

purchaser's subsequent sale of the security."

This exemptive relief shall terminate upon the event of any material change to the NPSI, including a change to the types of securities permitted to participate in the program or to the terms or amount of the payments made pursuant to the NPSI.<sup>14</sup> Further, this exemptive relief is subject to modification or revocation at any time the Commission determines that such action is necessary or appropriate in furtherance of the purposes of the Exchange Act. This exemptive relief is limited solely to the issuer's indirect participation in the payment of the NPSI Rebates as set forth in NASDAQ Rule 7014(f)(5)(B) for an NPSI Security, and does not extend to any other activities of the issuer, any other security of the issuer or sponsor, or any other issuers.<sup>15</sup> In addition, persons relying on this exemption are directed to the anti-fraud and anti-manipulation provisions of the Exchange Act, particularly Sections 9(a) and 10(b), and Rule 10b-5 thereunder. Responsibility for compliance with these and any other applicable provisions of the federal securities laws must rest with the persons relying on this exemption. This order does not represent Commission views with respect to any other question that the proposed activities may raise, including, but not limited to the adequacy of the disclosure required by federal securities laws and rules, and the applicability of other federal or state laws and rules to, the proposed activities.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>16</sup>

**Brent J. Fields,**  
Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-79201; File No. SR-NYSEArca-2016-120]

### Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Proposed Rule Change Relating to the Listing and Trading of Shares of the ForceShares Daily 4X US Market Futures Long Fund and ForceShares Daily 4X US Market Futures Short Fund Under Commentary .02 to NYSE Arca Equities Rule 8.200

October 31, 2016.

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 October 17, 2016, NYSE Arca, Inc. (the "Exchange" or "NYSE Arca") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I and II 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 following under Commentary .02 to NYSE Arca Equities Rule 8.200 ("Trust Issued Receipts"): ForceShares Daily 4X US Market Futures Long Fund and ForceShares Daily 4X US Market Futures Short Fund. The proposed rule change is available on the Exchange's Web site 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 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 following under Commentary .02 to NYSE Arca Equities Rule 8.200, which governs the listing and trading of Trust Issued Receipts ("TIRs"): <sup>4</sup> ForceShares Daily 4X US Market Futures Long Fund ("Fund" or "Long Fund") and ForceShares Daily 4X US Market Futures Short Fund ("Fund" or "Short Fund" and, together with the Long Fund, the "Funds").<sup>5</sup>

Each of the Funds is a commodity pool that is a series of the ForceShares Trust ("Trust"), a Delaware statutory trust. The Funds' sponsor is ForceShares LLC (the "Sponsor"). ALPS Distributors, Inc. is the marketing agent for the Funds' Shares ("Marketing Agent"). U.S. Bank National Association is the Funds' custodian ("Custodian"), which, in such capacity, holds the Funds' "Cash Equivalents" (as described below) and/or cash pursuant to a custodial agreement. The Custodian is also the registrar and transfer agent for the Funds' Shares.

The Long Fund's primary investment objective is to seek daily investment results, before fees and expenses, that correspond to approximately four times (400%) the daily performance, and the Short Fund's primary investment objective is to seek daily investment results, before fees and expenses, that correspond to approximately four times

<sup>4</sup> Commentary .02 to NYSE Arca Equities Rule 8.200 applies to TIRs that invest in "Financial Instruments." The term "Financial Instruments," as defined in Commentary .02(b)(4) to NYSE Arca Equities Rule 8.200, means any combination of investments, including cash; securities; options on securities and indices; futures contracts; options on futures contracts; forward contracts; equity caps, collars and floors; and swap agreements.

<sup>5</sup> On July 27, 2015, the Trust submitted to the Commission its draft registration statement on Form S-1 under the Securities Act of 1933 (15 U.S.C. 77a) ("Securities Act"). The Jumpstart Our Business Startups Act, enacted on April 5, 2012, added Section 6(e) to the Securities Act. Section 6(e) of the Securities Act provides that an "emerging growth company" may confidentially submit to the Commission a draft registration statement for confidential, non-public review by the Commission staff prior to public filing, provided that the initial confidential submission and all amendments thereto shall be publicly filed not later than 21 days before the date on which the issuer conducts a road show, as such term is defined in Securities Act Rule 433(h)(4). An emerging growth company is defined in Section 2(a)(19) of the Securities Act as an issuer with less than \$1,000,000,000 total annual gross revenues during its most recently completed fiscal year. The Funds meet the definition of an emerging growth company and consequently have filed their Form S-1 registration statement on a confidential basis with the Commission.

<sup>14</sup> Accordingly, we expect NASDAQ to contact staff in the Office of Trading Practices in the Division of Trading and Markets before making any material change to the NPSI.

<sup>15</sup> Other activities, such as ETF redemptions, are not covered by this exemptive relief.

<sup>16</sup> 17 CFR 200.30-3(a)(6).

<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.

the inverse (– 400%) of the daily performance, of the closing settlement price<sup>6</sup> for lead month (*i.e.*, the “near month” or next-to-expire) Standard & Poor’s 500 Stock Price Index Futures contracts (“Big S&P Contracts”) that are traded on the Chicago Mercantile Exchange (“CME”).<sup>7</sup> Except as discussed below, this closing settlement price is referred to herein as the “Benchmark”. The Big S&P Contracts are referred to herein as the “Benchmark Component Futures Contracts”.<sup>8</sup> The Funds do not seek to achieve their respective stated primary investment objectives over a period of time greater than a single day.

The Sponsor employs a “neutral” investment strategy intended to track the changes in the Benchmark regardless of whether the Benchmark goes up or goes down. Each Fund’s “neutral” investment strategy is designed to permit investors generally to purchase and sell a Fund’s Shares with the objective of gaining leveraged exposure to Big S&P Contracts and, therefore, the S&P 500® (“S&P 500 Index”), in a cost-effective manner.

