

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-79211; File No. SR-NYSEArca-2016-100)

November 1, 2016

Self-Regulatory Organizations; NYSE Arca, Inc.; Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change, as Modified by Amendment No. 1, to List and Trade Shares of the Direxion Daily Municipal Bond Taxable Bear 1X Fund under NYSE Arca Equities Rule 5.2(j)(3)

I. Introduction

On July 13, 2016, NYSE Arca, Inc. (“Exchange” or “NYSE Arca”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Exchange Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to list and trade shares (“Shares”) of the Direxion Daily Municipal Bond Taxable Bear 1X Fund (“Fund”), a series of the Direxion Shares ETF Trust (“Trust”). The proposed rule change was published for comment in the Federal Register on August 3, 2016.³ On September 14, 2016, pursuant to Section 19(b)(2) of the Act,⁴ the Commission designated a longer period within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to disapprove the proposed rule change.⁵ On September 15, 2016, the Exchange filed Amendment No. 1 to the proposed rule change.⁶ The

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 78433 (July 28, 2016), 81 FR 51241.

⁴ 15 U.S.C. 78s(b)(2).

⁵ See Securities Exchange Act Release No. 78840, 81 FR 64552 (September 20, 2016). The Commission designated November 1, 2016, as the date by which the Commission shall either approve or disapprove, or institute proceedings to determine whether to disapprove, the proposed rule change.

⁶ In Amendment No. 1, which replaced the original filing in its entirety, the Exchange: (1) revised the description of the Fund’s principal investments and (2) made other technical

Commission received no comments on the proposed rule change. This order institutes proceedings under Section 19(b)(2)(B) of the Act⁷ to determine whether to approve or disapprove the proposed rule change, as modified by Amendment No. 1.

II. The Exchange's Description of the Proposal

The Exchange proposes to list and trade the Shares under NYSE Arca Equities Rule 5.2(j)(3), Commentary .02, which governs the listing and trading of Investment Company Units based on fixed income securities indexes. The Fund is a series of the Trust.⁸ Rafferty Asset Management, LLC would be the investment adviser to the Fund. Foreside Fund Services, LLC will be the distributor of the Fund's Shares. The Bank of New York Mellon would serve as the accounting agent, custodian, and transfer agent for the Fund. U.S. Bancorp Fund Services, LLC will serve as the Fund's administrator.⁹

The Standard & Poor's National AMT-Free Municipal Bond Index ("Index") would be the Fund's benchmark.¹⁰ The Index is a broad, comprehensive, market value-weighted index designed to measure the performance of the tax-exempt, investment-grade U.S. municipal bond

amendments. Amendment No. 1 is available at <https://www.sec.gov/comments/sr-nysearca-2016-100/nysearca2016100-1.pdf>.

⁷ 15 U.S.C. 78s(b)(2)(B).

⁸ The Trust is registered under the Investment Company Act of 1940 ("1940 Act"). According to the Exchange, on February 29, 2016, the Trust filed a registration statement on Form N-1A under the Securities Act of 1933 and the 1940 Act (File Nos.: 811-22201 and 333-150525).

⁹ Additional information regarding the Trust, the Fund, and the Shares, including investment strategies, risks, creation and redemption procedures, fees, portfolio holdings, disclosure policies, calculation of the NAV, distributions, and taxes, among other things, can be found in Amendment No. 1 and the Registration Statement, as applicable. See Amendment No. 1, supra note 6 and Registration Statement, supra note 8.

¹⁰ The S&P Dow Jones Indices is the "Index Provider" with respect to the 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 Index.

market. The Fund would seek daily inverse investment results of the Index but would not seek to achieve its stated investment objective over a period of time greater than one day. Further, the Fund might gain inverse exposure to only a representative sample of the securities in the Index that have aggregate characteristics similar to those of the Index. The Fund would gain this inverse exposure by investing in a combination of Financial Instruments (defined below) that provide inverse exposure to the underlying securities of the Index. The Fund would not seek income that is exempt from federal, state, or local income taxes.

A. The Fund's Principal Investments

The Fund would seek to track 100% of the inverse of the daily performance of the Index. Under normal circumstances, the Fund would create net short positions by investing at least 80% of the Fund's assets (plus any borrowings for investment purposes) in the following financial instruments ("Financial Instruments"): options on exchange-traded funds ("ETFs") and indices, traded on U.S. exchanges (based on gross notional value); swaps that provide short exposure to the securities included in the Index and various ETFs (based on gross notional value); and short positions in ETFs, as described below in this section, that, in combination, provide inverse exposure to the Index.

