

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-82350; File No. SR-NYSEArca-2017-139)

December 19 , 2017

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Proposed Rule Change to List and Trade the Shares of the ProShares Bitcoin ETF and the ProShares Short Bitcoin ETF under NYSE Arca Rule 8.200-E, Commentary .02

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (the “Act”)<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on December 4, 2017, NYSE Arca, Inc. (the “Exchange” or “NYSE Arca”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to list and trade the shares of the following under NYSE Arca Rule 8.200-E, Commentary .02 (“Trust Issued Receipts”): the ProShares Bitcoin ETF and the ProShares Short Bitcoin ETF. The proposed change is available on the Exchange’s website at [www.nyse.com](http://www.nyse.com), at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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

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

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

received on the proposed rule change. The text of those statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant parts of such statements.

A. Self-Regulatory Organization’s Statement of the Purpose of, and the Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to list and trade shares (“Shares”) of the following under NYSE Arca Rule 8.200-E, Commentary .02, which governs the listing and trading of Trust Issued Receipts: the ProShares Bitcoin ETF and the ProShares Short Bitcoin ETF (each a “Fund” and, collectively, the “Funds”).<sup>4</sup>

Each Fund is a series of the ProShares Trust II (the “Trust”), a Delaware statutory trust.<sup>5</sup> The Trust and the Funds are managed and controlled by ProShare Capital Management LLC (the “Sponsor”). The Sponsor is registered as a commodity pool operator (“CPO”) with the Commodity Futures Trading Commission (“CFTC”) and is a member of the National Futures Association (“NFA”).

In its capacity as the Custodian for the Funds, Brown Brothers Harriman & Co. (“BBH&Co.” or the “Custodian”) may hold the Funds’ investment assets and cash and cash equivalents pursuant to a custodian agreement. The Custodian is also the transfer agent for the

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<sup>4</sup> Commentary .02 to NYSE Arca Rule 8.200-E applies to Trust Issued Receipts that invest in “Financial Instruments.” The term “Financial Instruments,” as defined in Commentary .02(b)(4) to NYSE Arca Rule 8.200-E, 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>5</sup> The Trust is registered under the Securities Act of 1933. On September 27, 2017, the Trust filed with the Commission a registration statement on Form S-1 under the Securities Act of 1933 (15 U.S.C. 77a) (the “Securities Act”) relating to the Funds (File No. 333-220680) (the “Registration Statement”). The description of the operation of the Trust and the Funds herein is based, in part, on the Registration Statement.

Funds. In addition, in its capacity as Administrator for the Funds, BBH&Co. (the “Administrator”) prepares and files certain regulatory filings on behalf of the Funds.

SEI Investments Distribution Co. serves as the distributor of the Shares (the “Distributor”). The Distributor is a broker-dealer registered with the Commission under the Securities Exchange Act of 1934 and a member of the Financial Industry Regulatory Authority (“FINRA”). The Trust will offer Shares of the Funds for sale through the Distributor in “Creation Units”, as described below. The Distributor will also assist the Sponsor and Administrator with certain functions and duties relating to distribution and marketing.

### ProShares Bitcoin ETF

According to the Registration Statement, the investment objective of the Fund is to seek, results (before fees and expenses) that, both for a single day and over time, correspond to the performance of lead month<sup>6</sup> bitcoin futures contracts<sup>7</sup> listed and traded on either the Cboe Futures Exchange (“CFE”) or the Chicago Mercantile Exchange (“CME”)<sup>8</sup> (the “Benchmark

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<sup>6</sup> The “lead month contracts” are the monthly contracts with the earliest expiration date. As discussed below, each Fund will “roll” its Bitcoin Futures Contract (as defined below) to the next “nearby” Bitcoin Futures Contract prior to the expiration date of such contracts. The “nearby” contracts are those monthly contracts with the next closest expiration date. The Funds will incur the costs (or benefits) of continually rolling into the new lead month contracts.

<sup>7</sup> Futures contracts are standardized contracts traded on an exchange that call for the future delivery of a specified quantity and type of a particular underlying asset in exchange for payment at a specified time and place or for cash settlement based on a specified reference rate or settlement price. Bitcoin Futures Contracts will be cash settled.

