



## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-86659; File No. SR-NYSEArca-2019-57]

### **Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Proposed Rule Change to List and Trade Shares of the Franklin Liberty Systematic Style Premia ETF, a Series of the Franklin Templeton ETF Trust under NYSE Arca Rule 8.600-E**

August 14, 2019

Pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (the “Act”)<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> notice is hereby given that, on August 8, 2019, NYSE Arca, Inc. (“NYSE Arca” or the “Exchange”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to list and trade shares of the Franklin Liberty Systematic Style Premia ETF, a series of the Franklin Templeton ETF Trust (“Trust”), under NYSE Arca Rule 8.600-E (“Managed Fund Shares”). The proposed change is available on the Exchange’s website at [www.nyse.com](http://www.nyse.com), at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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<sup>1</sup> 15 U.S.C.78s(b)(1).

<sup>2</sup> 15 U.S.C. 78a.

<sup>3</sup> 17 CFR 240.19b-4.

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 self-regulatory organization 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 those 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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to list and trade shares (“Shares”) of the Franklin Liberty Systematic Style Premia ETF (the “Fund”)<sup>4</sup> under NYSE Arca Rule 8.600-E, which governs the listing and trading of Managed Fund Shares<sup>5</sup> on the Exchange.

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<sup>4</sup> The Trust is registered under the 1940 Act. On July 31, 2019, the Trust filed with the Commission an amendment to its registration statement on Form N-1A under the Securities Act of 1933 (15 U.S.C. 77a) (“Securities Act”) and the 1940 Act relating to the Fund (File Nos. 333-208873 and 811-23124) (the “Registration Statement”). The description of the operation of the Trust and the Fund herein is based, in part, on the Registration Statement. In addition, the Commission has issued an order granting certain exemptive relief to Franklin ETF Trust, Franklin Advisers, Inc. and Franklin Templeton Distributors, Inc. under the 1940 Act that the Trust relies on. See Investment Company Act Release No. 30350 (January 15, 2013) (“Exemptive Order”). Investments made by the Fund will comply with the conditions set forth in the Exemptive Order.

<sup>5</sup> A Managed Fund Share is a security that represents an interest in an investment company registered under the Investment Company Act of 1940 (15 U.S.C. 80a-1) (“1940 Act”) organized as an open-end investment company or similar entity that invests in a portfolio of securities selected by its investment adviser consistent with its investment objectives and policies. In contrast, an open-end investment company that issues Investment Company Units, listed and traded on the Exchange under NYSE Arca Rule 5.2-E(j)(3), seeks to provide investment results that correspond generally to the price and yield performance of a specific foreign or domestic stock index, fixed income securities index or combination thereof.

Franklin Advisers, Inc. (“Adviser”) will be the investment adviser to the Fund. Franklin Templeton Distributors, Inc. (“Distributor”) will be the distributor of the Fund’s Shares. State Street Bank and Trust Company will be the custodian and transfer agent for the Fund.

Commentary .06 to Rule 8.600-E provides that, if the investment adviser to the investment company issuing Managed Fund Shares is affiliated with a broker-dealer, such investment adviser shall erect and maintain a “fire wall” between the investment adviser and the broker-dealer with respect to access to information concerning the composition and/or changes to such investment company portfolio.<sup>6</sup> In addition, Commentary .06 further requires that personnel who make decisions on the open-end fund’s portfolio composition must be subject to procedures designed to prevent the use and dissemination of material nonpublic information regarding the open-end fund’s portfolio. The Adviser is not registered as a broker-dealer but is affiliated with a broker-dealer and has implemented and will maintain a fire wall with respect to such broker-dealer affiliate regarding access to information concerning the composition and/or changes to the portfolio. In the event (a) the Adviser becomes registered as a broker-dealer or

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<sup>6</sup> 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 related personnel are subject to the provisions of Rule 204A-1 under the Advisers Act relating to codes of ethics. This Rule requires investment advisers to adopt a code of ethics that reflects the fiduciary nature of the relationship to clients as well as compliance with other applicable securities laws. Accordingly, procedures designed to prevent the communication and misuse of non-public information by an investment adviser must be consistent with Rule 204A-1 under the Advisers Act. In addition, Rule 206(4)-7 under the Advisers Act makes it unlawful for an investment adviser to provide investment advice to clients unless such investment adviser has (i) adopted and implemented written policies and procedures reasonably designed to prevent violation, by the investment adviser and its supervised persons, of the Advisers Act and the Commission rules adopted thereunder; (ii) implemented, at a minimum, an annual review regarding the adequacy of the policies and procedures established pursuant to subparagraph (i) above and the effectiveness of their implementation; and (iii) designated an individual (who is a supervised person) responsible for administering the policies and procedures adopted under subparagraph (i) above.

newly affiliated with one or more broker-dealers, or (b) any new adviser or sub-adviser is a registered broker-dealer or becomes affiliated with a broker-dealer, it will implement and maintain a fire wall with respect to its relevant personnel or its broker-dealer affiliate 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.

#### Franklin Liberty Systematic Style Premia ETF

According to the Registration Statement, the Fund will seek to provide absolute return. The Fund will seek to achieve its investment goal by allocating its assets across two underlying “alternative” investment strategies, which represent top-down and bottom-up approaches to capturing factor-based risk premia.<sup>7</sup> The strategies consist of a top-down risk premia strategy (“Risk Premia Strategy”) and a bottom-up long/short equity strategy (“Long/Short Equity Strategy”), each of which is described below.

