



8011-01p
SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-72571; File No. SR-NYSEArca-2014-30)

July 9, 2014

Self-Regulatory Organizations; NYSE Arca, Inc.; Order Instituting Proceedings to Determine Whether to Approve or Disapprove a Proposed Rule Change Relating to the Listing and Trading of Shares of Hull Tactical US ETF under NYSE Arca Equities Rule 8.600

I. Introduction

On March 24, 2014, NYSE Arca, Inc. (“Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² a proposed rule change to list and trade shares of Hull Tactical US ETF under NYSE Arca Equities Rule 8.600. The proposed rule change was published for comment in the Federal Register on April 11, 2014.³ The Commission received no comments on the proposal. On May 21, 2014, pursuant to Section 19(b)(2) of the Act,⁴ the Commission designated a longer period within which to either approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to disapprove the proposed rule change.⁵ This order institutes proceedings under Section 19(b)(2)(B) of the Act⁶ to determine whether to approve or disapprove the proposed rule change. The institution of

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 71894 (Apr. 7, 2014), 79 FR 20273 (“Notice”).

⁴ 15 U.S.C. 78s(b)(2).

⁵ Securities Exchange Act Release No. 72214 (May 21, 2014), 79 FR 30672 (May 28, 2014). The Commission determined that it was appropriate to designate a longer period within which to take action on the proposed rule change so that it would have sufficient time to consider the proposed rule change. Accordingly, the Commission designated July 10, 2014 as the date by which it should approve, disapprove, or institute proceedings to determine whether to disapprove the proposed rule change.

⁶ 15 U.S.C. 78s(b)(2)(B).

proceedings does not indicate that the Commission has reached any conclusions with respect to any of the issues involved, nor does it mean that the Commission will ultimately disapprove the proposed rule change. Rather, as described in Section III, below, the Commission seeks and encourages interested persons to provide additional comment on the proposed rule change to inform the Commission's analysis of whether to approve or disapprove the proposed rule change.

II. Description of the Proposal

The Exchange proposes to list and trade Shares of the Fund pursuant to NYSE Area Equities Rule 8.600, which governs the listing and trading of Managed Fund Shares on the Exchange. The Shares will be offered by the Exchange Traded Concepts Trust ("Trust"), a Delaware statutory trust. The Trust is registered with the Commission as an investment company.⁷ Exchange Traded Concepts, LLC will be the investment adviser ("Adviser") to the Fund. HTAA, LLC will be the sub-adviser to the Fund ("Sub-Adviser").⁸ SEI Investments Co. will serve as the administrator of the Fund. JP Morgan Chase Bank N.A. will serve as the custodian, transfer agent and dividend disbursing agent of the Fund. SEI Investments Distribution Co. will serve as the distributor for the Trust.

⁷ The Trust is registered under the Investment Company Act of 1940 ("1940 Act"). The Exchange states that on July 26, 2013, the Trust filed with the Commission a post-effective amendment to its registration statement on Form N-1A relating to the Fund (File Nos. 333-156529 and 811-22263) ("Registration Statement"). In addition, the Exchange states that the Commission has issued an order granting certain exemptive relief to the Trust under the 1940 Act. See Investment Company Act Release No.30445 (Apr. 2, 2013) (File No. 812-13969) ("Exemptive Order").

⁸ The Exchange states that neither the Adviser nor the Sub-Adviser is or is affiliated with a broker-dealer. The Exchange states that, in the event (a) the Adviser or Sub-Adviser becomes, or becomes newly affiliated with, a broker-dealer, or (b) any new manager, adviser or sub-adviser is, or becomes affiliated with, a broker-dealer, the adviser or sub-adviser will implement a fire wall with respect to its relevant personnel or broker-dealer affiliate, as applicable, regarding access to information concerning the composition of or changes to the portfolio, and that adviser or sub-adviser will be subject to procedures designed to prevent the use and dissemination of material non-public information regarding such portfolio.

The Exchange has made the following representations and statements in describing the Fund and its investment strategies, including other portfolio holdings and investment restrictions.⁹

General

The investment objective of the Fund will be to seek long-term capital appreciation. The Fund will be actively managed.

