

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-87434; File No. SR-NYSEArca-2019-12)

October 31, 2019

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Amendment No. 2 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 2, to List and Trade Shares of the iShares Commodity Curve Carry Strategy ETF Under NYSE Arca Rule 8.600-E

I. Introduction

On March 1, 2019, NYSE Arca, Inc. (“NYSE Arca” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to list and trade shares (“Shares”) of the iShares Commodity Curve Carry Strategy ETF, a series of the iShares U.S. ETF Trust. The proposed rule change was published for comment in the Federal Register on March 20, 2019.<sup>3</sup> On April 18, 2019, the Exchange filed Amendment No. 1 to the proposed rule change, which replaced and superseded the proposed rule change as originally filed.<sup>4</sup> On May 1, 2019, pursuant to Section 19(b)(2) of the Act,<sup>5</sup> 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 approve or disapprove the proposed rule change.<sup>6</sup> On June 18, 2019, the Commission published Amendment No. 1 for notice and

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

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

<sup>3</sup> See Securities Exchange Act Release No. 85312 (March 14, 2019), 84 FR 10369.

<sup>4</sup> Amendment No. 1 is available at: <https://www.sec.gov/comments/sr-nysearca-2019-12/smysearca201912-5393880-184151.pdf>.

<sup>5</sup> 15 U.S.C. 78s(b)(2).

<sup>6</sup> See Securities Exchange Act Release No. 85758, 84 FR 19978 (May 7, 2019). The Commission designated June 18, 2019 as the date by which the Commission would

comment and instituted proceedings under Section 19(b)(2)(B) of the Act<sup>7</sup> to determine whether to approve or disapprove the proposed rule change, as modified by Amendment No. 1.<sup>8</sup> On September 10, 2019, the Exchange filed Amendment No. 2 to the proposed rule change, which replaced and superseded the proposed rule change, as modified by Amendment No. 1.<sup>9</sup> On September 12, 2019, the Commission designated a longer period for Commission action on the proceedings to determine whether to approve or disapprove the proposed rule change.<sup>10</sup> The Commission has received no comment letters on the proposal.

The Commission is publishing this notice to solicit comments on the proposed rule change, as modified by Amendment No. 2, from interested persons and is approving the proposed rule change, as modified by Amendment No. 2, on an accelerated basis.

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approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to approve or disapprove the proposed rule change.

<sup>7</sup> 15 U.S.C. 78s(b)(2)(B).

<sup>8</sup> See Securities Exchange Act Release No. 86136, 84 FR 29555 (June 24, 2019).

<sup>9</sup> In Amendment No. 2, the Exchange: (1) modified its description of the Reference Benchmark (as defined below); (2) modified the description and definition of Short-Term Fixed Income Securities (as defined below); (3) limited the Fund's holdings in non-convertible corporate debt securities to 30% of the weight of Fund's collective holdings in cash equivalents and Short-Term Fixed Income Securities; and (4) made other technical and conforming changes. Amendment No. 2 is available at: <https://www.sec.gov/comments/sr-nysearca-2019-12/srnysearca201912-6099440-191987.pdf>.

<sup>10</sup> See Securities Exchange Act Release No. 86945, 84 FR 49158 (September 18, 2019). The Commission extended the date by which the Commission shall approve or disapprove the proposed rule change to November 15, 2019.

II. Summary of the Exchange’s Description of the Proposal, as Modified by Amendment No. 2<sup>11</sup>

The Exchange proposes to list and trade the Shares under NYSE Arca Rule 8.600-E, which governs the listing and trading of Managed Fund Shares on the Exchange. The Shares will be offered by iShares U.S. ETF Trust (“Trust”), which is registered with the Commission as an open-end management investment company.<sup>12</sup> The Fund is a series of the Trust.

BlackRock Fund Advisors (“Adviser”) will be the investment adviser for the Fund.<sup>13</sup> BlackRock Investments, LLC will be the distributor for the Fund’s Shares. State Street Bank and Trust Company will serve as the administrator, custodian and transfer agent for the Fund.

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<sup>11</sup> For a complete description of the Exchange’s proposal, as amended, see Amendment No. 2, supra note 9.