<sup>8</sup> See “CFTC Statement on Self-Certification of Bitcoin Products by CME, CFE and Cantor Exchange,” dated December 1, 2017 (“CFTC Release”), available at <http://www.cftc.gov/PressRoom/PressReleases/pr7654-17>. The CME has announced that its bitcoin futures contracts are scheduled to begin trading on December 18, 2017. See “CME Group Self-Certifies Bitcoin Futures to Launch Dec. 18,” December 1, 2017, available at [http://www.cmegroup.com/media-room/press-releases/2017/12/01/cme\\_group\\_self-certifiesbitcoinfuturestolaunchdec18.html](http://www.cmegroup.com/media-room/press-releases/2017/12/01/cme_group_self-certifiesbitcoinfuturestolaunchdec18.html). Cboe Global Markets, Inc. (“Cboe”), has announced that that [sic] CFE’s bitcoin futures contracts are scheduled to begin trading on December 10, 2017. See “Cboe Plans

Futures Contract”).<sup>9</sup> Specifically, the Fund will seek results that correspond to the last traded price of the Benchmark Futures Contract on its primary listing exchange prior to the Fund’s NAV calculation time (typically 4:00 p.m. Eastern Time (“E.T.”) each Business Day. Although the Fund generally intends to invest substantially all of its assets in Benchmark Futures Contracts, the Fund may invest in other U.S. exchange listed bitcoin futures contracts (if available) in addition to Benchmark Futures Contracts (collectively, along with Benchmark Futures Contracts, the “Bitcoin Futures Contracts”), as discussed herein.

The value of the Bitcoin Futures Contracts will be based on the expected value of bitcoin at a future point in time, specifically, the expiration date of such Bitcoin Futures Contracts. By being long Bitcoin Futures Contracts, the Fund seeks to benefit from daily increases in the price of the Bitcoin Futures Contracts. The Fund will not be benchmarked to the current price of bitcoin and will not invest directly in bitcoin. When the price of Bitcoin Futures Contracts held by the Fund declines, the Fund will lose value. As noted, the Fund will seek to achieve its investment objective both for a single day and over time.<sup>10</sup>

#### ProShares Short Bitcoin ETF

According to the Registration Statement, the investment objective of the Fund is to seek results, for a single day, that correspond (before fees and expenses) to the inverse (-1x) of the

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December 10 Launch of Bitcoin Futures Trading,” December 4, 2017, available at <http://ir.cboe.com/press-releases/2017/12-04-2017>.

<sup>9</sup> CFE and CME are registered with the CFTC and seek to provide a neutral, regulated marketplace for the trading of derivatives contracts for commodities, such as futures, options and certain swaps. Both the CFE and CME are both members of the Intermarket Surveillance Group (“ISG”). See note 22, *infra*. The determination as to which futures contracts (i.e., CFE or CME listed) will be utilized as each Fund’s Benchmark Futures Contract will be made by the Sponsor prior to the launch of each Fund based on the Sponsor’s assessment of the liquidity of such contracts.

<sup>10</sup> According to the Registration Statement, a single day is measured from the time a Fund calculates its net asset value (“NAV”) to the time of a Fund’s next NAV calculation.

daily performance of the Benchmark Futures Contract. The Fund does not seek to achieve its investment objective over a period greater than a single day.<sup>11</sup>

The Fund generally intends to invest substantially all of its assets through investment in short positions in Benchmark Futures Contracts. However, the Fund may invest through short positions in Bitcoin Futures Contracts other than Benchmark Futures Contracts as described herein. In this manner, the Fund will seek to benefit from decreases in the price of the Bitcoin Futures Contracts. When the price of Bitcoin Futures Contracts increases, the Fund will lose value. The Fund will not be benchmarked to the current price of bitcoin and will not invest directly in bitcoin.

#### Investment Strategies of the Funds

In seeking to achieve the Funds' investment objectives, the Sponsor will utilize a mathematical approach to determine the type, quantity and mix of investment positions that the Sponsor believes, in combination, should produce daily returns consistent with the Funds' respective objectives. The Sponsor will rely on a pre-determined model to generate orders that result in repositioning the Funds' investments in accordance with their respective investment objectives.

Each Fund will seek to achieve its respective investment objective by investing, under normal market conditions,<sup>12</sup> substantially all of its assets in Benchmark Futures Contracts (or short positions in Benchmark Futures Contracts, as applicable).

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<sup>11</sup> According to the Registration Statement, the return of the Fund for a period longer than a single day will be the result of each day's returns compounded over the period, which will very likely differ from the inverse (-1x) of the return of the Benchmark Futures Contract for the same period.

