



8011-01P

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-83152; File No. SR-CboeBZX-2018-018]

Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Notice of Filing of a Proposed Rule Change to List and Trade Shares of the Principal Morley Short Duration Index ETF Under Rule 14.11(c)(4)

May 2, 2018

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),¹ and Rule 19b-4 thereunder,² notice is hereby given that on April 23, 2018, Cboe BZX Exchange, Inc. (“Exchange” or “BZX”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange filed a proposal to list and trade under BZX Rule 14.11(c)(4) the shares of the Principal Morley Short Duration Index ETF (the “Fund”) of Principal Exchange-Traded Funds (the “Trust”).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

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 Fund (“Shares”) under BZX Rule 14.11(c)(4),³ which governs the listing and trading of index fund shares based on fixed income securities indexes.⁴ The Shares will be offered by the Trust, which was established as a Delaware

³ The Commission approved BZX Rule 14.11(c) in Securities Exchange Act Release No. 65225 (August 30, 2011), 76 FR 55148 (September 6, 2011) (SR-BATS-2011-018).

⁴ The Commission previously has approved proposed rule changes relating to listing and trading of funds based on municipal bond indexes. See Securities Exchange Act Release Nos. 78329 (July 14, 2016), 81 FR 47217 (July 20, 2016) (SR-BatsBZX-2016-01) (order approving the listing and trading of the following series of VanEck Vectors ETF Trust: VanEck Vectors AMT-Free 6-8 Year Municipal Index ETF; VanEck Vectors AMT-Free 8-12 Year Municipal Index ETF; and VanEck Vectors AMT-Free 12-17 Year Municipal Index ETF); 67985 (October 4, 2012), 77 FR 61804 (October 11, 2012) (SR–NYSEArca–2012–92) (order approving proposed rule change relating to the listing and trading of iShares 2018 S&P AMT-Free Municipal Series and iShares 2019 S&P AMT-Free Municipal Series under NYSE Arca, Inc. (“NYSE Arca”) Rule 5.2(j)(3), Commentary .02); 72523 (July 2, 2014), 79 FR 39016 (July 9, 2014) (SR-NYSEArca-2014-37) (order approving proposed rule change relating to the listing and trading of iShares 2020 S&P AMT-Free Municipal Series under NYSE Arca Rule 5.2(j)(3),

statutory trust on March 05, 2013. The Trust is registered with the Commission as an open-end investment company and has filed a registration statement on behalf of the Fund on Form N-1A (“Registration Statement”) with the Commission.⁵ All statements and representations made in this filing regarding the index composition, the description of the portfolio or reference assets, limitations on portfolio holdings or reference assets, dissemination and availability of index, reference asset, and intraday indicative values, and the applicability of Exchange rules specified in this filing shall constitute continued listing requirements for the Fund.

Description of the Shares and the Fund

Principal Global Investors, LLC will be the investment adviser (the “Adviser”) to the Fund and Morley Capital Management will be the sub-adviser (the “Sub-Adviser”) to the Fund.⁶

Commentary .02); and 75468 (July 16, 2015), 80 FR 43500 (July 22, 2015) (SR-NYSEArca-2015-25) (order approving proposed rule change relating to the listing and trading of the iShares iBonds Dec 2021 AMT-Free Muni Bond ETF and iShares iBonds Dec 2022 AMT-Free Muni Bond ETF under NYSE Arca Rule 5.2(j)(3), Commentary .02). The Commission also has issued a notice of filing and immediate effectiveness of a proposed rule change relating to listing and trading on NYSE Arca of the iShares Taxable Municipal Bond Fund. See Securities Exchange Act Release No. 63176 (October 25, 2010), 75 FR 66815 (October 29, 2010) (SR-NYSEArca-2010-94). The Commission has approved two actively managed funds of the PIMCO ETF Trust that hold municipal bonds. See Securities Exchange Act Release No. 60981 (November 10, 2009), 74 FR 59594 (November 18, 2009) (SR-NYSEArca-2009-79) (order approving listing and trading of PIMCO ShortTerm Municipal Bond Strategy Fund and PIMCO Intermediate Municipal Bond Strategy Fund, among others). The Commission also has approved listing and trading of the SPDR Nuveen S&P High Yield Municipal Bond Fund. See Securities Exchange Act Release No.63881 (February 9, 2011), 76 FR 9065 (February 16, 2011) (SR-NYSEArca-2010-120).

