



8011-01p
SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-78728; File No. SR-NYSEArca-2016-63)

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 BlackRock Government Collateral Pledge Unit Under NYSE Arca Equities Rule 8.600

August 30, 2016

I. Introduction

On May 19, 2016, 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 the BlackRock Government Collateral Pledge Unit. The proposed rule change was published for comment in the **Federal Register** on June 2, 2016.³ On July 14, 2016, pursuant to section 19(b)(2) of the Act,⁴ the Commission designated a longer period within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to disapprove the proposed rule change.⁵ The Commission has received no comments on the proposed rule change. This order institutes proceedings under section 19(b)(2)(B) of the Act⁶ to determine whether to approve or disapprove the proposed rule change.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 77941 (May 27, 2016), 81 FR 35425 (“Notice”).

⁴ 15 U.S.C. 78s(b)(2).

⁵ See Securities Exchange Act Release No. 78328, 81 FR 47222 (July 20, 2016). The Commission designated August 31, 2016 as the date by which the Commission shall either approve or disapprove, or institute proceedings to determine whether to disapprove, the proposed rule change.

⁶ 15 U.S.C. 78s(b)(2)(B).

II. Exchange's Description of the Proposal

The Exchange proposes to list and trade shares (“Shares”) of the BlackRock Government Collateral Pledge Unit (“Fund”) under NYSE Arca Equities Rule 8.600, which governs the listing and trading of Managed Fund Shares. The Fund is a series of the BlackRock Collateral Trust (“Trust”), a Delaware statutory trust.⁷ BlackRock Fund Advisors is the investment advisor for the Fund (“Adviser”). State Street Bank and Trust Company is the administrator, custodian, and transfer agent for the Fund. BlackRock Investments, LLC will be the Fund’s distributor. The Exchange represents that the Adviser is not registered as a broker-dealer, but is affiliated with two broker-dealers. According to the Exchange, the Adviser has implemented and will maintain a fire wall with respect to its affiliated broker-dealers regarding access to information concerning the composition of, and changes to, the Fund’s portfolio.⁸ In the event (a) the Adviser becomes

⁷ The Exchange represents that the Trust is registered under the Investment Company Act of 1940 (“1940 Act”). According to the Exchange, on April 7, 2016, the Trust filed with the Commission its registration statement on Form N-1A under the Securities Act of 1933 (“Securities Act”) and the 1940 Act relating to the Fund (File Nos. 333-210648 and 811-23154) (“Registration Statement”). The Exchange also states that the Trust and the Adviser (as defined herein) have obtained certain exemptive relief under the 1940 Act. See Investment Company Act Release No. 29571 (January 24, 2011) (File No. 812-13601) (“Exemptive Order”). The Exchange represents that the Fund will be offered in reliance upon the Exemptive Order.

⁸ The Exchange further represents that an investment adviser to an open-end fund is required to be registered under the Investment Advisers Act of 1940 (“Advisers Act”). As a result, the Adviser and its related personnel are subject to the provisions of Rule 204A-1 under the Advisers Act relating to codes of ethics. This Rule requires investment advisers to adopt a code of ethics that reflects the fiduciary nature of the relationship to clients as well as compliance with other applicable securities laws. Accordingly, procedures designed to prevent the communication and misuse of non-public information by an investment adviser must be consistent with Rule 204A-1 under the Advisers Act. The Exchange represents that the Adviser and its related personnel are subject to Advisers Act Rule 204A-1. 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)

registered as a broker-dealer or newly affiliated with a broker-dealer, or (b) any new adviser or sub-adviser becomes registered as a broker-dealer or newly affiliated with a broker-dealer, it will implement a fire wall with respect to its relevant personnel or such broker-dealer affiliate regarding access to information concerning the composition of, and changes to, the portfolio, and will be subject to procedures designed to prevent the use and dissemination of material non-public information regarding such portfolio.