<sup>12</sup> According to the Exchange, on December 3, 2018, the Trust filed with the Commission its registration statement on Form N-1A under the Securities Act of 1933 and under the Investment Company Act of 1940 (“1940 Act”) relating to the Fund (File Nos. 333-179904 and 811-22649) (“Registration Statement”). In addition, the Exchange states that the Commission has issued an order upon which the Trust may rely, granting certain exemptive relief under the 1940 Act. See Investment Company Act Release No. 29571 (January 24, 2011) (File No. 812-13601).

<sup>13</sup> According to the Exchange, the Adviser is not registered as a broker-dealer but is affiliated with a broker-dealer and has implemented and will maintain a fire wall with respect to its broker-dealer affiliate regarding access to information concerning the composition and/or changes to the portfolio. In the event (a) the Adviser becomes registered as a broker-dealer or newly affiliated with a broker-dealer, or (b) any new adviser or sub-adviser is a registered broker-dealer or becomes affiliated with a broker-dealer, it will implement and maintain a fire wall with respect to its relevant personnel or its broker-dealer affiliate regarding access to information concerning the composition and/or changes to the portfolio, and will be subject to procedures designed to prevent the use and dissemination of material non-public information regarding such portfolio. The Exchange also represents that the Adviser and its related personnel are subject to the provisions of Rule 204A-1 under the Investment Advisers Act of 1940 relating to codes of ethics.

A. Fund Investments

According to the Exchange, the investment objective of the Fund will be to seek to provide exposure, on a total return basis, to a group of commodities with higher carry than a broad universe of commodities. The Fund will be actively managed and will seek to achieve its investment objective in part<sup>14</sup> by, under normal market conditions,<sup>15</sup> investing in listed and over-the-counter (“OTC”) swaps, including total return swaps referencing the ICE BofAML Commodity Carry Total Return Index (“Reference Benchmark”).<sup>16</sup> The Fund is expected to establish new swaps contracts on an ongoing basis and replace expiring contracts.<sup>17</sup> Swaps subsequently entered into by the Fund may have terms that differ from the swaps the Fund previously held. The Fund expects generally to pay a fixed payment rate and certain swap related fees to the swap counterparty and receive the total return of the Reference Benchmark, including, in the event of negative performance by the Reference Benchmark, negative return (i.e., a payment from the Fund to the swap counterparty). In seeking total return, the Fund additionally will aim to generate interest income and capital appreciation through a cash management

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<sup>14</sup> The Fund’s investment objective will also be achieved by investing in cash, cash equivalents, Commodity Investments, Fixed Income Securities and Short-Term Fixed Income Securities (each as defined or described below).

<sup>15</sup> The term “normal market conditions” is defined in NYSE Arca Rule 8.600-E(c)(5).

<sup>16</sup> Although the Fund may hold swaps on the Reference Benchmark, or direct investments in the same futures contracts as those included in the Reference Benchmark, the Fund is not obligated to invest in any futures contracts included in, and does not seek to replicate the performance of, the Reference Benchmark.

<sup>17</sup> Swaps on the Reference Benchmark are included in “Commodity Investments” as defined below.

strategy consisting primarily of cash, cash equivalents,<sup>18</sup> and fixed income securities other than cash equivalents, as described below.

The Reference Benchmark is currently composed of 18 futures contracts on physical agricultural, energy, precious metals, and industrial metals commodities listed on U.S. regulated futures exchanges or non-U.S. futures exchanges with which the Exchange has in place a comprehensive surveillance sharing agreement (“CSSA”).<sup>19</sup> The Fund expects to obtain a substantial amount of its exposure to the carry strategy by entering into total return swaps that pay the returns of the commodity futures contracts referenced in the Reference Benchmark. The Reference Benchmark includes the 10 futures contracts on commodities having the highest degree of backwardation or lowest degree of contango<sup>20</sup> among the Reference Benchmark universe.<sup>21</sup>

The Fund (through its Subsidiary (as defined below)) may hold the following listed derivative instruments: futures, options, and swaps on the Reference Benchmark or commodities

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<sup>18</sup> Cash equivalents are the short-term instruments enumerated in Commentary .01(c) to NYSE Arca Rule 8.600-E.

