SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Notice of Filing of a Proposed Rule Change To List and Trade Shares of the REX Bitcoin Strategy ETF and the REX Short Bitcoin Strategy ETF, Each a Series of the Exchange Listed Funds Trust, Under Rule 14.11(i), Managed Fund Shares


Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”) and Rule 19b–4 thereunder, notice is hereby given that, on December 15, 2017, Cboe BZX Exchange, Inc. (the “Exchange” or “BZX”) 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 filed a proposed rule change to list and trade shares of the REX Bitcoin Strategy ETF and the REX Short Bitcoin Strategy ETF (each a “Fund” and, collectively, the “Funds”), each a series of the Exchange Listed Funds Trust (the “Trust”), under Rule 14.11(i) (“Managed Fund Shares”). The shares of the Funds are referred to herein as the “Shares.”

The text of the proposed rule change is available at the Exchange’s website at www.markets.cboe.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 Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these 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 Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to list and trade shares of the REX Bitcoin Strategy ETF (the “Long Fund”) and the REX Short Bitcoin Strategy ETF (the “Short Fund”) under Rule 14.11(i), which governs the listing and trading of Managed Fund Shares on the Exchange.4

The Shares will be offered by the Trust, which was established as a Delaware statutory trust on April 4, 2012. The Trust is registered with the Commission as an open-end investment company and has filed a registration statement on behalf of the Funds on Form N–1A (“Registration Statement”) with the Commission.5 Exchange Traded Concepts, LLC is the investment adviser (the “Adviser”) to the Funds and commodity pool operator (“CPO”). Vident Investment Advisory, LLC is the sub-adviser (the “Sub-Adviser”) to the Trust and is registered as a Commodity Trading Advisory (“CTA”). The Funds will be operated in accordance with applicable CFTC rules, as well as the regulatory scheme applicable to registered investment companies. Registration as a CPO and CTA imposes additional compliance obligations on the Adviser, the Trust, and the Funds related to additional laws, regulations, and enforcement policies.

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, such investment adviser shall erect a “fire wall” between the investment adviser and the broker-dealer with respect to access to information concerning the composition and/or changes to such investment company portfolio.6 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 use and dissemination of material nonpublic information regarding the applicable investment company portfolio. Rule 14.11(i)(7) is similar to Rule 14.11(b)(5)(A)(i), however, Rule 14.11(i)(7) in connection with the establishment of a “fire wall” between the investment adviser and the broker-dealer reflects the applicable open-end fund’s portfolio, not an underlying benchmark index, as is the case with index-based funds. Neither the Adviser nor the Sub-Adviser is registered as a broker-dealer, nor are they currently affiliated with a broker-dealer. The Adviser personnel who make decisions regarding each Fund’s portfolio are subject to procedures designed to prevent the use and dissemination of material nonpublic information regarding each Fund’s portfolio. In the event that (a) the Adviser or Sub-Adviser becomes a broker-dealer or newly affiliated with a broker-dealer, or (b) any new adviser or sub-adviser is a broker-dealer or becomes affiliated with a broker-dealer, the Adviser or Sub-Adviser will implement a fire wall with respect to its relevant personnel or such broker-dealer affiliate, as applicable, 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.

4 An investment adviser to an open-end fund is required to be registered with the Commission under the Investment Advisers Act of 1940, as amended (the “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 nonpublic information by an investment adviser must be consistent with Rule 204A–1 under the Advisers Act. In addition, 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 their implementation; and (iii) designated an individual (who is a supervised person) responsible for administering the policies and procedures adopted under subparagraph (i) above.


6 An investment adviser to an open-end fund is required to be registered with the Commission under the Investment Advisers Act of 1940, as amended (the “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 nonpublic information by an investment adviser must be consistent with Rule 204A–1 under the Advisers Act. In addition, 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 their implementation; and (iii) designated an individual (who is a supervised person) responsible for administering the policies and procedures adopted under subparagraph (i) above.
Bitcoin Futures Contracts

Prior to listing a new commodity futures contract, a designated contract market must either submit a self-certification to the CFTC that the contract complies with the CEA and CFTC regulations or voluntarily submit the contract for CFTC approval. This process applies to all futures contracts and all commodities underlying the futures contracts, whether the new futures contracts are related to oil, gold, or any other commodity. On December 1, 2017, it was announced that both Cboe Futures Exchange, Inc. ("CME") and Chicago Mercantile Exchange, Inc. ("CME") had self-certified with the CFTC new contracts for bitcoin futures.1

The CME bitcoin futures contracts ("CME Futures") will trade and settle based on the CME CF Bitcoin Reference Rate, which is based on an aggregation of trade flow from several bitcoin spot exchanges, that will expire from several bitcoin spot exchanges, that will expire on a monthly and quarterly basis. CME Futures are scheduled to begin trading on December 11, 2017.13

