j)(3), Commentary .02, which governs the listing and trading of Investment Company Units ("Units") based on fixed income securities indexes. The Funds are two series of the iShares Trust ("Trust").⁷ Blackrock Fund Advisors ("BFA") will be the investment adviser for the Funds ("Adviser"). BlackRock Investments, LLC is the Funds' distributor.

A. iShares iBonds Dec 2021 AMT-Free Muni Bond ETF

The iShares iBonds Dec 2021 AMT-Free Muni Bond ETF will seek to track the investment results of the S&P AMT-Free Municipal Series December 2021 IndexTM ("2021

⁵ See Securities Exchange Act Release No. 75093, 80 FR 32425 (June 8, 2015). Specifically, to allow sufficient time to consider the proposal, the Commission designated July 20, 2015 as the date by which to approve or disapprove or institute proceedings to determine whether to disapprove the proposed rule change.

⁶ Additional information regarding, among other things, the Shares, the Funds, investment objectives, investments, investment strategies, investment methodology, a discussion of the correlation of municipal bond instruments with common characteristics and supporting data, creation and redemption procedures, availability of information, trading rules and halts, and surveillance procedures can be found in the Notice and in the Registration Statements. See Notice, *supra* note 4, and Registration Statements, *infra* note 7 (defining "Registration Statements"), respectively. See also Exhibit 3 to the Notice.

⁷ With respect to the iShares iBonds Dec 2021 AMT-Free Muni Bond ETF, see Post-Effective Amendment No. 1,380 to the Trust's registration statement on Form N-1A under the Securities Act of 1933 (15 U.S.C. 77a) ("1933 Act") and the Investment Company Act of 1940 ("1940 Act") (15 U.S.C. 80a-1), dated March 26, 2015 (File Nos. 333-92935 and 811-09729), and, with respect to the iShares iBonds Dec 2022 AMT-Free Muni Bond ETF, see Post-Effective Amendment No. 1,381 to the Trust's registration statement on Form N-1A under the 1933 Act and 1940 Act, dated March 26, 2015 (File Nos. 333-92935 and 811-09729) (each a "Registration Statement" and, collectively, the "Registration Statements"). In addition, the Commission has issued an order granting certain exemptive relief to the Trust under the 1940 Act. See Investment Company Act Release No. 27608 (December 21, 2006) (File No. 812-13208).

Index”), which measures the performance of investment-grade, non-callable U.S. municipal bonds maturing after December 31, 2020 and before December 2, 2021.⁸ As of February 10, 2015, there were 4,217 issues in the 2021 Index.

The 2021 Index includes municipal bonds primarily from issuers that are state or local governments or agencies such that the interest on the bonds is exempt from U.S. federal income taxes and the federal alternative minimum tax (“AMT”). Each bond must have a rating of at least BBB- by Standard & Poor's Ratings Services (“S&P”), Baa3 by Moody’s Investors Service, Inc. (“Moody’s”), or BBB- by Fitch Ratings, Inc. (“Fitch”) and must have a minimum maturity par amount of \$2 million to be eligible for inclusion in the 2021 Index. To remain in the 2021 Index, bonds must maintain a minimum par amount greater than or equal to \$2 million as of each rebalancing date. All bonds in the 2021 Index will mature after December 31, 2020 and before December 2, 2021. When a bond matures in the 2021 Index, an amount representing its value at maturity will be included in the 2021 Index throughout the remaining life of the 2021 Index, and any such amount will be assumed to earn a rate equal to the performance of the Standard & Poor’s Financial Services LLC’s Weekly High Grade Index, municipal tax-exempt notes that are not subject to federal AMT. The 2021 Index is a market value weighted index and is rebalanced after the market close on the last business day of each month.

The Exchange submitted this proposed rule change because the 2021 Index does not meet all of the generic listing requirements of Commentary .02(a) to NYSE Arca Equities Rule

⁸ The 2021 Index and the S&P AMT-Free Municipal Series 2022 IndexTM (“2022 Index”) are products of S&P Dow Jones Indices LLC, a subsidiary of McGraw Hill Financial, Inc. (“Index Provider”), which is independent of the Funds and BFA. The Index Provider determines the composition and relative weightings of the securities in the 2021 Index and 2022 Index and publishes information regarding the market value of the 2021 Index and 2022 Index. The Index Provider is not a broker-dealer or affiliated with a broker-dealer and has implemented procedures designed to prevent the use and dissemination of material, non-public information regarding the 2021 Index and 2022 Index.

