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SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-68390; File No. SR-BATS-2012-042)

December 10, 2012

Self-Regulatory Organizations; BATS Exchange, Inc.; Order Granting Approval of Proposed Rule Change to List and Trade Shares of the iShares Sovereign Screened Global Bond Fund

I. Introduction

On October 12, 2012, BATS Exchange, Inc. (“Exchange” or “BATS”) 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 shares (“Shares”) of the iShares Sovereign Screened Global Bond Fund (“Fund”) under BATS Rule 14.11(i). The proposed rule change was published for comment in the Federal Register on October 30, 2012.³ The Commission received no comments on the proposed rule change. This order grants approval of the proposed rule change.

II. Description of the Proposed Rule Change

The Exchange proposes to list and trade Shares of the Fund pursuant to BATS Rule 14.11(i), which governs the listing and trading of Managed Fund Shares on the Exchange. The Shares will be offered by iShares Sovereign Screened Global Bond Fund, Inc. (“Company”),⁴ a

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 68094 (October 24, 2012), 77 FR 65740 (“Notice”).

⁴ See Registration Statement on Form N-1A for the Company, dated March 5, 2012 (File Nos. 333-179905 and 811-22674) (“Registration Statement”). The Commission has issued an order granting certain exemptive relief (“Exemptive Order”) to the Company under the Investment Company Act of 1940. See Investment Company Act Release No. 29571 (January 24, 2011) (File No. 812-13601).

Maryland corporation that is registered with the Commission as an open-end investment company. BlackRock Fund Advisors is the investment adviser (“BFA” or “Adviser”) to the Fund. BlackRock International Limited serves as sub-adviser for the Fund (“Sub-Adviser”).⁵ State Street Bank and Trust Company is the administrator, custodian, and transfer agent for the Company, and BlackRock Investments, LLC is the distributor for the Company. The Exchange states that the Adviser and the Sub-Adviser are both affiliated with multiple broker-dealers and have both implemented fire walls with respect to such broker-dealer affiliates regarding access to information concerning the composition and/or changes to the Fund’s portfolio.⁶

iShares Sovereign Screened Global Bond Fund

The Fund will seek to generate current income while striving to mitigate downside risk by investing principally in global sovereign debt obligations. To achieve its objective, the Fund will invest, under normal circumstances,⁷ at least 80% of its net assets in sovereign government

⁵ The Adviser manages the Fund’s investments and its business operations subject to the oversight of the Board of Directors of the Company (“Board”). While BFA is ultimately responsible for the management of the Fund, it is able to draw upon the trading, research, and expertise of its asset management affiliates for portfolio decisions and management with respect to portfolio securities. Portfolio managers employed by the Adviser are generally responsible for day-to-day management of the Fund and, as such, typically make all decisions with respect to portfolio holdings. The Adviser also has ongoing oversight responsibility. The Sub-Adviser, subject to the supervision and oversight of the Board and BFA, will be primarily responsible for execution of securities transactions outside the United States and Canada and may, from time to time, participate in the management of specified assets in the Fund’s portfolio. The Sub-Adviser may be responsible for the day-to-day management of the Fund.

⁶ See BATS Rule 11.14(i)(7). In the event (a) the Adviser or Sub-Adviser becomes newly affiliated with a broker-dealer, or (b) any new adviser or sub-adviser becomes affiliated with a broker-dealer, they will implement a fire wall with respect to such broker-dealer 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.

⁷ The term “under normal circumstances” includes, but is not limited to, the absence of adverse market, economic, political, or other conditions, including extreme volatility or trading halts in the fixed income markets or the financial markets generally; operational

bonds from both developed and emerging market countries. In the absence of normal circumstances, the Fund may temporarily depart from its normal investment process, provided that such departure is, in the opinion of the portfolio management team of the Fund, consistent with the Fund's investment objective and in the best interest 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.

The Fund will hold sovereign debt obligations of at least 13 non-affiliated issuers. The Fund 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. The Fund will not invest in equity securities.