The CME Futures are cash-settled futures contracts based on the CME CF Bitcoin Reference Rate, which is based on an aggregation of trade flow from several bitcoin spot exchanges, that will expire on a monthly and quarterly basis. CME Futures are scheduled to begin trading on December 11, 2017.13

Bitcoin Futures Contracts are measures of the market’s expectation of the price of bitcoin at certain points in the future, and as such will behave differently than current or spot bitcoin prices. The Funds are not linked to bitcoin and in many cases the Funds could significantly underperform or outperform the price of bitcoin.7

The Exchange proposes to list the Funds pursuant to Rule 14.11(i), however there are two ways in which the Funds will not necessarily meet the listing standards included in that Rule. As such, the Exchange offers this proposal in order to allow each Fund to hold: (i) Listed derivatives in a manner that does not comply with Rule 14.11(i)(4)(C)(iv)(b); and (ii) Non-U.S. Component Stocks14 in a manner that may not comply with Rule 14.11(i)(4)(C)(ii)(b)(3) and (4).15 Otherwise, the Funds will comply with all other listing requirements of the Generic Listing Standards for Managed Fund Shares on an initial and continued listing basis under Rule 14.11(i).

REX Bitcoin Strategy ETF

According to the Registration Statement, the Long Fund is an actively managed fund that seeks to provide investors with long exposure to the price movements of bitcoin. Under Normal Market Conditions,14 the Long Fund seeks to achieve its investment objective by obtaining investment exposure to an actively managed portfolio of financial instruments providing long exposure to movements in the value of bitcoin, together with an actively managed portfolio of fixed income instruments. The Long Fund expects to obtain exposure to Bitcoin Derivatives primarily by investing up to 25% of its total assets, as measured at the end of every quarter of the Fund’s taxable year, in a wholly-owned and controlled Cayman Islands subsidiary (the "Long Subsidiary"). The Subsidiary is advised by the Adviser. Unlike the Long Fund, the Subsidiary is an investment company registered under the 1940 Act. The Long Subsidiary has the same investment objective as the Long Fund. References below to the holdings of the Long Subsidiary are inclusive of the holdings of the direct holdings of the Long Fund as well as the indirect holdings of the Long Fund through the Long Subsidiary. Such positions are generally collateralized by the Fund’s positions in cash and Cash Equivalents.20

In order to achieve its investment objective, under Normal Market Conditions,14 the term “Normal Market Conditions” includes, but is not limited to, the absence of trading halts in the applicable financial markets governing financial instruments; operational issues causing dissemination of inaccurate market information or system failures; or force majeure type events such as natural or man-made disaster, act of God, armed conflict, acts of terrorism, riot or labor disruption, or any similar intervening circumstance.15

The term “Bitcoin Derivatives” includes Bitcoin Futures Contracts and other listed derivatives (as provided in Rule 14.11(i)(4)(C)(iv)) including options contracts, swap contracts, and other derivative instruments linked to bitcoin, the price of bitcoin, or an index thereof.20

As defined in Rule 14.11(i)(4)(C)(iii), Cash Equivalents are short-term instruments with maturities of less than three months, including: (i) U.S. Government securities, including bills, notes, and bonds differing as to maturity and rates of interest, which are either issued or guaranteed by the U.S. Treasury or by U.S. Government agencies or instrumentalities; (ii) certificates of deposit issued against funds deposited in a bank or savings and loan association; (iii) bankers acceptances, which are short-term credit instruments used to finance commercial transactions; (iv) repurchase agreements and reverse repurchase agreements; (v) bank time deposits, which are monies kept on deposit with banks or savings and loan associations for a stated period of time at a fixed rate of interest; (vi) commercial paper, which are short-term unsecured promissory notes; and (vii) money market funds.
Conditions the Long Fund expects to hold the majority of its assets in Bitcoin Derivatives and cash and Cash Equivalents (which are used to collateralize Bitcoin Futures Contracts or other Bitcoin Derivatives), but may also invest in the following instruments: other Bitcoin Derivatives; U.S. exchange-listed ETPs; and Non-U.S. Component Stocks. The Long Fund will use the cash and Cash Equivalents to meet asset coverage tests resulting from the Long Subsidiary’s derivative exposure on a day-to-day basis. As a whole, the Fund’s investments are meant to achieve its investment objective within the limitations of the federal tax requirements applicable to regulated investment companies.

The Long Fund intends to qualify each year as a regulated investment company (a “RIC”) under Subchapter M of the Internal Revenue Code of 1986, as amended. The Long Fund will invest its assets (including via the Long Subsidiary), and otherwise conduct its operations, in a manner that is intended to satisfy the qualifying income, diversification and distribution requirements necessary to establish and maintain RIC qualification under Subchapter M.