⁵ See Registration Statement on Form N-1A for the Trust, dated September 1, 2017 (File Nos. 333- 201935 and 811- 23029). The descriptions of the Fund and the Shares contained herein are based, in part, on information in the Registration Statement. The Commission has issued an order granting certain exemptive relief to the Trust under the Investment Company Act of 1940 (15 U.S.C. 80a-1) (“1940 Act”) (the “Exemptive Order”). See Investment Company Act Release No. 31872 (October 19, 2015) (File No. 812-14509).

⁶ An investment adviser to an open-end fund is required to be registered under the Investment Advisers Act of 1940 (the “Advisers Act”). As a result, the Adviser and its

The Adviser will serve as the administrator for the Fund (the “Administrator”). The State Street Bank and Trust Company will serve as the custodian (“Custodian”), transfer agent (“Transfer Agent”) and sub-administrator (“Sub-Administrator) for the Fund. ALPS Distributors, Inc. (the “Distributor”) will be the distributor of the Shares. Neither the Adviser nor the Sub-Adviser is registered as a broker-dealer, but they are affiliated with broker-dealers, [sic] Both the Advisor and Sub-Advisor has [sic] implemented and will maintain a fire wall with respect to such broker-dealer affiliates 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. Adviser and Sub-Adviser personnel who make decisions regarding the Fund’s portfolio are subject to procedures designed to prevent the use and dissemination of material nonpublic information regarding the Fund’s portfolio. In the event that (a) the Adviser or Sub-Adviser becomes registered as a broker-dealer or newly affiliated with a broker-dealer; or (b) any new adviser or sub-adviser is a registered broker-dealer or becomes affiliated with a broker-dealer; the Adviser and Sub-Adviser will implement a fire wall with respect to relevant personnel or such broker-dealer affiliate, as applicable, regarding

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 all 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.

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.

The ICE BofA Merrill Lynch Low Duration U.S. ABS & CMBS Equal Par Index

The Fund seeks to provide investment results that seek to replicate, before expenses, to [sic] the performance of The ICE BofA Merrill Lynch Low Duration U.S. ABS & CMBS Equal Par Index (the “Index”). The Index is designed to provide exposure to investment-grade securitized products issued in the U.S., including ABS⁷ and CMBS.⁸ To qualify for inclusion in the Index, eligible securities must be a component of the The ICE BofA Merrill Lynch US ABS & CMBS Index (the “Feeder Index”). Such securities are then selected and weighted based upon the Index methodology discussed below.

Feeder Index

In order to be included in the Feeder Index, a security (whether ABS or CMBS) must meet the following criteria (the “Basic Criteria”):

- be rated investment-grade (based on an average of Moody’s, S&P Global, and Fitch);
- have a term of at least one year remaining until final stated maturity; and have at least one month to the last expected cash flow; and
- inverse floating rate, interest only, and principal only securities are excluded.

In addition to the Basic Criteria, an ABS must meet the following criteria:

⁷ For purposes of this filing, the term “ABS” shall mean fixed and floating rate debt securities secured by non-mortgage assets.

⁸ For purposes of this filing, the term “CMBS” shall mean fixed rate debt securities secured by first mortgages on commercial real estate.

- must issue a fixed or floating rate coupon;
- must have an original deal size for the collateral group⁹ of at least \$250 million;
- must have a current outstanding deal size for the collateral group greater than or equal to 10% of the original deal size; and
- a minimum current outstanding tranche size of \$50 million for senior tranches and \$10 million current amount outstanding for mezzanine and subordinated tranches.

In addition to the Basic Criteria, a CMBS (which may include U.S. agency CMBS) must also meet the following criteria:

- must issue a fixed coupon schedule;
- must have an original deal size for the collateral group of at least \$250 million;
- must have a current outstanding deal size for the collateral group that is greater than or equal to 10% of the original deal size; and
- must have a minimum outstanding tranche size of \$50 million for senior tranches and \$10 million for mezzanine and subordinated tranches.

Index Methodology

All securities in the Feeder Index are screened for inclusion/exclusion in the Index based on the following criteria:

- ABS related to home equity and manufactured housing are excluded;
- CMBS securities that are rated less than AAA credit quality (based on an average of Moody's, S&P Global and Fitch) are excluded;

⁹ A collateral group describes the assets (receivables) that are held by the special purpose vehicle ("SPV") issuing the ABS securities. The collateral group provides the source of payment for the SPV's liabilities (i.e. ABS securities). Typically, an SPV will include assets greater than its liabilities as a form of credit enhancement.