The Fund might invest in options that provide short exposure to the Index or various ETFs, including iShares National Muni Bond ETF, SPDR Nuveen Barclays Municipal Bond ETF, iShares Short-term National Muni Bond ETF, SPDR Nuveen Barclays Short-Term Municipal Bond ETF, Market Vectors High-Yield Municipal Index ETF, SPDR Nuveen S&P High Yield Municipal Bond ETF, Market Vectors AMT-Free Intermediate Municipal Index ETF, PowerShares National AMT-Free Municipal Bond Portfolio, Vanguard Tax-Exempt Bond ETF, and the PIMCO Intermediate Municipal Bond Active Exchange-Traded Fund.

The Fund might invest in swaps that provide short exposure to the securities included in the Index and various ETFs, including iShares National Muni Bond ETF, SPDR Nuveen Barclays Municipal Bond ETF, iShares Short-Term National Muni Bond ETF, SPDR Nuveen Barclays Short-Term Municipal Bond ETF, Market Vectors High-Yield Municipal Index ETF, SPDR Nuveen S&P High Yield Municipal Bond ETF, Market Vectors AMT-Free Intermediate Municipal Index ETF, PowerShares National AMT-Free Municipal Bond Portfolio, Vanguard Tax-Exempt Bond ETF, and the PIMCO Intermediate Municipal Bond Active Exchange-Traded Fund.

The Fund might take direct short positions in ETFs, such as the iShares National Muni Bond ETF, SPDR Nuveen Barclays Municipal Bond ETF, iShares Short-term National Muni Bond ETF, SPDR Nuveen Barclays Short-Term Municipal Bond ETF, Market Vectors High-Yield Municipal Index ETF, SPDR Nuveen S&P High Yield Municipal Bond ETF, Market Vectors AMT-Free Intermediate Municipal Index ETF, PowerShares National AMT-Free Municipal Bond Portfolio, Vanguard Tax-Exempt Bond ETF, and the PIMCO Intermediate Municipal Bond Active Exchange-Traded Fund.¹¹ The Fund would not take long positions in ETFs or invest in options that overlie inverse, leveraged, or inverse leveraged ETFs.

B. The Fund's Non-Principal Investments

According to the Exchange, under normal circumstances, at least 80% of the Fund's assets will be invested in Financial Instruments to establish net short positions, as described above, and the Fund's remaining assets might be invested in cash and the following cash

¹¹ For purposes of this filing, ETFs are Investment Company Units (as described in NYSE Arca Equities Rule 5.2(j)(3)); Portfolio Depositary Receipts (as described in NYSE Arca Equities Rule 8.100); and Managed Fund Shares (as described in NYSE Arca Equities Rule 8.600) and also are securities listed on another national securities exchange pursuant to substantially equivalent listing rules. The Fund will not take short positions in inverse, leveraged, or inverse leveraged ETFs.

equivalents (in addition to cash or cash equivalents used to collateralize the Fund’s investments in Financial Instruments): money market funds, depository accounts with institutions with high quality credit ratings, U.S. government securities that have terms-to-maturity of less than 397 days, and repurchase agreements that have terms-to-maturity of less than 397 days.

III. Proceedings to Determine Whether to Approve or Disapprove SR-NYSEArca-2016-100 and Grounds for Disapproval Under Consideration

The Commission is instituting proceedings pursuant to Section 19(b)(2)(B) of the Act¹² to determine whether the proposed rule change, as modified by Amendment No. 1, should be approved or disapproved. Institution of such proceedings is appropriate at this time in view of the legal and policy issues raised by the proposed rule change. Institution of proceedings does not indicate that the Commission has reached any conclusions with respect to any of the issues involved. Rather, as stated below, the Commission seeks and encourages interested persons to provide comments on the proposed rule change.

Pursuant to Section 19(b)(2)(B) of the Act,¹³ the Commission is providing notice of the grounds for disapproval under consideration. The Commission is instituting proceedings to allow for additional analysis of the proposed rule change’s consistency with Section 6(b)(5) of the Act, which requires, among other things, that the rules of a national securities exchange be “designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade” and “to protect investors and the public interest.”¹⁴ The Exchange has submitted the proposed rule change because the Shares do not meet all of the “generic” listing requirements of Commentary .02(a) to NYSE Arca Equities Rule 5.2(j)(3). Namely,

¹² 15 U.S.C. 78s(b)(2)(B).

¹³ Id.

¹⁴ 15 U.S.C. 78f(b)(5).