Each Fund seeks to achieve its primary investment objective under normal market conditions<sup>9</sup> primarily by investing in Big S&P Contracts such that daily changes in a Fund’s net asset value (“NAV”) are expected to closely track the changes, in the case of the Long Fund, or the inverse of the changes, in the case of the Short Fund, in the Benchmark on a leveraged basis, as described further below. Each Fund will also invest in E-Mini™ S&P 500® Futures contracts (“E-Minis” and,

together with Big S&P Contracts, “Primary S&P Interests”)<sup>10</sup> to seek to achieve its primary investment objective where position limits prevent further purchases of Big S&P Contracts.<sup>11</sup> Each Fund may also invest in other contracts, securities and instruments that the Sponsor determines, in its sole discretion, further a Fund’s primary investment objective (collectively, “Other S&P Interests,” and together with Primary S&P Interests, “S&P Interests”).<sup>12</sup>

Permissible Other S&P Interests are the following: Swap agreements (cleared and over-the-counter), over-the-counter forward contracts, and short positions on futures contracts, in each case with respect to and referencing Primary S&P Interests or the S&P 500 Index.

Each Fund may also acquire options on futures contracts (*i.e.*, the Stop Options described below). In the absence of certain stop measures represented by options on futures contracts obtained by a Fund, if the Benchmark moves 25% or more on a given trading day(s) in a direction adverse to a Fund’s holdings, a Fund’s investors would lose all of their money. Therefore, the Long Fund would hold “put” options, and the Short Fund would hold “call” options, with respect to all or substantially all of its S&P Interests (as defined above)<sup>13</sup> with strike prices at approximately 75%, in the case of the Long Fund, or 125%, in the case of the Short Fund, of the value of the applicable underlying S&P Interest as of the end of the preceding business day (such Fund’s “Stop Options”). The Stop Options will serve primarily to (a) prevent the Fund’s NAV from going to zero in the event of a 25% adverse move in the Benchmark, and (b) recoup a small portion of substantial losses of a Fund that may result from large movements in the Benchmark. The Stop Options are not expected to result

in significant gains for any Fund, and will generally be considered a transaction cost for each Fund. The Stop Options will not prevent a Fund from losing money, but will permit the Fund to recoup a small percentage of its losses in the event of a large or catastrophic adverse movement in a Fund’s Benchmark.

Each Fund’s positions in S&P Interests will be changed or “rolled” on a regular basis in order to track the changing nature of the Benchmark. For example, quarterly (on the date on which a Big S&P Contract expires), the deferred month (or next-to-expire) Big S&P Contract will become the “Lead” month (or front month) Big S&P Contract and will become the Benchmark Component Futures Contract, and each Fund’s investments will have to be changed accordingly. During roll periods, the Benchmark will be composed of a combination of the lead month Big S&P Contract and/or the deferred month Big S&P Contract. The Benchmark is a “rolling index”, which means that the Benchmark does not take physical possession of any commodities. An investor with a rolling futures position is able to avoid delivering (or taking delivery of) underlying physical commodities while maintaining exposure to those commodities. The Benchmark Component Futures Contract is changed from the lead month Big S&P Contract to the deferred month Big S&P Contract over a four-day period. Each quarter, the Benchmark Component Futures Contract changes start at the end of the day on the date two weeks (twelve days) prior to expiration of the lead month Big S&P Contract for that month. During the first three days of the period, the applicable value of the Benchmark is based on a combination of the lead month Big S&P Contract and the deferred month Big S&P Contract as follows:

- On day 1, the Benchmark consists of 75% of the lead month Big S&P Contract’s price plus 25% of the deferred month Big S&P Contract’s price;
- On day 2, the Benchmark consists of 50% of the lead month Big S&P Contract’s price plus 50% of the deferred month Big S&P Contract’s price;
- On day 3, the Benchmark consists of 25% of the lead month Big S&P Contract’s price plus 75% of the deferred month Big S&P Contract’s price; and
- On day 4, the Benchmark is entirely composed of the prior day’s deferred month Big S&P Contract, which now constitutes the lead month Big S&P

<sup>6</sup> The CME currently calculates the closing settlement price as the volume-weighted average price of all trades executed in the applicable Big S&P Contract on CME Globex in the last 30 seconds of open outcry trading (typically from 4:14:30 p.m. E.T. to 4:15:00 p.m. E.T.).

<sup>7</sup> Big S&P Contracts are traded on the CME in units of \$250 multiplied by the value of the S&P 500 Index.

<sup>8</sup> The Funds’ Benchmark is intended to track movements in the closing settlement price of lead month Big S&P Contracts. Big S&P Contracts are based on the value of the S&P 500 Index, a measure of large-cap U.S. stock market performance. The S&P 500 Index is a float-adjusted, market capitalization-weighted index of 500 U.S. operating companies and real estate investment trusts selected through a process that factors in criteria such as liquidity, price, market capitalization and financial viability.

<sup>9</sup> The term “under normal market conditions” includes, but is not limited to, the absence of adverse market, economic, political or other conditions, including extreme volatility or trading halts in the equities markets or the financial markets generally; operational issues (*e.g.*, systems failure) causing dissemination of inaccurate market information; or force majeure type events such as natural or man-made disaster, act of God, armed conflict, act of terrorism, riot or labor disruption or any similar intervening circumstance.

<sup>10</sup> E-Minis are traded on the CME in units of \$50 multiplied by the value of the S&P 500 Index.

<sup>11</sup> Primary S&P Interests traded on the CME expire on a specified day in each calendar quarter: March, June, September and December. For example, in terms of the Benchmark, on May 1st of a given year the lead month Big S&P Contract will expire in June of that year and will be the Benchmark Component Futures Contracts. As another example, on December 31st of a given year, the Benchmark Component Futures Contracts will be the contracts expiring in March of the following year.

<sup>12</sup> The Sponsor does not intend to operate the Funds in a fashion such that their respective per Share NAV equals, in dollar terms, the value of the S&P 500 Index or the price of any particular Primary S&P Interest.

<sup>13</sup> The Stop Options will be comprised of options on Primary S&P Interests (*i.e.*, Big S&P Contracts and E-Minis) providing the desired coverage with respect to both Primary S&P Interests and Other S&P Interests, if any.

Contract until the beginning of the following quarter's rolling period.

On each day during the four-day rolling period, the Sponsor anticipates it will roll S&P Interests positions by closing, or selling, a percentage of positions in S&P Interests and reinvesting the proceeds from closing those positions in new S&P Interests that reflect the change in the Benchmark. The anticipated dates that the quarterly four-day roll period will commence are posted on a Fund's Web site at [www.forceshares.com](http://www.forceshares.com), and are subject to change without notice. By remaining invested as fully as possible in S&P Interests, the Sponsor believes that the daily changes in percentage terms of the NAV will continue to closely track the daily changes in percentage terms in the price of the Benchmark.