- CMBS securities that are issued prior to December 31, 2010 are excluded;
- Securities must have a modified duration to worst that is less than or equal to 5 years for initial [sic] inclusion in the Index, although once included, the security remains in the Index provided the remaining criteria are met.

The qualifying securities are assigned equal par amounts with a 70% allocation given to ABS securities and a 30% allocation given to CMBS securities. The Index rebalances on a monthly basis.

The Exchange is submitting this proposed rule change because the Index for the Fund does not meet all of the “generic” listing requirements of Rule 14.11(c)(4) applicable to the listing of index fund shares based on fixed income securities indexes. The Index meets all such requirements except for those set forth in Rule 14.11(c)(4)(B)(i)(b)¹⁰ and 14.11(c)(4)(B)(i)(f).¹¹ Specifically, as of February 22, 2018, 57.9% of the weight of the Index components have a minimum original principal amount outstanding of \$100 million or more and 68.0% of the weight of the Index components met the requirements of Rule 14.11(c)(4)(B)(i)(f).

As of February 22, 2018, there were 2,693 constituents in the Index.

Principal Morley Short Duration Index ETF

¹⁰ Rule 14.11(c)(4)(B)(i)(b) provides that components that in the aggregate account for at least 75% of the weight of the index or portfolio each shall have a minimum original principal amount outstanding of \$100 million or more.

¹¹ Rule 14.11(c)(4)(B)(i)(f) provides that component securities that in aggregate account for at least 90% of the Fixed Income Securities portion of the weight of the index or portfolio must be either: (1) from issuers that are required to file reports pursuant to Sections 13 and 15(d) of the Act; (2) from issuers that have a worldwide market value of its outstanding common equity held by non-affiliates of \$700 million or more; (3) from issuers that have outstanding securities that are notes, bonds, debentures, or evidence of indebtedness having a total remaining principal amount of at least \$1 billion; (4) exempted securities as defined in section 3(a)(12) of the Act; or (5) from issuers that are a government of a foreign country or a political subdivision of a foreign country.

According to the Registration Statement, the Fund will seek to provide investment results that closely correspond, before expenses, to the performance of the Index. Under Normal Market Conditions,¹² the Fund will invest at least 80% of its net assets, plus any borrowings for investment purposes, in ABS and CMBS that compose the Index at the time of purchase.

¹² The term “Normal Market Conditions” includes, but is not limited to, the absence of trading halts in the applicable financial markets generally; 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, act of terrorism, riot or labor disruption, or any similar intervening circumstance.

Other Portfolio Holdings

While the Fund normally will invest at least 80% of its net assets, plus any borrowings for investment purposes, in ABS and CMBS that compose the Index, as described above, the Fund may invest its remaining assets in securities not included in the Index including only the following instruments: ABS and CMBS not included in the Index; cash and cash equivalents;¹³ Treasury Securities with a maturity of three months or greater; centrally cleared, index-based credit default swaps;¹⁴ and, to the extent permitted by the 1940 Act, other exchange-traded funds (“ETFs”).¹⁵

Discussion

The Exchange is submitting this proposed rule change because the Index for the Fund does not meet all of the “generic” listing requirements of Rule 14.11(c)(4) applicable to the listing of index fund shares based on fixed income securities indexes. The Index meets all such

¹³ For purposes of this filing, 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.

¹⁴ Centrally cleared swaps are cleared through a central clearinghouse and, as such, the counterparty risk traditionally associated with over-the-counter swaps is eliminated.

¹⁵ For purposes of this filing, ETFs include Index Fund Shares (as described in Rule 14.11(c)); Portfolio Depositary Receipts (as described in Rule 14.11(b)); and Managed Fund Shares (as described in Rule 14.11(i)). The ETFs all will be listed and traded in the U.S. on registered exchanges. The Fund may invest in the securities of ETFs registered under the 1940 Act 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. The Fund will not invest in leveraged or inverse leveraged (e.g., 2X, -2X, 3X or -3X) ETFs.

requirements except for those set forth in Rule 14.11(c)(4)(B)(i)(b)¹⁶ and 14.11(c)(4)(B)(i)(f).¹⁷ Specifically, as of February 22, 2018, 57.9% of the weight of the Index components have a minimum original principal amount outstanding of \$100 million or more and 68.0% of the weight of the Index components met the requirements of Rule 14.11(c)(4)(B)(i)(f). The Exchange notes that at least 90% of the weight of the Index will be comprised of securities that have a minimum par amount of \$10 million and were a constituent of an offering where the original deal size was at least \$250 million.

