notice as may be required by the Exchange) of such an event. In each instance, the Sponsor will notify the Exchange and post a notice of the event and its details on the Sponsor’s Web site.

The Commission further notes that the prospectus disclosures for the Funds state prominently that the Funds are not suitable for all investors, and include the following disclosures: (1) Stating that the funds may not be suitable for all investors, (2) describing the effect of distributions on an investor’s exposure, and (3) stating that “Investors who do not intend to actively manage and monitor their Fund investments at least as frequently as each distribution date should not buy shares of the Fund.” (Emphasis in original.)

Based on all of the foregoing, the Commission believes that the Exchange has adequately responded to the opposing commenter’s concerns about investor understanding and suitability, and that the Exchange’s proposal is consistent with the public interest and the protection of investors.

For the foregoing reasons, the Commission finds that the Exchange’s proposal to adopt NASDAQ Rule 5713 and to list and trade the Funds pursuant to that rule is consistent with the Act and the rules and regulations thereunder applicable to a national securities exchange.147

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,148 that the proposed rule change (SR–NASDAQ–2014–065), as modified by Amendment No. 1 thereto, be, and it hereby is, approved.

By the Commission.

Brent J. Fields,
Secretary.

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SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; BATS Exchange, Inc.; Order Granting Approval of a Proposed Rule Change, as Modified by Amendment No. 1 Thereto, To List and Trade Shares of the iShares U.S. Fixed Income Balanced Risk ETF of the iShares U.S. ETF Trust Under Rule 14.11(i)

February 18, 2015.

I. Introduction

On December 19, 2014, BATS Exchange, Inc. (“BATS” or the “Exchange”) filed with the Securities and Exchange Commission (Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act” or “Exchange Act”)1 and Rule 19b–4 thereunder,2 a proposed rule change to list and trade the shares (“Shares”) of the iShares U.S. Fixed Income Balanced Risk ETF (“Fund”) under BATS Rule 14.11(i). The proposed rule change was published for comment in the Federal Register on January 6, 2015.3 On February 12, 2015, BATS filed Amendment No. 1 to the proposal.4 The Commission received no comments on the proposal. This order grants approval of the proposed rule change, as modified by Amendment No. 1 thereto.

II. Description of the Proposed Rule Change

A. The Exchange’s Proposal

The Exchange proposes to list and trade Shares of the Fund under BATS Rule 14.11(i), which governs the listing and trading of Managed Fund Shares on the Exchange. The Shares will be offered by the iShares U.S. ETF Trust (“Trust”), a Delaware statutory trust, which is registered with the Commission as an open-end investment company.5

BlackRock Fund Advisors will be the investment adviser (“BFA” or “Adviser”) to the Fund.6 The Exchange represents that the (i) Adviser is not a registered broker-dealer, but is affiliated with multiple broker-dealers and has implemented fire walls with respect to such broker dealer affiliates regarding access to information concerning the composition of or changes to the Fund’s portfolio, and (ii) Adviser personnel who make decisions regarding the Fund’s portfolio are subject to procedures designed to prevent the use and dissemination of material nonpublic information regarding the Fund’s portfolio.7 BlackRock Investments, LLC serves as the distributor of the Fund’s Shares, and State Street Bank and Trust Company is the administrator, custodian, and transfer agent for the Trust.

B. The Exchange’s Description of the Fund

The Exchange has made the following additional representations and statements in describing the Fund and its investment strategy, including portfolio holdings and investment restrictions.8