The Fund intends to qualify each year as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended.⁸

Sovereign Debt

The Fund intends to achieve its investment objective by investing, under normal circumstances, at least 80% of its net assets in bonds denominated in local currencies and the U.S. dollar, issued by governments in both developed and emerging market countries.

issues causing dissemination of inaccurate market information; or force majeure type events such as systems failure, natural or man-made disaster, act of God, armed conflict, act of terrorism, riot or labor disruption, or any similar intervening circumstance.

⁸ 26 U.S.C. 851.

The Fund intends to maintain specific exposure to global government bonds with targeted investment characteristics. The Adviser will utilize a model-based proprietary investment process to assemble the investment portfolio from a defined group of developed and emerging market countries across all credit rating categories, including below investment grade. The investment process primarily will utilize the universe of sovereign debt issuers included in the BlackRock Sovereign Risk Index, a proprietary model that scores countries using a comprehensive list of relevant fiscal, financial, and institutional metrics to assess sovereign credit risk. These country scores, along with other model-driven factors, will be used to construct the Fund's investment portfolio by screening out lower scoring countries and weighting the remaining sovereigns based on their scores. According to the Exchange, as of July 31, 2012, there were 48 countries in the universe of eligible countries, any of which may or may not be held by the Fund.⁹ This proprietary investment process is intended to provide an increased exposure to sovereign debt securities issued by countries with higher credit quality, as defined by the model, than would a fund that seeks to replicate the performance of a broad global government bond index that is weighted more heavily towards countries based on their amount of debt outstanding. According to the Exchange, as of July 31, 2012, the following countries were included in the universe of eligible countries: Argentina, Australia, Austria, Belgium, Brazil, Canada, Chile, China, Colombia, Croatia, the Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, Hungary, India, Indonesia, Ireland, Israel, Italy, Japan, Malaysia, Mexico, the Netherlands, New Zealand, Norway, Peru, the Philippines, Poland, Portugal, Russia, Singapore, Slovakia, Slovenia, South Africa, South Korea, Spain, Sweden, Switzerland, Taiwan,

⁹ Countries must have at least \$5 billion of outstanding debt principal amounts at the beginning of the calendar year in order to be included in the eligible universe.

Thailand, Turkey, the United Kingdom, the United States, and Venezuela.¹⁰ Countries may be added to, eliminated from, or replaced in the universe of eligible countries at any time, and the model may score countries differently over time, which means that countries may be added to, deleted from, or re-weighted within the model.

The universe of sovereign debt currently includes securities that are rated “investment grade” as well as “below investment grade.”¹¹ The Fund will not invest in distressed debt. The Fund expects that, under normal circumstances, the securities included in the Fund will be primarily investment grade. According to the Exchange, as of July 31, 2012, 97% of the securities in the BlackRock Sovereign Risk Index were rated investment grade.

The Fund’s investments will be consistent with the Fund’s investment objective and will not be used to enhance leverage. Under normal circumstances, the effective duration of the Fund’s portfolio is expected to be 5-7 years, as calculated by the Adviser.

Other Portfolio Holdings

While the Fund will invest at least 80% of its net assets in bonds denominated in local currencies and the U.S. dollar issued by governments in both developed and emerging market

¹⁰ According to the Exchange, each country’s approximate value of outstanding debt principal amounts as of July 31, 2012, is as follows (in billions): Argentina \$160; Australia \$246; Austria \$248; Belgium \$421; Brazil \$498; Canada \$865; Chile \$58; China \$1,216; Colombia \$76; Croatia \$22; the Czech Republic \$79; Denmark \$133; Egypt \$116; Finland \$106; France \$1,696; Germany \$1,347; Greece \$169; Hungary \$86; India \$593; Indonesia \$112; Ireland \$109; Israel \$151; Italy \$2,007; Japan \$11,554; Malaysia \$142; Mexico \$379; the Netherlands \$384; New Zealand \$58; Norway \$64; Peru \$27; the Philippines \$98; Poland \$221; Portugal \$143; Russia \$140; Singapore \$136; Slovakia \$40; Slovenia \$18; South Africa \$138; South Korea \$380; Spain \$844; Sweden \$143; Switzerland \$98; Taiwan \$162; Thailand \$104; Turkey \$265; the United Kingdom \$1,878; the United States \$10,743; and Venezuela \$72.