5.2(j)(3) applicable to the listing of Units based on fixed income securities indexes. The Exchange represents that the 2021 Index meets all such requirements except for those set forth in Commentary .02(a)(2), which requires that components that in the aggregate account for at least 75% of the weight of the index each have a minimum original principal amount outstanding of \$100 million or more. As of February 10, 2015, components of the 2021 Index that satisfied the \$100 million or more minimum original principal amount outstanding requirement constituted only 6.8% of the weight of the index.

In general, the Fund will invest at least 80% of its assets in the securities of the 2021 Index, except during the last months of the Fund's operations, and may invest the remainder of its assets in cash, cash equivalents, and municipal bonds not included in the 2021 Index, but which BFA believes will help the Fund track the 2021 Index. In the last months of operation, as the bonds held by the Fund mature, the proceeds will not be reinvested in bonds but instead will be held in cash and cash equivalents. These cash equivalents may not be included in the 2021 Index. Around December 1, 2021, the Fund will wind up and terminate, and its net assets will be distributed to then-current shareholders.

B. iShares iBonds Dec 2022 AMT-Free Muni Bond ETF

The iShares iBonds Dec 2022 AMT-Free Muni Bond ETF will seek to track the investment results of the 2022 Index, which measures the performance of investment-grade, non-callable U.S. municipal bonds maturing after December 31, 2021 and before December 2, 2022. As of February 10, 2015, there were 3,473 issues in the 2022 Index.

The 2022 Index includes municipal bonds primarily from issuers that are state or local governments or agencies such that the interest on the bonds is exempt from U.S. federal income taxes and the federal AMT. Each bond must have a rating of at least BBB- by S&P, Baa3 by

Moody's, or BBB- by Fitch Ratings, Inc. and must have a minimum maturity par amount of \$2 million to be eligible for inclusion in the 2022 Index. To remain in the 2022 Index, bonds must maintain a minimum par amount greater than or equal to \$2 million as of each rebalancing date. All bonds in the 2022 Index will mature in after December 31, 2021 and before December 2, 2022. When a bond matures in the 2022 Index, an amount representing its value at maturity will be included in the 2022 Index throughout the remaining life of the 2022 Index, and any such amount will be assumed to earn a rate equal to the performance of the Standard & Poor's Financial Services LLC's Weekly High Grade Index, which consists of Moody's Investment Grade-1 municipal tax-exempt notes that are not subject to federal AMT. The 2022 Index is a market value weighted index and is rebalanced after the market close on the last business day of each month.

The Exchange submitted this proposed rule change because the 2022 Index does not meet all of the generic listing requirements of Commentary .02(a) to NYSE Arca Equities Rule 5.2(j)(3) applicable to the listing of Units based on fixed income securities indexes. The Exchange represents that the 2022 Index meets all such requirements except for those set forth in Commentary .02(a)(2), which requires that components that in the aggregate account for at least 75% of the weight of the index each have a minimum original principal amount outstanding of \$100 million or more. As of February 10, 2015, components of the 2022 Index that satisfied the \$100 million or more minimum original principal amount outstanding requirement constituted only 5.8% of the weight of the index.

In general, the Fund will invest at least 80% of its assets in components of the 2022 Index, except during the last months of the Fund's operations, and may invest the remainder of its assets in cash, cash equivalents, and municipal bonds not included in the 2022 Index but

which BFA believes will help the Fund track the 2022 Index. In the last months of operation, as the bonds held by the Fund mature, the proceeds will not be reinvested in bonds but instead will be held in cash and cash equivalents. These cash equivalents may not be included in the 2022 Index. Around December 1, 2022, the Fund will wind up and terminate, and its net assets will be distributed to then-current shareholders.

III. Discussion and Commission Findings

After careful review, the Commission finds that the Exchange's proposal to list and trade the Shares is consistent with the Exchange Act and the rules and regulations thereunder applicable to a national securities exchange.⁹ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Exchange Act,¹⁰ which requires, among other things, that the Exchange's rules be designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest.

The Commission finds that the proposal to list and trade the Shares on the Exchange is consistent with Section 11A(a)(1)(C)(iii) of the Exchange Act,¹¹ which sets forth Congress' finding that it is in the public interest and appropriate for the protection of investors and the maintenance of fair and orderly markets to assure the availability to brokers, dealers, and investors of information with respect to quotations for and transactions in securities. Quotation and last sale information for the Shares of each Fund will be available via the Consolidated Tape Association high speed line. The 2021 Index and 2022 Index values, calculated and widely

⁹ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition and capital formation. See 15 U.S.C. 78c(f).