<sup>12</sup> The term "normal market conditions" includes, but is not limited to, the absence of trading halts in the applicable financial markets generally; operational issues (e.g., systems failure) causing dissemination of inaccurate market information; or force

Each Fund also may obtain exposure (or inverse exposure, as applicable) in whole or in part, through investments in Bitcoin Futures Contracts other than Benchmark Futures Contracts if the Sponsor believes doing so would be in the best interest of such Fund.<sup>13</sup> For example, each Fund could invest in Bitcoin Futures Contracts in the event that position, price or accountability limits are reached with respect to Benchmark Futures Contracts. In addition, in the event position, price or accountability limits are reached with respect to Bitcoin Futures Contracts, each Fund may invest in listed options on Bitcoin Futures Contracts (should such listed options become available) (“Options”) and over-the-counter (“OTC”) swap agreements referencing Bitcoin Futures Contracts (together, Options and swap agreements are referred to herein as “Financial Instruments”). The Funds may also invest in Financial Instruments if the market for a specific Bitcoin Futures Contract experiences emergencies (e.g., natural disaster, terrorist attack or an act of God) or disruptions (e.g., a trading halt or a flash crash) that prevent or make it impractical for a Fund to obtain the appropriate amount of investment exposure using Bitcoin Futures Contracts.

Each Fund intends to enter into swap agreements only with major, global financial institutions that meet certain credit quality standards and monitoring policies. Each Fund will use various techniques to minimize credit risk including posting collateral daily that is marked to market, using different counterparties and limiting the net amount due from any individual counterparty.

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majeure type events such as natural or manmade disaster, act of God, armed conflict, act of terrorism, riot or labor disruption or any similar intervening circumstance.

<sup>13</sup> Each Fund’s investments in Bitcoin Futures Contracts will be subject to regulation under the Commodity Exchange Act and traded pursuant to CFTC and applicable exchange regulations. See 7 U.S.C. 1.

The Funds' remaining net assets will be invested in cash or cash equivalents and/or U.S. Treasury securities or other high credit quality, short-term fixed-income or similar securities (such as money market funds and repurchase agreements) (collectively "Money Market Instruments") as collateral for, or pending investment in, Bitcoin Futures Contracts and Financial Instruments.<sup>14</sup>

The Funds do not intend to hold Bitcoin Futures Contracts through expiration, but instead intend to either close or "roll" their respective positions. When the market for these contracts is such that the prices are higher in the more distant delivery months than in the nearer delivery months, the sale during the course of the "rolling process" of the more nearby contract would take place at a price that is lower than the price of the more nearby Bitcoin Futures Contracts would take place at a price that is lower than the price of the more distant Bitcoin Futures Contracts [sic]. This pattern of higher futures prices for longer expiration Bitcoin Futures Contracts is referred to as "contango." Alternatively, when the market for certain Bitcoin Futures Contracts is such that the prices are higher in the nearer months than in the more distant months, the sale during the course of the "rolling process" of the more nearby Bitcoin Futures Contracts would take place at a price that is higher than the price of the more distant Bitcoin Futures Contracts. This pattern of higher future prices for shorter expiration Bitcoin Futures Contracts is referred to as "backwardation." The presence of contango in the relevant Bitcoin Futures Contracts at the time of rolling would be expected to adversely affect the long positions held by the ProShares Bitcoin ETF, and positively affect the short positions held by the ProShares Short Bitcoin ETF. Similarly, the presence of backwardation in Bitcoin Futures

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<sup>14</sup> Each Fund will generally deposit cash or U.S. Treasury securities with a Futures Commission Merchant ("FCM") for open positions in Bitcoin Futures Contracts and cash or U.S. Treasury securities as collateral for open positions in Financial Instruments.

Contracts at the time of rolling such Bitcoin Futures Contracts would be expected to adversely affect the short positions held by the ProShares Short Bitcoin ETF and positively affect the long positions held by the ProShares Bitcoin ETF.

According to the Registration Statement, many U.S. commodities exchanges limit the amount of fluctuation permitted in futures contract prices during a single trading day by regulations referred to as “daily price fluctuation limits” or “daily limits.” Once the daily limit has been reached in a particular contract, no trades may be made that day at a price beyond that limit or trading may be suspended for specified periods during the trading day. In addition, the CFTC and U.S. futures exchanges have established limits referred to as “speculative position limits” or “accountability levels” on the maximum net long or short futures positions that any person may hold or control in derivatives traded on such exchanges. These levels and position limits apply to the Bitcoin Futures Contracts that each Fund would invest in to meet its investment objective.

According to the Registration Statement, as of the NAV calculation time, the ProShares Bitcoin ETF will not have futures exposure greater than one times [sic] (1x) that Fund’s assets. Similarly, the ProShares Short Bitcoin ETF will not have inverse futures exposure greater than one time (1x) the Fund’s assets. Thus, the maximum margin held at an FCM would not exceed one times [sic] the margin requirement for the ProShares Bitcoin ETF or the margin requirement for the ProShares Short Bitcoin ETF.