<sup>19</sup> The commodity futures included in the Reference Benchmark are traded on the CME Group, ICE Futures U.S., ICE Futures Europe, Inc. and the London Metal Exchange (“LME”). ICE Futures U.S., ICE Futures Europe, Inc., and CME are members of the Intermarket Surveillance Group (“ISG”). The Exchange represents that it has in place a CSSA with the LME.

<sup>20</sup> According to the Exchange, if the price for the new futures contract is less than the price of the expiring contract, then the market for the commodity is said to be in “backwardation,” and the term “contango” is used to describe a market in which the price for a new futures contract is more than the price of the expiring contract.

<sup>21</sup> The Reference Benchmark universe can have a minimum of 12 and a maximum of 25 contracts on physical agricultural, energy, precious metals, and industrial metals commodities. Reference Benchmark universe constituent futures contracts and weights are set annually and the weights are rebalanced monthly, taking into account the liquidity of the constituent futures contracts and the value of the global production of each underlying commodity.

(which commodities are from the same sectors as those included in the Reference Benchmark); currencies; U.S. and non-U.S. equity securities; fixed income securities (as defined in Commentary .01(b) to NYSE Arca Rule 8.600-E, but excluding Short-Term Fixed Income Securities (as defined below)); interest rates; U.S. Treasuries; or a basket or index of any of the foregoing (collectively, “Listed Derivatives”). Listed Derivatives will comply with the criteria in Commentary .01(d) of NYSE Arca Rule 8.600-E.

The Fund (through its Subsidiary) may hold the following OTC derivative instruments: forwards, options, and swaps on the Reference Benchmark or commodities (which commodities are from the same sectors as those included in the Reference Benchmark); currencies; U.S. and non-U.S. equity securities; fixed income securities (as defined in Commentary .01(b) to NYSE Arca Rule 8.600-E, but excluding Short-Term Fixed Income Securities); interest rates; or a basket or index of any of the foregoing (collectively, “OTC Derivatives,”<sup>22</sup> and together with Listed Derivatives, “Commodity Investments”).<sup>23</sup>

The Fund may hold cash, cash equivalents, and fixed income securities other than cash equivalents, as described further below.

Specifically, the Fund may invest in Short-Term Fixed Income Securities (as defined below) other than cash equivalents on an ongoing basis for cash management purposes.<sup>24</sup> Short-

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<sup>22</sup> Examples of OTC Derivatives the Fund may invest in include swaps on commodity futures contracts similar to those found in the Reference Benchmark and options that correlate to the investment returns of commodities without investing directly in physical commodities.

<sup>23</sup> As discussed below under “Application of Generic Listing Requirements,” the Fund’s and the Subsidiary’s holdings in OTC Derivatives will not comply with the criteria in Commentary .01(e) of NYSE Arca Rule 8.600-E.

<sup>24</sup> As discussed under “Application of Generic Listing Requirements” below, investments in Short-Term Fixed Income Securities will not comply with the requirements of Commentary .01(b)(1)-(4) to NYSE Arca Rule 8.600-E.

Term Fixed Income Securities will have a maturity of no longer than 397 days and include only the following: (i) money market instruments; (ii) obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities (including government-sponsored enterprises); (iii) negotiable certificates of deposit, bankers' acceptances, fixed-time deposits and other obligations of U.S. and non-U.S. banks (including non-U.S. branches) and similar institutions; (iv) commercial paper; (v) non-convertible corporate debt securities (e.g., bonds and debentures); (vi) repurchase agreements; and (vii) sovereign debt obligations of non-U.S. countries excluding emerging market countries<sup>25</sup> ("Non-U.S. Sovereign Debt") (collectively, "Short-Term Fixed Income Securities"). Any of these securities may be purchased on a current or forward-settled basis.<sup>26</sup>

The Fund also may invest in fixed income securities as defined in Commentary .01(b) to NYSE Arca Rule 8.600-E,<sup>27</sup> other than cash equivalents and Short-Term Fixed Income

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<sup>25</sup> According to the Exchange, an "emerging market country" is a country that, at the time the Fund invests in the related fixed income instruments, is classified as an emerging or developing economy by any supranational organization such as the International Bank of Reconstruction and Development or any affiliate thereof or the United Nations, or related entities, or is considered an emerging market country for purposes of constructing a major emerging market securities index.