¹⁰ 15 U.S.C. 78f(b)(5).

¹¹ 15 U.S.C. 78k-1(a)(1)(C)(iii).

disseminated at least once daily, as well as the components of the 2021 Index and 2022 Index and their percentage weighting, will be available from major market data vendors. The IIV for Shares of a Fund will be disseminated by one or more major market data vendors, updated at least every 15 seconds during the Exchange's Core Trading Session, which is between 9:30 a.m. to 4:00 p.m. Eastern time, as required by NYSE Arca Equities Rule 5.2(j)(3), Commentary .02(c). The NAV of a Fund normally will be determined once daily Monday through Friday, generally as of the regularly scheduled close of business of the New York Stock Exchange ("NYSE") (normally 4:00 p.m., Eastern time) on each day that the NYSE is open for trading. Information regarding market price and trading volume of the Shares will be continually available on a real-time basis throughout the day on brokers' computer screens and other electronic services. Information regarding the previous day's closing price and trading volume information for the Shares will be published daily in the financial section of newspapers. The Funds' website, www.ishares.com, will also include the prospectus for the Funds and additional data relating to NAV and other applicable quantitative information. Additionally, the portfolio of securities held by the Funds will be disclosed on the Funds' website. The Exchange will obtain a representation from the issuer of the Shares that the NAV per Share of each Fund will be calculated daily and that the NAV per Share will be made available to all market participants at the same time. The Exchange further represents that quotation information for investment company securities (excluding ETFs) may be obtained through nationally recognized pricing services through subscription agreements or from brokers and dealers who make markets in such securities, and that price information regarding municipal bonds, AMT-free tax-exempt municipal notes, variable rate demand notes and obligations, tender option bonds and municipal commercial paper is available from third party pricing services and major market data vendors.

The Commission also believes that the proposal to list and trade the Shares is reasonably designed to promote fair disclosure of information that may be necessary to price the Shares appropriately and to prevent trading when a reasonable degree of transparency cannot be assured. The Exchange states that the Index Provider is not a broker-dealer or affiliated with a broker-dealer and has implemented procedures designed to prevent the use and dissemination of material, non-public information regarding the 2021 Index and 2022 Index. Prior to the commencement of trading, the Exchange will inform its Equity Trading Permit Holders in an Information Bulletin (“Bulletin”) of the special characteristics and risks associated with trading the Shares. With respect to trading halts, if the Exchange becomes aware that the NAV is not being disseminated to all market participants at the same time, it will halt trading in the Shares until such time as the NAV is available to all market participants. In addition, the Exchange may consider all relevant factors in exercising its discretion to halt or suspend trading in the Shares of the Funds. Trading also may be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable. The Exchange represents that if the IIV, the 2021 Index value or the 2022 Index value are not being disseminated as required, the Exchange may halt trading in the overlying shares during the day in which the interruption to the dissemination of the IIV, the 2021 Index value or the 2022 Index value occurs. If the interruption to the dissemination of the IIV, the 2021 Index value or the 2022 Index value persists past the trading day in which it occurred, the Exchange will halt trading. Moreover, trading in the Shares will be halted if the circuit breaker parameters in NYSE Arca Equities Rule 7.12 have been reached or because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable. Trading in the Shares will be subject to NYSE Arca Equities Rule 7.34, which sets forth circumstances under which Shares may be

halted. The Exchange represents that trading in the Shares will be subject to the existing trading surveillances, administered by the Financial Industry Regulatory Authority (“FINRA”) on behalf of the Exchange, which are designed to detect violations of Exchange rules and applicable federal securities laws.¹² FINRA, on behalf of the Exchange, will communicate as needed regarding trading in the Shares with other markets or other entities that are members of the Intermarket Surveillance Group (“ISG”), and FINRA may obtain trading information regarding trading in the Shares from such markets or entities. FINRA also can access data obtained from the Municipal Securities Rulemaking Board relating to municipal bond trading activity for surveillance purposes in connection with trading in the Shares. FINRA, on behalf of the Exchange, is able to access, as needed, trade information for certain fixed income securities held by a Fund reported to FINRA’s Trade Reporting and Compliance Engine. In addition, the Exchange may obtain information regarding trading in the Shares from markets or other entities that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.