**Risk Premia Strategy.** The top-down risk premia strategy focuses on value, momentum and carry factors in investing across equity, fixed income, commodity and currency asset classes, as described below.

**Value:** Value strategies favor investments that appear cheap over those that appear expensive based on fundamental measures related to price, seeking to capture the tendency for relatively cheap assets to outperform relatively expensive assets. The Adviser will seek to buy assets that are “cheap” and sell those that are “expensive.” For purposes of the Risk Premia

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<sup>7</sup> According to the Registration Statement a “risk premium” is the economic concept that an investor should receive a premium (that is, a higher expected return) for bearing risk. In other words, risk premium refers to the return that is expected for assuming a particular market risk.

Strategy, examples of value measures include using price to earnings, price to forward earnings, price to book value and dividend yield.

Momentum: Momentum strategies favor investments that have performed relatively well over those that have underperformed over the medium-term (i.e., one year or less), seeking to capture the tendency that an asset's recent relative performance will continue in the near future. The Adviser will seek to buy assets that recently outperformed their peers and sell those that recently underperformed. For purposes of the Risk Premia Strategy, examples of momentum measures include simple price momentum (measured over the prior twelve months with the most recent month removed) for selecting stocks and price- and yield-based momentum for selecting bonds.

Carry: An asset's "carry" is its expected return assuming market conditions, including its price, stay the same. Carry strategies favor investments with higher yields over those with lower yields, seeking to capture the tendency for higher-yielding assets to provide higher returns than lower-yielding assets. The Adviser will seek to take long positions in high-yielding assets and short positions in low-yielding assets. An example of carry measures includes selecting currencies and bonds based on interest rates.

Under normal market conditions,<sup>8</sup> the Risk Premia Strategy will invest primarily in equity, interest rate/bond and commodity index futures; equity and commodity-linked total return swaps; and currency forwards (as described below).

Long/Short Equity Strategy. The bottom-up Long/Short Equity Strategy focuses on quality, value and momentum factors in determining whether to hold long or short positions in individual equity securities.

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<sup>8</sup> The term "normal market conditions" is defined in NYSE Arca Rule 8.600-E(c)(5).

Quality: Quality strategies favor investments that exhibit relatively higher quality characteristics. Examples of quality measures include return on equity, earnings variability, cash return on assets and leverage.

Value: For the Long/Short Equity Strategy, the value factor is used to identify cheapness by using earnings, book value, sales and cash flow ratios relative to market capitalization, and enterprise value compared against a peer group. For purposes of the Long/Short Equity Strategy, examples of value measures include earnings yield, EBITDA to enterprise value and dividend yield.

Momentum: For the Long/Short Equity Strategy, the momentum factor is used to identify investment trends by looking at historical price movements that are believed to persist and forward-looking information from analyst estimates. For purposes of the Long/Short Equity Strategy, examples of momentum measures include 12-month return with the most recent month removed (simple price momentum), analyst revisions and market breadth.

Under normal market conditions, the Long/Short Equity Strategy will invest primarily in equity securities and equity total return swaps (as described below). Long/short equity strategies generally seek to produce returns from investments in the equity markets by taking long and short positions in stocks and stock indices (through the use of derivatives or through a short position in an exchange-traded fund (“ETF”)). Under normal market conditions, the Fund expects to obtain short exposures pursuant to the bottom-up long/short equity strategy primarily through the use of equity total return swaps.

Under normal market conditions, the Adviser will seek to allocate assets between the two factor-based risk premia alternative investment strategies described above in approximately equal weights. However, in varying market, economic or other conditions, allocations between

the two strategies may differ. Through the two strategies, the Adviser will invest the Fund's assets based on a systematic investment process for securities selection and asset allocation (seeking to profit by utilizing quantitative models to identify investment opportunities across different asset classes and markets in order to construct a portfolio of investments). Quantitative trading models are proprietary systems that rely on mathematical computations to identify trading opportunities. By employing these two approaches, the Adviser seeks to provide positive absolute return over time while maintaining a relatively low correlation with traditional markets. The exposure to individual factors may vary based on the market opportunity of the individual factors. Additional factors may be identified over time.

#### Principal Investments

According to the Registration Statement, through the Long/Short Equity Strategy and the Risk Premia Strategy, the Fund may invest in a wide range of securities and other investments, as described below. For purposes of calculating the percentage of principal investments under this proposed rule change, under normal market conditions, at least 80% of the Fund's assets will be invested in the securities and financial instruments described in this "Principal Investments" section.

The Fund may use derivatives for both hedging and non-hedging (investment) purposes. The Fund's derivative investments are the following: (i) futures contracts on U.S. and foreign equity, interest rate/bond and commodity indices; (ii) U.S. and foreign equity and commodity-linked total return swaps; and (iii) currency forward contracts. These derivatives may be used to enhance Fund returns, increase liquidity, gain long or short exposure to certain instruments, markets or factors in a more efficient or less expensive way and/or hedge risks associated with its other portfolio investments.

