

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-85430; File No. SR-NYSEArca-2019-14)

March 27, 2019

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Proposed Rule Change Relating to Certain Changes Regarding Investments of the PGIM Ultra Short Bond ETF under NYSE Arca Rule 8.600-E

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 March 13, 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 certain changes regarding investments of the PGIM Ultra Short Bond ETF (the “Fund”), a series of PGIM ETF Trust (the “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.

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

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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.

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 certain changes, described below under “Application of Generic Listing Requirements,” regarding investments of the Fund. The shares (“Shares”) of the Fund commenced trading on the Exchange on April 10, 2018 pursuant to the generic listing standards under Commentary .01 to NYSE Arca Rule 8.600-E (“Managed Fund Shares”).<sup>4</sup> The Commission has previously approved two proposed rule changes regarding certain changes that would result in the portfolio for the Fund not meeting all of the “generic” listing requirements of Commentary .01 to NYSE Arca Rule 8.600-E applicable to the listing of Managed Fund Shares.<sup>5</sup>

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<sup>4</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) (the “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.

<sup>5</sup> See Securities Exchange Act Release Nos. 83319 (May 24, 2018), 83 FR 25097 (May 31, 2018) (SR-NYSEArca-2018-15), (Order Approving a Proposed Rule Change, as Modified by Amendment No. 1 Thereto, to Continue Listing and Trading Shares of the PGIM Ultra Short Bond ETF under NYSE Arca Rule 8.600-E) (“First Prior Order”); 84818 (December 13, 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) (“Second Prior Order” and, together with the First Prior Order, the “Prior Orders”). The First Prior Order stated that the Fund’s portfolio would meet all requirements of Commentary .01 to NYSE Arca Rule 8.600-E except for those set forth in Commentary .01(a)(1), Commentary .01(b)(4) and

PGIM Investments LLC (the “Adviser”) is the investment adviser for the Fund. PGIM Fixed Income (the “Subadviser”), a unit of PGIM, Inc., is the subadviser to the Fund. The Adviser and the Subadviser are indirect wholly-owned subsidiaries of Prudential Financial, Inc.<sup>6</sup>

As stated in the First Prior Order, the investment objective of the Fund seeks to provide total return through a combination of current income and capital appreciation, consistent with preservation of capital. The Fund seeks to achieve its investment objective by investing primarily in a portfolio of U.S. dollar denominated short-term fixed, variable and floating rate debt instruments. Under normal market conditions,<sup>7</sup> the Fund invests at least 80% of its net assets (plus any borrowings for investment purposes) in a portfolio of financial instruments consisting of (i) the Principal Investment Instruments (as defined in the First Prior Order) and (ii) derivatives (as described in the Prior Orders) that (A) provide exposure to such Principal Investment Instruments, or (B) are used to enhance returns, manage portfolio duration, or manage the risk of securities price fluctuations, as described in the Prior Orders.

#### Application of Generic Listing Requirements

The Exchange proposes that, in addition to the requirement approved by the Commission in the First Prior Order that Private ABS/MBS (as defined below) will, in the aggregate, not

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Commentary .01(b)(5). The Second Prior Order stated that the Fund’s portfolio would not meet the requirements of Commentary .01(e) to NYSE Arca Rule 8.600-E.

<sup>6</sup> The Trust is registered under the 1940 Act. On March 26, 2018, the Trust filed with the Commission Pre-Effective Amendment No. 1 to the Trust’s registration statement on Form N-1A under the Securities Act of 1933 (15 U.S.C. 77a), and under the 1940 Act relating to the Fund (File Nos. 333-222469 and 811-23324) (“Registration Statement”). The Trust will file an amendment to the Registration Statement as necessary to conform to the representations in this filing. 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 the Trust under the 1940 Act. See Investment Company Act Release No. 31095 (June 24, 2014) (File No. 812-14267).