While the Index will not meet certain provisions of Rule 14.11(c)(4), as described above, the Exchange believes that the policy issues which such provisions are intended to address are otherwise mitigated. Specifically, the concerns around the size and manipulability of the underlying Fixed Income Securities that Rule 14.11(c)(4)(B)(i)(b) is intended to address are mitigated by the fact that at least 90% of the weight of the Index will be comprised of securities that have a minimum par amount of \$10 million and were a constituent of an offering where the original deal size was at least \$250 million. Similar standards have been applied for other

¹⁶ Rule 14.11(c)(4)(B)(i)(b) provides that components that in the aggregate account for at least 75% of the weight of the index or portfolio each shall have a minimum original principal amount outstanding of \$100 million or more.

¹⁷ Rule 14.11(c)(4)(B)(i)(f) provides that component securities that in aggregate account for at least 90% of the Fixed Income Securities portion of the weight of the index or portfolio must be either: (1) from issuers that are required to file reports pursuant to Sections 13 and 15(d) of the Act; (2) from issuers that have a worldwide market value of its outstanding common equity held by non-affiliates of \$700 million or more; (3) from issuers that have outstanding securities that are notes, bonds, debentures, or evidence of indebtedness having a total remaining principal amount of at least \$1 billion; (4) exempted securities as defined in section 3(a)(12) of the Act; or (5) from issuers that are a government of a foreign country or a political subdivision of a foreign country.

comparably situated funds and the Exchange believes that there is no reason that this standard should not be applied for the Fund.¹⁸

Further, the concerns around the availability of information that Rule 14.11(c)(4)(B)(i)(f) is intended to address are also mitigated as it relates to the ABS and CMBS that populate the Index. While only 68.0% of the weight of the portfolio meets the requirements of Rule 14.11(c)(4)(B)(i)(f), the Index's inability to meet the 90% threshold is largely based on a technicality in the rule text. Part (1) of the Rule includes in the calculation of percentage "issuers that are *required* [emphasis added] to file reports pursuant to Sections 13 and 15(d) of the Act." The technicality is that, while only certain registered issuances of ABS and CMBS are required to file reports pursuant to Sections 13 or 15(d) of the Act, many ABS and CMBS issuances include in the bond indenture a requirement that the issuer make a public disclosure of a Statement to Noteholders. To this point, the Fund will only hold ABS and CMBS for which the bond indenture requires the public disclosure of a Statement to Noteholders on a no less frequent than quarterly basis.¹⁹ As such, while the Fund will not technically meet the requirements of

¹⁸ The Commission has previously approved a proposed rule change relating to the listing and trading of twelve series of Index Fund Shares based on municipal bond indexes that did not satisfy the requirement that component fixed income securities that, in the aggregate, account for at least 75% of the weight of the index or portfolio have a minimum principal amount outstanding of \$100 million or more, provided that such municipal bond index contained at least 500 component securities on a continuous basis. See Securities Exchange Act Release No. 82295 (December 12, 2017), 82 FR 60056 (December 18, 2017) (SR-NYSEArca-2017-56).

¹⁹ A Statement to Noteholders generally includes the same pieces of information about an issuer and issuance of ABS or CMBS that would be included in Form 10D. All ABS and CMBS held by the Fund will issue Statements to Noteholders that will include, at a minimum, a remittance report that will show monthly or quarterly cash flows of the assets and liabilities for the issuance. Statements to Noteholders also typically include the following types of information: (1) the amount of the distribution(s) allocable to interest on the notes; (2) the amount of the distribution(s) allocable to principal of the notes; (3) the note balance, after taking into account all payments to be made on such distribution date; (4) the servicing fee paid and/or due but unpaid as of such distribution date; (5) the

Rule 14.11(c)(4)(B)(i)(f)(1), the policy concerns related to the transparency and availability of information regarding the Fixed Income Securities held by a fund that the Rule is intended to address are otherwise mitigated.

Further, the Index is broad-based and currently includes 2,693 component securities. Whereas the generic listing rules permit a single component security to represent up to 30% of the weight of an index and the top five component securities to, in aggregate, represent up to 65% of the weight of an index, the largest component security in the Underlying Index only constitutes 0.044% of the weight of the Index and the largest five component securities represent 0.22% of the weight of the Index. The Exchange believes that this significant diversification and the lack of concentration among constituent securities provides a strong degree of protection against index manipulation. On a continuous basis, the Index will (i) contain at least 500 component securities and (ii) comply with the index methodology description provided above.