The Fund may hold its commodity-linked derivative instruments indirectly through a wholly-owned subsidiary established in the Cayman Islands (Subsidiary). The Subsidiary will only invest in commodity-linked total return swaps and futures on commodity indices and will also hold any necessary cash or cash equivalents as collateral. No more than 25% of the Fund's total assets may be invested in the Subsidiary.

The Fund may hold cash and cash equivalents.<sup>9</sup>

The Fund may hold U.S. and foreign bonds (including convertible bonds), debentures and non-cash equivalent U.S. government securities (other than debt securities with variable interest rates, as referenced below).

The Fund may hold U.S. and foreign exchange-traded common stock, preferred stock (including convertible preferred stock), rights and warrants of U.S. and foreign companies.

The Fund may engage in short sales in securities and financial instruments in which the Fund may invest, including short sales “against the box.”<sup>10</sup>

#### Other Investments

While the Fund, under normal market conditions, will invest at least 80% of its 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 may invest in ETFs.<sup>11</sup>

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<sup>9</sup> The term “cash equivalents” is defined in Commentary .01(c) to NYSE Arca Rule 8.600-E.

<sup>10</sup> According to the Registration Statement, short sales “against the box” are transactions in which the Fund sells a security short but it also owns an equal amount of the securities sold short or owns securities that are convertible or exchangeable, without payment of further consideration, into an equal amount of such security.

<sup>11</sup> For purposes of this filing, “ETFs” are Investment Company Units (as described in NYSE Arca Rule 5.2-E(j)(3)); Portfolio Depositary Receipts (as described in NYSE Arca Rule 8.100-E); and Managed Fund Shares (as described in NYSE Arca Rule 8.600-E).

The Fund may invest in U.S. and foreign corporate debt.

The Fund may invest in foreign governmental and supranational debt securities.

The Fund may invest in U.S. and foreign exchange-listed and non-exchange-traded “Depository Receipts”.<sup>12</sup>

The Fund may invest in the following debt securities with variable interest rates: floating rate, adjustable rate and inverse floating rate debt securities.

The Fund and the Subsidiary will not invest in securities or other financial instruments that have not been described in this proposed rule change.

#### Creation and Redemption of Creation Units

According to the Registration Statement, the Trust will issue and sell Shares of the Fund only in “Creation Units” (as defined below) on a continuous basis at a price based on the Fund’s net asset value (“NAV”) next determined after receipt, on any “Business Day” of an order received by the Distributor or its agent in proper form. A “Business Day” with respect to the

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All ETFs will be listed and traded in the U.S. on a national securities exchange. While the Fund may invest in inverse ETFs, the Fund will not invest in leveraged (e.g., 2X, -2X, 3X or -3X) ETFs.

<sup>12</sup> According to the Registration Statement, many securities of foreign issuers are represented by American Depositary Receipts (ADRs), Global Depositary Receipts (GDRs), and European Depositary Receipts (EDRs) (collectively, “Depository Receipts”). Generally, Depository Receipts in registered form are designed for use in the U.S. securities market and Depository Receipts in bearer form are designed for use in securities markets outside the U.S. ADRs evidence ownership of, and represent the right to receive, securities of foreign issuers deposited in a domestic bank or trust company or a foreign correspondent bank. Prices of ADRs are quoted in U.S. dollars, and ADRs are traded in the U.S. on exchanges or over-the-counter. EDRs and GDRs are typically issued by foreign banks or trust companies and evidence ownership of underlying securities issued by either a foreign or a U.S. corporation. EDRs and GDRs may not necessarily be denominated in the same currency as the underlying securities into which they may be converted. No more than 10% of the equity weight of the Fund’s portfolio will be invested in non-exchange-traded ADRs.

Fund is any day on which the Exchange is open for business. The number of Shares of the Fund that constitutes a Creation Unit is 100,000. The size of a Creation Unit is subject to change.

The consideration for purchase of Creation Units of the Fund generally will consist of the “Deposit Securities” (i.e., the in-kind deposit of a designated portfolio of securities (including any portion of such securities for which cash may be substituted)) and the “Cash Component” computed as described below. Together, the Deposit Securities and the Cash Component constitute the “Fund Deposit,” which will be applicable to creation requests received in proper form. The Fund Deposit represents the minimum initial and subsequent investment amount for a Creation Unit of the Fund.

The “Cash Component” is an amount equal to the difference between the NAV of the Shares (per Creation Unit) and the “Deposit Amount,” which is an amount equal to the market value of the Deposit Securities, and serves to compensate for any differences between the NAV per Creation Unit and the Deposit Amount. The Fund generally will offer Creation Units partially for cash.

The Adviser will make available through the National Securities Clearing Corporation (“NSCC”) on each Business Day prior to the Exchange Core Trading Session (normally 9:30 a.m. to 4:00 p.m. Eastern Time (“E.T.”)), the list of names and the required number of shares of each Deposit Security and the amount of the Cash Component (if any) to be included in the current Fund Deposit (based on information as of the end of the previous Business Day for the Fund). Such Fund Deposit is applicable, subject to any adjustments, to purchases of Creation Units of Shares of the Fund until such time as the next-announced Fund Deposit is made available.

The Fund reserves the right to permit or require the substitution of a “cash in lieu” amount to be added to the Cash Component to replace any Deposit Security that may not be available in sufficient quantity for delivery or that may not be eligible for transfer through the facilities of the Depository Trust Company (“DTC”) (DTC Facilities) or the clearing process through the Continuous Net Settlement System of the NSCC (NSCC Clearing Process), or that the “Authorized Participant” (as defined below) is not able to trade due to a trading restriction.