Under normal market conditions,¹⁰ the Fund will seek to achieve its investment objective by taking long and short positions¹¹ in one or more exchange traded funds (“ETFs”)¹² that seek to track the performance of the S&P 500 Index (each, an “S&P 500-related ETF”). The ETFs the Fund invests in all will be listed and traded in the U.S. on registered exchanges. Under normal market conditions, substantially all of the Fund’s assets will be invested in one or more

⁹ The Commission notes that additional information regarding the Trust, the Fund, and the Shares, including investment strategies, risks, net asset value (“NAV”) calculation, creation and redemption procedures, fees, Fund holdings disclosure policies, distributions, and taxes, among other information, is included in the Notice and the Registration Statement, as applicable. See Notice and Registration Statement, supra notes 3 and 7, respectively.

¹⁰ The term “under normal market conditions” includes, but is not limited to, the absence of adverse market, economic, political or other conditions, including extreme volatility or trading halts in the equity markets or the financial markets generally; operational issues causing dissemination of inaccurate market information; and 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.

¹¹ Short sales are transactions in which the Fund sells a security it does not own. To complete the transaction, the Fund must borrow or otherwise obtain the security to make delivery to the buyer. The Fund is then obligated to replace the security borrowed by purchasing the security at the market price at the time of replacement. The Fund may use repurchase agreements to satisfy delivery obligations in short sales transactions. The Fund may use up to 100% of its net assets to engage in short sales transactions and collateralize its open short positions.

¹² ETFs are securities registered under the 1940 Act such as those listed and traded on the Exchange under NYSE Arca Equities Rules 5.2(j)(3) (Investment Company Units), 8.100 (Portfolio Depositary Receipts) and 8.600 (Managed Fund Shares).

S&P 500-related ETFs; ETFs that provide leveraged or inverse exposure to the S&P 500 Index; and, to seek the desired exposure to the S&P 500 Index, futures contracts, as well as, as described below, cash instruments.

The Sub-Adviser will utilize a proprietary, analytical investment model that examines current and historical market data to attempt to predict the performance of the S&P 500 Index. The model will deliver investment signals that the Sub-Adviser will use to make investment decisions for the Fund. Depending on the investment signal delivered by the model, the Sub-Adviser will take certain long or short positions in one or more S&P 500-related ETFs: (1) if the model indicates bull-market conditions, the Sub-Adviser will take long positions; or (2) if the model indicates bear-market conditions, the Sub-Adviser will take short positions. When the Fund takes long positions, it may maintain long exposure of up to 200% of net assets; exposure to short positions will be limited to no more than 100% of net assets. The Sub-Adviser will adjust the Fund's long and short positions when necessary to take into account new data from the model that reflects changing market conditions. Positions may be adjusted as the model predictions fluctuate.

The Fund will enter into futures contracts to seek the desired exposure to the S&P 500 Index.¹³ The Fund will limit its investment in futures contracts such that either (1) the aggregate

¹³ To the extent the Fund enters into futures contracts or invests in underlying ETFs that invest in futures, options on futures or other instruments subject to regulation by the U.S. Commodity Futures Trading Commission ("CFTC"), it will do so in reliance upon and in accordance with CFTC Rule 4.5. The Exchange states that the Trust has filed a notice of eligibility for exclusion from the definition of the term "commodity pool operator" in accordance with CFTC Rule 4.5. Therefore, neither the Trust nor any of its series is deemed to be a "commodity pool" or "commodity pool operator" under the Commodity Exchange Act ("CEA"), and they are not subject to registration or regulation as such under the CEA. In addition, neither the Adviser nor the Sub-Adviser is deemed to be a "commodity pool operator" or "commodity trading adviser" with respect to the advisory services it provides to the Fund.

net notional value of its futures investments will not exceed the value of the Fund's net assets, after taking into account unrealized profits and unrealized losses on the futures positions it has entered into; or (2) the aggregate initial margin and premiums required to establish positions in its futures investments will not exceed 5% of the Fund's net assets, after taking into account unrealized profits and unrealized losses on any such positions. The Fund will only enter into futures contracts traded on a national futures exchange regulated by the CFTC. The Fund will trade futures when the Sub-Adviser determines that doing so may provide an efficient means of seeking exposure to the S&P 500 Index that is complimentary to its investment in shares of one or more S&P 500-related ETFs.