1See id.
2See supra note 5, respectively.
3 179904 and 811–22649) (“Registration Statement”).
4 In addition, the Exchange states that the Trust has obtained certain exemptive relief under the Investment Company Act of 1940 (“1940 Act”), See Investment Company Act Release No. 29571 (January 24, 2011) (File No. 812–13601) (“Exemptive Order”).
5 BlackRock Fund Advisors is an indirect wholly owned subsidiary of BlackRock, Inc.
6 BATS Rule 14.11(i)(7) provides that, if the investment adviser to the investment company issuing Managed Fund Shares is affiliated with a broker-dealer, the investment adviser shall erect a firewall between the investment adviser and the broker-dealer with respect to access to information concerning the composition of or changes to the investment company portfolio. In addition, Rule 14.11(i)(7) further requires that personnel who make decisions on the investment company’s portfolio composition must be subject to procedures designed to prevent the misuse and dissemination of material nonpublic information regarding the applicable investment company portfolio. The Exchange states that, in the event that (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, such adviser or sub-adviser will implement a firewall with respect to its relevant personnel or such broker-dealer affiliate, as applicable, regarding access to information concerning the composition of or changes to the portfolio, and will be subject to procedures designed to prevent the use and dissemination of material non-public information regarding the Trust.
7 The Commission notes that additional information regarding the Fund, the Trust, and the Shares, including investment strategies, risks, creation and redemption procedures, fees, portfolio holdings disclosure policies, distributions, and taxes, among other things, can be found in the Notice and the Registration Statement, as applicable. See Notice, supra note 3, and Registration Statement, supra note 5, respectively.
8

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Principal Investments

According to the Exchange, the Fund will seek total return and preservation of capital. The Fund is an actively-managed fund that does not seek to replicate the performance of a specified index. The Fund intends to achieve its investment objective by investing, under normal circumstances, at least 80% of its net assets in a portfolio of U.S. dollar-denominated investment-grade and high-yield fixed-income securities ("Fixed Income Securities"), futures, and swaps, as described below. The Fund seeks to provide exposure to a portfolio of Fixed Income Securities where the expected contribution of interest rate risk and credit spread risk are approximately equal.

The Fund may invest, without limitation, in high-yield securities rated CCC or higher by Standard & Poor's Financial Services LLC or equivalently rated by Moody's Investors Service, Inc. or unrated money market securities. However, it may not invest more than 25% of its net assets in unrated money market securities. The remaining 75% of the Fund's investments in money market securities may include among other things, performing an analysis of the organization when rating similar securities and a nationally recognized statistical ratings organization when rating similar securities and issuers. In making such a determination, the Adviser may consider internal analyses and risk ratings, third party research and analysis, and other sources of information, as deemed appropriate by the Adviser. In determining that unrated Fixed Income Securities are of comparable quality to otherwise back investments in derivative instruments.

The Exchange representatives that under normal circumstances, the Fund will generally invest in corporate bond issuances that have at least $250 million par amount outstanding. The Exchange states that for the purposes of this footnote, the term "fixed income securities" includes all holdings of the portfolio.

Floating rate debt securities, such as corporate bonds and government bonds; agency securities; instruments of non-U.S. issuers; privately issued securities; municipal bonds; money market securities; and exchange traded and non-exchange traded investment companies (including investment companies advised by the Adviser or its affiliates) that invest in such Fixed Income Securities.

The Adviser will utilize a model-based proprietary investment process to assemble an investment portfolio comprised of (i) long positions in U.S. dollar denominated investment-grade corporate bonds selected by BFA based on certain criteria determined by BFA to be indicators of creditworthiness; (ii) long positions in U.S. dollar-denominated high-yield corporate bonds selected by BFA based on certain criteria determined by BFA to be indicators of creditworthiness; (iii) long positions in U.S. dollar-denominated agency mortgage backed securities; (iv) long positions in U.S. dollar-denominated agency mortgage to-be-announced transactions; (v) long positions in U.S. Treasury securities; (vi) short positions in U.S. Treasury futures; and (vii) short positions in U.S. Treasury securities through transactions in interest rate swaps. The Fund seeks to invest in a portfolio of Fixed Income Securities that in the aggregate has approximately equal exposure to credit spread risk and interest rate risk, which is measured by the Adviser as the volatility of returns of a security associated with changes in the security's credit spread or changes in interest rates.

