

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-74193; File No. SR-BATS-2014-054)

February 3, 2015

Self-Regulatory Organizations; BATS Exchange, Inc.; Order Approving a Proposed Rule Change to List and Trade Shares of the iShares Short Maturity Municipal Bond ETF of the iShares U.S. ETF Trust under Rule 14.11(i) of BATS Exchange, Inc.

I. Introduction

On December 12, 2014, BATS Exchange, Inc. (the “Exchange” or “BATS”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1)<sup>1</sup> of the Securities Exchange Act of 1934 (“Act” or “Exchange Act”)<sup>2</sup> and Rule 19b-4 thereunder,<sup>3</sup> a proposed rule change to list and trade shares (“Shares”) of the iShares Short Maturity Municipal Bond ETF (the “Fund”) under BATS Rule 14.11(i). The proposed rule change was published for comment in the Federal Register on December 29, 2014.<sup>4</sup> The Commission received no comments on the proposed rule change. This order approves the proposed rule change.

II. Description of the Proposal

The Exchange proposes to list and trade the Shares under BATS Rule 14.11(i), which governs the listing and trading of Managed Fund Shares on the Exchange. 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 Shares will be offered by the iShares U.S. ETF Trust (the “Trust”), a Delaware statutory trust. The Trust is registered with the Commission as an open-end investment company

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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.

<sup>4</sup> See Securities Exchange Act Release No. 73895 (December 19, 2014), 79 FR 78125 (“Notice”).

and has filed a registration statement on behalf of the Fund on Form N-1A (“Registration Statement”) with the Commission.<sup>5</sup> BlackRock Fund Advisors is the investment adviser (“BFA” or “Adviser”) to the Fund.<sup>6</sup> State Street Bank and Trust Company is the administrator, custodian, and transfer agent for the Trust. BlackRock Investments, LLC serves as the distributor for the Trust. The Exchange represents that the Adviser is not a registered broker-dealer, but is affiliated with multiple broker-dealers and has implemented fire walls with respect to such broker-dealers regarding access to information concerning the composition and/or changes to the Fund’s portfolio.<sup>7</sup> The Exchange further represents that 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.<sup>8</sup>

The Exchange has made the following representations and statements regarding the Fund.<sup>9</sup> The Fund will seek to maximize tax-free current income. Generally, the Fund’s effective

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<sup>5</sup> See Registration Statement on Form N-1A for the Trust, dated September 3, 2014 (File Nos. 333-179904 and 811-22649). See also Investment Company Act Release No. 29571 (January 24, 2011) (File No. 812-13601).

<sup>6</sup> BFA is an indirect wholly owned subsidiary of BlackRock, Inc.

<sup>7</sup> See Notice, *supra* note 4, at 78126.

<sup>8</sup> See *id.*; see also BATS Rule 14.11(i)(7). The Exchange also represents that in the event that (a) the Adviser becomes registered as a broker-dealer or newly affiliated with another broker-dealer, or (b) any new adviser or sub-adviser is a registered broker-dealer or becomes affiliated with a broker-dealer, it will implement a fire wall with respect to its relevant personnel or such broker-dealer affiliate, as applicable, 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.

<sup>9</sup> The Commission notes that additional information regarding the Trust, the Fund, and the Shares, investment strategies, risks, net asset value (“NAV”) calculation, creation and redemption procedures, fees and expenses, portfolio holdings disclosure policies, distributions, and taxes, among other information, is included in the Notice and Registration Statement. See *supra* notes 4 and 5, respectively.

duration<sup>10</sup> will be 1.2 years or less, and it is not expected to exceed 1.5 years.

To achieve its objective, the Fund will invest, under normal circumstances,<sup>11</sup> at least 80% of its net assets in Municipal Securities<sup>12</sup> that pay interest that is exempt from U.S. federal income taxes and the federal alternative minimum tax (the “AMT”), along with short-term instruments and repurchase and reverse repurchase agreements for Municipal Securities. Under normal circumstances, less than 20% of the Fund’s net assets may be invested in “Other Investments,” namely: interest rate futures contracts and Municipal Securities that pay interest that is subject to the AMT.

### III. Discussion and Commission Findings

After careful review, the Commission finds that the Exchange’s proposal to list and trade the Shares is consistent with the Exchange Act and the rules and regulations thereunder applicable to a national securities exchange.<sup>13</sup> In particular, the Commission finds that the

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<sup>10</sup> The Exchange states that effective duration is a measure of the Fund’s price sensitivity to changes in yields or interest rates. See Notice, supra note 4, 79 FR at 78126, n.11.