When partial or full cash purchases of Creation Units are available or specified for the Fund, they will be effected in essentially the same manner as in-kind purchases thereof. In the case of a partial or full cash purchase, the Authorized Participant must pay the cash equivalent of the Deposit Securities it would otherwise be required to provide through an in-kind purchase, plus the same Cash Component required to be paid by an in-kind purchaser.

To be eligible to place orders with the Distributor and to create a Creation Unit of the Fund, an entity must be: (i) a “Participating Party,” i.e., a broker-dealer or other participant in the NSCC Clearing Process, or (ii) a DTC Participant, and, in either case, must have executed an agreement with the Distributor with respect to creations and redemptions of Creation Units (Authorized Participant Agreement). A Participating Party or DTC Participant who has executed an Authorized Participant Agreement is referred to as an “Authorized Participant.”

Creation Units may be purchased only by or through an Authorized Participant that has entered into an Authorized Participant Agreement with the Distributor.

An Authorized Participant must submit an irrevocable order to purchase or redeem Shares of the Fund, in proper form, generally before 4:00 p.m., E.T. on any Business Day in order to receive that day’s NAV.

Shares of the Fund may be redeemed by Authorized Participants only in Creation Units at their NAV next determined after receipt of a redemption request in proper form by the Distributor or its agent on a Business Day.

The Adviser will make available through the NSCC, prior to the Exchange Core Trading Session on each Business Day, the designated portfolio of securities (including any portion of such securities for which cash may be substituted) that will be applicable to redemption requests received in proper form on that day (Fund Securities), and an amount of cash (Cash Amount) (if any). Such Fund Securities and the corresponding Cash Amount are applicable in order to effect redemptions of Creation Units of the Fund until such time as the next announced composition of the Fund Securities and Cash Amount is made available. Fund Securities received on redemption may not be identical to Deposit Securities that are applicable to creations of Creation Units under certain circumstances.

Unless cash redemptions are available or specified for the Fund, the redemption proceeds for a Creation Unit generally consist of Fund Securities, plus the Cash Amount, which is an amount equal to the difference between the NAV of the Shares being redeemed, as next determined after the receipt of a redemption request in proper form, and the value of Fund Securities, less a redemption transaction fee.

The Fund may, in its sole discretion, substitute a “cash in lieu” amount to replace any Fund Security that may not be eligible for transfer through DTC Facilities or the NSCC Clearing Process or that the Authorized Participant is not able to trade due to a trading restriction. The Fund generally will redeem Creation Units partially for cash.<sup>13</sup>

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<sup>13</sup> The Adviser represents that, to the extent the Trust effects the creation or redemption of Shares wholly or partially in cash, such transactions will be effected in the same manner for all Authorized Participants.

Redemption requests for Creation Units of the Fund must be submitted to the Distributor or its agent by or through an Authorized Participant.

#### Investment Restrictions

The Fund's investments, including derivatives, will be consistent with the Fund's investment objective and will not be used to enhance leverage (although certain derivatives and other investments may result in leverage). 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., 2Xs and 3Xs) of the Fund's primary broad-based securities benchmark index (as defined in Form N-1A).<sup>14</sup>

#### The Fund's Use of Derivatives

Investments in derivative instruments will be made in accordance with the Fund's investment objective and policies.

To limit the potential risk associated with such transactions, the Fund will enter into offsetting transactions or segregate or " earmark " assets determined to be liquid by the Adviser in accordance with procedures established by the Trust's Board of Trustees. In addition, the Fund has included appropriate risk disclosure in its offering documents, including leveraging risk. Leveraging risk is the risk that certain transactions of the Fund, including the Fund's use of derivatives, may give rise to leverage, causing the Fund to be more volatile than if it had not been leveraged.

#### Disclosed Portfolio

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<sup>14</sup> The Fund's broad-based securities benchmark index will be identified in a future amendment to the Registration Statement following the Fund's first full calendar year of performance.

The Fund's disclosure of derivative positions in the applicable Disclosed Portfolio includes information that market participants can use to value these positions intraday. On a daily basis, the Fund will disclose the information regarding the Disclosed Portfolio required under NYSE Arca Rule 8.600-E (c)(2) to the extent applicable. The Fund's website information will be publicly available at no charge.

#### Impact on Arbitrage Mechanism

The Adviser believes there will be minimal impact to the arbitrage mechanism as a result of the use of derivatives. Market makers and participants should be able to value derivatives as long as the positions are disclosed with relevant information. The Adviser believes that the price at which Shares trade will continue to be disciplined by arbitrage opportunities created by the ability to purchase or redeem Shares at their NAV, which should ensure that Shares will not trade at a material discount or premium in relation to their NAV.

The Adviser does not believe there will be any significant impacts to the settlement or operational aspects of the Fund's arbitrage mechanism due to the use of derivatives.