REX Short Bitcoin Strategy ETF

According to the Registration Statement, the Short Fund seeks to provide investors with short exposure to the price movements of bitcoin. Under Normal Market Conditions, the Short Fund seeks to achieve its investment objective by obtaining investment exposure to an actively managed portfolio of financial instruments providing short exposure to movements in the value of bitcoin, together with an actively managed portfolio of fixed income instruments. The Short Fund expects to obtain exposure to Bitcoin Derivatives primarily by investing up to 25% of its total assets, as measured at the end of every quarter of the Fund’s taxable year, in a wholly-owned and controlled Cayman Islands subsidiary (the “Short Subsidiary”). The Short Subsidiary is advised by the Adviser. Unlike the Short Fund, the Short Subsidiary is not an investment company registered under the 1940 Act. The Short Subsidiary has the same investment objective as the Short Fund. References below to the holdings of the Short Fund are inclusive of the holdings of the Direct Holdings of the Short Fund as well as the indirect holdings of the Short Fund through the Subsidiary. Such positions are generally collateralized by the Fund’s positions in cash and Cash Equivalents.

In order to achieve its investment objective, under Normal Market Conditions the Short Fund expects to hold the majority of its assets in Bitcoin Derivatives and cash and Cash Equivalents (which are used to collateralize Bitcoin Futures Contracts or other Bitcoin Derivatives), but may also invest in the following instruments: other Bitcoin Derivatives; U.S. exchange-listed ETPs; and Non-U.S. Component Stocks. The Short Fund will use the cash and Cash Equivalents to meet asset coverage tests resulting from the Subsidiary’s derivative exposure on a day-to-day basis. As a whole, the Short Fund’s investments are meant to achieve its investment objective within the limitations of the federal tax requirements applicable to regulated investment companies.

The Short Fund intends to qualify each year as a regulated investment company (a “RIC”) under Subchapter M of the Internal Revenue Code of 1986, as amended. The Short Fund will invest its assets (including via the Subsidiary), and otherwise conduct its operations, in a manner that is intended to satisfy the qualifying income, diversification and distribution requirements necessary to establish and maintain RIC qualification under Subchapter M.

Investment Restrictions

While the Funds do not currently anticipate holding illiquid assets, each may hold up to an aggregate amount of 15% of its net assets in illiquid assets (calculated at the time of investment) deemed illiquid by the Adviser under the 1940 Act. Each 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 a Fund’s net assets are held in illiquid assets. Illiquid assets include assets subject to contractual or other restrictions on resale and other instruments that lack readily available markets as determined in accordance with Commission staff guidance.

Each Fund’s investments 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). Each Fund’s investments will not be used to seek leveraged or inverse leveraged returns (i.e., two times or three times the Fund’s benchmark). Each Fund’s use of derivative instruments will be collateralized.

22 For purposes of this filing, the term “ETP” means Portfolio Depositary Receipts, Index Fund Shares, Linked Securities, Trust Issued Receipts, and Managed Fund Shares, as defined in Rule 14.11(b), 14.11(c), 14.11(d), 14.11(f), and 14.11(i), respectively, and the analogous products and listing rules on other national securities exchanges.

23 The Long Fund will not hold more than 25% of the weight of the portfolio in Non-U.S. Component Stocks.

24 As defined in Rule 14.11(j)(4)(C)(iii). Cash Equivalents are short-term instruments with maturities of less than three months, including: (i) U.S. Government securities, including bills, notes, and bonds differing as to maturity and rates of interest, which are either issued or guaranteed by the U.S. Treasury or by U.S. Government agencies or instrumentalities; (ii) certificates of deposit issued against funds deposited in a bank or savings and loan association; (iii) bankers acceptances, which are short-term credit instruments used to finance commercial transactions; (iv) repurchase agreements and reverse repurchase agreements; (v) bank time deposits, which are monies kept on deposit with banks or savings and loan associations for a stated period of time at a fixed rate of interest; (vi) commercial paper, which are short-term unsecured commercial paper notes; and (vii) money market funds.

25 The Long Fund will not hold more than 25% of the weight of the portfolio in Non-U.S. Component Stocks.

As noted above, the Exchange submits this proposal in order to allow each Fund to hold; (i) Listed derivatives in a manner that does not comply with Rule 14.11(i)(4)(C)(i)(b)(3) and (ii) Non-U.S. Component Stocks in a manner that may not comply with Rule 14.11(i)(4)(C)(i)(b)(3) and (4). The Exchange, however, believes that the policy concerns that these rules are intended to address are mitigated as it relates to the Funds and their holdings for a number of reasons. First, the policy concerns underlying all three rules are mitigated by the fact that the Exchange believes that the underlying reference asset is not susceptible to manipulation because the nature of the bitcoin ecosystem makes manipulation of bitcoin difficult. The geographically diverse and continuous nature of bitcoin trading makes it difficult and prohibitively costly to manipulate the price of bitcoin and, in many instances, that the bitcoin market is generally less susceptible to manipulation than the equity, fixed income, and commodity futures markets. There are a number of reasons