In addition to investments in the S&P 500-related ETFs and futures contracts, the Fund may invest up to 10% of its total assets in leveraged ETFs or inverse ETFs that seek to deliver multiples, or the inverse, of the performance of the S&P 500 Index, respectively (collectively with S&P 500-related ETFs, "Underlying ETFs"). Such investments will be made in accordance with the 1940 Act and consistent with the Fund's investment objective and policies, and they will not be used to seek performance that is the multiple or inverse multiple (e.g., 2X or 3X) of any securities market index. The inverse and leveraged ETFs held by the Fund may utilize leverage (i.e., borrowing) to acquire their underlying portfolio investments.¹⁴

The Fund may invest in Underlying ETFs that are primarily index-based ETFs that hold substantially all of their assets in securities representing a specific index. The Fund also may invest in Underlying ETFs that are actively managed. The Underlying ETFs in which the Fund may invest may invest in equity securities. Equity securities consist of common stocks, preferred

¹⁴ The use of leverage may exaggerate changes in an ETF's share price and the return on its investments. Inverse and leveraged ETFs are designed to achieve their objectives for a single day only.

stocks, warrants to acquire common stock, securities convertible into common stock,¹⁵ investments in master limited partnerships (“MLPs”)¹⁶ and rights.¹⁷

The Underlying ETFs in which the Fund may invest may engage in futures and options transactions. The Fund will only invest in Underlying ETFs that engage in futures contracts if such futures contracts are traded on a national futures exchange regulated by the CFTC.

Underlying ETFs in which the Fund may invest may use futures contracts and related options for bona fide hedging; attempting to offset changes in the value of securities held or expected to be acquired or be disposed of; attempting to gain exposure to a particular market, index, or instrument; or other risk management purposes. When an Underlying ETF purchases or sells a futures contract, or sells an option thereon, it is required to cover its position in order to limit leveraging and related risks.

The Underlying ETFs in which the Fund may invest may buy and sell index futures contracts with respect to any index that is traded on a recognized exchange or board of trade.

The Underlying ETFs in which the Fund may invest may purchase and write (sell) put and call options on indices and enter into related closing transactions.¹⁸ All such options written on indices or securities must be covered by the Underlying ETF.

¹⁵ Convertible securities are bonds, debentures, notes, preferred stocks, or other securities that may be converted or exchanged (by the holder or by the issuer) into shares of the underlying common stock (or cash or securities of equivalent value) at a stated exchange ratio.

¹⁶ MLPs are limited partnerships in which the ownership units are publicly traded. MLP units are registered with the Commission and are freely traded on a securities exchange or in the over-the-counter market.

¹⁷ A right is a privilege granted to existing shareholders of a corporation to subscribe to shares of a new issue of common stock before it is issued. Rights normally have a short life of usually two to four weeks.

¹⁸ A put option on a security gives the purchaser of the option the right to sell, and the writer of the option the obligation to buy, the underlying security. A call option on a

An Underlying ETF in which the Fund may invest may trade put and call options on securities, securities indices, and currencies, as the Underlying ETF's investment adviser determines is appropriate in seeking the ETF's investment objective, and except as restricted by the Underlying ETF's investment limitations. An Underlying ETF may purchase put and call options on securities to protect against a decline in the market value of the securities in its portfolio or to anticipate an increase in the market value of securities that the Fund may seek to purchase in the future. An Underlying ETF may write covered call options on securities as a means of increasing the yield on its assets and as a means of providing limited protection against decreases in its market value. An Underlying ETF may purchase and write options on an exchange or over-the-counter.