#### Application of Generic Listing Requirements

The Exchange is submitting this proposed rule change because the portfolio for the Fund will not meet all of the "generic" listing requirements of Commentary .01 to NYSE Arca Rule 8.600-E applicable to the listing of Managed Fund Shares. The Fund's portfolio would meet all such requirements except for those set forth in Commentary .01(e) to NYSE Arca Rule 8.600-E regarding investments in OTC derivatives.<sup>15</sup>

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<sup>15</sup> Commentary .01(e) to NYSE Arca Rule 8.600-E provides that a portfolio may hold OTC derivatives, including forwards, options and swaps on commodities, currencies and financial instruments (e.g., stocks, fixed income, interest rates, and volatility) or a basket or index of any of the foregoing; however, on both an initial and continuing basis, no more than 20% of the assets in the portfolio may be invested in OTC derivatives. For

With respect to Commentary .01(e), the aggregate gross notional value of the Fund's investments in OTC derivatives is expected to exceed 20% of Fund assets, calculated based on the aggregate gross notional value of such OTC derivatives.

The Adviser believes that it is important to provide the Fund with additional flexibility to manage risk associated with its investments. Depending on market conditions, it may be critical that the Fund be able to utilize available OTC swaps and currency forwards to efficiently gain exposure to equities, currencies and commodities, in furtherance of the Fund's investment objective.<sup>16</sup>

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purposes of calculating this limitation, a portfolio's investment in OTC derivatives will be calculated as the aggregate gross notional value of the OTC derivatives.

<sup>16</sup> The Commission has previously approved an exception from requirements set forth in Commentary .01(e) relating to investments in OTC derivatives similar to those proposed with respect to the Fund in Securities Exchange Act Release No. 80657 (May 11, 2017), 82 FR 22702 (May 17, 2017) (SR-NYSEArca-2017-09) (Notice of Filing of Amendment No. 2 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 2, Regarding Investments of the Janus Short Duration Income ETF Listed Under NYSE Arca Equities Rule 8.600). See also Securities Exchange Act Release Nos. 82492 (January 12, 2018), 83 FR 2850 (January 19, 2018) (SR-NYSEArca-2017-87) (Order Granting Approval of a Proposed Rule Change, as Modified by Amendment No. 6, to List and Trade Shares of the JPMorgan Long/Short ETF under NYSE Arca Rule 8.600-E); 84047 (September 6, 2018), 83 FR 46200 (September 12, 2018) (SR-Nasdaq-2017-128) (Notice of Filing of Amendment No. 3 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 3, to List and Trade Shares of the Western Asset Total Return ETF, stating that "there shall be no limit on the Fund's investment in Interest Rate and Currency Derivatives, and the weight of all OTC Derivatives other than Interest Rate and Currency Derivatives shall not exceed 10% of the Fund's assets"); 84818 (December 13, 2018), 83 FR 65189 (December 19, 2018) (SR-NYSEArca-2018-75) (Order Approving a Proposed Rule Change, as Modified by Amendment No. 1 Thereto, Regarding the Listing and Trading of Shares of the PGIM Ultra Short Bond ETF, permitting up to 50% of the fund's assets to be invested in OTC derivatives that are used to reduce currency, interest rate, credit, or duration risk arising from the fund's investments ("Hedging Derivatives") and up to 20% of the Fund's assets to be invested in OTC derivatives other than Hedging Derivatives); 85022 (January 31, 2019), 84 FR 2265 (February 6, 2019) (SR-Nasdaq-2018-080) (Notice of Filing of Amendment No. 3 and Order Granting Accelerated Approval of a Proposed Rule Change To List and Trade Shares of the BrandywineGLOBAL—Global Total Return ETF); 79683 (December 23, 2016), 81 FR 96539 (December 30, 2016) (SR-

The Adviser represents that it intends to engage in strategies that utilize foreign currency forward transactions and U.S. and foreign equity and commodity-linked total return swaps (which swaps will be traded OTC) based on its investment strategies. Depending on market conditions, the exposure due to these strategies is expected to exceed 20% of the Fund's assets.<sup>17</sup> The Adviser represents further that the foreign currency forward transactions and total return swaps will be traded OTC, and, as such, it is not possible to implement these strategies efficiently using listed derivatives. Swaps on equity securities may be an important means to reduce risk in the Fund's equity investments, or, depending on market conditions, to enhance returns of such investments. If the Fund were limited to investing up to 20% of assets in OTC derivatives, the Fund would have to exclude or underweight these strategies and would be less diversified, concentrating risk in the other strategies it will utilize. Therefore, the Exchange believes that increasing the percentage limit in Commentary .01(e), as described above, to the Fund's investments in OTC derivatives, including forwards and swaps, would help protect investors and the public interest.

As noted above, the Fund may use the derivative instruments described above to enhance Fund returns, increase liquidity, gain long or short exposure to certain instruments, markets or factors in a more efficient or less expensive way and/or hedge risks associated with its other portfolio investments.

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NYSEArca-2016-82) (order approving a proposed rule change to list and trade shares of the JPMorgan Diversified Event Driven ETF under NYSE Arca Equities Rule 8.600); 77904 (May 25, 2016), 81 FR 35101 (June 1, 2016) (SR-NYSEArca-2016-17) (order approving a proposed rule change to list and trade of shares of the JPMorgan Diversified Alternatives ETF under NYSE Arca Equities Rule 8.600).

<sup>17</sup> The Adviser and its affiliates actively monitor counterparty credit risk exposure (including for OTC derivatives) and evaluate counterparty credit quality on a continuous basis.

The Exchange notes that, other than Commentary .01(e) to Rule 8.600-E, the Fund will meet all other requirements of Rule 8.600-E.