The composition of a Fund's Stop Options positions may or may not need to be changed during a roll period. The Sponsor will consider whether to sell a Stop Option position based upon that Stop Option's economic viability, which is determined by examining its strike price relative to the existing Benchmark Futures Contract value, time to expiration, market demand and any other applicable considerations. In all circumstances, including during roll period and at the end of the roll period, the Stop Option positions will provide coverage, at an aggregate strike price of approximately 75 percent for the Long Fund or 125 percent for the Short Fund, for all of the S&P Interests held by the Fund. As a result, the Sponsor will purchase new Stop Options when required to meet the referenced coverage threshold.<sup>14</sup>

The S&P Interests that each Fund will principally invest in are futures contracts, which are standardized contracts traded on, or subject to the rules of, an exchange that call for the future delivery of a specified quantity and type of asset at a specified time and place or, alternatively, may call for cash settlement. Each Fund expects to invest in S&P Interests to the fullest extent possible without (a) materially exceeding the leverage necessary to

implement its primary investment objective or (b) being unable to satisfy its expected current or potential margin or collateral obligations with respect to its investments in S&P Interests. Each Fund will invest in Primary S&P Interests to the extent that it is not in violation of exchange position limits on such Primary S&P Interests.<sup>15</sup> Futures

<sup>15</sup> The Commodity Futures Trading Commission ("CFTC") and U.S. designated contract markets such as the CME may establish position limits on the maximum net long or net short futures contracts in commodity interests that any person or group of persons under common trading control (other than as a hedge, which an investment by the Funds is not) may hold, own or control. For example, the current CME instituted position limit for investments at any one time in Big S&P Contracts is 60,000 contracts (on a net basis) total for all months. For the purpose of this limit, E-Minis are counted as 1/5th the size of Big S&P Contracts for the purposes of this limit. These position limits are fixed ceilings that each Fund would not be able to exceed without specific CFTC authorization. Position limits are calculated at the controller level, meaning positions in the contracts held by the Funds will be aggregated at the level of control by the Sponsor, which is the commodity pool operator for the Funds. Position limits are calculated on a net futures basis, meaning that long exposure Primary S&P Interests held in the Long Fund will be netted against the short exposure Primary S&P Interests held by the Short Fund. Additionally, Stop Options held by a Fund will be netted against the Primary S&P Interests held by such Fund; provided, however, that the weighting of a Stop Option for position limit purposes will be determined through analysis of the "net delta" of the Stop Option (relative to current Benchmark values) using the Standard Portfolio Analysis of Risk (SPAN) system operated by the CME. As a result, the net impact of Stop Options on the position limits applicable to the Funds is difficult to ascertain in advance. Based on the Benchmark as of September 22, 2016, the position limits for Primary S&P Interests would account for a total notional value of \$32,524,500,000. As a result, assuming the level of the S&P 500 Index remains the same, the Funds would be unlikely to trigger position limits for Primary S&P Interests unless one Fund's net assets exceeded the other Fund's net assets by approximately \$8.1 billion. This calculation assumes that each Fund is successful in achieving its stated investment objective of maintaining 400% or -400% exposure to the Benchmark Futures Contract. If, for example, the Long Fund has \$9 billion in net assets and does not invest in Other S&P Interests that are not subject to position limits, it will hold Primary S&P Interests with a total notional exposure of \$36 billion (equivalent to 66,411.5 Big S&P Contracts). If the Short Fund has \$1 billion in net assets and does not invest in Other S&P Interests that are not subject to position limits, it will hold Primary S&P Interests with a total notional exposure of \$4 billion (equivalent to 7,379 Big S&P Contracts). On a net basis, the Funds will hold 59,032.5 contracts for position limit purposes. The calculation does not account for the potential impact of Stop Options on the net exposure of the Funds. Accountability levels differ from position limits in that they do not represent a fixed ceiling, but rather a threshold above which a futures exchange may exercise greater scrutiny and control over an investor's positions. If a Fund were to exceed an applicable accountability level for investments in futures contracts, the exchange will monitor a Fund's exposure and may ask for further information on its activities, including the total size of all positions, investment and trading strategy, and the extent of liquidity resources of a Fund. If deemed necessary by the exchange, a Fund could

contracts, all of which held by a Fund are lead month or deferred month Primary S&P Interests, are expected to comprise approximately ten to twenty-five percent (10–25%) of the Long Fund's portfolio and approximately ten to twenty-five percent (10–25%) of the Short Fund's portfolio.<sup>16</sup> Subsequently, each Fund in its evaluation may also invest in Other S&P Interests that obtain the investment objective of leveraged exposure to the S&P 500 Index, in an amount up to twenty-five percent (25%) of its net assets. The types of contracts, securities and instruments that qualify as Other S&P Interests are swap agreements (cleared and over-the-counter), over-the-counter forward contracts, and short positions that the Sponsor determines, in its sole discretion, further a Fund's primary investment objective.

Each Fund may acquire or dispose of Stop Options (puts or calls) on S&P Interests in pursuing its secondary

be ordered to reduce its aggregate net position back to the accountability level. Based on the Benchmark as of September 22, 2016, the reportable level that required enhanced recordkeeping for Primary S&P Interests would account for a total notional value of \$54,207,500. As a result, assuming the level of the S&P 500 Index remains the same, the Funds would be expected to trigger accountability level recordkeeping requirements when one Fund's net assets exceeded the other Fund's net assets by approximately \$54 million. In addition to position limits and accountability, the exchanges set daily price fluctuation limits on futures contracts. The daily price fluctuation limit establishes the maximum amount that the price of futures contracts may vary either up or down from the previous day's settlement price. Once the daily price fluctuation limit has been reached in a particular futures contract, no trades may be made at a price beyond that limit. Neither of the Funds intends to limit the size of the offering and each will attempt to expose substantially all of its proceeds to the S&P 500 Index utilizing S&P Interests. If a Fund encounters position limits, accountability levels, or price fluctuation limits for Primary S&P Interests on the CME, it may then, if permitted under applicable regulatory requirements, purchase Other S&P Interests. In any case, notwithstanding the potential availability of these instruments in certain circumstances, position limits could force a Fund to limit the number of Creation Baskets that it sells. A decline in the S&P 500 Index at certain price levels will trigger market-wide circuit breakers (*i.e.*, price fluctuation limits) causing the Exchange or CME to suspend, halt, or restrict the trading of Primary S&P interests for a short period time or the remainder of the applicable trading day. Price fluctuation limits are established by relevant exchanges on which securities or futures contracts are traded. Currently, the Sponsor intends to acquire S&P Interests on the CME, which has established price fluctuation limits for negative movements of 7% percent, 13% percent and 20% percent in the value of the S&P Index. The CME has not adopted price fluctuation limits for positive movement thresholds in the S&P 500 Index.