Additional Information

The Index value, calculated and disseminated at least once daily, as well as the components of the Index and their percentage weighting, will be available from major market

pool balance and required overcollateralization amount as of the close of business on the last day of the related collection period; (6) the reserve fund amount, the reserve fund required amount and the reserve fund draw amount; (7) the amount of the aggregate realized losses on the loans, if any, for the preceding collection period and the cumulative default ratio; (8) whether an amortization event will exist as of such distribution date; (9) the aggregate repurchase prices for loans, if any, that were repurchased by the seller during the related collection period; (10) the amount of fees payable to all parties pursuant to the indenture; (11) any and all other fees, expenses, indemnities or taxes payable by the issuer or the grantor trust (including reserved amounts for payments required to be made before the next distribution date); (12) the payments to the certificate holders; and (13) during a pre-funding period, the amount on deposit in the pre-funding account as of the close of business on the last day of the related collection period, and the pool balance of subsequent loans purchased during the related collection period, and following the pre-funding period, the amount of principal payments made on each class of notes from amounts on deposit in the pre-funding account.

data vendors. In addition, the portfolio of securities held by the Fund will be disclosed on the Fund's website at www.PrincipalETFs.com.

The Exchange represents that: (1) except as described above, the Index currently satisfies and will continue to satisfy all of the generic listing standards under Rule 14.11(c)(4); (2) the continued listing standards under BZX Rule 14.11(c) applicable to index fund shares shall apply to the Shares of the Fund; and (3) the Trust is required to comply with Rule 10A-3²⁰ under the Act for the initial and continued listing of the Shares of the Fund. In addition, the Exchange represents that the Shares of the Fund will comply with all other requirements applicable to index fund shares including, but not limited to, requirements relating to the dissemination of key information such as the value of the Index and the Intraday Indicative Value ("IIV"), rules governing the trading of equity securities, trading hours, trading halts, surveillance, and the information circular, as set forth in Exchange rules applicable to index fund shares and the orders approving such rules.

Availability of Information

The Fund's website, which will be publicly available prior to the public offering of Shares, will include a form of the prospectus for the Fund that may be downloaded. The website will include additional quantitative information updated on a daily basis, including, for the Fund: (1) the prior business day's reported NAV, daily trading volume, and a calculation of the premium and discount of the Bid/Ask Price against the NAV; and (2) data in chart format displaying the frequency distribution of discounts and premiums of the daily Bid/Ask Price against the NAV, within appropriate ranges, for each of the four previous calendar quarters. Daily trading volume information for the Fund will also be available in the financial section of

²⁰ See 17 CFR 240.10A-3.

newspapers, through subscription services such as Bloomberg, Thomson Reuters, and International Data Corporation, which can be accessed by authorized participants and other investors, as well as through other electronic services, including major public websites. On each business day, before commencement of trading in Shares during Regular Trading Hours²¹ on the Exchange, the Fund will disclose on its website the identities and quantities of the portfolio of securities and other assets in the portfolio held by the Fund that will form the basis for the Fund's calculation of NAV at the end of the business day. The portfolio description will include, as applicable: the ticker symbol; CUSIP number or other identifier, if any; a description of the holding (including the type of holding, such as the type of swap); the identity of the security, index or other asset or instrument underlying the holding, if any; for options, the option strike price; quantity held (as measured by, for example, par value, notional value or number of shares, contracts, or units); maturity date, if any; coupon rate, if any; effective date, if any; market value of the holding; and the percentage weighting of the holding in the Fund's portfolio. The website and information will be publicly available at no charge. The value, components, and percentage weightings of the Index will be calculated and disseminated at least once daily and will be available from major market data vendors. Rules governing the Index are available on the Index Provider's website and in the Fund's prospectus.

In addition, an estimated value, defined in BZX Rule 14.11(c)(6)(A) as the "Intraday Indicative Value," that reflects an estimated intraday value of the Fund's portfolio, will be disseminated. Moreover, the Intraday Indicative Value will be based upon the current value for the components of the daily disclosed portfolio and will be updated and widely disseminated by one or more major market data vendors at least every 15 seconds during the Exchange's Regular

²¹ Regular Trading Hours are 9:30 a.m. to 4:00 p.m. Eastern Time.

Trading Hours.²² In addition, the quotations of certain of the Fund's holdings may not be updated during U.S. trading hours if updated prices cannot be ascertained.