#### Overview of Bitcoin

According to the Registration Statement, bitcoin is a digital asset based on the decentralized, open source protocol of the peer-to-peer bitcoin computer network (the “Bitcoin Network”). Bitcoin is not issued by governments, banks or similar organizations. No single

entity owns or operates the Bitcoin Network. The infrastructure of the Bitcoin Network is collectively maintained by a decentralized user base. The Bitcoin Network is accessed through software, and software governs bitcoin's creation, movement, and ownership.

The value of bitcoin is determined, in part, by the supply of, and demand for, bitcoin in the global exchange markets for the trading of bitcoin,<sup>15</sup> market expectations for the adoption of bitcoin by individuals, the number of merchants that accept bitcoin as a form of payment and the volume of private end-user-to-end-user transactions.

Bitcoin transaction and ownership records are reflected on the "Bitcoin Blockchain," which is a digital public record or ledger. Copies of this ledger are stored in a decentralized manner on the computers of each Bitcoin Network user. Transaction data is permanently recorded in files called "blocks," which reflect transactions that have been recorded and authenticated by Bitcoin Network participants. The Bitcoin Network software source code includes protocols that govern the creation of bitcoin and the cryptographic system that secures and verifies Bitcoin transactions.

#### Overview of Bitcoin Futures Contracts

Bitcoin Futures Contracts are a new type of futures contract to be traded on the CFE and CME or other U.S. exchanges (if available). Unlike the established futures markets for traditional physical commodities, the market for Bitcoin Futures Contracts is in the development stage and has very limited trading and operational history. As such, the liquidity of the market for Bitcoin Futures Contracts will depend on, among other things, the supply and demand for

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<sup>15</sup> According to the Registration Statement, a "Bitcoin Exchange" is an electronic marketplace where exchange participants may trade, buy and sell bitcoin based on bid-ask trading. Bitcoin Exchanges are typically web-based and trade on a 24-hour basis, publishing transaction price and volume data. A "Bitcoin Exchange Market" is the global bitcoin exchange market for the trading of bitcoin, which consists of transactions on Bitcoin Exchanges.

Bitcoin Futures Contracts, the adoption of bitcoin and the commercial and speculative interest in the market for Bitcoin Futures Contracts and the potential ability to hedge against the price of bitcoin with exchange-traded Bitcoin Futures Contracts.

Additionally, if market participants executing trades in Bitcoin Futures Contracts face constraints, including capital constraints, security risks, or high execution costs, the price of Bitcoin Futures Contracts may fail to capture price movements in the underlying price of bitcoin. Moreover, it is not clear how changes to the Bitcoin Network, including changes that result in “forks” will impact the price of any Bitcoin Futures Contracts.

The CFTC has noted that the U.S. futures exchanges that will trade bitcoin futures have agreed to significant enhancements to protect customers and maintain orderly markets, and announced its expectation that futures exchanges that list and trade bitcoin futures contracts will, through information sharing agreements, monitor the trading activity on the relevant cash platforms for potential impacts on the price discovery process for bitcoin futures contracts, including potential market manipulation and market dislocations due to flash rallies and crashes and trading outages.<sup>16</sup>

#### Net Asset Value

According to the Registration Statement, a Fund’s per Share NAV will be calculated by dividing the value of the net assets of such Fund (i.e., the value of its total assets less total liabilities) by its total number of Shares outstanding. Each Fund’s NAV will be calculated on each Business Day that the New York Stock Exchange LLC (“NYSE”) is open. Each Fund will compute its NAVs as of 4:00 p.m. E.T. Each Fund’s NAV will be calculated only once each trading day. Each Fund’s daily NAV may be found at [www.ProShares.com](http://www.ProShares.com).

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<sup>16</sup> See CFTC Release, supra, note 8.

In calculating the NAV of a Fund, Bitcoin Futures Contracts will be valued using the last traded price on the primary listing exchange of such contract before the NAV calculation time of the Fund on such day. If Bitcoin Futures Contracts 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 Sponsor may determine a fair value price as the basis for determining the market value of such position for such day. Such fair value prices would generally be determined based on available inputs about the current value of the Bitcoin Futures Contracts and would be based on principles that the Sponsor deems fair and equitable so long as such principles are consistent with normal industry standards.

In calculating the NAV of a Fund, the settlement value of a Fund's non-exchange-traded Financial Instruments generally will be determined by applying the then-current disseminated levels for the Bitcoin Futures Contracts to the terms of such Fund's non-exchange-traded Financial Instruments. However, in the event that the Bitcoin Futures Contracts underlying the Financial Instruments are not trading due to the operation of daily limits or otherwise, the Sponsor may choose to fair value the Financial Instruments. Such fair value prices would generally be determined based on available inputs about the current value of the Bitcoin Futures Contracts and would be based on principles that the Sponsor deems fair and equitable so long as such principles are consistent with normal industry standards.