The Fund will adjust the allocation among its underlying securities in an effort to achieve a target credit spread risk and interest rate risk for the Fund's portfolio. When necessary to balance the Fund's exposure to interest rate risk against its exposure to credit spread risk, the Fund may take short or long positions in U.S. Treasury futures and, through transactions in interest rate swaps, short positions in U.S. Treasury securities. The Adviser will determine the aggregate credit spread risk and interest rate risk of the Fund's portfolio. The Fund may also invest in other interest rate futures contracts, including but not limited to, Eurodollar and Federal Funds futures.

In selecting corporate securities for the Fund, the Adviser may employ a credit screening process centered on research and analysis of issuer credit quality to reduce exposure to credit issuers that have potential for experiencing credit deterioration. The remaining credit portfolio is then constructed to match the key target risk characteristics which BFA determines to be relevant in prevailing market conditions.

Order allows the Fund to invest in "shares of other ETFs, shares of money market mutual funds, or other investment companies."

The Exchange represents that, to the extent that the Fund's holding of privately-issued securities include any agency mortgage-backed securities or illiquid assets, such holdings will be subject to the limitations established in the "Other Investments" and "Investment Restrictions" sections set forth below.

The Exchange states that under normal circumstances, the Fund intends to invest in money market securities in a manner consistent with its investment objective in order to help manage cash flows in and out of the Fund, such as in connection with payment of dividends or expenses, and to satisfy margin requirements, to provide collateral or to otherwise back investments in derivative instruments. For these purposes, money market securities include: Short-term, high-quality obligations issued or guaranteed by the U.S. Treasury or the agencies or instrumentalities of the U.S. government; short-term, high-quality securities issued or guaranteed by non-U.S. governments, agencies and instrumentalities; repurchase agreements; government mutual funds; commercial paper; and deposits and other obligations of U.S. and non-U.S. banks and financial institutions. All money market securities acquired by the Fund will be rated investment grade. The Fund does not intend to invest in any unrated money market securities. However, it may do so, to a limited extent, such as where a rated money market security is unrated, if such money market security is determined by the Adviser to be of comparable quality.
To adjust the exposure to interest rate risks, the Adviser may employ short positions primarily in U.S. Treasury futures and interest rate swaps. By taking these short positions, the Adviser seeks to mitigate, but not eliminate, the impact of Treasury interest rates on the performance of the underlying bonds. The short positions are not intended to mitigate other factors influencing the price of bonds.

In the absence of normal circumstances, the Fund may temporarily depart from its normal investment process, provided that such departure, if, is, in the opinion of the Adviser, consistent with the Fund’s investment objective and in the best interests of the Fund. For example, the Fund may hold a higher than normal proportion of its assets in cash in response to adverse market, economic, or political conditions.

Other Investments

In addition to the derivatives holdings described above as part of the Fund’s principal investment strategy, the Fund may also, to a limited extent (under normal circumstances, less than 20% of the Fund’s net assets), engage in transactions in the following instruments in order to serve additional investment objectives of the Fund: 19 treasury futures, interest rate swaps, credit default swaps, asset-backed Fixed Income Securities, 20 non-agency mortgage-backed fixed-income securities, 21 and structured securities. 22

Investment Restrictions

The Fund may hold up to an aggregate amount of 15% of its net assets in illiquid assets (calculated at the time of investment), including Rule 144A securities deemed illiquid by the Adviser under the 1940 Act. The Fund will monitor its portfolio liquidity on an ongoing basis to determine whether, in light of current circumstances, an adequate level of liquidity is being maintained, and will consider taking appropriate steps in order to maintain adequate liquidity if, through a change in values, net assets, or other circumstances, more than 15% of the Fund’s net assets are held in illiquid assets. Illiquid assets include securities subject to contractual or other restrictions on resale and other instruments that lack readily available markets as determined in accordance with Commission staff guidance.