<sup>16</sup> To the extent that the CME or any applicable authority or counterparty alters margin requirement applicable to the Primary S&P Interests, the approximate percentage of portfolio interests held in Primary S&P Interests, Other S&P Interests, Stop Options and Cash Equivalents (as defined below) may change in accordance therewith.

<sup>14</sup> A Fund may hold Stop Options that provide coverage for more than 100% of a Fund's S&P Interests at any particular time. This result may occur because the Funds' respective investment strategies require that each Fund increase Stop Option positions to maintain a threshold of not less than 100% coverage of S&P Interests, and that Stop Option positions only be decreased if trading out of such positions will generate a transactional profit to the Fund (although such profits are not anticipated to provide a material impact on a Fund's return). Excess Stop Option positions for which trading is not profitable will be allowed to expire.

investment objective of recouping a small amount of losses of a Fund against an extreme, short term negative movement, in the case of the Long Fund, or positive movement, in the case of the Short Fund, in the Benchmark. Each Fund will acquire such number of Stop Options as is required in respect of the number and value of a Fund's S&P Interests, on an aggregated basis. Each Fund is expected to make use of options on Primary S&P Interests solely in connection with its secondary investment objective.

Stop Options are expected to average less than approximately five percent (5%) of the Long Fund's portfolio and less than approximately five percent (5%) of the Short Fund's portfolio.

On a day-to-day basis, a Fund will invest the remainder of its assets in money market funds, depository accounts with institutions with high quality credit ratings or short-term debt instruments that have terms-to-maturity of less than 397 days and exhibit high quality credit profiles, including U.S. government securities and repurchase agreements (collectively, "Cash Equivalents"). Cash Equivalents are expected to comprise approximately seventy to eighty-five percent (70–85%) of the Long Fund's portfolio and approximately seventy to eighty-five percent (70–85%) of the Short Fund's portfolio.

The Sponsor uses a mathematical approach to investing. Using this approach, the Sponsor determines the type, quantity and mix of investment positions that each Fund should hold to achieve, on a daily basis, approximately four times (400%) the daily performance, in the case of the Long Fund, or approximately four times the inverse (–400%) of the daily performance, in the case of the Short Fund, of the Benchmark. The Sponsor does not invest the assets of the Funds in securities or financial instruments based on the Sponsor's view of the investment merit of a particular security, instrument, or company, nor does it conduct conventional investment research or analysis or forecast market movement or trends, in managing the assets of the Funds. Each Fund seeks to remain invested at all times in securities and/or financial instruments that, in combination, provide leveraged exposure to the S&P 500 Index without regard to market conditions, trends or direction.

Following determination of a Fund's respective NAV each business day, each Fund will seek to position its portfolio so that its exposure to the Benchmark is consistent with a Fund's primary investment objective. The Benchmark's

price movement during the day will affect whether a Fund's portfolio needs to be repositioned. For example, if the Benchmark has risen on a given day, the NAV of the Long Fund should rise and the NAV of the Short Fund should fall. As a result, the Long Fund's exposure would need to be increased and the Short Fund's exposure would need to be decreased. Conversely, if the Benchmark has fallen on a given day, the NAV of the Long Fund should fall and the NAV of the Short Fund should rise. As a result, the Long Fund's exposure would need to be decreased and the Short Fund's exposure would need to be increased.

Because of daily rebalancing of each Fund's Portfolio and the compounding of each day's return over time, the return of each Fund for periods longer than a single day will be the result of each day's returns compounded over the period, which will very likely differ from four times (400%) the total performance, in the case of the Long Fund, or four times the inverse (–400%) of the total performance, in the case of the Short Fund, of the Benchmark over the same period. Each Fund will lose money if the level of the Benchmark is flat over time, and it is possible that the Long Fund will lose money over time even if the level of the Benchmark rises, and the Short Fund will lose money over time even if the level of the Benchmark falls, as a result of daily rebalancing of the applicable Fund, the Benchmark's volatility and the effects of compounding.

Each Fund will be rebalanced daily in order to continue to reflect exposure equal to approximately four times (400%) the daily performance, in the case of the Long Fund, or approximately four times the inverse (–400%) of the daily performance, in the case of the Short Fund, of the Benchmark.<sup>17</sup> However, each Fund will only rebalance on business days when the Exchange and the CME are open. The Sponsor will determine the type, quantity and combination of S&P Interests it believes will produce daily returns consistent with the applicable Fund's primary investment objective.

The Sponsor believes that market arbitrage opportunities will cause each Fund's Share price on the Exchange to track a Fund's NAV per Share. The Sponsor believes that the net effect of this expected relationship and the expected relationship between each

Fund's NAV per Share and the Benchmark will be that the changes in the price of a Fund's Shares on the Exchange will track approximately four times (400%) the daily performance, in the case of the Long Fund, or four times the inverse (–400%) of the daily performance, in the case of the Short Fund, of the Benchmark. This relationship may be affected by various market factors, including but not limited to, the number of Shares of a Fund outstanding and the liquidity of the underlying holdings. The Sponsor believes that the market for Primary S&P Interests is among the more liquid futures markets and does not anticipate liquidity issues relating to a Fund's underlying holdings, absent extraordinary circumstances or material changes to the marketplace for Primary S&P Interests. While the Benchmark is composed of Big S&P Contracts and is therefore a measure of the future value of the S&P 500 Index, there is nonetheless expected to be a reasonable degree of correlation between the Benchmark and the then-current value of the S&P 500 Index.