Money Market Investments will be valued on the basis of broker quotes, valuations provided by a third party pricing service or at amortized cost.

#### Indicative Fund Value

In order to provide updated information relating to the Funds for use by investors and market professionals, the Exchange will calculate an updated "Indicative Fund Value" ("IFV").

The IFV will be calculated by using the prior day's closing net assets of a Fund as a base and updating throughout the Exchange's Core Trading Session of 9:30 a.m. E.T. to 4:00 p.m. E.T. changes in the value of the Bitcoin Futures Contracts and Financial Instruments held by a Fund based on the most recently available prices for the Fund's investments.

The IFV will be disseminated on a per Share basis every 15 seconds during the Exchange's Core Trading Session and be widely disseminated by one or more major market data vendors during the NYSE Arca Core Trading Session.<sup>17</sup> In addition, circumstances may arise in which the NYSE Arca Core Trading Session is in progress, but trading in the Bitcoin Futures Contracts is not occurring. Such circumstances may result from reasons including, but not limited to, a futures exchange having a separate holiday schedule than the NYSE Arca, a futures exchange closing prior to the close of the NYSE Arca, price fluctuation limits being reached in a Bitcoin Futures Contract, or a futures exchange, imposing any other suspension or limitation on trading in a Bitcoin Futures Contract. In such instances, for IFV calculation purposes, the price of the applicable Bitcoin Futures Contracts, as well as Financial Instruments whose price is derived from the Bitcoin Futures Contracts, would be static or priced by the Fund at the applicable early cut-off time of the exchange trading the applicable Bitcoin Futures Contract.

#### Creation and Redemption of Shares

According to the Registration Statement, each Fund intends to create and redeem Shares in one or more Creation Units. A Creation Unit is a block of 25,000 Shares of a Fund. Except when aggregated in Creation Units, the Shares are not redeemable securities.

A creation transaction generally takes place when an Authorized Participant deposits generally a specified amount of cash in exchange for a specified number of Creation Units.

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<sup>17</sup> Several major market data vendors display and/or make widely available IFVs taken from the CTA or other data feeds.

Similarly, Shares can be redeemed only in Creation Units for cash. The prices at which creations and redemptions occur would be based on the next calculation of the NAV after an order is received.

Only Authorized Participants may purchase and redeem Creation Units. An Authorized Participant is an entity that has entered into an Authorized Participant Agreement with the Trust and the Sponsor.

#### Creation Procedures

On any “Business Day”, an Authorized Participant may place an order with the Distributor to create one or more Creation Units. For purposes of processing both purchase and redemption orders, a “Business Day” for each Fund means any day on which the NAV of such Fund is determined. Purchase and redemption orders must be placed by 3:30 p.m. E.T. or earlier if the Exchange or other exchange material to the valuation or operation of such Fund closes before the cut-off time.

#### Redemption Procedures

According to the Registration Statement, the procedures by which an Authorized Participant can redeem one or more Creation Units mirror the procedures for the creation of Creation Units. On any Business Day, an Authorized Participant may place an order with the Distributor to redeem one or more Creation Units.

The redemption procedures allow Authorized Participants to redeem Creation Units. Individual shareholders may not redeem directly from a Fund. By placing a redemption order, an Authorized Participant agrees to deliver the Creation Units to be redeemed through the Depository Trust Company’s (“DTC”) book entry system to the applicable Fund not later than noon E.T. on the first Business Day immediately following the redemption order date (T+1).

The Sponsor reserves the right to extend the deadline for a Fund to receive the Creation Units required for settlement up to the second Business Day following the redemption order date (T+2).

#### Availability of Information

The NAV for the Funds' Shares will be disseminated daily to all market participants at the same time. The intraday, closing prices, and settlement prices of the Bitcoin Futures Contracts will be readily available from the applicable futures exchange websites, automated quotation systems, published or other public sources, or major market data vendors. The value of the Benchmark Futures Contract will be disseminated by one or more major market data vendors on at least a 15-second delayed basis during the NYSE Arca Core Trading Session of 9:30 a.m. to 4:00 p.m. E.T.

Complete real-time data for the Benchmark Futures Contracts and Options on Bitcoin Futures will be available by subscription through on-line information services. CFE and CME will provide delayed futures and options on futures (once available) information on current and past trading sessions and market news free of charge on their respective websites. The specific contract specifications for Bitcoin Futures Contracts would also be available on such websites, as well as other financial informational sources. Quotation and last-sale information regarding the Shares will be disseminated through the facilities of the Consolidated Tape Association ("CTA"). Quotation information for Money Market Investments and OTC swaps agreements may be obtained from brokers and dealers who make markets in such instruments. Quotation information for exchange-traded swaps will be available from the applicable exchange and major market vendors. The IFV will be available through on-line information services.