<sup>7</sup> The term “normal market conditions” is defined in NYSE Arca Rule 8.600-E(c)(5).

exceed more than 20% of the total assets of the Fund,<sup>8</sup> the Fund will not invest more than 20% of the Fund's total assets in U.S. or foreign collateralized debt obligations ("CDOs").<sup>9</sup> The Exchange also proposes that Private ABS/MBS will not be required to comply with the requirements of Commentary .01(b)(4) to NYSE Arca Rule 8.600-E.<sup>10</sup>

The Fund's investments currently comply with the generic requirements set forth in Commentary .01 to Rule 8.600-E.

The Exchange is submitting this proposed rule change because the changes described in the preceding paragraph would not conform to the Exchange's representations regarding the Fund's investments as stated in the First Prior Order. In the First Prior Order, the Exchange stated that the Fund will not comply with the requirement in Commentary .01(b)(5) that investments in non-agency, non-government sponsored entity and privately issued mortgage-related and other asset-backed securities (i.e., Private ABS/MBS) not account, in the aggregate,

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<sup>8</sup> As described in the First Prior Order, among the Fund's Principal Investment Instruments are asset-backed securities ("ABS"), including mortgage-backed securities ("MBS"). The ABS (including MBS) in which the Fund invests include both (i) ABS (including MBS) issued by the U.S. Government, an agency of the U.S. Government, or a government sponsored entity ("GSE") and (ii) non-U.S. Government, non-agency, non-GSE and other privately issued ABS (including MBS) ("Private ABS/MBS").

<sup>9</sup> For purposes of this filing, CDOs will not be deemed to be ABS for purposes of the restriction on the Fund's holdings of Private ABS/MBS. See note 9, infra.

<sup>10</sup> Commentary .01(b)(4) provides that component securities that in the aggregate account for at least 90% of the fixed income weight of the portfolio must be either: (a) from issuers that are required to file reports pursuant to Sections 13 and 15(d) of the Act; (b) from issuers that have a worldwide market value of its outstanding common equity held by non-affiliates of \$700 million or more; (c) 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; (d) exempted securities as defined in Section 3(a)(12) of the Act; or (e) from issuers that are a government of a foreign country or a political subdivision of a foreign country. In the First Prior Order, the Commission approved an exception from Commentary .01(b)(4) to provide that fixed income securities that do not meet any of the criteria in Commentary .01(b)(4) will not exceed 10% of the total assets of the Fund.

for more than 20% of the weight of the fixed income portion of the portfolio, and, instead, that Private ABS/MBS, in the aggregate, may not exceed more than 20% of the total assets of the Fund.<sup>11</sup> As stated above, the Exchange proposes to amend this representation regarding the Fund's investments to provide that the Fund will not invest more than 20% of the Fund's total assets in Private ABS/MBS or more than 20% of the Fund's total assets in U.S. or foreign CDOs.<sup>12</sup> CDOs would be excluded from the 20% limit on Private ABS/MBS but would be subject to a separate limit of 20%, measured with respect to the total assets of the Fund.<sup>13</sup> The Exchange believes that this 20% limitation will help the Fund maintain portfolio diversification

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<sup>11</sup> Commentary .01(b)(5) to NYSE Arca Rule 8.600-E provides that non-agency, non-government sponsored entity and privately issued mortgage-related and other asset-backed securities components of a portfolio may not account, in the aggregate, for more than 20% of the weight of the fixed income portion of the portfolio. In the First Prior Order, the Commission approved an exception from Commentary .01(b)(5) to permit the Fund's investments in Private ABS/MBS to not exceed 20% of the total assets of the Fund.

<sup>12</sup> For purposes of this proposed rule change, CDOs are excluded from the definition of ABS and, for purposes of this proposed rule change only, are comprised exclusively of collateralized loan obligations ("CLOs") and collateralized bond obligations ("CBOs"). CLOs are securities issued by a trust or other special purpose entity that are collateralized by a pool of loans by U.S. banks and participations in loans by U.S. banks that are unsecured or secured by collateral other than real estate. CBOs are securities issued by a trust or other special purpose entity that are backed by a diversified pool of fixed income securities issued by U.S. or foreign governmental entities or fixed income securities issued by U.S. or corporate issuers. CDOs are distinguishable from ABS because they are collateralized by bank loans or by corporate or government fixed income securities and not by consumer and other loans made by non-bank lenders, including student loans.