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

A. Exchange's Description of the Fund's Principal Investments

According to the Exchange, the Fund's investment objective will be to seek to provide as high a level of current income as is consistent with liquidity and minimum volatility of principal. The Fund will seek to achieve its investment objective by investing, under normal circumstances,¹⁰ at least 80% of its net assets in a portfolio of U.S. dollar-denominated short-

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.

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 circumstances" includes, but is not limited to, the absence of extreme volatility or trading halts in the fixed income securities markets or the financial markets generally; circumstances under which the Fund's investments are made for temporary defensive purposes; operational issues causing dissemination of inaccurate market information; or force majeure type events such as systems failure, natural or man-

term government securities and other money market securities eligible for investment by U.S. government money market funds that seek to maintain a stable net asset value (including indirect investments through the “Underlying Funds,” as defined below).

Under normal circumstances, the Fund intends to invest a substantial portion of its assets in the following government money market funds (individually, “Underlying Fund,” and together, collectively, “Underlying Funds”), which principally invest in short-term U.S. Treasury bills, notes, and other obligations issued or guaranteed as to principal and interest by the U.S. government or its agencies or instrumentalities, and repurchase agreements secured by such obligations or cash:¹¹ (1) FedFund and T-Fund (each, a series of BlackRock Liquidity Funds); and (2) BlackRock Premier Government Institutional Fund and BlackRock Select Treasury Strategies Institutional Fund (each, a series of Funds For Institutions Series).¹² The Adviser may add, eliminate, or replace any or all Underlying Funds at any time. Any additions to, or replacements for, the Underlying Funds will also be government money market funds with substantially similar investment characteristics as those applicable to the Underlying Funds. The Adviser or its affiliates may advise the Underlying Funds. The Fund generally will allocate and reallocate its assets among the Underlying Funds on a monthly basis on an approximate pro rata basis based on the amount of net assets of each Underlying Fund, subject to minimum investment amounts or other constraints on the Underlying Funds.

made disaster, act of God, armed conflict, act of terrorism, riot or labor disruption or any similar intervening circumstance.

¹¹ Each Underlying Fund is a “government money market fund,” as defined in Rule 2a-7 under the 1940 Act and seeks to maintain a stable NAV of \$1.00. The Fund, however, will not be a money market fund and will not seek to maintain a stable NAV of \$1.00.

¹² According to the Exchange, the Underlying Funds invest in securities maturing in 397 days (13 months) or less (with certain exceptions) and their portfolios will have a dollar-weighted average maturity of 60 days or less and a dollar-weighted average life of 120 days or less.

The Fund and certain Underlying Funds may invest in various types of U.S. government obligations. The Fund and the Underlying Funds may invest in variable and floating rate instruments. The Fund and the Underlying Funds may transact in securities on a when-issued, delayed delivery, or forward commitment basis. The Fund and the Underlying Funds may invest in repurchase agreements that are secured by either obligations issued or guaranteed as to principal and interest by the U.S. government or agencies or instrumentalities, or by cash.

The securities purchased by the Fund will comply with the quality and eligibility requirements of Rule 2a-7 under the 1940 Act. The securities purchased by the Underlying Funds will comply with all requirements of Rule 2a-7 and other rules of the Commission applicable to money market funds that seek to maintain a stable NAV per share. The Fund itself will invest only in money market securities eligible for investment for funds that comply with Rule 2a-7, but will not be subject to other requirements of Rule 2a-7 applicable to money market funds that seek to maintain a stable NAV.

B. Exchange's Description of the Fund's Other Investments

While the Fund, under normal circumstances, will invest at least 80% of its net assets in the securities and financial instruments described above, the Fund may invest its remaining assets in other assets and financial instruments, as described below.

The Fund and the Underlying Funds may invest in certain U.S. government obligations other than those referenced in the Principal Investments section above, namely Treasury receipts where the principal and interest components are traded separately under the Separate Trading of Registered Interest and Principal of Securities (STRIPS) program. The Fund and certain Underlying Funds also may invest in reverse repurchase agreements. In addition, the Fund may

invest in the securities of other investment companies (including money market funds) to the extent permitted by law, regulation, exemptive order, or Commission staff guidance.