<sup>26</sup> To the extent that the Fund and the Subsidiary invest in cash and Short-Term Fixed Income Securities that are cash equivalents (i.e., that have maturities of less than 3 months) as specified in Commentary .01(c) to NYSE Arca Rule 8.600-E, such investments will comply with Commentary .01(c) and may be held without limitation. Non-convertible corporate debt securities and Non-U.S. Sovereign Debt are not included as cash equivalents in Commentary .01(c).

<sup>27</sup> Commentary .01(b) to NYSE Arca Rule 8.600-E defines fixed income securities as debt securities that are notes, bonds, debentures or evidence of indebtedness that include, but are not limited to, U.S. Department of Treasury securities ("Treasury Securities"), government-sponsored entity securities ("GSEs"), municipal securities, trust preferred securities, supranational debt and debt of a foreign country or a subdivision thereof, investment grade and high yield corporate debt, bank loans, mortgage and asset backed securities, and commercial paper.

Securities, with remaining maturities longer than 397 days (“Fixed Income Securities”). Such Fixed Income Securities will comply with requirements of Commentary .01(b) to NYSE Arca Rule 8.600-E.<sup>28</sup>

The Fund may also hold ETNs<sup>29</sup> and ETFs.<sup>30</sup>

The Fund’s exposure to Commodity Investments is obtained by investing through a wholly-owned subsidiary organized in the Cayman Islands (“Subsidiary”).<sup>31</sup> The Fund controls the Subsidiary, and the Subsidiary is advised by the Adviser and has the same investment objective as the Fund. In compliance with the requirements of Sub-Chapter M of the Internal Revenue Code of 1986, the Fund may invest up to 25% of its total assets in the Subsidiary. The Subsidiary is not an investment company registered under the 1940 Act and is a company organized under the laws of the Cayman Islands. The Trust’s Board of Trustees (“Board”) has oversight responsibility for the investment activities of the Fund, including its investment in the Subsidiary, and the Fund’s role as sole shareholder of the Subsidiary.

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<sup>28</sup> Among the Fixed Income Securities in which the Fund may invest are commodity-linked notes.

<sup>29</sup> ETNs are securities as described in NYSE Arca Rule 5.2-E(j)(6) (Equity Index-Linked Securities, Commodity-Linked Securities, Currency-Linked Securities, Fixed Income Index-Linked Securities, Futures-Linked Securities and Multifactor Index-Linked Securities). All ETNs will be listed and traded in the U.S. on a national securities exchange. The Fund will not invest in inverse or leveraged (e.g., 2X, -2X, 3X or -3X) ETNs.

<sup>30</sup> For purposes of the filing, the term “ETFs” includes Investment Company Units (as described in NYSE Arca Rule 5.2-E(j)(3)); Portfolio Depositary Receipts (as described in NYSE Arca Rule 8.100-E); and Managed Fund Shares (as described in NYSE Arca Rule 8.600-E). All ETFs will be listed and traded in the U.S. on a national securities exchange. The Fund will not invest in inverse or leveraged (e.g., 2X, -2X, 3X or -3X) ETFs.

<sup>31</sup> The Exchange represents that all statements related to the Fund’s investments and restrictions are applicable to the Fund and Subsidiary collectively.

The Fund's Commodity Investments held in the Subsidiary are intended to provide the Fund with exposure to broad commodities. The Subsidiary may hold cash and cash equivalents.

B. Investment Restrictions

The Fund and the Subsidiary will not invest in securities or other financial instruments that have not been described in the proposed rule change.

The Fund's holdings in non-convertible corporate debt securities shall not exceed 30% of the weight of Fund's holdings in cash equivalents and Short-Term Fixed Income Securities, collectively.

The Fund's investments, including derivatives, will be consistent with the Fund's investment objective and will not be used to enhance leverage (although certain derivatives and other investments may result in leverage). That is, the Fund's investments will not be used to seek performance that is the multiple or inverse multiple (e.g., 2X or -3X) of the Reference Benchmark.