The Fund’s investments will be consistent with the Fund’s investment objective and will not be used to achieve leveraged or inverse leveraged returns (i.e., two times or three times the Fund’s benchmark).

The Fund is a non-diversified fund and therefore may invest in a greater portion of its assets in the securities of one or more issuers than a diversified fund. The Fund, however, will not purchase the securities of issuers conducting their principal business activity in the same industry if, immediately after the purchase and as a result thereof, the value of the Fund’s investments in that industry would equal or exceed 25% of the current value of the Fund’s total assets, provided that this restriction does not limit the Fund’s: (i) investments in securities of other investment companies, (ii) investments in securities issued or guaranteed by the U.S. government, its agencies, or instrumentalities, or (iii) investments in repurchase agreements collateralized by U.S. government securities.

III. Discussion and Commission Findings

After careful review, the Commission finds that the proposed rule change, as modified by Amendment No. 1 thereto, is consistent with the requirements of Section 6 of the Act 24 and the rules and regulations thereunder applicable to a national securities exchange. 25 In particular, the Commission finds that the proposed rule change is consistent with the requirements of Section 6(b)(5) of the Act, 26 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 foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. The Commission also finds that the proposal to list and trade the Shares on the Exchange is consistent with Section 11A(a)(1)(C)(iii) of the Act, 27 which sets forth Congress’ finding that it is in the public interest and appropriate for the protection of investors and the maintenance of fair and orderly markets to assure the availability to brokers, dealers, and investors of information with respect to quotations for, and transactions in, securities. The Commission notes that the Fund and the Shares must comply with the requirements of BATS Rule 14.11(i) to be listed and traded on the Exchange.

According to the Exchange, quotation and last-sale information for the Shares will be available on the facilities of the Consolidated Tape Association (“CTA”), and the previous day’s closing price and trading volume information for the Shares will be published daily in the financial section of newspapers. 28 Additionally, information regarding market price and trading volume of the Shares will be continually available on a real-time basis throughout the day on brokers’ computer systems and other electronic services. 29 Daily trading volume information for the Fund will also be available in the financial section of newspapers, through subscription services such as Bloomberg, Thomson

25 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. 78f(f).
28 See Notice, supra, note 3, 80 FR at 590.
29 See id.
Reuters, and International Data Corporation, which can be accessed by authorized participants and other investors, as well as through other electronic services, including major public Web sites.30 The Exchange states that intraday, executable price quotations for the underlying Fixed Income Securities and non-exchange traded derivatives, including non-exchange listed investment companies, are available from major broker-dealer firms and, for the underlying exchange-traded assets, including investment company and futures, such intraday information is available directly from the applicable listing exchange.31 Further, the Exchange states that intraday price information for all such instruments is available through subscription services, such as Bloomberg, Thomson Reuters and International Data Corporation, which can be accessed by authorized participants and other investors.32

In addition, the Intraday Indicative Value of the Fund,33 as defined in BATS Rule 14.11(i)(3)(C) that reflects an estimated intraday value of the Fund’s portfolio, will be updated and widely disseminated by one or more major market data vendors at least every 15 seconds during the Exchange’s Regular Trading Hours.34 On each business day, before commencement of trading in Shares during Regular Trading Hours35 on the Exchange, the Fund will disclose on its Web site the identities and quantities of the portfolio of securities and other assets held by the Fund that will form the basis for the Fund’s calculation of NAV at the end of the business day (“Disclosed Portfolio”).36 The Net Asset Value (“NAV”) of the Fund’s Shares will generally be calculated once daily as of the close of regular trading on the Exchange, generally 4:00 p.m. Eastern Time on each day that the Exchange is open for trading.37 The Adviser will make available through the National Securities Clearing Corporation on each business day, prior to the opening of business on the Exchange, the list of names and the required number or par value of each security, as well as the amount of the cash, comprising the creation basket of the Fund for that day.38 The Web site for the Fund will include a form of the prospectus for the Fund and additional data relating to NAV and other applicable quantitative information.39 The Commission further believes that the proposal to list and trade the Shares is reasonably designed to promote fair disclosure of information that may be necessary to price the Shares appropriately and to prevent trading when a reasonable degree of transparency cannot be assured. The Exchange will obtain a representation from the issuer of the Shares that the NAV will be calculated daily and that the NAV and the Disclosed Portfolio will be made available to all market participants at the same time.40 Further, holding in the Fund’s portfolio. The Web site information will be publicly available at no charge. See id.