The Sponsor will invest each Fund's assets in S&P Interests, Stop Options, Cash Equivalents and/or cash. The Sponsor will deposit a portion of each Fund's net assets with the FCM or other custodians to be used to meet its current or potential margin or collateral requirements in connection with its investment in S&P Interests. Each Fund will use only Cash Equivalents and/or cash to satisfy these requirements.

The Sponsor intends for such Stop Options to be maintained with an approximate level of coverage such that the Sponsor may put or call, as applicable, the S&P Interests at a strike price of approximately 75%, in the case of the Long Fund, or 125%, in the case of the Short Fund, of the value of the applicable underlying S&P Interests as of the end of the preceding business day. To the extent that the Sponsor is unable (whether through error or limitations in the availability of the required put or call options on futures contracts) to manage the Stop Options to provide coverage for all of a Fund's S&P Interests at the intended target strike price, it is possible that the Stop Options will not prevent a Fund's NAV from going to zero.

The design of the Funds' Benchmark is such that the Benchmark Component Futures Contracts will change four times per year, and the Funds' investments must be rolled periodically to reflect the changing composition of the Benchmark. For example, when the lead month Big S&P Contract expires, such contract will no longer be the

<sup>17</sup> The Sponsor anticipates that the rebalancing of a Fund's S&P Interests will principally take place during the period of time prior to the close of trading of Primary S&P Interests on the CME. Currently, trading on the CME takes place between 9:30 a.m. to 4:15 p.m. E.T.

Benchmark Component Futures Contract and the applicable Fund's position in it will no longer be consistent with tracking the Benchmark. In the event of a futures market where near-to-expire contracts trade at a higher price than longer-to-expire contracts, a situation referred to as "backwardation", then absent the impact of the overall movement in the S&P 500 Index the value of the Benchmark Component Futures Contracts would tend to rise as they approach expiration. As a result the Long Fund may benefit because it would be selling more expensive contracts and buying less expensive ones on an ongoing basis, and the Short Fund may be negatively impacted because it would be selling less expensive contracts and buying more expensive ones on an ongoing basis.

Conversely, in the event of a futures market where near-to-expire contracts trade at a lower price than longer-to-expire contracts, a situation referred to as "contango," then absent the impact of the overall movement in the S&P 500 Index the value of the Benchmark Component Futures Contracts would tend to decline as they approach expiration. As a result the Long Fund's total return may be lower than might otherwise be the case because it would be selling less expensive contracts and buying more expensive ones, and the Short Fund's total return may be higher than might otherwise be the case because it would be selling more expensive contracts and buying less expensive ones. The impact of backwardation and contango may lead the total return of a Fund to vary significantly from the total return of other price references, such as the S&P 500 Index. Absent the impact of rising or falling S&P 500 Index values, a prolonged period of contango could have a significant negative impact on the Long Fund's NAV and total return and a prolonged period of backwardation could have a significant negative impact on the Short Fund's NAV and total return.

#### Operation of the Funds

Each Fund invests in S&P Interests to the fullest extent possible without exceeding the leverage necessary to implement its primary investment objective or being unable to satisfy its expected current or potential margin or collateral obligations with respect to its investments in S&P Interests. After fulfilling such margin and collateral requirements and purchasing Stop Options consistent with its secondary investment objective, each Fund invests the remainder of its proceeds from the

sale of baskets in Cash Equivalents and/or holds such assets in cash (generally in interest-bearing accounts). Therefore, the focus of the Sponsor in managing each Fund is investing in S&P Interests, Stop Options, Cash Equivalents and/or cash. Each Fund earns interest income from the Cash Equivalents that it purchases and on the cash it holds through the Custodian.

#### The Investment Strategies of the Funds

In managing each Fund's assets, the Sponsor does not use a technical trading system that automatically issues buy and sell orders. Instead, each time one or more baskets are purchased or redeemed, the Sponsor will purchase or sell S&P Interests, Stop Options and Cash Equivalents as required in respect of the amount of cash received or paid upon the purchase or redemption of the basket(s).

As an example, assume that a Creation Basket is sold by the Long Fund, and that the Long Fund's closing NAV per Share is \$50. In that case, the Long Fund would receive \$2,500,000 in proceeds from the sale of the Creation Basket (\$50 NAV per Share multiplied by 50,000 Shares, and ignoring the Creation Basket fee in the amount set forth in the applicable Fund's prospectus). If one were to assume further that the Sponsor wants to invest the entire proceeds from the Creation Basket in Big S&P Contracts to obtain an aggregate value of \$10,000,000 (*i.e.*, four times exposure relative to NAV) and that the market value of each such Big S&P Contract is \$522,500 (*i.e.*, index value of 2,090 multiplied by \$250) (or otherwise not a round number), the Long Fund would be unable to buy an exact number of Big S&P Contracts with an aggregate market value equal to \$10,000,000. Instead, the Long Fund would be able to purchase 19 Big S&P Contracts with an aggregate notional value of \$9,927,500. Assuming a margin requirement equal to 4% of the value of the Big S&P Contracts, the Long Fund would be required to deposit \$397,100 in Cash Equivalents and/or cash with the FCM through which the Big S&P Contracts were purchased. The remainder of the proceeds from the sale of the Creation Basket, \$2,112,900, would remain invested in Cash Equivalents and/or cash as determined by the Sponsor from time to time based on factors such as potential calls for margin or anticipated redemptions.

The specific S&P Interests purchased depend on various factors, including a judgment by the Sponsor as to the appropriate diversification of each Fund's investments. While the Sponsor anticipates that each Fund will seek to

achieve its primary investment objective by investing in Primary S&P Interests, for various reasons, including the ability to enter into the precise amount of exposure to the S&P 500 Index and position limits on Primary S&P Interests, it may also invest in Other S&P Interests, including swaps, in the over-the-counter market to a potentially significant degree. Each Fund will be limited in investing up to twenty percent (20%) of its net assets in Other S&P Interests that may constitute securities for purposes of the Investment Company Act of 1940.