The Underlying ETFs in which the Fund may invest may enter into swaps, including, but not limited to, total return swaps, index swaps, and interest rate swaps. An Underlying ETF may utilize swaps in an attempt to gain exposure to the securities in a market without actually purchasing those securities, or to hedge a position.¹⁹ The Underlying ETFs in which the Fund may invest may enter into swaps to invest in a market without owning or taking physical custody of the underlying securities in circumstances in which direct investment is restricted for legal reasons or is otherwise impracticable.

security gives the purchaser of the option the right to buy, and the writer of the option the obligation to sell, the underlying security. Put and call options on indices are similar to options on securities except that options on an index give the holder the right to receive, upon exercise of the option, an amount of cash if the closing level of the underlying index is greater than (or less than, in the case of puts) the exercise price of the option.

¹⁹ Forms of swaps include interest rate caps, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates exceed a specified rate, or "cap"; interest rate floors, under which, in return for a premium, one party agrees to make payments to the other to the extent that interest rates fall below a specified level, or "floor"; and interest rate collars, under which a party sells a cap and purchases a floor or vice versa in an attempt to protect itself against interest rate movements exceeding given minimum or maximum levels.

During periods when the Fund's assets (or portion thereof) are not fully invested in one or more S&P 500-related ETFs or otherwise exposed to the S&P 500 Index, all or a portion of the Fund may be invested in cash instruments ("Cash Instruments"), which include U.S. Treasury obligations; cash and cash equivalents including commercial paper, certificates of deposit and bankers' acceptances; repurchase agreements;²⁰ shares of money market mutual funds; and high-quality, short-term debt instruments including, in addition to U.S. Treasury obligations, other U.S. government securities.²¹

Other Investments

In addition to the investments described above, the Fund may invest in other investments, as described below.

²⁰ The Fund may enter into repurchase agreements with financial institutions, which may be deemed to be loans. The Fund will effect repurchase transactions only with large, well-capitalized, and well established financial institutions whose condition will be continually monitored by the Sub-Advisor. In addition, the value of the collateral underlying the repurchase agreement will always be at least equal to the repurchase price, including any accrued interest earned on the repurchase agreement.

²¹ Securities issued or guaranteed by the U.S. government or its agencies or instrumentalities include U.S. Treasury securities, which are backed by the full faith and credit of the U.S. Treasury and which differ only in their interest rates, maturities, and times of issuance. Certain U.S. government securities are issued or guaranteed by agencies or instrumentalities of the U.S. government including, but not limited to, obligations of U.S. government agencies or instrumentalities such as the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac"), the Government National Mortgage Association ("Ginnie Mae"), the Federal Home Loan Banks, and other agencies or instrumentalities. Some obligations issued or guaranteed by U.S. government agencies and instrumentalities, including, for example, Ginnie Mae pass-through certificates, are supported by the full faith and credit of the U.S. Treasury. Other obligations issued by or guaranteed by federal agencies or instrumentalities, such as those securities issued by Fannie Mae, are supported by the discretionary authority of the U.S. government to purchase certain obligations of the federal agency or instrumentality, while other obligations issued by or guaranteed by federal agencies or instrumentalities, such as those of the Federal Home Loan Banks, are supported by the right of the issuer to borrow from the U.S. Treasury. The Fund may invest in U.S. Treasury zero-coupon bonds.

In the absence of normal market conditions,²² the Fund may invest 100% of its assets, without limitation, in Cash Instruments. The Fund may be invested in this manner for extended periods, depending on the Sub-Adviser's assessment of market conditions.

In addition to the Underlying ETFs discussed above, which are primary investments of the Fund, the Fund will invest in money market mutual funds, to the extent that such an investment would be consistent with the requirements of Section 12(d)(1) of the 1940 Act, or any rule, regulation, or order of the Commission or interpretation thereof.

Restrictions on Investment

The Fund may not purchase or sell commodities or commodity contracts unless acquired as a result of ownership of securities or other instruments issued by persons that purchase or sell commodities or commodities contracts, but this shall not prevent the Fund from entering into futures contracts.

The Fund will not directly enter into swaps or engage in options transactions.

The Fund may not, with respect to 75% of its total assets, purchase securities of any issuer (except securities issued or guaranteed by the U.S. government, its agencies, or its instrumentalities or shares of investment companies) if, as a result, more than 5% of its total assets would be invested in the securities of such issuer.

The Fund may not acquire more than 10% of the outstanding voting securities of any one issuer.