C. Use of Derivatives by the Fund

Investments in derivative instruments will be made in accordance with the Fund's investment objective and policies. To limit the potential risk associated with such transactions, the Fund will enter into offsetting transactions or segregate or " earmark " assets determined to be liquid by the Adviser in accordance with procedures established by the Board. In addition, the Fund has included appropriate risk disclosure in its offering documents, including leveraging risk. Leveraging risk is the risk that certain transactions of the Fund, including the Fund's use of derivatives, may give rise to leverage, causing the Fund to be more volatile than if it had not been leveraged.

According to the Exchange, the Adviser believes there will be minimal, if any, impact to the arbitrage mechanism as a result of the Fund's use of derivatives. Additionally, the Adviser understands that market makers and participants should be able to value derivatives as long as the positions are disclosed with relevant information. The Adviser further believes that the price at which Shares of the Fund trade will continue to be disciplined by arbitrage opportunities created by the ability to purchase or redeem Shares of the Fund at their net asset value ("NAV"), which should ensure that Shares of the Fund will not trade at a material discount or premium in relation to their NAV.

The Exchange states that the Adviser does not believe there will be any significant impacts to the settlement or operational aspects of the Fund's arbitrage mechanism due to the use of derivatives.

D. Application of Generic Listing Requirements

The Exchange states that the portfolio for the Fund will not meet all of the "generic" listing requirements of Commentary .01 to NYSE Arca Rule 8.600-E applicable to the listing of Managed Fund Shares. The Exchange represents that, other than Commentary .01(b)(1)-(4) (with respect to Short-Term Fixed Income Securities) and .01(e) (with respect to OTC Derivatives) to NYSE Arca Rule 8.600-E, the Fund's portfolio will meet all other requirements of NYSE Arca Rule 8.600-E.

According to the Exchange, the Fund's investments in Short-Term Fixed Income Securities will not comply with the requirements set forth in Commentary .01(b)(1)-(4) to NYSE Arca Rule 8.600-E.<sup>32</sup> The Exchange states that while the requirements set forth in Commentary

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<sup>32</sup> Commentary .01(b)(1)-(4) to NYSE Arca Rule 8.600-E requires that the components of the fixed income portion of a portfolio meet the following criteria initially and on a continuing basis: (1) components that in the aggregate account for at least 75% of the

.01(b)(1)-(4) include rules intended to ensure that the fixed income securities included in a fund's portfolio are sufficiently large and diverse, and have sufficient publicly available information regarding the issuances, the Exchange asserts that any concerns related to non-compliance are mitigated by the types of instruments that the Fund would hold. The Exchange represents that the Fund's Short-Term Fixed Income Securities primarily would include those instruments that are included in the definition of cash and cash equivalents,<sup>33</sup> but are not considered cash and cash equivalents because they have maturities of three months or longer. The Exchange also states that all Short-Term Fixed Income Securities, including non-convertible corporate debt securities<sup>34</sup> and Non-U.S. Sovereign Debt (which are not cash equivalents as enumerated in Commentary .01(c) to NYSE Arca Rule 8.600-E), are less susceptible than other

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fixed income weight of the portfolio each shall have a minimum original principal amount outstanding of \$100 million or more; (2) no component fixed-income security (excluding Treasury Securities and GSEs) shall represent more than 30% of the fixed income weight of the portfolio, and the five most heavily weighted component fixed income securities in the portfolio (excluding Treasury Securities and GSEs) shall not in the aggregate account for more than 65% of the fixed income weight of the portfolio; (3) an underlying portfolio (excluding exempted securities) that includes fixed income securities shall include a minimum of 13 non-affiliated issuers, provided, however, that there shall be no minimum number of non-affiliated issuers required for fixed income securities if at least 70% of the weight of the portfolio consists of equity securities as described in Commentary .01(a); and (4) component securities that in aggregate account for at least 90% of the fixed income weight of the portfolio must be either (a) from issuers that are required to file reports pursuant to Sections 13 and 15(d) of the Act; (b) from issuers that have a worldwide market value of its outstanding common equity held by non-affiliates of \$700 million or more; (c) from issuers that have outstanding securities that are notes, bonds debentures, or evidence of indebtedness having a total remaining principal amount of at least \$1 billion; (d) exempted securities as defined in Section 3(a)(12) of the Act; or (e) from issuers that are a government of a foreign country or a political subdivision of a foreign country.