¹¹ When constructing the model, the distribution of ratings across issues in each country will be considered in order to ensure that no single issue is over weighted and that the model is diversified. The ratings-based caps will be imposed on a per country basis, and will be generally as follows: AAA/AA=5%; A=4%; BBB=3%; Junk=2% (ratings are averaged across Moody’s and S&P).

countries, the Adviser expects that, under normal market circumstances, the Fund intends to invest its remaining assets in money market securities (as described below) 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 backed by U.S. government securities; money market mutual funds; 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 becomes unrated, if such money market security is determined by the Adviser or the Sub-Adviser to be of comparable quality.

Additionally, the Fund may hold up to an aggregate amount of 15% of its net assets in illiquid securities (calculated at the time of investment), including Rule 144A securities. 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 securities. Illiquid securities 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.

Pursuant to the Exemptive Order, the Fund will not invest in swap agreements, futures contracts, or option contracts. The Fund may invest in currency forwards for hedging against foreign currency exchange rate risk and/or trade settlement purposes.

Additional information regarding the Shares and the Fund, including investment strategies, risks, creation and redemption procedures, fees and expenses, portfolio holdings disclosure policies, distributions, taxes, and reports to be distributed to beneficial owners of the Shares can be found in the Notice,¹² the Registration Statement,¹³ or on the website for the Fund (www.iShares.com), as applicable.

III. Discussion and Commission's Findings

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of Section 6 of the Act¹⁴ and the rules and regulations thereunder applicable to a national securities exchange.¹⁵ In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,¹⁶ 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

¹² See supra note 3.

¹³ See supra note 4.

¹⁴ 15 U.S.C. 78f.

¹⁵ In approving this proposed rule change, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

¹⁶ 15 U.S.C. 78f(b)(5).

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 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.

The Commission 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,¹⁷ which sets forth Congress's 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. Quotation and last-sale information for the Shares will be available on the facilities of the Consolidated Tape Association ("CTA"). In addition, the Intraday Indicative Value, as defined in BATS Rule 14.11(i)(3)(C), 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.¹⁸ On each business day, before commencement of trading in Shares during Regular Trading Hours on the Exchange, the Fund will disclose on its website the Disclosed Portfolio, as defined in BATS Rule 14.11(i)(3)(B), held by the Fund that will form the basis for the Fund's calculation of NAV at the end of the business day.¹⁹ The NAV of the Fund's Shares generally will be calculated once daily Monday through

¹⁷ 15 U.S.C. 78k-1(a)(1)(C)(iii).

¹⁸ According to the Exchange, several major market data vendors display and/or make widely available Intraday Indicative Values published via the CTA or other data feeds. The Exchange notes that the quotations of certain of the Fund's holdings may not be updated during U.S. trading hours if such holdings do not trade in the United States or if updated prices cannot be ascertained. Further, there may be periods of time during Regular Trading Hours during which the Intraday Indicative Value would be static to the extent securities that comprise the Fund's holdings are not actively trading.

¹⁹ The Disclosed Portfolio will include, as applicable, the names, quantity, percentage weighting, and market value of fixed income securities and other assets held by the Fund and the characteristics of such assets. The website and information will be publicly

Friday as of the close of regular trading on the New York Stock Exchange (generally 4:00 p.m. Eastern Time). 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. Information regarding the previous day's closing price and trading volume information for the Shares will be published daily in the financial section of newspapers. Intraday, executable price quotations on sovereign bonds and other assets are available from major broker-dealer firms. Such intraday information is also available through subscription services, such as Bloomberg, Thomson Reuters, and International Data Corporation. The Fund's website will include a form of the prospectus for the Fund and additional data relating to NAV and other applicable quantitative information.