32 Rule 14.11(i)(4)(C)(i)(b)(3) provides that "the aggregate gross notional value of listed derivatives based on any five or fewer underlying reference assets shall not exceed 65% of the weight of the portfolio (including gross notional exposures), and the aggregate gross notional value of listed derivatives based on any single underlying reference asset shall not exceed 30% of the weight of the portfolio (including gross notional exposures)\(^1\)." The Exchange is proposing that the Funds be exempt from the requirement of Rule 14.11(i)(4)(C)(i)(b)(3) that prevents the aggregate gross notional value of listed derivatives based on any single underlying reference asset from exceeding 30% of the weight of the portfolio (including gross notional exposures) and the requirement that the aggregate gross notional value of listed derivatives based on any five or fewer underlying reference assets shall not exceed 65% of the weight of the portfolio (including gross notional exposures).

33 Rule 14.11(i)(4)(C)(i)(b)(4) provides that "where the equity portion of the portfolio includes Non-U.S. Component Stocks, the equity portion of the portfolio shall include a minimum of 20 total component stocks; provided, however, that there shall be no minimum number of component stocks if (a) one or more series of Derivative Securities, Products or Linked Securities constitute, at least in part, components underlying a series of Managed Fund Shares, or (b) one or more series of Derivative Securities, Products or Linked Securities account for 100% of the equity weight of the portfolio of a series of Managed Fund Shares." While the Funds, as proposed, would be permitted to hold Derivative Securities, Products or Linked Securities (both of which are ETFs, as defined below), they won’t necessarily hold such instruments and may hold fewer than 20 Non-U.S. Component Stocks, which would not comply with this Rule.

this is the case, including that there is not inside information about revenue, earnings, corporate activities, or sources of supply; it is generally not possible to disseminate false or misleading information about bitcoin in order to manipulate; manipulation of the price on any single venue would require manipulation of the global bitcoin price in order to be effective; a substantial over-the-counter market provides liquidity and shock-absorbing capacity; bitcoin’s 24/7/365 nature provides constant arbitrage opportunities across all trading venues; and it is unlikely that any one actor could obtain a dominant market share.

Further, bitcoin is arguably less susceptible to manipulation than other commodities that underlie ETPs; there may be inside information relating to the supply of the physical commodity such as the discovery of new sources of supply or significant disruptions at mining facilities that supply the commodity that simply are inapplicable as it relates to bitcoin. Further, the Exchange believes that the fragmentation across bitcoin exchanges, the relatively slow speed of transactions, and the capital necessary to maintain a significant presence on each exchange make manipulation of bitcoin prices through continuous trading activity unlikely. Moreover, the linkage between the bitcoin markets and the presence of arbitrageurs in those markets means that the manipulation of the price of bitcoin price on any single venue would require manipulation of the global bitcoin price in order to be effective. Arbitrageurs must have funds distributed across multiple bitcoin exchanges in order to take advantage of temporary price dislocations, thereby making it unlikely that there will be strong concentration of funds on any particular bitcoin exchange. As a result, the potential for manipulation on a particular bitcoin exchange would require overcoming the liquidity supply of such arbitrageurs who are effectively eliminating any cross-market pricing differences. For all of these reasons, bitcoin is generally less susceptible to manipulation, especially as compared to other approved ETP reference assets.

Second, the Exchange believes that the concerns on which Rule 14.11(i)(4)(C)(i)(b)(4) is based related to ensuring that no single listed derivative and underlying reference asset that is susceptible to manipulation constitutes greater than 35% of the weight of the portfolio is further mitigated by the liquidity that the Exchange expects to exist in the market for Bitcoin Derivatives. This belief is based on numerous conversations with market participants, issuers, and discussions with personnel of CFE. This expected liquidity in the market for Bitcoin Futures Contracts combined with the CFE, CME, and Exchange surveillance procedures related to the Bitcoin Futures, the Shares, and CFTC oversight, along with the difficulty in manipulating the bitcoin market described above will mitigate the concerns that Rule 14.11(i)(4)(C)(i)(b)(4) was designed to protect against and further prevent trading in the Shares from being susceptible to manipulation.

Third, the Exchange believes that the market cap and liquidity of the Non-U.S. Component Stocks held by the Funds along with a cap at 25% of each Fund’s total assets that can be allocated to Non-U.S. Component Stocks would mitigate the concerns which Rules 14.11(i)(4)(C)(i)(b)(3) and (4) are intended to address. Any Non-U.S. Component Stock held by the Funds will have at least $250 million in market cap and will have at least an average of $100 million in monthly trading volume averaged over the past six months. This combination of large market cap with significant trading volume reduces the likelihood of manipulation of any particular security and the cap of 25% of the Fund’s total assets assures that, while the Non-U.S. Component Stock holdings may not meet the concentration and diversity requirements of Rules 14.11(i)(4)(C)(i)(b)(3) and (4), respectively, such diversity and concentration requirements will not be met only for a limited portion of the portfolio.