#### Availability of Information

The Fund's website ([www.franklintempleton.com](http://www.franklintempleton.com)), 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 Fund's website will include additional quantitative information updated on a daily basis, including, for the Fund, (1) daily trading volume, the prior Business Day's reported closing price, NAV and mid-point of the bid/ask spread at the time of calculation of such NAV (the "Bid/Ask Price"),<sup>18</sup> 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. On each Business Day, before commencement of trading in Shares in the Core Trading Session on the Exchange, the Adviser will disclose on the Fund's website the Disclosed Portfolio for the Fund as defined in NYSE Arca Rule 8.600-E(c)(2) that will form the basis for the Fund's calculation of NAV at the end of the business day.<sup>19</sup>

Investors can also obtain the Fund's Statement of Additional Information ("SAI"), its Shareholder Reports, its Form N-CSR, filed twice a year, and its Form N-CEN, filed annually.

The Fund's SAI and Shareholder Reports are available free upon request from the Trust, and

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<sup>18</sup> The Bid/Ask Price of the Fund's Shares will be determined using the mid-point of the highest bid and the lowest offer on the Exchange as of the time of calculation of the Fund's NAV. The records relating to Bid/Ask Prices will be retained by the Fund and its service providers.

<sup>19</sup> Under accounting procedures to be followed by the Fund, trades made on the prior business day ("T") will be booked and reflected in NAV on the current business day ("T+1"). Accordingly, the Fund will be able to disclose at the beginning of the Business Day the portfolio that will form the basis for the NAV calculation at the end of the Business Day.

those documents and the Form N-CSR and Form N-CEN may be viewed on-screen or downloaded from the Commission's website at [www.sec.gov](http://www.sec.gov).

Quotation and last sale information for the Shares and for securities holdings of the Fund that are U.S. exchange-listed, including common stocks, preferred stocks, rights, warrants, ETFs and Depositary Receipts will be available via the CTA high speed line. Quotation and last sale information for such U.S. exchange-listed securities as well as U.S. and foreign exchange-traded futures will be available from the exchange on which they are listed and from major market data vendors. Quotation and last sale information for foreign exchange-listed common stocks, preferred stocks, rights and warrants will be available from the exchanges on which they trade and from major market data vendors, as applicable. Price information for total return swaps and currency forward contracts is available from major market data vendors. Information regarding market price and trading volume for the Shares will be continually available on a real-time basis throughout the day on brokers' computer screens and other electronic services. Information regarding the previous day's closing price and trading volume information for the Shares will be published daily in the financial section of newspapers.

Quotation information for cash equivalents, bonds, debentures, swaps, foreign governmental and supranational debt securities, U.S. Government securities, debt securities with variable interest rates and U.S. and foreign corporate debt may be obtained from brokers and dealers who make markets in such securities or through nationally recognized pricing services through subscription agreements. The U.S. dollar value of foreign securities, instruments and currencies can be derived by using foreign currency exchange rate quotations obtained from nationally recognized pricing services. Price information for non-exchange-traded Depositary Receipts is available from major market data vendors.

In addition, the PIV, as defined in NYSE Arca Rule 8.600-E(c)(3), will be widely disseminated by one or more major market data vendors at least every 15 seconds during the Core Trading Session.<sup>20</sup> The dissemination of the PIV, together with the Disclosed Portfolio, will allow investors to determine the approximate value of the underlying portfolio of the Fund on a daily basis and will provide a close estimate of that value throughout the trading day.

#### 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.<sup>21</sup> Trading in Shares of the Fund will be halted if the circuit breaker parameters in NYSE Arca Rule 7.12-E have been reached. Trading also may be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares of the Fund inadvisable.

Trading in the Shares will be subject to NYSE Arca Rule 8.600-E(d)(2)(D), 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. Shares will trade on the NYSE Arca Marketplace from 4:00 a.m. to 8:00 p.m. E.T. in accordance with NYSE Arca Rule 7.34-E (Early, Core, and Late Trading Sessions). The Exchange has appropriate rules to facilitate transactions in the Shares during all trading sessions. As provided in NYSE Arca Rule 7.6-E, the minimum price variation ("MPV") for quoting and entry of orders

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<sup>20</sup> Currently, it is the Exchange's understanding that several major market data vendors display and/or make widely available PIVs taken from the CTA or other data feeds.

<sup>21</sup> See NYSE Arca Rule 7.12-E.

in equity securities traded on the NYSE Arca Marketplace is \$0.01, with the exception of securities that are priced less than \$1.00 for which the MPV for order entry is \$0.0001.

Except as described herein, the Shares of the Fund will conform to the initial and continued listing criteria under NYSE Arca Rule 8.600-E. The Exchange represents that, for initial and/or continued listing, the Fund will be in compliance with Rule 10A-3<sup>22</sup> under the Act, as provided by NYSE Arca Rule 5.3-E. 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 of the Fund that the NAV and the Disclosed Portfolio will be made available to all market participants at the same time.

#### Surveillance

The Exchange represents that trading in the Shares will be subject to the existing trading surveillances administered by the Exchange, as well as cross-market surveillances administered by the Financial Industry Regulatory Authority (“FINRA”) on behalf of the Exchange, which are designed to detect violations of Exchange rules and applicable federal securities laws.<sup>23</sup> The Exchange represents that these procedures are adequate to properly monitor Exchange trading of the Shares in all trading sessions and to deter and detect violations of Exchange rules and applicable federal securities laws.