C. Exchange's Description of the Fund's Investment Restrictions

According to the Exchange, the Fund will be classified as "diversified" pursuant to the diversification standard set forth in section 5(b)(1) of the 1940 Act.

The Fund intends to maintain the required level of diversification and otherwise conduct its operations so as to qualify as a regulated investment company for purposes of the U.S. Internal Revenue Code of 1986, as amended.

The Fund may invest up to an aggregate amount of 15% of its net assets in illiquid assets (calculated at the time of investment). Each Underlying Fund may invest up to an aggregate amount of 5% of its net assets in illiquid 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 assets. Illiquid assets include securities subject to contractual or other restrictions on resale and other instruments that lack readily available markets as determined in accordance with Commission staff guidance.

The Exchange represents that the Fund will not invest in futures, options, swaps, or forward contracts. The Exchange further represents that the Fund's investments will be consistent with the Fund's investment objective and will not be used to enhance leverage. That is, while the Fund will be permitted to borrow as permitted under the 1940 Act, the Fund's investments will not be used to seek performance that is the multiple or inverse multiple (e.g.,

2x and 3x) of the Fund’s primary broad-based securities benchmark index (as defined in Form N-1A).

III. Proceedings to Determine Whether to Approve or Disapprove SR-NYSEArca-2016-63 and Grounds for Disapproval Under Consideration

The Commission is instituting proceedings pursuant to section 19(b)(2)(B) of the Act¹³ 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. Institution of proceedings does not 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.

Pursuant to section 19(b)(2)(B) of the Act,¹⁴ the Commission is providing notice of the grounds for disapproval under consideration. 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.”¹⁵

Under the proposal, the NAV for the Fund’s Shares would generally be calculated as of 12:00 p.m., Eastern Time, on each day the New York Stock Exchange is open for trading. The cutoff time for the submission of creation and redemption orders for the Shares would also generally be 12:00 p.m., Eastern Time. The Commission notes the proposal does not provide any

¹³ 15 U.S.C. 78s(b)(2)(B).

¹⁴ Id.

¹⁵ 15 U.S.C. 78f(b)(5).

explanation for the early NAV calculation time and creation and redemption cutoff time. The proposal also does not explain whether the early NAV calculation time and creation and redemption cutoff time would have any impact on the trading of the Shares, including any impact on arbitrage. Accordingly, the Commission seeks commenters' views on the 12:00 p.m. NAV calculation time and creation and redemption cutoff time, and on whether the Exchange's statements relating to the NAV calculation and the creation and redemption process support a determination that the listing and trading of the Shares would be consistent with section 6(b)(5) of the Act, which, among other things, requires that the rules of an 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.

IV. Procedure: Request for Written Comments

The Commission requests that interested persons provide written submissions of their views, data, and arguments with respect to the issues identified above, as well as any other concerns they may have with the proposal. In particular, the Commission invites the written views of interested persons concerning whether the proposal is consistent with section 6(b)(5) 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 that would be facilitated by 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.¹⁶

¹⁶ Section 19(b)(2) of the Act, as amended by the Securities Acts 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 Acts Amendments of 1975, Senate Comm. on Banking, Housing & Urban Affairs, S. Rep. No. 75, 94th Cong., 1st Sess. 30 (1975).

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 DATE OF 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 DATE OF PUBLICATION IN THE FEDERAL REGISTER]**. The Commission asks that commenters address the sufficiency of the Exchange's statements in support of the proposal, which are set forth in the Notice,¹⁷ in addition to any other comments they may wish to submit about the proposed rule change.

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-2016-63 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-2016-63. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the

¹⁷ See supra note 3.

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-2016-63 and should be submitted on or before **[INSERT DATE 21 DAYS FROM DATE OF 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.¹⁸

Robert W. Errett,
Deputy Secretary.

¹⁸ 17 CFR 200.30-3(a)(57).

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