The Exchange represents that, except for the diversification requirements for listed derivatives in Rule 14.11(i)(4)(C)(i)(b)(4) and the concentration and diversification requirements for Non-U.S. Component Stocks in a manner that may not co-sic Rule 14.11(i)(4)(C)(i)(b)(3)\(^3\) and (4), the Funds’ proposed investments will satisfy, on an initial and continued listing basis, all of the generic listing standards under BZX Rule 14.11(i)(4)(C) and all other applicable requirements for Managed Fund Shares under Rule 14.11(i). The Trust is required to comply with Rule 10A-3 under the Act for the initial and continued listing of the Shares of the Funds. A minimum of 100,000 Shares will be outstanding at the commencement of trading on the

31 Rule 14.11(i)(4)(C)(i)(b)(3) provides that "the most heavily weighted Non-U.S. Component stock shall not exceed 25% of the equity weight of the portfolio, and all other applicable requirements for Managed Fund Shares under Rule 14.11(i)." The Trust is required to comply with Rule 10A-3 under the Act for the initial and continued listing of the Shares of the Funds. A minimum of 100,000 Shares will be outstanding at the commencement of trading on the
Exchange. In addition, the Exchange represents that the Shares of the Funds will comply with all other requirements applicable to Managed Fund Shares, which includes the dissemination of key information such as the Disclosed Portfolio,44 Net Asset Value,35 and the Intraday Indicative Value,36 suspension of trading or removal,37 trading halts,38 surveillance,39 minimum price variation for quoting and order entry,47 and the information circular,41 as set forth in Exchange rules applicable to Managed Fund Shares. Moreover, at least 90% of the weight of the Bitcoin Derivatives held by each Fund will trade on markets that are a member of ISG or affiliated with a member of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement. Information regarding market price and trading volume of the Shares will be continually available on a real-time basis throughout the day on brokers’ computer screens and other electronic services, and quotation and last sale information will be available via the CTA high-speed line. Quotation, intra-day, closing and settlement prices of Bitcoin Derivatives will be readily available from their respective exchange or SEF, as applicable, as well as through automated quotation systems, published or other public sources, or online information services such as Bloomberg or Reuters. Quotation, intra-day, closing and settlement prices of U.S. exchange-listed ETPs will be readily available from the listing exchange, automated quotation systems, published or other public sources, or online information services such as Bloomberg or Reuters. Price information on Cash Equivalents is available from major broker-dealer firms or market data vendors, as well as from automated quotation systems, published or other public sources, or online information services.

The Exchange believes that its surveillance procedures 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. Additionally, the Bitcoin Derivatives will be subject to the rules and surveillance programs of their respective listing venue and the CFTC.42 Trading of the Shares through the Exchange will be subject to the Exchange’s surveillance procedures for derivative products, including Managed Fund Shares. The Exchange or FINRA, on behalf of the Exchange, will communicate as needed regarding trading in the Shares and the underlying Bitcoin Derivatives via the Intermarket Surveillance Group (“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.43 The Exchange may also obtain information regarding trading in the spot bitcoin market via exchanges with which the Exchange has entered into a comprehensive surveillance sharing agreement.44 In addition, the Exchange is able to access, as needed, trade information for certain fixed income instruments reported to FINRA’s Trade Reporting and Compliance Engine (“TRACE”). The Exchange prohibits the distribution of material non-public information by its employees.

2. Statutory Basis

The Exchange believes that the proposal is consistent with Section 6(b) of the Act45 in general and Section 6(b)(5) of the Act46 in particular in that it is 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 Exchange believes that the proposed rule change is designed to prevent fraudulent and manipulative acts and practices in that the Shares will meet each of the initial and continued listing criteria in BZX Rule 14.11(i) except that it each Fund may hold: (i) Listed derivatives in a manner that does not comply with Rule 14.11(i)(4)(C)(iv)(b);47 and (ii) Non-U.S. Component Stocks48 in a manner that may not comply with Rule 14.11(i)(4)(C)(i)(b)(3)49 and (4).50 The

42 Rule 14.11(i)(4)(C)(iv)(b) provides that “the aggregate gross notional value of listed derivatives based on any five or fewer underlying reference assets shall not exceed 65% of the weight of the portfolio (including gross notional exposures), and the aggregate gross notional value of listed derivatives based on any single underlying reference asset shall not exceed 30% of the weight of the portfolio (including gross notional exposures).” The Exchange is proposing that the Funds be exempt from the requirement of Rule 14.11(i)(4)(C)(iv)(b) that prevents the aggregate gross notional value of listed derivatives on any single underlying reference asset from exceeding 30% of the weight of the portfolio (including gross notional exposures) and the requirement that the aggregate gross notional value of listed derivatives based on any five or fewer underlying reference assets shall not exceed 65% of the weight of the portfolio (including gross notional exposures).