<sup>33</sup> See supra note 18.

<sup>34</sup> The Exchange notes that the Fund's holdings in non-convertible corporate debt securities will not exceed 30% of the weight of the Fund's holdings in cash equivalents and Short-Term Fixed Income Securities, collectively.

types of fixed income instruments both to price manipulation and volatility and that the holdings as proposed are generally consistent with the policy concerns which Commentary .01(b)(1)-(4) is intended to address. According to the Exchange, because the Short-Term Fixed Income Securities will consist of high-quality fixed income securities described above, the policy concerns that Commentary .01(b)(1)-(4) are intended to address are otherwise mitigated and that the Fund should be permitted to hold these securities in a manner that may not comply with Commentary .01(b)(1)-(4).

The Exchange states that the Fund's portfolio with respect to OTC Derivatives will not comply with the requirements set forth in Commentary .01(e) to NYSE Arca Rule 8.600-E.<sup>35</sup> Specifically, the Exchange states that up to 60% of the Fund's assets (calculated as the aggregate gross notional value) may be invested in OTC Derivatives. The Exchange states that the Adviser believes that it is important to provide the Fund with additional flexibility to manage risk associated with its investments and, depending on market conditions, it may be critical that the Fund be able to utilize available OTC Derivatives to efficiently gain exposure to the multiple commodities markets that underlie the Reference Benchmark, as well as commodity futures contracts similar to those found in the Reference Benchmark. The Exchange states that OTC Derivatives can be tailored to provide specific exposure to the Fund's Reference Benchmark, as well as commodity futures contracts similar to those found in the Reference Benchmark, allowing the Fund to more efficiently meet its investment objective.<sup>36</sup> The Exchange further

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<sup>35</sup> Commentary .01(e) to NYSE Arca Rule 8.600-E provides that, on an initial and continuing basis, no more than 20% of the assets in the portfolio may be invested in OTC derivatives (calculated as the aggregate gross notional value of the OTC derivatives).

<sup>36</sup> As an example, the Exchange states that the Reference Benchmark includes 10 futures contracts, which may not be sufficiently liquid and would not provide the commodity exposure the Fund requires to meet its investment objective if the Fund were to invest in the futures directly. The Exchange states that a total return swap can be structured to

asserts that, if the Fund were to gain commodity exposure exclusively through the use of listed futures, the Fund's holdings in Listed Derivatives would be subject to position limits and accountability levels established by an exchange, and such limitations would restrict the Fund's ability to gain efficient exposure to the commodities in the Reference Benchmark, or futures contracts similar to those found in the Reference Benchmark, thereby impeding the Fund's ability to satisfy its investment objective.

The Exchange represents that the Adviser and its affiliates actively monitor counterparty credit risk exposure (including for OTC derivatives) and evaluate counterparty credit quality on a continuous basis. With respect to the Fund's (and the Subsidiary's) investments in derivatives on the Reference Benchmark or commodities (which commodities are from the same sectors as those included in the Reference Benchmark), the Exchange states that the Reference Benchmark provides broad-based exposure to commodities as an asset class, as it includes 10 futures contracts from a universe currently composed of 18 physical commodities in agricultural, energy, livestock, precious metals, and industrial metals. In addition, the Exchange states that the Adviser represents that futures on all commodities in the Reference Benchmark are traded on futures exchanges that are members of the ISG or with which the Exchange has in place a CSSA.

### III. Discussion and Commission's Findings

After careful review, the Commission finds that the proposed rule change, as modified by Amendment No. 2, is consistent with the Act and the rules and regulations thereunder applicable

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provide exposure to the same futures contracts as exist in the Reference Benchmark, as well as commodity futures contracts similar to those found in the Reference Benchmark, while providing sufficient efficiency to allow the Fund to more easily meet its investment objective.

to a national securities exchange.<sup>37</sup> In particular, the Commission finds that the proposed rule change, as modified by Amendment No. 2, is consistent with Section 6(b)(5) of the Act,<sup>38</sup> which requires (among other things) that the Exchange's rules be 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 a national market system, and, in general, to protect investors and the public interest.