Commentary .02(a)(2) to NYSE Arca Equities Rule 5.2(j)(3) provides that, for an index or portfolio that underlies a series of Investment Company Units, components that in the aggregate account for at least 75% of the weight of such index or portfolio each shall have a minimum original principal amount outstanding of \$100 million or more. Although the Index that underlies the Shares does not satisfy this requirement, the Exchange states that the Index is nonetheless sufficiently broad-based to deter potential manipulation because: (1) it is composed of approximately 3,063 issues and 474 unique issuers; (2) a substantial portion (95.87%) of the Index weight is composed of maturities that are part of an entire municipal bond offering with a minimum original principal amount outstanding of \$100 million or more; and (3) the total (\$248 billion) and the average (\$81 million) dollar amount outstanding of Index issues are “substantial.”¹⁵

The Commission seeks comment on whether the Index characteristics the Exchange has identified, as noted above, provide sufficient basis for the Commission to determine that the Index, and thereby the Shares that overlie it, is not susceptible to manipulation. In this regard, the Commission notes that it recently approved a proposal to list and trade shares of an actively managed municipal bond ETF,¹⁶ where the listing exchange made a number of other representations regarding the type of municipal bonds that the fund would hold. For example, the exchange, in that instance, stated that the fund’s investments in municipal securities would provide exposure to at least 15 different states, with no more than 30% of the value of the fund’s

¹⁵ Namely, according to the Exchange, as of May 23, 2016, the total dollar amount outstanding of issues in the Index was approximately \$248 billion and the average dollar amount outstanding of issues in the Index was approximately \$81 million. Further, as of May 23, 2016, the most heavily weighted component represents 0.43% of the weight of the Index and the five most heavily weighted components represent 1.88% of the weight of the Index.

¹⁶ See Securities Exchange Act Release No. 78913 (Sep. 23, 2016), 81 FR 69109 (Oct. 5, 2016) (SR-NASDAQ-2016-002).

net assets comprising municipal securities that provide exposure to any single state. Further, the exchange also noted that the fund would include securities from a minimum of 13 non-affiliated issuers.¹⁷ Although in this filing, the Fund would seek an inverse investment result of an index rather than actively manage a portfolio of municipal securities, the concerns regarding the susceptibility of the Index underlying the Shares to manipulation is similar to the concerns regarding the susceptibility of a portfolio to manipulation. Accordingly, the Commission seeks comment on whether the Exchange has demonstrated that its proposal is consistent with Section 6(b)(5) of the Act, and specifically whether the price of the Shares is susceptible to manipulation.

IV. Procedure: Request for Written Comments

The Commission requests that interested persons provide written submissions of their views, data, and arguments with respect to the issues identified above, as well as any other concerns they may have with the proposal. In particular, the Commission invites the written views of interested persons concerning whether the proposal is consistent with Section 6(b)(5) or any other provision of the Act, or the rules and regulations thereunder. Although there do not appear to be any issues relevant to approval or disapproval that would be facilitated by an oral presentation of views, data, and arguments, the Commission will consider, pursuant to Rule 19b-4, any request for an opportunity to make an oral presentation.¹⁸

¹⁷ For purposes of this restriction, the exchange provided that “non-affiliated issuers” are issuers that are not “affiliated persons” within the meaning of Section 2(a)(3) of the 1940 Act. Additionally, each state and each separate political subdivision, agency, authority, or instrumentality of such state, each multi-state agency or authority, and each guarantor, if any, would be treated as separate issuers of municipal securities.

¹⁸ Section 19(b)(2) of the Act, as amended by the Securities Act Amendments of 1975, Pub. L. 94-29 (June 4, 1975), grants the Commission flexibility to determine what type of proceeding – either oral or notice and opportunity for written comments – is appropriate for consideration of a particular proposal by a self-regulatory organization. See Securities Act Amendments of 1975, Senate Comm. on Banking, Housing & Urban Affairs, S. Rep. No. 75, 94th Cong., 1st Sess. 30 (1975).

Interested persons are invited to submit written data, views, and arguments regarding whether the proposal should be approved or disapproved by [insert date 21 days from publication in the Federal Register]. Any person who wishes to file a rebuttal to any other person's submission must file that rebuttal by [insert date 35 days from publication in the Federal Register]. The Commission asks that commenters address the sufficiency of the Exchange's statements in support of the proposal, which are set forth in Amendment No. 1 to the proposed rule change, in addition to any other comments they may wish to submit about the proposed rule change.

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. Please include File Number SR-NYSEArca-2016-100 on the subject line.

Paper comments:

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

All submissions should refer to File Numbers SR-NYSEArca-2016-100. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>).

Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those

that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of these filings also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NYSEArca-2016-100 and should be submitted on or before [insert date 21 days from publication in the Federal Register]. Rebuttal comments should be submitted by [insert date 35 days from date of publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁹

Brent J. Fields
Secretary

¹⁹ 17 CFR 200.30-3(a)(57).