In addition, the Funds' website, [www.ProShares.com](http://www.ProShares.com), will display the applicable end of day closing NAV. The daily holdings of each Fund will be available on the Funds' website before 9:30 a.m. E.T. Each Fund's total portfolio composition will be disclosed each Business Day that NYSE Arca is open for trading, on the Funds' website. The Funds' website will also include a form of the prospectus for the Funds that may be downloaded. The website will include the Shares' ticker and CUSIP information, along with additional quantitative information updated on a daily basis for each Fund. The Funds' website will include (1) the prior business day's trading volume, the prior business day's reported NAV and closing price, and a calculation of the premium and discount of the closing price or mid-point of the bid/ask spread at the time of NAV calculation ("Bid/Ask Price") against the NAV; and (2) data in chart format displaying the frequency distribution of discounts and premiums of the daily closing price or Bid/Ask Price against the NAV, within appropriate ranges, for at least each of the four previous calendar quarters. The website disclosure of portfolio holdings will be made daily and will include, as applicable, (i) the name, quantity, value, expiration and strike price of Bitcoin Futures Contracts and Financial Instruments, (ii) the counterparty to and value of Financial Instruments, and (iii) the aggregate net value of the Money Market Investments held in each Fund's portfolio, if applicable. The Funds' website will be publicly available prior to the public offering of Shares and accessible at no charge.

The spot price of bitcoin also is available on a 24-hour basis from major market data vendors.

### Trading Halts

With respect to trading halts, the Exchange may consider all relevant factors in exercising its discretion to halt or suspend trading in the Shares of a Fund.<sup>18</sup> Trading in Shares of a Fund will be halted if the circuit breaker parameters in NYSE Arca Rule 7.12-E have been reached. 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 may halt trading during the day in which an interruption to the dissemination of the IFV or the value of the Benchmark Futures Contract occurs.<sup>19</sup> If the interruption to the dissemination of the IFV or the value of the Benchmark 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.

### 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 a.m. to 8 p.m. E.T. in accordance with NYSE Arca Rule 7.34-E (Early, Core, and Late Trading Sessions). The Exchange has appropriate rules to facilitate transactions in the Shares during all trading sessions. As provided in NYSE Arca Rule 7.6-E, the minimum price variation ("MPV") for quoting and entry of orders in equity

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<sup>18</sup> See NYSE Arca Rule 7.12-E.

<sup>19</sup> A limit up/limit down condition in the futures market would not be considered an interruption requiring one or both Funds to be halted.

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 Shares will conform to the initial and continued listing criteria under NYSE Arca Rule 8.200-E. The trading of the Shares will be subject to NYSE Arca Rule 8.200-E, Commentary .02(e), which sets forth certain restrictions on Equity Trading Permit (“ETP”) Holders acting as registered Market Makers in Trust Issued Receipts to facilitate surveillance. The Exchange represents that, for initial and continued listing, each Fund will be in compliance with Rule 10A-3<sup>20</sup> under the Act, as provided by NYSE Arca Rule 5.3-E. A minimum of 100,000 Shares of each Fund will be outstanding at the commencement of trading on the Exchange.

#### Surveillance

The Exchange represents that trading in the Shares of each Fund will be subject to the existing trading surveillances administered by the Exchange, as well as cross-market surveillances administered by FINRA on behalf of the Exchange, which are designed to detect violations of Exchange rules and applicable federal securities laws.<sup>21</sup> The 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 federal securities laws applicable to trading on the Exchange.

The surveillances referred to above generally focus on detecting securities trading outside their normal patterns, which could be indicative of manipulative or other violative activity.

When such situations are detected, surveillance analysis follows and investigations are opened,

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<sup>20</sup> 17 CFR 240.10A-3.

<sup>21</sup> FINRA conducts cross-market surveillances on behalf of the Exchange pursuant to a regulatory services agreement. The Exchange is responsible for FINRA’s performance under this regulatory services agreement.

where appropriate, to review the behavior of all relevant parties for all relevant trading violations.

The Exchange or FINRA, on behalf of the Exchange, or both, will communicate as needed regarding trading in the Shares and certain Bitcoin Futures Contracts with other markets and other entities that are members of the ISG, and the Exchange or FINRA, on behalf of the Exchange, or both, may obtain trading information regarding trading in the Shares and certain Bitcoin Futures Contracts from such markets and other entities. In addition, the Exchange may obtain information regarding trading in the Shares and certain Bitcoin Futures Contracts from markets and other entities that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement (“CSSA”).<sup>22</sup> The Exchange is also able to obtain information regarding trading in the Shares, the commodity underlying futures or options on futures 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 (including transactions in cash-settled Options) occurring on US futures exchanges, which are members of the ISG.