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<sup>22</sup> 17 CFR 240 10A-3.

<sup>23</sup> FINRA conducts 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.

The surveillances referred to above generally focus on detecting securities trading outside their normal patterns, which could be indicative of manipulative or other violative activity. When such situations are detected, surveillance analysis follows and investigations are opened, where appropriate, to review the behavior of all relevant parties for all relevant trading violations.

The Exchange or FINRA, on behalf of the Exchange, or both, will communicate as needed regarding trading in the Shares, certain futures, and certain exchange-traded equity securities with other markets and other entities that are members of the Intermarket Surveillance Group (“ISG”), and the Exchange or FINRA, on behalf of the Exchange, or both, may obtain trading information regarding trading such securities and financial instruments from such markets and other entities. In addition, the Exchange may obtain information regarding trading in such securities and financial instruments from markets and other entities that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.<sup>24</sup> 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 FINRA’s Trade Reporting and Compliance Engine (“TRACE”).

In addition, the Exchange also has a general policy prohibiting the distribution of material, non-public information by its employees.

All statements and representations made in this filing regarding (a) the description of the portfolio holdings or reference assets, (b) limitations on portfolio holdings or reference assets, or

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<sup>24</sup> For a list of the current members of ISG, see [www.isgportal.org](http://www.isgportal.org). The Exchange notes that not all components of the Disclosed 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.

(c) the applicability of Exchange listing rules specified in this rule filing shall constitute continued listing requirements for listing the Shares on the Exchange.

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 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 NYSE Arca Rule 5.5-E(m).

#### Information Bulletin

Prior to the commencement of trading, the Exchange will inform its Equity Trading Permit (“ETP”) Holders in an Information Bulletin (“Bulletin”) of the special characteristics and risks associated with trading the Shares of the Fund. Specifically, the Bulletin will discuss the following: (1) the procedures for purchases and redemptions of Shares in Creation Units (and that Shares are not individually redeemable); (2) NYSE Arca 9.2-E(a), which imposes a duty of due diligence on its ETP Holders to learn the essential facts relating to every customer prior to trading the Shares; (3) the risks involved in trading the Shares during the Early and Late Trading Sessions when an updated PIV will not be calculated or publicly disseminated; (4) how information regarding the PIV and the Disclosed Portfolio is disseminated; (5) the requirement that ETP Holders deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction; and (6) trading information.

In addition, the Bulletin will reference that the Fund is subject to various fees and expenses described in the Registration Statement. The Bulletin will discuss any exemptive, no-action, and interpretive relief granted by the Commission from any rules under the Act. The

Bulletin will also disclose that the NAV for the Shares of the Fund will be calculated after 4:00 p.m. E.T. each trading day.

## 2. Statutory Basis

The basis under the Act for this proposed rule change is the requirement under Section 6(b)(5)<sup>25</sup> that an exchange have rules that are designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to, and perfect the mechanism of a free and open market and, in general, to protect investors and the public interest.

The Exchange believes that the proposed rule change is designed to prevent fraudulent and manipulative acts and practices in that the Shares will be listed and traded on the Exchange pursuant to the initial and continued listing criteria in NYSE Arca Rule 8.600-E. The Adviser is not registered as a broker-dealer but is affiliated with a broker-dealer and has implemented and will maintain a fire wall with respect to such broker-dealer affiliate regarding access to information concerning the composition and/or changes to the portfolio. The Exchange represents that trading in the Shares will be subject to the existing trading surveillances administered by the Exchange, as well as cross-market surveillances administered by FINRA on behalf of the Exchange, which are designed to detect violations of Exchange rules and applicable federal securities laws. The Exchange represents that these procedures are adequate to properly monitor Exchange trading of the Shares in all trading sessions and to deter and detect violations of Exchange rules and applicable federal securities laws. The Exchange or FINRA, on behalf of the Exchange, or both, will communicate as needed regarding trading in the Shares, certain futures and certain exchange-traded equity securities with other markets and other entities that

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<sup>25</sup> 15 U.S.C. 78f(b)(5).

are members of the ISG, and the Exchange or FINRA, on behalf of the Exchange, or both, may obtain trading information regarding trading such securities and financial instruments from such markets and other entities. In addition, the Exchange may obtain information regarding trading in such securities and financial instruments from markets and other entities that are members of 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 FINRA's TRACE.

The PIV, as defined in NYSE Arca Rule 8.600-E (c)(3), will be widely disseminated by one or more major market data vendors at least every 15 seconds during the Core Trading Session. The Fund may hold up to an aggregate amount of 15% of its net assets in illiquid assets (calculated at the time of investment), deemed illiquid by the Adviser, consistent with Commission guidance.

Except as described herein, the Shares of the Fund will conform to the initial and continued listing criteria under NYSE Arca Rule 8.600-E. The Exchange represents that, for initial and/or continued listing, the Fund will be in compliance with Rule 10A-3 under the Act, as provided by NYSE Arca Rule 5.3-E. 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 of the Fund that the NAV per Share will be calculated daily and that the NAV and the Disclosed Portfolio will be made available to all market participants at the same time. In addition, a large amount of information is publicly available regarding the Fund and the Shares, thereby promoting market transparency. The Fund's portfolio holdings will be disclosed on its website daily after the close of trading on the Exchange and prior to the opening of trading on the Exchange the following day. On a daily

basis, the Fund will disclose the information regarding the Disclosed Portfolio required under NYSE Arca Rule 8.600-E (c)(2) to the extent applicable. The Fund's website information will be publicly available at no charge.