37 See id. at 588. The NAV per Share is calculated by dividing the Fund’s net assets by the number of Shares outstanding. According to the Exchange, for purposes of calculating NAV, the Fund values non-exchange traded Fixed Income Securities using prices provided directly from one or more broker-dealers, market makers, independent third-party pricing services which may use matrix pricing and valuation models to derive values, or, for investment companies, NAV. Exchange-traded instruments, including exchange traded Fixed Income Securities and futures, will be valued at market closing price or, if no sale has occurred, at the last quoted bid price on the primary exchange on which they are traded. Price information for exchange traded instruments, including exchange traded derivatives, will be taken from the exchange where the security is primarily traded. Over-the-counter derivatives are valued based upon quotations from market makers or by a pricing service in accordance with valuation procedures approved by the Fund’s board of directors. Certain short-term debt securities will be valued on the basis of amortized cost. Generally, trading in certain Fixed Income Securities and derivatives is substantially completed each day at various times prior to the close of business on the Exchange, and the values of such securities and derivatives used in computing the NAV of the Fund are determined at market quotations. Market quotations are not readily available or are believed by the Adviser to be unreliable, the Fund’s investments are valued at fair value by the Adviser in accordance with policies and procedures approved by the Fund’s board of directors and in accordance with the 1940 Act. Id.

38 See id. at 589.
39 See id. at 592.
40 See id. at 590.
41 See id.
42 See id.
44 See Notice, supra note 3, 80 FR at 591.
45 See supra note 7 and accompanying text. The Exchange states that an investment adviser to an open-end fund is required to be registered under the Investment Advisers Act of 1940 (“Advisers Act”). As a result, the Adviser and its related personnel are subject to the provisions of Rule 204A–1 under the Advisers Act relating to codes of ethics. This Rule requires investment advisers to adopt a code of ethics that reflects the fiduciary nature of the relationship to clients as well as compliance with other applicable securities laws. Accordingly, procedures designed to prevent the communication and misuse of non-public information by an investment adviser must be consistent with Rule 204A–1 under the Advisers Act, Rule 206(4)–7 under the Advisers Act makes it unlawful for an investment adviser to provide investment advice to clients unless such investment adviser has (i) adopted and implemented written policies and procedures reasonably designed to prevent violation, by the investment adviser and its supervised persons, of the Advisers Act and the Commission rules adopted thereunder; (ii) implemented, at a minimum, an annual review regarding the adequacy of the policies and procedures established pursuant to subparagraph (i) above and the effectiveness of implementation; and (iii) designated an individual (who is a supervised person) responsible for administering the policies and procedures adopted under subparagraph (i) above.
the ISG, from other exchanges who are members or affiliates of the ISG, or with which the Exchange has entered into a comprehensive surveillance sharing agreement. In addition, the Exchange is able to access, as needed, trade information for certain fixed income instruments reported to Financial Industry Reporting Authority’s (“FINRA”) Trade Reporting and Compliance Engine (“TRACE”).46

The Exchange represents that 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.47 In support of this proposal, the Exchange has made representations, including:

1. The Shares will be subject to BATS Rule 14.11(i), which sets forth the initial and continued listing criteria applicable to Managed Fund Shares.

2. The Exchange has appropriate rules to facilitate transactions in the Shares during all trading sessions.

3. Trading of the Shares through the Exchange will be subject to the Exchange’s surveillance procedures for derivative products, including Managed Fund Shares, which are adequate to properly monitor the trading of the Shares on the Exchange during all trading sessions and to deter and detect violations of Exchange rules and the applicable federal securities laws.