The dissemination of the Intraday Indicative Value, together with the daily disclosed portfolio, will allow investors to determine the value of the underlying portfolio of the Fund on a daily basis and provide a close estimate of that value throughout the trading day.

Quotation and last sale information for the Shares of the Fund will be available via the CTA high speed line. Price information regarding ABS, CMBS, and other non-exchange traded assets, including the types of swaps held by the Fund, cash and cash equivalents, and other Treasury Securities, is available from third party pricing services and major market data vendors. For exchange-traded assets, including ETFs, such intraday information is available directly from the applicable listing exchange.

Initial and Continued Listing

The Shares of the Fund will conform to the initial and continued listing criteria under BZX Rule 14.11(c)(4), except as described above. The Exchange represents that, for initial and/or continued listing, the Fund and the Trust must be in compliance with Rule 10A-3 under the Act.²³ A minimum of 100,000 Shares of the Fund will be outstanding at the commencement of trading on the Exchange. The Exchange will obtain a representation from the issuer of the Shares that the NAV per Share for the Fund will be calculated daily and will be made available to all market participants at the same time.

²² Currently, it is the Exchange's understanding that several major market data vendors display and/or make widely available Intraday Indicative Values published via the Consolidated Tape Association ("CTA") or other data feeds.

²³ See 17 CFR 240.10A-3.

Trading Halts

With respect to trading halts, the Exchange may consider all relevant factors in exercising its discretion to halt or suspend trading in the Shares of the Fund. The Exchange will halt trading in the Shares under the conditions specified in BZX Rule 11.18. Trading may be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable. These may include: (1) the extent to which trading is not occurring in the securities and/or the financial instruments composing the daily disclosed portfolio of the Fund; or (2) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present. Trading in the Shares also will be subject to Rule 14.11(c)(1)(B)(iv), which sets forth circumstances under which Shares of the Fund may be halted.

Trading Rules

The Exchange deems the Shares to be equity securities, thus rendering trading in the Shares subject to the Exchange's existing rules governing the trading of equity securities. The Exchange will allow trading in the Shares from 8:00 a.m. until 5:00 p.m. Eastern Time and has the appropriate rules to facilitate transactions in the Shares during all trading sessions. As provided in BZX Rule 11.11(a), the minimum price variation for quoting and entry of orders in securities traded on the Exchange is \$0.01, with the exception of securities that are priced less than \$1.00, for which the minimum price variation for order entry is \$0.0001.

Surveillance

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. Trading of the Shares through the Exchange will be subject to the Exchange's surveillance procedures for derivative

products, including Index Fund Shares. The issuer has represented to the Exchange that it will advise the Exchange of any failure by the Fund to comply with the continued listing requirements, and, pursuant to its obligations under Section 19(g)(1) of the Exchange Act, the Exchange will surveil for compliance with the continued listing requirements. FINRA conducts certain cross-market surveillances on behalf of the Exchange pursuant to a regulatory services agreement. The Exchange is responsible for FINRA’s performance under this regulatory services agreement. If the Fund is not in compliance with the applicable listing requirements, the Exchange will commence delisting procedures under Exchange Rule 14.12. The Exchange, or FINRA on behalf of the Exchange, may obtain information regarding trading in the Shares and the underlying shares in exchange traded equity securities, including ETFs, via the ISG, from other exchanges that are members or affiliates of the ISG, and the Exchange may obtain such information from markets with which the Exchange has entered into a comprehensive surveillance sharing agreement.²⁴ In addition, the Exchange, or FINRA on behalf of 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 Act²⁵ in general and Section 6(b)(5) of the Act²⁶ in particular in that it is designed to prevent fraudulent

²⁴ For a list of the current members of ISG, see www.isgportal.org. The Exchange notes that not all components of the portfolio for the Fund may trade on markets that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.

²⁵ 15 U.S.C. 78f.

²⁶ 15 U.S.C. 78f(b)(5).

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 of the Fund will be listed and traded on the Exchange pursuant to the initial and continued listing criteria for Index Fund Shares based on a fixed income index in Rule 14.11(c)(4), except for the requirements of Rule 14.11(c)(4)(B)(i)(b) and Rule 14.11(c)(4)(B)(i)(f). The Exchange represents that trading in the shares of the Fund will be subject to the existing trading surveillances administered by the Exchange as well as cross-market surveillances administered by the FINRA on behalf of the Exchange, which are designed to detect violations of Exchange rules and federal securities laws applicable to trading on the Exchange. The Exchange represents that these procedures are adequate to properly monitor Exchange trading of the shares of the Fund in all trading sessions and to deter and detect violations of Exchange rules and federal securities laws applicable to trading on the Exchange. The Exchange or FINRA, on behalf of the Exchange, or both, will communicate as needed regarding trading in the shares of the Fund with other markets that are members of the ISG. In addition, the Exchange will communicate as needed regarding trading in the shares of the Fund with other markets that are members of the ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement. FINRA, on behalf of the Exchange, is able to access, as needed, trade information for certain fixed income securities held by the Fund reported to TRACE.