Not more than 10% of the net assets of a Fund in the aggregate invested in Bitcoin Futures Contracts shall consist of Bitcoin Futures Contracts whose principal market is not a member of the ISG or is a market with which the Exchange does not have a CSSA.

In addition, the Exchange also has a general policy prohibiting the distribution of material, non-public information by its employees.

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<sup>22</sup> For a list of the current members of ISG, see [www.isgportal.org](http://www.isgportal.org). The Exchange notes that not all components of a Fund may trade on markets that are members of ISG or with which the Exchange has in place a CSSA.

All statements and representations made in this filing regarding (a) the description of the portfolios of the Funds or the Benchmark, (b) limitations on portfolio holdings, reference assets or the Benchmark, or (c) the applicability of Exchange listing rules specified in this rule filing shall constitute continued listing requirements for listing the Shares on the Exchange.

The issuer has represented to the Exchange that it will advise the Exchange of any failure by the Funds to comply with the continued listing requirements, and, pursuant to its obligations under Section 19(g)(1) of the Act, the Exchange will monitor for compliance with the continued listing requirements. If a Fund is not in compliance with the applicable listing requirements, the Exchange will commence delisting procedures under NYSE Arca Rule 5.5-E(m).

#### 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 Early and Late Trading Sessions when an updated IFV will not be calculated or publicly disseminated; (2) the procedures for purchases and redemptions of Shares in Creation Units (and that Shares are not individually redeemable); (3) NYSE Arca Rule 9.2-E(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 IFV is disseminated; (5) how information regarding portfolio holdings is disseminated; (6) that a static IFV will be disseminated, between the close of trading on the CFE and CME and the close of the NYSE Arca Core Trading Session; (7) 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 (8) trading information.

Prior to the commencement of trading, the Exchange will inform its ETP Holders of the suitability requirements of NYSE Arca Rule 9.2-E(a) in an Information Bulletin. Specifically, ETP Holders will be reminded in the Information Bulletin that, in recommending transactions in the Shares, they must have a reasonable basis to believe that (1) the recommendation is suitable for a customer given reasonable inquiry concerning the customer's investment objectives, financial situation, needs, and any other information known by such ETP Holder, and (2) the customer can evaluate the special characteristics, and is able to bear the financial risks, of an investment in the Shares. In connection with the suitability obligation, the Information Bulletin will also provide that ETP Holders must make reasonable efforts to obtain the following information: (1) The customer's financial status; (2) the customer's tax status; (3) the customer's investment objectives; and (4) such other information used or considered to be reasonable by such ETP Holder or registered representative in making recommendations to the customer.

Further, the Exchange states that FINRA has implemented increased sales practice and customer margin requirements for FINRA members applicable to inverse, leveraged and inverse leveraged securities (which include the Shares) and options on such securities, as described in FINRA Regulatory Notices 09-31 (June 2009), 09-53 (August 2009), and 09-65 (November 2009) (collectively, "FINRA Regulatory Notices"). ETP Holders that carry customer accounts will be required to follow the FINRA guidance set forth in these notices. As noted above, the Funds will seek investment results that match or that are the inverse (-1x) of, respectively, the performance of the Benchmark. Over a period of time in excess of one day, the cumulative percentage increase or decrease in the NAV of the Shares of a Fund may diverge significantly from a multiple or inverse multiple of the cumulative percentage decrease or increase in the relevant benchmark due to a compounding effect.

In addition, the Information Bulletin will advise ETP Holders, prior to the commencement of trading, of the prospectus delivery requirements applicable to a Fund. The Information Bulletin will also discuss any exemptive, no-action, and interpretive relief granted by the Commission from any rules under the Act. In addition, the Information Bulletin will reference that a Fund is subject to various fees and expenses described in the Registration Statement. The Information Bulletin will also reference that the CFTC has regulatory jurisdiction over the trading of Bitcoin Futures Contracts traded on U.S. markets.

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

## 2. Statutory Basis

The basis under the Act for this proposed rule change is the requirement under Section 6(b)(5)<sup>23</sup> that an exchange have rules that are designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to, and perfect the mechanism of a free and open market and, in general, to protect investors and the public interest.

The Exchange believes that the proposed rule change is designed to prevent fraudulent and manipulative acts and practices and to protect investors and the public interest in that the Shares will be listed and traded on the Exchange pursuant to the initial and continued listing criteria in NYSE Arca Rule 8.200-E.