The Sponsor does not anticipate letting its Primary S&P Interests expire and taking delivery of or having to deliver cash. Instead, the Sponsor closes out existing positions, *e.g.*, in response to ongoing changes in the Benchmark or if it otherwise determines it would be appropriate to do so and reinvest the proceeds in new S&P Interests. Positions may also be closed out to meet orders for Redemption Baskets, in which case the proceeds from closing the positions will not be reinvested.

Because the Long Fund seeks to track the Benchmark directly and profit when the value of the S&P 500 Index increases and, as a likely result of an increase in the value of the S&P 500 Index, the price of Primary S&P Interests increases, the Long Fund will generally be long on the S&P 500 Index, and will generally sell Primary S&P Interests only to close out existing long positions. Because the Short Fund seeks to track the Benchmark inversely and profit when the value of the S&P 500 Index decreases and, as a likely result of a decrease in the value of the S&P 500 Index, the price of Primary S&P Interests decreases, the Short Fund will generally be short on the S&P 500 Index, and will generally buy Primary S&P Interests only to close out existing short positions.

#### Over-the-Counter Derivatives

In addition to futures contracts, options on futures contracts and cleared swaps, derivative contracts that are tied to various securities will be entered into outside of public exchanges. The over-the-counter contracts that the Funds may enter into will take the form of either swaps or forward contracts, in each case providing exposure to the S&P 500 Index or to Big S&P Contracts.

To reduce the credit risk that arises in connection with over-the-counter contracts, each Fund generally will enter into an agreement with each counterparty based on the Master Agreement published by the International Swaps and Derivatives Association, Inc. that provides for the

netting of each Fund's overall exposure to its counterparty and for daily payments based on the marked to market value of the contract.

The creditworthiness of each potential counterparty will be assessed by the Sponsor. The Sponsor assesses or reviews, as appropriate, the creditworthiness of each potential or existing counterparty to an over-the-counter contract pursuant to guidelines approved by the Sponsor. The creditworthiness of existing counterparties will be reviewed periodically by the Sponsor. There is no guarantee that the Sponsor's creditworthiness analysis will be successful and that counterparties selected for Fund transactions will not default on their contractual obligations.

#### Net Asset Value

Each Fund's NAV will be calculated by taking the current market value of a Fund's total assets and subtracting any liabilities and dividing the balance by the number of a Fund's Shares. Under each Fund's current operational procedures, each Fund's administrator, USBancorp Fund Services, LLC (the "Administrator"), will calculate the NAV of a Fund as of the earlier of 4:00 p.m. Eastern time ("E.T.") or the close of the Exchange each day. The NAV for a particular trading day will be released after 4:15 p.m. E.T. The NAV for the Funds will be calculated by the Administrator once a day and will be disseminated daily to all market participants at the same time.<sup>18</sup>

Each Fund's NAV includes, in part, any unrealized profits or losses on open swap agreements, futures or forward contracts. Under normal circumstances, a Fund's NAV will reflect the quoted closing settlement price of open futures contracts on the date when a Fund's NAV is being calculated. In instances when the quoted settlement price of futures contract traded on an exchange may not be reflective of fair value based on market condition, generally due to the operation of daily limits or other rules of the exchange or otherwise, a Fund's NAV may not reflect the fair value of open futures contracts on such date.

The Sponsor will recalculate each Fund's NAV where necessary to reflect the "fair value" of a futures contract

when the futures contract closes at its price fluctuation limit for the day.

In determining the value of Primary S&P Interests, the Administrator will use the then current value of Big S&P Contracts and E-Minis (as reflected on the CME), and, at end of day, the closing settlement price of each such contract on the CME, except that the "fair value" of a Primary S&P Interest (as described in more detail below) may be used when Primary S&P Interests close at their price fluctuation limit for the day. The Administrator will determine the value of each Fund's other investments as of the earlier of the close of the Exchange or 4:00 p.m. E.T., in accordance with the current Services Agreement between the Administrator and the Trust. The value of over-the-counter S&P Interests is determined based on the value of the security, futures contract or index underlying such S&P Interest, except that a fair value may be determined if the Sponsor believes that a Fund is subject to significant credit risk relating to the counterparty to such S&P Interest. Cash Equivalents held by a Fund will be valued by the Administrator using values received from recognized third-party vendors (such as Reuters) and dealer quotes. NAV includes any unrealized profit or loss on open S&P Interests and any other credit or debit accruing to each Fund but unpaid or not received by a Fund. The fair value of a S&P Interest shall be determined by the Sponsor in good faith and in a manner that assesses the S&P Interest's value based on a consideration of all available facts and all available information on the valuation date.

Cash Equivalents will normally be valued on the basis of quotes obtained from brokers and dealers or pricing services. Exchange-traded options on futures will generally be valued at the settlement price determined by the applicable exchange.

With respect to specific derivatives:

- A total return swap on an index will be valued at the publicly available index price. The index price, in turn, is determined by the applicable index calculation agent, which generally values the securities underlying the index at the last reported sale price.
- Equity total return swaps will generally be valued using the actual underlying equity at local market closing.
- Over-the-counter [sic] will generally be valued on a basis of quotes obtained from a quotation reporting system, established market makers, or pricing services.
- Forwards will generally be valued in the same manner as the underlying securities. Forward settling positions for

which market quotes are readily available will generally be valued at market value.

When a Primary S&P Interest has closed at its price fluctuation limit, the fair value determination attempts to estimate the price at which such Primary S&P Interest would be trading in the absence of the price fluctuation limit (either above such limit when an upward limit has been reached or below such limit when a downward limit has been reached). Typically, this estimate will be made primarily by reference to the price of comparable S&P Interests trading in the over-the-counter market. The fair value of an S&P Interest may not reflect such security's market value or the amount that a Fund might reasonably expect to receive for the S&P Interest upon its current sale.

#### Indicative Fund Value

In addition, in order to provide updated information relating to a Fund for use by investors and market professionals, the Exchange will calculate and disseminate throughout the trading day an updated "indicative fund value" ("IFV"). The IFV will be calculated by using the prior day's closing NAV per Share of a Fund as a base and updating that value throughout the trading day to reflect changes in the value of the underlying holdings. Tracking the changes in underlying holdings will be calculated as follows:

Benchmark Component Futures Contracts will be valued using their most recent quoted price during the trading day, for as long as the main pricing mechanism of the CME is open.