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 Commission notes that the Exchange will obtain a representation from the issuer of the Shares that the NAV per Share will be calculated daily and that the NAV and the Disclosed Portfolio will be made available to all market participants at the same time.²⁰ In addition, trading in the Shares will be subject to BATS Rule 14.11(i)(4)(B)(iv), which sets forth circumstances under which Shares of the Fund may be halted. The Exchange may halt trading in the Shares if trading is not occurring in the securities and/or the financial instruments comprising the Disclosed Portfolio of the Fund, or if other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present.²¹ Further, the Commission notes that the

available at no charge.

²⁰ See BATS Rule 14.11(i)(4)(A)(ii).

²¹ See BATS Rule 14.11(i)(4)(B)(iii) (providing additional considerations for the

Reporting Authority that provides the Disclosed Portfolio must implement and maintain, or be subject to, procedures designed to prevent the use and dissemination of material, non-public information regarding the actual components of the portfolio.²² The Exchange may obtain information via the Intermarket Surveillance Group (“ISG”) from other exchanges that are members or affiliates of ISG or with which the Exchange has entered into a comprehensive surveillance sharing agreement. The Exchange prohibits the distribution of material, non-public information by its employees. The Exchange also states that the Adviser and the Sub-Adviser are both affiliated with multiple broker-dealers and have both implemented fire walls with respect to such broker-dealer affiliates regarding access to information concerning the composition and/or changes to the Fund’s portfolio.²³

suspension of trading in or removal from listing of Managed Fund Shares on the Exchange). With respect to trading halts, the Exchange may consider other relevant factors in exercising its discretion to halt or suspend trading in the Shares of the Fund. Trading in Shares of the Fund will be halted if the circuit breaker parameters in BATS Rule 11.18 have been reached. Trading also may be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable.

²² See BATS Rule 14.11(i)(4)(B)(ii)(b).

²³ See *supra* note 6. The Commission notes 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 the Sub-Adviser and their 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. 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.

The Exchange represents that the Shares are deemed to be equity securities, thus rendering trading in the Shares subject to the Exchange's existing rules governing the trading of equity securities. 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) The Exchange's surveillance procedures applicable to derivative products, which include Managed Fund Shares, are adequate to properly monitor Exchange trading of the Shares in all trading sessions and to deter and detect violations of Exchange rules and 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 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) a reminder that there may be periods of time during Regular Trading Hours during which the Intraday Indicative Value would be static to the

extent securities that comprise the Fund's holdings are not actively trading; (f) the requirement that members deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction; and (g) trading information.

- (5) For initial and/or continued listing, the Fund must be in compliance with Rule 10A-3 under the Exchange Act.²⁴
- (6) Consistent with the Exemptive Order, the Fund will not invest in options, swaps, or futures. The Fund's investments will be consistent with its investment objective and will not be used to enhance leverage. The Fund will not invest in equity securities.
- (7) Countries must have at least \$5 billion of outstanding debt principal amounts at the beginning of the calendar year in order to be included as an eligible investment.
- (8) The Fund expects that, under normal circumstances, the securities included in the Fund will be primarily investment grade. In addition, the Fund will not invest in distressed debt.
- (9) The Fund may hold up to an aggregate amount of 15% of its net assets in illiquid securities (calculated at the time of investment), including Rule 144A securities.
- (10) A minimum of 100,000 Shares of the Fund will be outstanding at the commencement of trading on the Exchange.

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.

²⁴ 17 CFR 240.10A-3.

For the foregoing reasons, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act²⁵ 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,²⁶ that the proposed rule change (SR-BATS-2012-042) be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁷

Kevin M. O'Neill
Deputy Secretary

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²⁵ 15 U.S.C. 78f(b)(5).

²⁶ 15 U.S.C. 78s(b)(2).

²⁷ 17 CFR 200.30-3(a)(12).