4. Prior to the commencement of trading, the Exchange will inform its members in an Information Circular of the special characteristics and risks associated with trading the Shares. Specifically, the Information Circular will discuss the following: (a) The procedures for purchases and redemptions of Shares in creation units (and that Shares are not individually redeemable); (b) BATS Rule 3.7, which imposes suitability obligations on Exchange members with respect to recommending transactions in the Shares to customers; (c) how information regarding the Intraday Indicative Value and the Disclosed Portfolio is disseminated; (d) the risks involved in trading the Shares during the Pre-Opening and After Hours Trading Sessions when an updated Intraday Indicative Value will not be calculated or publicly disseminated; (e) the requirement that members deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction; and (f) trading information.

5. For initial and continued listing, the Fund must be in compliance with Rule 10A–3 under the Exchange Act.48

6. A minimum of 100,000 Shares will be outstanding at the commencement of trading on the Exchange.

7. The Fund will invest at least 80% of its assets, under normal market conditions, in U.S. dollar-denominated investment-grade and high-yield Fixed-Income Securities, futures, and swaps.

8. Derivatives investments held by the Fund will be exchange traded and/or centrally cleared, and they will be collateralized.

9. The Fund will generally invest in corporate bond issuances that have at least $250 million par amount outstanding.

10. The Fund may hold up to an aggregate amount of 15% of its net assets in illiquid assets (calculated at the time of investment); will monitor its portfolio liquidity on an ongoing basis to determine whether, in light of current circumstances, an adequate level of liquidity is being maintained; and will consider taking appropriate steps in order to maintain adequate liquidity if, through a change in values, net assets, or other circumstances, more than 15% of the Fund’s net assets are held in illiquid assets.

11. All of the exchange listed investment company securities and futures that the Fund will invest in will trade on markets that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.

12. The Fund will not invest in non-U.S. equity securities.

13. The Fund’s investments will be consistent with the Fund’s investment objective and will not be used to achieve leveraged or inverse leveraged returns (i.e. two times or three times the Fund’s benchmark). This approval order is based on all of the Exchange’s representations and description of the Fund, including those set forth above and in the Notice, and the Exchange’s description of the Fund.

For the foregoing reasons, the Commission finds that the proposed rule change, as modified by Amendment No. 1 thereto, is consistent with Section 6(b)(5) of the Act 49 and the rules and regulations thereunder applicable to a national securities exchange.

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, 50 that the proposed rule change (SR–BATS–2014–056), as modified by Amendment No. 1 thereto, be, and it hereby is, approved.

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

Brent J. Fields,
Secretary.

[FR Doc. 2015–03666 Filed 2–23–15; 8:45 am]

BILLING CODE 4011–01–P

SECURITIES AND EXCHANGE COMMISSION


Regulatory Organizations; BATS Y-Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Establish Fees for the BATS One Feed, and Amend Fees for BYX Top and BYX Last Sale

February 18, 2015.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”), 1 and Rule 19b–4 thereunder, 2 notice is hereby given that on February 3, 2015, BATS Y-Exchange, Inc. (“BYX” or the “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange has designated the proposed rule change as one establishing or changing a member due, fee, or other charge imposed by the Exchange under Section 19(b)(3)(A)(ii) of the Act 3 and Rule 19b–4(f)(2) thereunder, 4 which renders the proposed rule change effective upon filing with the Commission. 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 filed a proposal to amend its fee schedule to establish fees for the BATS One Feed, amend fees for BYX Top and BYX Last Sale, add definitions for terms that apply to market data fees, and make certain technical, non-substantive changes. The text of the proposed rule change is available at the Exchange’s Web site at http://www.batstrading.com/, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

See Notice, supra note 3, 80 FR at 591.

48 See id. at 590.