Based on the Exchange’s representations, the Commission believes that both the 2021 Index and 2022 Index are sufficiently broad-based and liquid to deter potential manipulation. As of February 10, 2015, there were 4,217 issues in the 2021 Index and 3,473 issues in the 2022 Index. In addition, the total dollar amount outstanding of issues in the 2021 Index was approximately \$38.9 billion and the average dollar amount outstanding of issues in the 2021 Index was approximately \$9.2 million; and the total dollar amount outstanding of issues in the 2022 Index was approximately \$30.5 billion, and the average dollar amount outstanding of issues

¹² FINRA surveils trading on the Exchange pursuant to a regulatory services agreement. The Exchange is responsible for FINRA’s performance under this regulatory services agreement.

in the 2022 Index was approximately \$8.8 million. Further, the most heavily weighted component represents 0.57% of the weight of the 2021 Index, and the five most heavily weight components represent 2.51% of the 2021 Index; and the most heavily weighted component represents 0.55% of the weight of the 2022 Index, and the five most heavily weight components represent 2.67% of the 2022 Index.¹³

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

- (1) 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.
- (2) Except for Commentary .02(a)(2) to NYSE Arca Equities Rule 5.2(j)(3), the 2021 Index and 2022 Index currently satisfy all of the generic listing standards under NYSE Arca Equities Rule 5.2(j)(3).
- (3) The continued listing standards under NYSE Arca Equities Rules 5.2(j)(3) and 5.5(g)(2) applicable to Units shall apply to the Shares.
- (4) The Shares will comply with all other requirements applicable to Units including, but not limited to, requirements relating to the dissemination of key information such as the value of the 2021 Index and 2022 Index, respectively, and the IIV, rules governing the trading of equity securities, trading hours, trading halts, surveillance, and the Information Bulletin to Equity Trading Permit Holders (each as described in more detail herein and in the Notice and Registration Statements,

¹³ Commentary .02(a)(4) to NYSE Arca Equities Rule 5.2(j)(3) provides that no component fixed-income security (excluding Treasury Securities and GSE Securities, as defined therein) shall represent more than 30% of the weight of the index or portfolio, and the five most heavily weighted component fixed-income securities in the index or portfolio shall not in the aggregate account for more than 65% of the weight of the index or portfolio.

as applicable), as set forth in Exchange rules applicable to Units and prior Commission orders approving the generic listing rules applicable to the listing and trading of Units.

- (5) Trading in the Shares will be subject to the existing trading surveillances, administered by FINRA on behalf of the Exchange, which are designed to detect violations of Exchange rules and applicable federal securities laws, and 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 federal securities laws applicable to trading on the Exchange.
- (6) For initial and/or continued listing, the Funds will be in compliance with Rule 10A-3¹⁴ under the Act, as provided by NYSE Arca Equities Rule 5.3.
- (7) The Exchange has appropriate rules to facilitate transactions in the Shares during all trading sessions.
- (8) Prior to the commencement of trading, the Exchange will inform its Equity Trading Permit Holders in a Bulletin of the special characteristics and risks associated with trading the Shares. Specifically, the Bulletin will discuss the following: (a) the procedures for purchases and redemptions of Shares in Creation Unit aggregations (and that Shares are not individually redeemable); (b) NYSE Arca Equities Rule 9.2(a), which imposes a duty of due diligence on its Equity Trading Permit Holders to learn the essential facts relating to every customer prior to trading the Shares; (c) the risks involved in trading the Shares during the Opening and Late Trading Sessions when an updated IIV will not be calculated or

¹⁴ 17 CFR 240 10A-3.

publicly disseminated; (d) how information regarding the IIV is disseminated; (e) the requirement that Equity Trading Permit Holders deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction; and (f) trading information.

- (9) A minimum of 100,000 Shares for each Fund will be outstanding at the commencement of trading on the Exchange.

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

For the foregoing reasons, the Commission finds that the proposed rule change, as modified by Amendment No. 1, is consistent with Section 6(b)(5) of the Act¹⁵ and the rules and regulations thereunder applicable to a national securities exchange.

¹⁵ 15 U.S.C. 78f(b)(5).

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Exchange Act, that the proposed rule change (SR-NYSEArca-2015-25), as modified by Amendment No. 1, is hereby approved.

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

Robert W. Errett
Deputy Secretary

¹⁶ 17 CFR 200.30-3(a)(12).