According to the Exchange, other than Commentary .01(b)(1)-(4) with respect to Short-Term Fixed Income Securities and Commentary .01(e) with respect to OTC Derivatives, the Fund's portfolio will meet all other requirements of Commentary .01 to NYSE Arca Rule 8.600-E, and the Shares of the Fund will conform to the initial and continued listing criteria under NYSE Arca Rule 8.600-E.

The Fund's investments in Short-Term Fixed Income Securities will not meet the requirements for fixed income securities set forth in Commentary .01(b)(1)-(4) to NYSE Arca Rule 8.600-E.<sup>39</sup> The Commission, however, believes that the limited nature of the Fund's investment in, and certain restrictions on, the Short Term Fixed Income Securities helps to mitigate concerns regarding the Shares being susceptible to manipulation because of the Fund's investment in the Short Term Fixed Income Securities.<sup>40</sup> Specifically, the Exchange states that

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<sup>37</sup> 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).

<sup>38</sup> 15 U.S.C. 78f(b)(5).

<sup>39</sup> See supra note 32.

<sup>40</sup> The Commission notes that all the fixed income securities the Fund may invest in other than those included in Short-Term Fixed Income Securities and cash equivalents will comply with the requirements of Commentary .01(b) to NYSE Arca Rule 8.600-E, and the cash equivalents the Fund may invest in will comply with the requirements of Commentary .01(c). See supra Section II.A.

Short-Term Fixed Income Securities primarily will include instruments that are included in the definition of cash equivalents,<sup>41</sup> but are not considered cash equivalents because they have maturities of three months or longer. As proposed, the Fund's investments in Short-Term Fixed Income Securities will also include non-convertible corporate debt securities, but such holdings would be limited to 30% of the weight of Fund's holdings in cash equivalents and Short-Term Fixed Income Securities, collectively. In addition, the Fund's investments in Short-Term Fixed Income Securities would include sovereign debt, but would exclude sovereign debt obligations of emerging market countries. Further, the Fund will invest in Short Term Fixed Income Securities for cash management purposes only, and the Short Term Fixed Income Securities in which the Fund may invest will have maturities of no longer than 397 days.<sup>42</sup>

In addition, the Fund's investments in OTC Derivatives will not comply with Commentary .01(e) to NYSE Arca Rule 8.600-E, which requires that no more than 20% of the assets of the Fund be invested in OTC derivatives (calculated as the aggregate gross notional value of such OTC derivatives). In the alternative, the Exchange proposes that up to 60% of the Fund's assets (calculated as the aggregate gross notional value) may be invested in OTC

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<sup>41</sup> See supra note 18.

<sup>42</sup> See supra Section II.A.

Derivatives.<sup>43</sup> The Exchange states that it may be necessary for the Fund to utilize OTC Derivatives in order to more efficiently hedge its portfolio or to meet its investment objective.<sup>44</sup>

The Commission, however, believes that certain factors help to mitigate concerns that the Fund's investment in OTC Derivatives will make the Shares more susceptible to manipulation. Specifically, with respect to OTC Derivatives on the Reference Benchmark (or on the commodities underlying the futures contracts included in the Reference Benchmark), the Exchange represents that the Reference Benchmark includes 10 futures contracts from a universe currently composed of 18 physical commodities in agriculture, energy, livestock, precious metals, and industrial metals, and that futures on all of the commodities in the Reference Benchmark are traded on futures exchanges that are members of the ISG or with which the Exchange has in place a CSSA. Moreover, on a daily basis, the Fund will be required to disclose on its website the information regarding the Disclosed Portfolio required under NYSE Arca Rule

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<sup>43</sup> The Exchange represents that the Adviser and its affiliates actively monitor counterparty credit risk exposure for OTC derivatives and evaluate counterparty credit quality on a continuous basis. See supra Section II.D. Moreover, the Exchange states that investments in derivative instruments will be made in accordance with the Fund's investment objective and policies. To limit the potential risk associated with such transactions, the Fund will enter into offsetting transactions or segregate or " earmark " assets determined to be liquid by the Adviser in accordance with procedures established by the Board. In addition, the Fund has included appropriate risk disclosure in its offering documents, including leveraging risk. See supra Section II.C.