Primary S&P Interests will be valued using their most recent quoted price during the trading day for as long as the main pricing mechanism of the CME is open.

- Futures may be valued intraday using the relevant futures exchange data, or another proxy as determined to be appropriate by the third party market data provider. Benchmark Component Futures Contracts will be valued intraday using the main pricing mechanism of the CME or through another proxy if such data is not readily available.

- Total return swaps may be valued intraday using the underlying asset or index price, or another proxy as determined to be appropriate by the third party market data provider.

- Exchange-listed options may be valued intraday using the relevant exchange data, or another proxy as determined to be appropriate by the third party market data provider.

- Over-the-counter options may be valued intraday through option

<sup>18</sup>For each Fund, the NAV will be calculated by taking the current market value of a Fund's total assets and subtracting any liabilities. Under the Funds' current operational procedures, the Administrator will generally calculate the NAV of the Funds' Shares as of the earlier of 4:00 p.m. E.T. or the close of the Exchange each day. The NAV for a particular trading day will be released after 4:15 p.m. E.T.

valuation models (e.g., Black-Scholes) or using exchange-traded options as a proxy, or another proxy as determined to be appropriate by the third party market data provider.

- A third party market data provider's valuation of forwards will be similar to their valuation of the underlying interests, or another proxy as determined to be appropriate by the third party market data provider. The third party market data provider will generally use market quotes if available. Where market quotes are not available, they may fair value securities against proxies (such as swap or yield curves). Each Fund's disclosure of forward positions will include information that market participants can use to value these positions intraday.

Changes in the value of Cash Equivalents will not be included in the calculation of the IFV. For this and other reasons, the IFV disseminated during Exchange trading hours should not be viewed as an actual real time update of the NAV of a Fund. NAV will be calculated only once at the end of each trading day.

The IFV will be disseminated on a per Share basis every 15 seconds during the Exchange's Core Trading Session. The trading hours for the CME can be found at [http://www.cmegroup.com/trading\\_hours/](http://www.cmegroup.com/trading_hours/).

The Exchange will disseminate the IFV through the facilities of Consolidated Tape Association ("CTA") high speed line. In addition, IFV will be published on the Exchange's Web site and will be available through on-line information services such as Bloomberg and Reuters.

#### Creation and Redemption of Shares

Each Fund will create and redeem Shares from time to time, but only in one or more "Creation Baskets" or "Redemption Baskets" comprised of 25,000 Shares. The size of Creation Baskets and Redemption Baskets is subject to change. The creation and redemption of baskets will only be made in exchange for delivery to a Fund or the distribution by a Fund of cash in an amount equal to the combined NAV of the number of Shares of the Fund included in the baskets being created or redeemed determined as of 4:00 p.m. E.T. on the day the order to create or redeem baskets is properly received. "Authorized Purchasers" are the only persons that may place orders to create and redeem baskets. Authorized Purchasers must be (1) either registered broker-dealers or other securities market participants, such as banks and other financial institutions, that are not required to register as broker-dealers to

engage in securities transactions, and (2) Depository Trust Company ("DTC") Participants. To become an Authorized Purchaser, a person must enter into an Authorized Purchaser Agreement with the Funds.

The amount of the purchase payment for a Creation Basket of a Fund will be equal to the aggregate NAV per Share of the Shares in the Creation Basket. The amount of the redemption proceeds for a Redemption Basket will be equal to the aggregate NAV per Share of the Shares in the Redemption Basket. The purchase price for Creation Baskets and the redemption price for Redemption Baskets of a Fund will be based on the actual NAV per Share calculated at the end of the business day when a request for a purchase or redemption is received by the applicable Fund.

#### Creation Procedures

On any business day, an Authorized Purchaser may place an order with the transfer agent to create one or more baskets. For purposes of processing purchase and redemption orders, a "business day" means any day other than a day when any of the Exchange or the CME is closed for regular trading. Purchase orders must be placed by 3:00 p.m. E.T. or the close of the Exchange Core Trading Session (normally, 4:00 p.m. E.T.) whichever is earlier.

#### Determination of Required Payment

The total payment required to create each Creation Basket is an amount in cash equal to the combined NAV of the number of Shares of a Fund included in the baskets being created determined as of 4:00 p.m. E.T. on the day the order to create baskets is properly received plus the applicable transaction fee.

#### Rejection of Purchase Orders

The Sponsor acting by itself or through the Marketing Agent or Custodian may reject a purchase order if: (1) It determines that, due to position limits or otherwise (including, without limitation, lock limits or price fluctuation limits that may restrict the availability of S&P Interests), investment alternatives that will enable a Fund to meet its primary investment objective are not available or practicable at that time; (2) the acceptance of the purchase order would, in the opinion of counsel to the Sponsor, be unlawful; or (3) circumstances outside the control of the Sponsor, Marketing Agent or Custodian make it, for all practical purposes, not feasible to process creations of baskets.

#### Redemption Procedures

The procedures by which an Authorized Purchaser can redeem one

or more Redemption Baskets mirror the procedures for the creation of baskets. On any business day, an Authorized Purchaser may place an order with the transfer agent to redeem one or more baskets. Redemption orders must be placed by 3:00 p.m. E.T. or the close of the Exchange's Core Trading Session, whichever is earlier. By placing a redemption order, an Authorized Purchaser agrees to deliver the baskets to be redeemed through DTC's book-entry system to a Fund by the end of a later business day, generally, but not to exceed, three business days after the effective date of the redemption order, as agreed to between the Authorized Purchaser and the transfer agent when the redemption order is placed (the "Redemption Settlement Date"). Prior to the delivery of the redemption distribution for a redemption order, the Authorized Purchaser must also have wired to the Sponsor's account at the Custodian the non-refundable transaction fee due for the redemption order. An Authorized Purchaser may not withdraw a redemption order without the prior consent of the Sponsor in its discretion.

#### Determination of Redemption Distribution

The redemption distribution from a Fund will consist of a transfer to the redeeming Authorized Purchaser of an amount in cash equal to the combined NAV of the number of Shares of a Fund included in the baskets being redeemed determined as of 4:00 p.m. E.T. on the day the order to redeem baskets is properly received, less the applicable transaction fee.