<sup>11</sup> The term “under normal circumstances” includes, but is not limited to, the absence of adverse market, economic, political, or other conditions, including extreme volatility or trading halts in the financial markets; operational issues causing dissemination of inaccurate market information; or force majeure type events such as systems failure, natural or man-made disaster, act of God, armed conflict, act of terrorism, riot, or labor disruption, or any similar intervening circumstance.

<sup>12</sup> “Municipal Securities” are fixed and floating rate securities issued in the U.S. by U.S. states and territories, municipalities and other political subdivisions, agencies, authorities, and instrumentalities of states and multi-state agencies and authorities and will include only the following instruments: general obligation bonds, limited obligation bonds (or revenue bonds), private activity bonds, municipal notes, municipal commercial paper, tender option bonds, variable rate demand obligations, municipal lease obligations, stripped securities, structured securities, when issued securities, and zero coupon securities. The Fund may also invest in exchange-listed and non-exchange-listed investment companies that invest in Municipal Securities. The Exchange represents that structured securities, when combined with its “Other Investments” will not exceed 20% of the Fund’s net assets. See Notice, supra note 4, 79 FR at 78127, n.21.

<sup>13</sup> In approving this proposed rule change, the Commission has considered the proposed

proposed rule change is consistent with Section 6(b)(5) of the Exchange Act,<sup>14</sup> which requires, among other things, that the Exchange’s rules be designed to promote just and equitable principles of trade, 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 Commission also finds that the proposal to list and trade the Shares on the Exchange is consistent with Section 11A(a)(1)(C)(iii) of the Exchange Act,<sup>15</sup> which sets forth Congress’ finding that it is in the public interest and appropriate for the protection of investors and the maintenance of fair and orderly markets to assure the availability to brokers, dealers and investors of information with respect to quotations for and transactions in securities. Quotation and last-sale information for the Shares will be available on the facilities of the Consolidated Tape Association (“CTA”). Information regarding market price and volume of the Shares will be continually available on a real-time basis throughout the day on brokers’ computer screens and other electronic services. The previous day’s closing price and trading volume information for the Shares will be published daily in the financial section of newspapers. 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.

According to the Exchange, intraday, executable price quotations on assets held by the Fund are available from major broker-dealer firms, and for exchange-traded assets, such intraday information is available directly from the applicable listing exchange.<sup>16</sup> All such intraday price information is available through subscription services, such as Bloomberg, Thomson Reuters and

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rule’s impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>14</sup> 15 U.S.C. 78f(b)(5).

<sup>15</sup> 15 U.S.C. 78k-1(a)(1)(C)(iii).

<sup>16</sup> See Notice, supra note 4, 79 FR at 78130.

International Data Corporation, which can be accessed by authorized participants and other investors. Pricing information for repurchase agreements and securities not listed on an exchange or national securities market will be available from major broker-dealer firms and/or subscription services, such as Bloomberg, Thomson Reuters and International Data Corporation. Quotation and last-sale information for the underlying exchange-listed investment companies will be available through CTA. Price information relating to all other securities held by the Fund will be available from major market data vendors.

On each business day, before commencement of trading in Shares during Regular Trading Hours on the Exchange, the Fund will disclose on its website the identities and quantities of the portfolio of securities and other assets (the “Disclosed Portfolio”) held by the Fund that will form the basis for the Fund’s calculation of NAV at the end of the business day.<sup>17</sup> In addition, for the Fund, an estimated value, defined in BATS Rule 14.11(i)(3)(C) as the “Intraday Indicative Value,” that reflects an estimated intraday value of the Fund’s portfolio, will be disseminated. The Intraday Indicative Value will be based upon the current value for the components of the 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 Trading Hours.<sup>18</sup>

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<sup>17</sup> The Disclosed Portfolio will include, as applicable, the names, quantity, percentage weighting and market value of securities and other assets held by the Fund and the characteristics of such assets. The website and information will be publicly available at no charge. 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.

<sup>18</sup> The Exchange represents that several major market data vendors display and/or make widely available Intraday Indicative Values published via the CTA or other data feeds. See id. at 78129, n.36.