Investors can also obtain the Fund's Statement of Additional Information ("SAI"), its Shareholder Reports, its Form N-CSR, filed twice a year, and its Form N-CEN, filed annually. The Fund's SAI and Shareholder Reports are available free upon request from the Trust, and those documents and the Form N-CSR and Form N-CEN may be viewed on-screen or downloaded from the Commission's website at [www.sec.gov](http://www.sec.gov).

Quotation and last sale information for the Shares and for portfolio securities of the Fund that are U.S. exchange listed, including common stocks, preferred stocks, rights, warrants, ETFs, and U.S. exchange-traded Depository Receipts will be available via the CTA high speed line.

With respect to Commentary .01(e), the aggregate gross notional value of the Fund's investments in OTC derivatives is expected to exceed 20% of Fund assets, calculated based on the aggregate gross notional value of such OTC derivatives.

The Adviser believes that it is important to provide the Fund with additional flexibility to manage risk associated with its investments. Depending on market conditions, it may be critical that the Fund be able to utilize available OTC swaps and currency forwards to efficiently gain exposure to equities, currencies and commodities, in furtherance of the Fund's investment objective.<sup>26</sup>

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<sup>26</sup> As noted above, the Commission has previously approved an exception from requirements set forth in Commentary .01(e) relating to investments in OTC derivatives similar to those proposed with respect to the Fund. See, note 16, supra.

The Adviser represents that it intends to engage in strategies that utilize foreign currency forward transactions and total return swaps (which swaps will be traded OTC) based on its investment strategies. Depending on market conditions, the exposure due to these strategies is expected to exceed 20% of the Fund's assets.<sup>27</sup> The Adviser represents further that the foreign currency forward transactions and total return swaps will be traded OTC, and, as such, it is not possible to implement these strategies efficiently using listed derivatives. Swaps on equity securities may be an important means to reduce risk in the Fund's equity investments, or, depending on market conditions, to enhance returns of such investments. If the Fund were limited to investing up to 20% of assets in OTC derivatives, the Fund would have to exclude or underweight these strategies and would be less diversified, concentrating risk in the other strategies it will utilize. Therefore, the Exchange believes that increasing the percentage limit in Commentary .01(e), as described above, to the Fund's investments in OTC derivatives, including forwards and swaps, would help protect investors and the public interest.

As noted above, the Fund may use the derivative instruments described above to enhance Fund returns, increase liquidity, gain long or short exposure to certain instruments, markets or factors in a more efficient or less expensive way and/or hedge risks associated with its other portfolio investments.

The Exchange notes that, other than Commentary .01(e) to Rule 8.600-E, the Fund will meet all other requirements of Rule 8.600-E.

The website for the Fund will include a form of the prospectus for the Fund and additional data relating to NAV and other applicable quantitative information. Moreover, prior to the commencement of trading, the Exchange will inform its ETP Holders in an Information

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<sup>27</sup> See note 16, supra.

Bulletin of the special characteristics and risks associated with trading the Shares of the Fund. Trading in Shares of the Fund will be halted if the circuit breaker parameters in NYSE Arca Rule 7.12-E have been reached or because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable, and trading in the Shares will be subject to NYSE Arca Rule 8.600-E(d)(2)(D), which sets forth circumstances under which Shares of the Fund may be halted. In addition, as noted above, investors will have ready access to information regarding the Fund's holdings, the PIV, the Disclosed Portfolio, and quotation and last sale information for the Shares. The Fund's investments, including derivatives, will be consistent with the Fund's investment objective and will not be used to enhance leverage (although certain derivatives and other investments may result in leverage). 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., 2Xs and 3Xs) of the Fund's primary broad-based securities benchmark index (as defined in Form N-1A).<sup>28</sup>

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 actively-managed exchange-traded product that, through permitted use of an increased level of OTC derivatives above that currently permitted by the generic listing requirements of Commentary .01 to NYSE Arca Rule 8.600-E, will enhance competition among market participants, to the benefit of investors and the marketplace. As noted above, the Exchange has in place surveillance procedures relating to trading in the Shares and may obtain information via ISG from other exchanges that are members of ISG or with which the Exchange has entered into a comprehensive surveillance sharing agreement. In addition, as noted above,

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<sup>28</sup> See note 14, supra.

investors have ready access to information regarding the Fund's holdings, the PIV, the Disclosed Portfolio for the Fund, and quotation and last sale information for the Shares.

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 type of actively-managed exchange-traded product that holds fixed income securities, equity securities and derivatives and 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

No written comments were solicited or received with respect to 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](mailto:rule-comments@sec.gov). Please include File Number SR-NYSEArca-2019-57 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-2019-57. 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-

NYSEArca-2019-57 and should be submitted on or before [INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE *FEDERAL REGISTER*].

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

**Jill M. Peterson,**  
*Assistant Secretary.*

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<sup>29</sup> 17 CFR 200.30-3(a)(12).

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