Further, the Index is broad-based and currently includes 2,693 component securities. Whereas the generic listing rules permit a single component security to represent up to 30% of the weight of an index and the top five component securities to, in aggregate, represent up to 65% of the weight of an index, the largest component security in the Underlying Index only constitutes 0.044% of the weight of the Index and the largest five component securities represent 0.22% of the weight of the Index. The Exchange believes that this significant diversification and the lack of concentration among constituent securities provides a strong degree of protection against index manipulation. On a continuous basis, the Index will (i) contain at least 500 component securities and (ii) comply with the index methodology description provided above.

As of February 22, 2018, 57.9% of the weight of the Index components have a minimum original principal amount outstanding of \$100 million or more and 68.0% of the weight of the Index components met the requirements of Rule 14.11(c)(4)(B)(i)(f). The Exchange notes that at least 90% of the weight of the Index will be comprised of securities that have a minimum par amount of \$25 million and were a constituent of an offering where the original deal size was at least \$250 million.

While the Index will not meet certain provisions of Rule 14.11(c)(4), as described above, the Exchange believes that the policy issues which such provisions are intended to address are otherwise mitigated. Specifically, the concerns around the size and manipulability of the underlying Fixed Income Securities that Rule 14.11(c)(4)(B)(i)(b) is intended to address are mitigated by the fact that at least 90% of the weight of the Index will be comprised of securities that have a minimum par amount of \$25 million and were a constituent of an offering where the original deal size was at least \$250 million. Similar standards have been applied for other

comparably situated funds and the Exchange believes that there is no reason that this standard should not be applied for the Fund.²⁷

Further, the concerns around the availability of information that Rule 14.11(c)(4)(B)(i)(f) is intended to address are also mitigated as it relates to the ABS and CMBS that populate the Index. While only 68.0% of the weight of the portfolio meets the requirements of Rule 14.11(c)(4)(B)(i)(f), the Index's inability to meet the 90% threshold is largely based on a technicality in the rule text. Part (1) of the Rule includes in the calculation of percentage "issuers that are *required* [emphasis added] to file reports pursuant to Sections 13 and 15(d) of the Act." The technicality is that, while only certain registered issuances of ABS and CMBS are required to file reports pursuant to Sections 13 or 15(d) of the Act, many ABS and CMBS issuances include in the bond indenture a requirement that the issuer make a public disclosure of a Statement to Noteholders.²⁸ To this point, the Fund will only hold ABS and CMBS for which the

²⁷ The Commission has previously approved a proposed rule change relating to the listing and trading of twelve series of Index Fund Shares based on municipal bond indexes that did not satisfy the requirement that component fixed income securities that, in the aggregate, account for at least 75% of the weight of the index or portfolio have a minimum principal amount outstanding of \$100 million or more, provided that such municipal bond index contained at least 500 component securities on a continuous basis. See Securities Exchange Act Release No. 82295 (December 12, 2017), 82 FR 60056 (December 18, 2017) (SR-NYSEArca-2017-56).

²⁸ A Statement to Noteholders generally includes the same pieces of information about an issuer and issuance of ABS or CMBS that would be included in Form 10D. All Statements to Noteholders issued by ABS and CMBS held by the Fund will include, at a minimum, a remittance report that will show monthly or quarterly cash flows of the assets and liabilities for the issuance. Statements to Noteholders also typically include the following types of information: (1) the amount of the distribution(s) allocable to interest on the notes; (2) the amount of the distribution(s) allocable to principal of the notes; (3) the note balance, after taking into account all payments to be made on such distribution date; (4) the servicing fee paid and/or due but unpaid as of such distribution date; (5) the pool balance and required overcollateralization amount as of the close of business on the last day of the related collection period; (6) the reserve fund amount, the reserve fund required amount and the reserve fund draw amount; (7) the amount of the aggregate realized losses on the loans, if any, for the preceding collection period and the cumulative

bond indenture requires the public disclosure of a Statement to Noteholders on a no less frequent than quarterly basis. As such, while the Fund will not technically meet the requirements of Rule 14.11(c)(4)(B)(i)(f)(1), the policy concerns related to the transparency and availability of information regarding the Fixed Income Securities held by a fund that the Rule is intended to address are otherwise mitigated.