The Commission also believes that the proposal to list and trade the Shares is reasonably designed to promote fair disclosure of information that may be necessary to price the Shares appropriately and to prevent trading when a reasonable degree of transparency cannot be assured. The Commission notes that the Exchange will obtain a representation from the issuer of the Shares that the NAV per Share will be calculated daily and that the NAV and the Disclosed Portfolio will be made available to all market participants at the same time.<sup>19</sup> The Exchange will halt trading in the Shares under the conditions specified in BATS 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 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(i)(4)(B)(iv), which sets forth circumstances under which Shares of the Fund may be halted. The Exchange prohibits the distribution of material non-public information by its employees. The Exchange represents that the Adviser is not a registered broker-dealer, but is affiliated with multiple broker-dealers and has implemented fire walls with respect to such broker-dealers regarding access to information concerning the composition and/or changes to the Fund's portfolio.<sup>20</sup> The Exchange further represents that 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.<sup>21</sup> In addition, the Commission notes that, consistent with BATS Rule 14.11(i)(4)(B)(ii)(b), the Reporting

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<sup>19</sup> See id. at 78130.

<sup>20</sup> See supra note 7 and accompanying text.

<sup>21</sup> See Notice, supra note 4, 79 FR at 78131.

Authority, as defined in BATS Rule 14.11(i)(3)(D), must implement and maintain, or be subject to, procedures designed to prevent the use and dissemination of material, non-public information regarding the actual components of the portfolio. The Exchange may obtain information regarding trading in the Shares and the underlying shares in exchange traded equity securities via the Intermarket Surveillance Group (“ISG”), from other exchanges that are members or affiliates of the ISG, or with which the Exchange has entered into a comprehensive surveillance sharing agreement.<sup>22</sup> In addition, the Exchange is able to access, as needed, trade information for certain fixed income instruments reported to FINRA’s Trade Reporting and Compliance Engine.

In support of this proposal, the Exchange has made the following representations:

- (1) The Shares will be subject to BATS Rule 14.11(i), which sets forth the initial and continued listing criteria applicable to Managed Fund Shares.
- (2) The Exchange has appropriate rules to facilitate transactions in the Shares during all trading sessions.
- (3) Trading of the Shares through the Exchange will be subject to the Exchange’s surveillance procedures for derivative products, including Managed Fund Shares, and that these 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.
- (4) Prior to the commencement of trading, the Exchange will inform its members in an Information Circular of the special characteristics and risks associated with trading the Shares. Specifically, the Information Circular will discuss the

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<sup>22</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.

following: (a) the procedures for purchases and redemptions of Shares in Creation Units (and that Shares are not individually redeemable); (b) BATS Rule 3.7, which imposes suitability obligations on Exchange members with respect to recommending transactions in the Shares to customers; (c) how information regarding the Intraday Indicative Value is disseminated; (d) the risks involved in trading the Shares during the Pre-Opening<sup>23</sup> and After Hours Trading Sessions<sup>24</sup> when an updated Intraday Indicative Value will not be calculated or publicly disseminated; (e) the requirement that members deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction; and (f) trading information.

- (5) For initial and/or continued listing, the Fund must be in compliance with Rule 10A-3 under the Act.<sup>25</sup>
- (6) The Fund may hold up to an aggregate amount of 15% of its net assets in illiquid assets (calculated at the time of investment), as deemed illiquid by the Adviser under the 1940 Act.
- (7) The Fund's exposure to reverse repurchase agreements will be covered by liquid assets having a value equal to or greater than such commitments.
- (8) Structured securities, when combined with those instruments held as part of the Other Investments described above, will not exceed 20% of the Fund's net assets.
- (9) As it relates to exchange traded investment companies, the Fund will only invest in investment companies that trade on markets that are a member of the ISG or

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<sup>23</sup> The Pre-Opening Session is from 8:00 a.m. to 9:30 a.m. Eastern Time.

<sup>24</sup> The After Hours Trading Session is from 4:00 p.m. to 5:00 p.m. Eastern Time.

<sup>25</sup> See 17 CFR 240.10A-3.



with which the Exchange has in place a comprehensive surveillance sharing agreement.

(10) To the extent that the Fund invests in futures contracts, the Fund will only invest in futures contracts that are traded on an exchange that is a member of the ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.

(11) A minimum of 100,000 Shares will be outstanding at the commencement of trading on the Exchange.

This approval order is based on all of the Exchange's representations, including those set forth above and in the Notice. For the foregoing reasons, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act<sup>26</sup> and the rules and regulations thereunder applicable to a national securities exchange.

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<sup>26</sup> 15 U.S.C. 78f(b)(5).

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Exchange Act,<sup>27</sup> that the proposed rule change (SR-BATS-2014-054) is hereby approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>28</sup>

Brent J. Fields  
Secretary

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<sup>27</sup> 15 U.S.C. 78s(b)(2).

<sup>28</sup> 17 CFR 200.30-3(a)(12).