The Exchange has in place surveillance procedures that are adequate to properly monitor trading in the Shares in all trading sessions and to deter and detect violations of Exchange rules

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<sup>23</sup> 15 U.S.C. 78f(b)(5).

and applicable federal securities laws. The Exchange or FINRA, on behalf of the Exchange, or both, will communicate as needed regarding trading in the Shares, and certain Bitcoin Futures Contracts with other markets and other entities that are members of the ISG, and the Exchange or FINRA, on behalf of the Exchange, or both, may obtain trading information regarding trading in the Shares and certain Bitcoin Futures Contracts from such markets and other entities. In addition, the Exchange may obtain information regarding trading in the Shares and certain Bitcoin Futures Contracts from markets and other entities that are members of ISG or with which the Exchange has in place a CSSA. The Exchange is also able to obtain information regarding trading in the Shares, the commodity underlying futures or options on futures 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 (including transactions in cash-settled Options) occurring on U.S. futures exchanges, which are members of the ISG. Not more than 10% of the net assets of a Fund in the aggregate invested in Futures Contracts shall consist of Bitcoin Futures Contracts whose principal market is not a member of the ISG or is a market with which the Exchange does not have a CSSA. The intraday, closing prices, and settlement prices of the Bitcoin Futures Contracts will be readily available from the applicable futures exchange websites, automated quotation systems, published or other public sources, or major market data vendors website or on-line information services.

Complete real-time data for the Bitcoin Futures Contracts and Options on Bitcoin Futures will be available by subscription from on-line information services. CFE and CME will provide delayed futures information on current and past trading sessions and market news free of charge

on their websites. The specific contract specifications for Bitcoin Futures Contracts would also be available on such websites, as well as other financial informational sources. Information regarding options will be available from the applicable exchanges or major market data vendors. Quotation and last-sale information regarding the Shares will be disseminated through the facilities of the CTA. The Funds' website will also include a form of the prospectus for the Funds that may be downloaded. The website will include the Shares' ticker and CUSIP information, along with additional quantitative information updated on a daily basis for each Fund. The Funds' website will include (1) daily trading volume, the prior business day's reported NAV and closing price, and a calculation of the premium and discount of the closing price or mid-point of the Bid/Ask Price against the NAV; and (2) data in chart format displaying the frequency distribution of discounts and premiums of the daily closing price or Bid/Ask Price against the NAV, within appropriate ranges, for at least each of the four previous calendar quarters. The website disclosure of portfolio holdings will be made daily and will include, as applicable, (i) the name, quantity, value, expiration and strike price of Bitcoin Futures Contracts and Financial Instruments, (ii) the counterparty to and value of Financial Instruments, and (iii) the aggregate net value of the Money Market Investments held in each Fund's portfolio, if applicable. The Funds' website will be publicly available prior to the public offering of Shares and accessible at no charge.

Moreover, prior to the commencement of trading, the Exchange will inform its Equity Trading Permit Holders in an Information Bulletin of the special characteristics and risks associated with trading the Shares and of the suitability requirements of NYSE Arca Rule 9.2-E(a). The Information Bulletin will advise ETP Holders, prior to the commencement of trading, of the prospectus delivery requirements applicable to a Fund. The Information Bulletin will also

discuss any exemptive, no-action, and interpretive relief granted by the Commission from any rules under the Act. In addition, the Information Bulletin will reference that a Fund is subject to various fees and expenses described in the Registration Statement. The Information Bulletin will also reference that the CFTC has regulatory jurisdiction over the trading of Bitcoin Futures Contracts traded on U.S. markets. The Information Bulletin will also disclose the trading hours of the Shares and that the NAV for the Shares will be calculated after 4:00 p.m. E.T. each trading day. The Information Bulletin will disclose that information about the Shares will be publicly available on the Funds' website.

Trading in Shares of a Fund will be halted if the circuit breaker parameters in NYSE Arca Rule 7.12-E have been reached or because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable

The proposed rule change is designed to perfect the mechanism of a free and open market and, in general, to protect investors and the public interest in that it will facilitate the listing and trading of a new type of Trust Issued Receipt based on the price of Bitcoin Futures Contracts that will enhance competition among market participants, to the benefit of investors and the marketplace. As noted above, the Exchange has in place surveillance procedures that are adequate to properly monitor trading in the Shares in all trading sessions and to deter and detect violations of Exchange rules and applicable federal securities laws.

**B. Self-Regulatory Organization's Statement on Burden on Competition**

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purpose of the Act. The Exchange notes that the proposed rule change will facilitate the listing and trading of a new type

of Trust Issued Receipt based on the price of Bitcoin Futures Contracts and that will enhance competition among market participants, to the benefit of investors and the marketplace.

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

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-2017-139 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-NYSEArca-2017-139. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NYSEArca-2017-139 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>24</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>24</sup> 17 CFR 200.30-3(a)(12).