46 The term “Non-U.S. Component Stock” means an equity security that (a) is not registered under Sections 12(b) or 12(g) of the Act, (b) is issued by an entity that is not organized, domiciled or incorporated in the United States, and (c) is issued by an entity that is an operating company (including Real Estate Investment Trusts (REITs) and income trusts, but excluding closed-end investment companies), unit trusts, mutual funds, and derivatives.

49 Rule 14.11(i)(4)(C)(i)(b)(3) provides that “the most heavily weighted Non-U.S. Component stock shall not exceed 25% of the equity weight of the portfolio, and, to the extent applicable, the five most heavily weighted Non-U.S. Component Stocks shall not exceed 60% of the equity weight of the portfolio.”

50 Rule 14.11(i)(4)(C)(i)(b)(4) provides that “where the equity portion of the portfolio includes Non-U.S. Component Stocks, the equity portion of the portfolio shall include a minimum of 20 total component stocks; provided, however, that there shall be no minimum number of component stocks if (a) one or more series of Derivative Securities Products or Linked Securities constitute, at least in part, components underlying a series of Managed Fund Shares, or (b) one or more series of Derivative Securities Products or Linked Securities constitute, at least in part, components underlying a series of Managed Fund Shares, or (b) one or more series of Derivative Securities Products or Linked Securities constitute, at least in part, components underlying a series of Managed Fund Shares.” While the Funds, as proposed, would be permitted to hold Derivative Securities Products or Linked Securities (both of which are ETPs, as defined below), they wouldn’t necessarily hold such instruments and may hold Non-U.S. Component Stocks, which would not comply with this Rule.
Exchange, however, believes that the policy concerns that these rules are intended to address are mitigated as it relates to the Funds and their holdings for a number of reasons.

First, the policy concerns underlying all three rules are mitigated by the fact that the Exchange believes that the underlying reference asset is not susceptible to manipulation because the nature of the bitcoin ecosystem makes manipulation of bitcoin difficult. The geographically diverse and continuous nature of bitcoin trading makes it difficult and prohibitively costly to manipulate the price of bitcoin and, in many instances, that the bitcoin market is generally less susceptible to manipulation than the equity, fixed income, and commodity futures markets. There are a number of reasons this is the case, including that there is not inside information about revenue, earnings, corporate activities, or sources of supply; it is generally not possible to disseminate false or misleading information about bitcoin in order to manipulate the price on any single venue would require manipulation of the global bitcoin price in order to be effective; a substantial over-the-counter market provides liquidity and shock-absorbing capacity; bitcoin’s 24/7/365 nature provides constant arbitrage opportunities across all trading venues; and it is unlikely that any one actor could obtain a dominant market share.

Further, bitcoin is arguably less susceptible to manipulation than other commodities that underlie ETFs; there may be inside information relating to the supply of the physical commodity such as the discovery of new sources of supply or significant disruptions at mining facilities that supply the commodity that simply are inapplicable as it relates to bitcoin. Further, the Exchange believes that the fragmentation across bitcoin exchanges, the relatively slow speed of transactions, and the capital necessary to maintain a significant presence on each exchange make manipulation of bitcoin prices through continuous trading activity unlikely. Moreover, the linkage between the bitcoin markets and the presence of arbitrageurs in those markets means that the manipulation of the price of bitcoin price on any single venue would require manipulation of the global bitcoin price in order to be effective. Arbitrageurs must have funds distributed across multiple bitcoin exchanges in order to take advantage of temporary price dislocations, thereby making it unlikely that there will be strong concentration of funds on any particular bitcoin exchange. As a result, the potential for manipulation on a particular bitcoin exchange would require overcoming the liquidity supply of such arbitrageurs who are effectively eliminating any cross-market pricing differences. For all of these reasons, bitcoin is not particularly susceptible to manipulation, especially as compared to other approved ETP reference assets.

Second, the Exchange believes that the concerns on which Rule 14.11(i)(4)(C)(iv)(b) are based related to ensuring that no single listed derivative and underlying reference asset that is susceptible to manipulation constitutes greater than 35% of the weight of the portfolio are further mitigated by the liquidity that the Exchange expects to exist in the market for Bitcoin Futures Contracts. This belief is based on numerous conversations with market participants, issuers, and discussions with personnel of CFE. This expected liquidity in the market for Bitcoin Futures Contracts combined with the CFE, CME, and Exchange surveillance procedures related to the Bitcoin Futures, the Shares, and CFTC oversight, along with the difficulty in manipulating the bitcoin market described above will mitigate the concerns that Rule 14.11(i)(4)(C)(iv)(b) was designed to protect against and further prevent trading in the Shares from being susceptible to manipulation.