<sup>13</sup> The Exchange notes that the Commission has approved a proposed rule change permitting investments by an issue of Managed Fund Shares to exclude CDOs from the 20% limit on Private ABS/MBS but subject CDOs to a separate limit of 10%, measured with respect to the total assets of the fund. See Securities Exchange Act Release No. 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).

and will reduce manipulation risk.<sup>14</sup> In addition, the Fund's investment in CDOs will be subject to the Fund's liquidity procedures as adopted by the Board, and the Adviser does not expect that investments in CDOs of up to 20% of the total assets of the Fund will have any material impact on the liquidity of the Fund's investments.

In addition, the First Prior Order stated that the Fund will not comply with the requirement that securities that in aggregate account for at least 90% of the fixed income weight of the portfolio meet one of the criteria in Commentary .01(b)(4), and, instead, fixed income securities that do not meet any of the criteria in Commentary .01(b)(4) will not exceed 10% of the total assets of the Fund. As stated above, the Exchange proposes to amend this representation to state that the Private ABS/MBS, which will be limited to 20% of the Fund's total assets, will not be required to comply with the criteria in Commentary .01(b)(4)(a) through (e) to NYSE Arca Rule 8.600-E. Therefore, fixed income securities that do not meet the criteria in Commentary .01(b)(4) will not exceed 10% of the total assets of the Fund, excluding Private ABS/MBS.<sup>15</sup> CDOs also would not be subject to the criteria in Commentary .01(b)(4)(a) through (e) but would be subject to a limit of 20%, measured with respect to the total assets of the Fund.

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<sup>14</sup> The Exchange notes that the Commission has approved a proposed rule change permitting an issue of Managed Fund Shares to hold up to 30% of the weight of the fixed income securities portion of the fund's portfolio to consist of non-agency, non-GSE and privately-issued mortgage-related and other asset-backed securities. See Securities Exchange Act Release No. 84826 (December 14, 2018), 83 FR 65386 (December 20, 2018) (SR-NYSEArca-2018-25) (Order Approving a Proposed Rule Change, as Modified by Amendment No. 2, Regarding the Continued Listing and Trading of Shares of the Natixis Loomis Sayles Short Duration Income ETF).

<sup>15</sup> As noted above, CDOs would be excluded from the 20% limit on Private ABS/MBS but would be subject to a separate limit of 20%, measured with respect to the total assets of the Fund.

The Exchange notes that the Commission has previously approved the listing of Managed Fund Shares with similar investment objectives and strategies without imposing requirements that a certain percentage of such funds' securities meet one of the criteria set forth in Commentary .01(b)(4).<sup>16</sup>

Deviations from the generic requirements are necessary for the Fund to achieve its investment objective in a manner that is cost-effective and that maximizes investors' returns. Further, the proposed alternative requirements are narrowly tailored to allow the Fund to achieve its investment objective in manner that is consistent with the principles of Section 6(b)(5) of the Act. As a result, it is in the public interest to approve listing and trading of Shares of the Fund on the Exchange pursuant to the requirements set forth herein.

In addition, the Fund's investment in Private ABS/MBS and CDOs will be subject to the Fund's liquidity risk management program as approved by the Fund's board of directors.<sup>17</sup> The liquidity procedures generally include public disclosure by the Fund of its liquidity and redemption practices. The Fund's holdings in Private ABS/MBS and CDOs would be encompassed within the Fund's liquidity risk management program.