The proposed rule change is designed to promote just and equitable principles of trade and to protect investors and the public interest in that a large amount of information is publicly available regarding the Funds, thereby promoting market transparency. The Fund's portfolio holdings will be disclosed on the Fund's website daily after the close of trading on the Exchange and prior to the opening of trading on the Exchange the following day. Moreover, the IIV for shares of the Fund will be widely disseminated by one or more major market data vendors at least every 15 seconds during the Exchange's Regular Trading Hours. The current value of the Index will be disseminated by one or more major market data vendors at least once per day. Information regarding market price and trading volume of the shares of the Fund 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

default ratio; (8) whether an amortization event will exist as of such distribution date; (9) the aggregate repurchase prices for loans, if any, that were repurchased by the seller during the related collection period; (10) the amount of fees payable to all parties pursuant to the indenture; (11) any and all other fees, expenses, indemnities or taxes payable by the issuer or the grantor trust (including reserved amounts for payments required to be made before the next distribution date); (12) the payments to the certificate holders; and (13) during a pre-funding period, the amount on deposit in the pre-funding account as of the close of business on the last day of the related collection period, and the pool balance of subsequent loans purchased during the related collection period, and following the pre-funding period, the amount of principal payments made on each class of notes from amounts on deposit in the pre-funding account.

high-speed line. The website for the Fund will include the prospectus for the Fund and additional data relating to NAV and other applicable quantitative information.

If the Exchange becomes aware that the Fund's NAV is not being disseminated to all market participants at the same time, it will halt trading in the shares of the Fund until such time as the NAV is available to all market participants. With respect to trading halts, the Exchange may consider all relevant factors in exercising its discretion to halt or suspend trading in the shares of the Fund. Trading also may be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the shares the Fund inadvisable. If the IIV and index value are not being disseminated for the Fund as required, the Exchange may halt trading during the day in which the interruption to the dissemination of the IIV or index value occurs. If the interruption to the dissemination of an IIV or index value persists past the trading day in which it occurred, the Exchange will halt trading. The Exchange may consider all relevant factors in exercising its discretion to halt or suspend trading in the Shares of the Fund. The Exchange will halt trading in the Shares under the conditions specified in BZX Rule 11.18. Trading may be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable. These may include: (1) the extent to which trading is not occurring in the securities and/or the financial instruments composing the daily disclosed portfolio of the Funds; or (2) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present. Trading in the Shares also will be subject to Rule 14.11(c)(1)(B)(iv), which sets forth circumstances under which Shares of a Fund may be halted. In addition, investors will have ready access to information regarding the applicable IIV, and quotation and last sale information for the shares of the Fund.

All statements and representations made in this filing regarding the index composition, the description of the portfolio or reference assets, limitations on portfolio holdings or reference assets, dissemination and availability of index, reference asset, and intraday indicative values (as applicable), or the applicability of Exchange listing rules shall constitute continued listing requirements for listing the Shares on the Exchange. The issuer is required to advise the Exchange of any failure by the Fund to comply with the continued listing requirements, and, pursuant to its obligations under Section 19(g)(1) of the Act, the Exchange will monitor for compliance with the continued listing requirements. If the Fund is not in compliance with the applicable listing requirements, the Exchange will commence delisting procedures under Rule 14.12.

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 an exchange-traded product that principally holds ABS and CMBS and that will enhance competition among market participants, to the benefit of investors and the marketplace. The Exchange has in place surveillance procedures relating to trading in the shares of the Fund 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. In addition, investors will have ready access to information regarding the IIV and quotation and last sale information for the shares of the Fund.

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 will facilitate the listing and trading of an additional exchange-traded product that will enhance competition among market participants, 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 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 e-mail to rule-comments@sec.gov. Please include File Number SR-CboeBZX-2018-018 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-2018-018. 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 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.

Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to

make available publicly. All submissions should refer to File Number SR-CboeBZX-2018-018 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

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

Eduardo A. Aleman,
Assistant Secretary.

²⁹ 17 CFR 200.30-3(a)(12).

[FR Doc. 2018-09692 Filed: 5/7/2018 8:45 am; Publication Date: 5/8/2018]