Third, the Exchange believes that the market cap and liquidity of the Non-U.S. Component Stocks held by the Funds along with a cap at 25% of each Fund’s total assets that can be allocated to Non-U.S. Component Stocks would mitigate the concerns which Rules 14.11(i)(4)(C)(i)(b)(3) and (4) are intended to address. Any Non-U.S. Component Stock held by the Funds will have at least $250 million in market cap and will have at least an average of $100 million in monthly trading volume averaged over the past six months. This combination of large market cap with significant trading volume reduces the likelihood of manipulation of any particular security and the cap of 25% of the Fund’s total assets assures that, while the Non-U.S. Component Stock holdings may not meet the concentration and diversity requirements of Rules 14.11(i)(4)(C)(i)(b)(3) and (4), respectively, such diversity and concentration requirements will not be met only for a limited portion of the portfolio.

Further, the Exchange believes that its surveillance procedures are adequate to properly monitor the trading of the Shares during all trading sessions and to deter and detect violations of Exchange rules and the applicable federal securities laws. Additionally, the Bitcoin Futures Contracts will be subject to the rules and surveillance programs of CFE, CME, and the CFTC. Trading of the Shares through the Exchange will be subject to the Exchange’s surveillance procedures for derivative products, including Managed Fund Shares. The Exchange or FINRA, on behalf of the Exchange, will communicate as needed regarding trading in the Shares and the underlying Bitcoin Futures Contracts via 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. The Exchange may also obtain information regarding trading in the spot bitcoin market from other exchanges 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 TRACE. The Exchange prohibits the distribution of material non-public information by its employees. The Exchange believes that its surveillance procedures 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.

If the investment adviser to the investment company issuing Managed Fund Shares is affiliated with a broker-dealer, such investment adviser to the investment company shall erect a “fire wall” between the investment adviser and the broker-dealer with respect to access to information concerning the composition and/or changes to such investment company portfolio. Neither the Adviser nor the Sub-Adviser is registered as a broker-dealer, nor are they currently affiliated with a broker-dealer. The Adviser personnel who make decisions regarding each Fund’s portfolio are subject to procedures designed to prevent the use and dissemination of material nonpublic information regarding each Fund’s portfolio. In the event that (a) the Adviser or Sub-Adviser becomes a broker-dealer or newly affiliated with a broker-dealer, or (b) any new adviser or sub-adviser is a broker-dealer or becomes affiliated with a broker-dealer, the Adviser or Sub-Adviser will implement a fire wall with respect to its relevant personnel or such broker-dealer affiliate, as applicable, 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. At least 90% of the weight of the Bitcoin Derivatives held by each Fund will trade on markets that are a member of ISG or affiliated with a member of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement. The Exchange may obtain information regarding trading in the Shares and the underlying futures contracts held by the Funds via 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 FINRA’s TRACE.

The Exchange further believes that the proposal is designed to prevent fraudulent and manipulative acts and practices in that the Exchange expects that the market for Bitcoin Futures Contracts will be sufficiently liquid to support numerous ETPs shortly after launch. This belief is based on numerous conversations with market participants, issuers, and discussions with personnel of CFE. As such, the Exchange believes that the expected liquidity in the market for Bitcoin Derivatives combined with the Exchange surveillance procedures related to the Shares and the broader regulatory structure will prevent trading in the Shares from being susceptible to manipulation.

Because of its innovative features as a cryptoasset, bitcoin has gained wide acceptance as a secure means of exchange in the commercial marketplace and has generated significant interest among investors. In less than a decade since its creation in 2008, bitcoin has achieved significant market penetration, with payments giant PayPal and thousands of merchants and businesses accepting it as a form of commercial payment, as well as receiving official recognition from several governments, including Japan and Australia. Accordingly, investor interest in gaining exposure to bitcoin is increasing exponentially as well. As expected, the total volume of bitcoin transactions in the market continues to grow exponentially.

Despite the growing investor interest in bitcoin, the primary means for investors to gain access to bitcoin exposure remains either through the Bitcoin Derivatives or direct investment through Bitcoin exchanges or over-the-counter trading. For regular investors simply wishing to express an investment viewpoint in bitcoin, these methods of investment are complex and require active management and direct investment in bitcoin brings with it significant inconvenience, complexity, expense and risk. The Shares would therefore represent a significant innovation in the bitcoin market by providing an inexpensive and simple vehicle for investors to gain long or short exposure to bitcoin in a secure and easily accessible product that is familiar and transparent to investors. Such an innovation would help to perfect the mechanism of a free and open market and, in general, to protect investors and the public interest by improving investor access to bitcoin exposure through efficient and transparent exchange-traded derivative products.