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<sup>16</sup> See, e.g., Exchange Act Release Nos. 67894 (September 20, 2012) 77 FR 59227 (September 26, 2012) (SR-BATS-2012-033) (order approving the listing and trading of shares of the iShares Short Maturity Bond Fund); 70342 (September 6, 2013), 78 FR 56256 (September 12, 2013) (SR-NYSEArca-2013-71) (order approving the listing and trading of shares of the SPDR SSgA Ultra Short Term Bond ETF, SPDR SSgA Conservative Ultra Short Term Bond ETF and SPDR SSgA Aggressive Ultra Short Term Bond ETF).

<sup>17</sup> Rule 22e-4(b) under the 1940 Act requires, among other things, that a fund "adopt and implement a written liquidity risk management program that is reasonably designed to assess and manage its liquidity risk." The rule is "designed to promote effective liquidity risk management throughout the open-end investment company industry, thereby reducing the risk that funds will be unable to meet their redemption obligations and mitigating dilution of the interests of fund shareholders." See Release Nos. 33-10233; IC-32315; File No. S7-16-15 (October 13, 2016).

Except for the changes noted above, all other representations made in the Prior Orders remain unchanged. All terms referenced but not defined in this proposed rule change are defined in the Prior Orders.

2. Statutory Basis

The basis under the Act for this proposed rule change is the requirement under Section 6(b)(5) of the Act 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.

As described above, deviations from the generic requirements of Commentary .01(b) to Rule 8.600-E are necessary for the Fund to achieve its investment objective in a manner that is cost-effective and that maximizes investors' returns. Further, the proposed alternative requirements are narrowly tailored to allow the Fund to achieve its investment objective in a manner that is consistent with the principles of Section 6(b)(5) of the Act. As a result, it is in the public interest to approve continued listing and trading of Shares of the Fund on the Exchange pursuant to the requirements set forth herein.

The Fund will not meet the requirement that at least 90% of the fixed income weight of the Fund's portfolio meet one of the criteria in Commentary .01(b)(4)(a) through (e) to Rule 8.600-E because some Private ABS/MBS cannot satisfy the criteria in Commentary .01(b)(4)(a) through (e). The Exchange proposes, in the alternative, to require that Fund's investments in fixed income securities that do not meet the criteria in Commentary .01(b)(4) will not exceed



10% of the total assets of the Fund, excluding Private ABS/MBS.<sup>18</sup> CDOs also would not be subject to the criteria in Commentary .01(b)(4)(a) through (e) but would be subject to a limit of 20% measured with respect to the total assets of the Fund. The Exchange believes that this alternative limitation is appropriate because the criteria in Commentary .01(b)(4)(a) through (e) do not appear to be designed for structured finance vehicles such as Private ABS/MBS, and the overall weight of Private ABS/MBS held by the Fund will be limited to 20% of the total assets of the Fund's portfolio, as described above.

As discussed above, the Exchange proposes that CDOs will not be deemed to be included in the definition of ABS for purposes of the limitation in Commentary .01(b)(5) to NYSE Arca Rule 8.600-E and, as a result, will not be subject to the restriction on aggregate holdings of Private ABS/MBS. However, the Fund's holdings in CDOs will be limited such that they do not account, in the aggregate, for more than 20% of the total assets of the Fund. The Exchange believes that the 20% limit on the Fund's holdings in CDOs will help to ensure that the Fund maintains a diversified portfolio and will mitigate the risk of manipulation. In addition, the Fund's investment in CDOs will be subject to the Fund's liquidity procedures as adopted by the Board,<sup>19</sup> and the Adviser does not expect that investments in CDOs of up to 20% of the total assets of the Fund will have any material impact on the liquidity of the Fund's investments.

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 believes that the proposed rule change will facilitate listing and trading of shares of

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<sup>18</sup> See note 13, supra.

<sup>19</sup> See note 15, supra.

another actively managed ETF that principally holds fixed income securities, 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-2019-14 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-2019-14. 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-2019-14 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.<sup>20</sup>

Eduardo A. Aleman  
Deputy Secretary

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<sup>20</sup> 17 CFR 200.30-3(a)(12).