The Fund may not invest 25% or more of its total assets in the securities of one or more issuers conducting their principal business activities in the same industry or group of industries.

²² See note 10, supra.

This limitation does not apply to investments in securities issued or guaranteed by the U.S. government, its agencies or instrumentalities, or shares of investment companies.

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 securities deemed illiquid by the Adviser or Sub-Adviser consistent with Commission guidance²³ and repurchase agreements that do not mature within seven days. 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.

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

III. Proceedings to Determine Whether to Approve or Disapprove File No. SR-NYSEArca-2014-30 and Grounds for Disapproval Under Consideration

The Commission is instituting proceedings pursuant to Section 19(b)(2)(B) of the Act²⁴ to determine whether the proposed rule change should be approved or disapproved. Institution of such proceedings is appropriate at this time in view of the legal and policy issues raised by the proposed rule change, as discussed below. As noted above, institution of proceedings does not

²³ In reaching liquidity decisions, the Adviser and Sub-Adviser may consider the following factors: the frequency of trades and quotes for the security; the number of dealers wishing to purchase or sell the security and the number of other potential purchasers; dealer undertakings to make a market in the security; and the nature of the security and the nature of the marketplace in which it trades (e.g., the time needed to dispose of the security, the method of soliciting offers, and the mechanics of transfer).

²⁴ 15 U.S.C. 78s(b)(2)(B).

indicate that the Commission has reached any conclusions with respect to any of the issues involved. Rather, as described below, the Commission seeks and encourages interested persons to provide comments on the proposed rule change to inform the Commission's analysis of whether to approve or disapprove the proposed rule change.

Pursuant to Section 19(b)(2)(B) of the Act,²⁵ the Commission is providing notice of the grounds for disapproval under consideration. As discussed above, under normal market conditions, the Fund would seek to achieve its investment objective of long-term capital appreciation by taking long and short positions in one or more S&P 500-related ETFs. When the Fund takes long positions in one or more S&P 500-related ETFs, it could maintain long exposure of up to 200% of net assets.²⁶ The Commission believes that the ability of the Fund to maintain long exposure of up to 200% of net assets is a novel issue with respect to actively managed funds and warrants additional consideration. Accordingly, the Commission is instituting proceedings to allow for additional analysis of the proposed rule change's consistency with Section 6(b)(5) of the Act, which requires, among other things, that the rules of a national securities exchange be "designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade," and "to protect investors and the public interest."²⁷

IV. Procedure: Request for Written Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with Section 6(b)(5) of the Act or any other provision of the Act, or the rules and regulations thereunder. Although there do not appear to be any issues relevant to approval or disapproval which would be facilitated by

²⁵ Id.

²⁶ Short positions will be limited to no more than 100% of net assets.

²⁷ 15 U.S.C. 78f(b)(5).

an oral presentation of views, data, and arguments, the Commission will consider, pursuant to Rule 19b-4, any request for an opportunity to make an oral presentation.²⁸

Interested persons are invited to submit written data, views, and arguments regarding whether the proposal should be approved or disapproved by [insert date 21 days from publication in the Federal Register]. Any person who wishes to file a rebuttal to any other person's submission must file that rebuttal by [insert date 35 days from publication in the Federal Register].

Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NYSEArca-2014-30 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-NYSEArca-2014-30. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the

²⁸ Section 19(b)(2) of the Act, as amended by the Securities Act Amendments of 1975, Pub. L. 94-29 (June 4, 1975), grants the Commission flexibility to determine what type of proceeding – either oral or notice and opportunity for written comments – is appropriate for consideration of a particular proposal by a self-regulatory organization. See Securities Act Amendments of 1975, Senate Comm. on Banking, Housing & Urban Affairs, S. Rep. No. 75, 94th Cong., 1st Sess. 30 (1975).

proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer

to File Number SR-NYSEArca-2014-30 and should be submitted on or before [insert date 21 days from publication in the Federal Register]. Rebuttal comments should be submitted by [insert date 35 days from date of publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.²⁹

Kevin M. O'Neill,
Deputy Secretary.

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²⁹ 17 CFR 200.30-3(a)(12) and 17 CFR 200.30-3(a)(57).