In addition to improved convenience, efficiency and transparency, the Funds will also help to prevent fraudulent and manipulative acts and practices by enhancing the security afforded to investors as compared to a direct investment in bitcoin. Despite the extensive security mechanisms built into the Bitcoin network, a remaining risk to owning bitcoin directly is the need for the holder to retain and protect the "private key" required to spend or sell bitcoin after purchase. If a holder’s private key is compromised or simply lost, their bitcoin can be rendered unavailable—i.e., effectively lost to the investor. This risk will be eliminated by the Long Fund because the exposure to bitcoin is gained through cash-settled Bitcoin Derivatives that do not present any of the security issues that exist with direct investment in bitcoin.

The Funds expect that they will generally seek to remain fully exposed to Bitcoin Derivatives even during times of adverse market conditions. Under Normal Market Conditions, the Funds will generally hold only Bitcoin Derivatives and cash and Cash Equivalents (which are used to collateralize the Bitcoin Derivatives).

Additionally, the Funds may each hold up to an aggregate amount of 15% of its net assets in illiquid assets (calculated at the time of investment). Each 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 assets subject to contract or other restrictions on resale and other instruments that lack readily available markets as determined in accordance with Commission staff guidance.

The proposed rule change is designed to promote just and equitable principles of trade and to protect investors and the public interest in that 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. In addition, a large amount of information is publicly available regarding the Funds and the Shares, thereby promoting market transparency. Moreover, the Intraday Indicative Value will be disseminated by one or more major market data vendors at least every 15 seconds during Regular Trading Hours. On each business day, before commencement of trading in Shares during Regular Trading Hours, the Funds will disclose on its website the Disclosed Portfolio that will form the basis for the Fund’s calculation of NAV at the end of the business day. Pricing information will be available on the Fund’s website, including: (1) The prior business day’s reported NAV, the Bid/Ask Price of the Fund, and a calculation of the premium and discount of the Bid/Ask Price against the NAV, within appropriate ranges, for each of the four previous calendar quarters. Additionally, information regarding market price and trading of the Shares will be continually available on a real-time basis throughout the day on brokers’ computer screens and other electronic services, and quotation and last sale information for the Shares will be available on the facilities of the CTA. The website for the Funds will include a form of the prospectus for the Funds and additional data relating to NAV and other applicable quantitative information. Trading in Shares of the Funds will be halted under the conditions specified in BZX Rule 11.18. Trading may also be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable. Finally, trading in the Shares will be subject to BZX Rule 14.11(i)(4)(B)(iv), which sets forth circumstances under which the Shares of each Fund may be halted. In addition, as noted above, investors will have ready access to information regarding the Fund’s holdings, the Intraday Indicative Value, the Disclosed Portfolio, and quotation and last sale information for the Shares.

Intraday price quotes on Cash Equivalents are available from major
broker-dealer firms and from third-parties, which may provide prices free with a time delay, or “live” with a paid fee. Major broker-dealer firms will also provide intraday quotes on swaps of the type held by the Fund. For Bitcoin Futures Contracts, such intraday information is available directly from the applicable listing exchange. Intraday price information is also available through subscription services, such as Bloomberg and Thomson Reuters, which can be accessed by authorized participants and other investors. Pricing information related to money market fund shares will be available through issuer websites and publicly available quotation services such as Bloomberg, Markit and Thomson Reuters. Money market fund shares are not generally priced or quoted on an intraday basis.

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 additional types of actively-managed exchange-traded products 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 relating to trading in the Shares and may obtain information via ISG from other exchanges that are members of ISG or with which the Exchange has entered into a comprehensive surveillance sharing agreement as well as trade information for certain fixed income instruments as reported to FINRA’s TRACE. At least 90% of the weight of the Bitcoin Derivatives held by the Funds will trade on markets that are a member of ISG or affiliated with a member of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement. In addition, as noted above, investors will have ready access to information regarding the Fund’s holdings, the Intraday Indicative Value, the Disclosed Portfolio, and quotation and last sale information for the Shares. For the above reasons, the Exchange believes that the proposed rule change is consistent with the requirements of Section 6(b)(5) of the Act.

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, rather will facilitate the listing and trading of additional actively-managed exchange-traded products that will enhance competition among both market participants and listing venues, 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

The Exchange has neither solicited nor received written comments on 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 email to rule-comments@sec.gov. Please include File Number SR–CboeBZX–2017–013 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–CboeBZX–2017–013 and be submitted on or before January 25, 2018.

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

Robert W. Errett,
Deputy Secretary.

SECURITIES AND EXCHANGE COMMISSION


Self-Regulatory Organizations; BOX Options Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change To Amend Rule 5050 To Extend the Pilot Program That Lists RealDay Options (“RealDay Pilot Program”)


Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”), and Rule 19b–4 thereunder, notice is hereby given that on December 21, 2017, BOX Options Exchange LLC (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 self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.