<sup>44</sup> See supra Section II.D.

8.600-E(c)(2), to the extent applicable,<sup>45</sup> and the website information will be publicly available at no charge.<sup>46</sup>

The Exchange represents that all statements and representations made in the filing regarding: (1) the description of the portfolio holdings or reference assets; (2) limitations on portfolio holdings or reference assets; or (3) the applicability of Exchange listing rules specified in the rule filing constitute continued listing requirements for listing the Shares on the Exchange. In addition, the Exchange represents that the issuer must notify the Exchange of any failure by the Fund to comply with the continued listing requirements and, pursuant to its obligations under Section 19(g)(1) of the Act, the Exchange will monitor<sup>47</sup> for compliance with the continued listing requirements. If the Fund is not in compliance with the applicable listing requirements, the Exchange will commence delisting procedures under NYSE Arca Rule 5.5-E(m).

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<sup>45</sup> NYSE Arca Rule 8.600-E(c)(2) requires that the website for each series of Managed Fund Shares disclose the following information regarding the Disclosed Portfolio, to the extent applicable: (A) ticker symbol; (B) CUSIP or other identifier; (C) description of the holding; (D) with respect to holdings in derivatives, the identity of the security, commodity, index or other asset upon which the derivative is based; (E) the strike price for any options; (F) the quantity of each security or other asset held as measured by (i) par value, (ii) notional value, (iii) number of shares, (iv) number of contracts, and (v) number of units; (G) maturity date; (H) coupon rate; (I) effective date; (J) market value; and (K) percentage weighting of the holding in the portfolio.

<sup>46</sup> See Amendment No. 2, supra note 9, at 17.

<sup>47</sup> The Commission notes that certain proposals for the listing and trading of exchange-traded products include a representation that the exchange will “surveil” for compliance with the continued listing requirements. See, e.g., Securities Exchange Act Release No. 77499 (April 1, 2016), 81 FR 20428, 20432 (April 7, 2016) (SR-BATS-2016-04). In the context of this representation, it is the Commission’s view that “monitor” and “surveil” both mean ongoing oversight of compliance with the continued listing requirements. Therefore, the Commission does not view “monitor” as a more or less stringent obligation than “surveil” with respect to the continued listing requirements.

For the foregoing reasons, the Commission finds that the proposed rule change, as modified by Amendment No. 2, is consistent with Section 6(b)(5) of the Act<sup>48</sup> and the rules and regulations thereunder applicable to a national securities exchange.

#### IV. Solicitation of Comments on Amendment No. 2 to the Proposed Rule Change

Interested persons are invited to submit written views, data, and arguments concerning whether Amendment No. 2 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-2019-12 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-2019-12. 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

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<sup>48</sup> 15 U.S.C. 78f(b)(5).

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-2019-12 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

V. Accelerated Approval of the Proposed Rule Change, as Modified by Amendment No. 2

The Commission finds good cause to approve the proposed rule change, as modified by Amendment No. 2, prior to the thirtieth day after the date of publication of notice of the filing of Amendment No. 2 in the Federal Register. The Commission notes that Amendment No. 2 clarified the proposed rule change, including the permitted investments of the Fund. Such changes did not raise any new issues and assisted the Commission in evaluating whether the Exchange's proposal to list and trade the Shares is consistent with the Act. Accordingly, the Commission finds good cause, pursuant to Section 19(b)(2) of the Act,<sup>49</sup> to approve the proposed rule change, as modified by Amendment No. 2, on an accelerated basis.

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<sup>49</sup> 15 U.S.C. 78s(b)(2).

VI. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,<sup>50</sup> that the proposed rule change (SR-NYSEArca-2019-12), as modified by Amendment No. 2 thereto, be, and it hereby is, approved on an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>51</sup>

Jill M. Peterson  
Assistant Secretary

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<sup>50</sup> Id.

<sup>51</sup> 17 CFR 200.30-3(a)(12).