#### Payment of Redemption Distribution

The redemption distribution due from a Fund will be paid to the Authorized Purchaser on the Redemption Settlement Date if a Fund's DTC account has been credited with the baskets to be redeemed. If a Fund's DTC account has not been credited with all of the baskets to be redeemed by the end of such date, the redemption distribution will be paid to the extent of whole baskets received.

#### Suspension or Rejection of Redemption Orders

The Sponsor may, in its discretion, suspend the right of redemption, or postpone the redemption settlement date with respect to a Fund, (1) for any period during which the Exchange or CME is closed other than customary weekend or holiday closings, or trading on the Exchange or CME is suspended or restricted, (2) for such other period as the Sponsor determines to be necessary for the protection of a Fund's



Shareholders, (3) if there is a possibility that the Benchmark Component Futures Contracts of a Fund on the CME from which the NAV of a Fund is calculated will be priced at a daily price limit restriction (e.g., a daily price fluctuation limit halts trading of Big S&P Contracts on the CME), or (4) if, in the sole discretion of the Sponsor, the execution of such an order would not be in the best interest of a Fund or its Shareholders.

#### Availability of Information

Each Fund's total portfolio composition will be disclosed each business day that the Exchange is open for trading on the Funds' Web site at [www.forceshares.com](http://www.forceshares.com). The Web site disclosure of portfolio holdings will include information that market participants can use to value these positions intraday. On a daily basis, the Sponsor will disclose on the Funds' Web site the following information regarding each portfolio holding, as applicable to the type of holding: Ticker symbol, CUSIP number or other identifier, if any; a description of the holding (including the type of holding, such as the type of swap); the identity of the security, index or other asset or instrument underlying the holding, if any; for options, the option strike price; quantity held (as measured by, for example, par value, notional value or number of shares, contracts or units); maturity date, if any; market value of the holding; and the percentage weighting of the holding in a Fund's portfolio. The Web site information will be publicly available at no charge. This Web site disclosure of the portfolio composition of the Funds will occur at the same time as the disclosure by the Sponsor of the portfolio composition to Authorized Purchasers so that all market participants are provided portfolio composition information at the same time. Therefore, the same portfolio information will be provided on the public Web sites as well as in electronic files provided to Authorized Purchasers.

The Funds' Web site also includes the NAV, the 4 p.m. Bid/Ask Midpoint as reported by the Exchange, the last trade price for each Fund's Shares as reported by the Exchange, the Shares of each Fund outstanding, the Shares of each Fund available for issuance, and the Shares of each Fund created or redeemed on that day. The prospectus, monthly "Statements of Account," "Quarterly Performance of the Midpoint versus the NAV" (as required by the CFTC), and the "Roll Dates" (i.e., the period during which positions in S&P Interests are changed or "rolled" in order to track the changing nature of the

Benchmark), as well as Forms 10-Q, Forms 10-K, and other Commission filings, for each Fund will also be posted on such Web site. The Funds' Web site will be publicly accessible at no charge.

The Funds' Web site will contain the following information: (a) The current NAV per Share daily and the prior business day's NAV and the reported closing price; (b) the midpoint of the bid-ask price in relation to the NAV as of the time the NAV is calculated (the "Bid-Ask Price"); (c) calculation of the premium or discount of such price against such NAV; (d) the bid-ask price of Shares determined using the highest bid and lowest offer as of the time of calculation of the NAV; (e) data in chart form displaying the frequency distribution of discounts and premiums of the Bid-Ask Price against the NAV, within appropriate ranges for each of the four (4) previous calendar quarters; (f) the prospectus; and (g) other applicable quantitative information. The Funds will also disseminate the Funds' holdings on a daily basis on the Funds' Web site.

Intra-day and closing price information from brokers and dealers or independent pricing services will be available for S&P Interests, Stop Options, and Cash Equivalents.

The Exchange also will disseminate on a daily basis via the CTA information with respect to recent NAV, and Shares outstanding. The Exchange will also make available on its Web site daily trading volume of each of the Shares, closing prices of such Shares, and the corresponding NAV. The closing settlement prices of Primary S&P Interests are readily available from the CME, automated quotation systems, published or other public sources, or on-line information services such as Bloomberg or Reuters. Prices of Stop Options will be available on the markets on which they trade, automated quotation systems, published or other public sources, or on-line information services (or, for over the counter Stop Options, if any, by reference to available data for similar exchange traded Stop Options). The Benchmark will be disseminated by one or more major market data vendors every 15 seconds during the NYSE Arca Core Trading Session of 9:30 a.m. to 4:00 p.m. E.T. Quotation and last-sale information regarding each Fund's Shares will be disseminated through the facilities of the CTA. In addition, the Funds' Web site will display the intraday and closing Benchmark level, the IFV and NAV of each Fund's Shares.

#### Trading Rules

The Funds will meet the initial and continued listing requirements applicable to TIRs in NYSE Arca Equities Rule 8.200 and Commentary .02 thereto. With respect to application of Rule 10A-3<sup>19</sup> under the Act, the Trust relies on the exception contained in Rule 10A-3(c)(7).<sup>20</sup> A minimum of 100,000 Shares for each Fund will be outstanding as of the start of trading 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. Shares will trade on the NYSE Arca Marketplace from 4:00 a.m. to 8:00 p.m. E.T. The Exchange has appropriate rules to facilitate transactions in the Shares during all trading sessions. As provided in NYSE Arca Equities Rule 7.6, the minimum price variation ("MPV") for quoting and entry of orders 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.

The trading of the Shares will be subject to NYSE Arca Equities Rule 8.200, Commentary .02(e), which sets forth certain restrictions on ETP Holders acting as registered Market Makers in TIRs to facilitate surveillance.

#### 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. 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 underlying futures contracts, or (2) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present. In addition, trading in Shares will be subject to trading halts caused by extraordinary market volatility pursuant to the Exchange's "circuit breaker" rule<sup>21</sup> or by the halt or suspension of trading of the underlying futures contracts.

The Exchange represents that the Exchange may halt trading during the day in which an interruption to the dissemination of the IFV or the value of the underlying futures contracts occurs. If the interruption to the dissemination of the IFV or the value of the underlying

<sup>19</sup> 17 CFR 240.10A-3.

<sup>20</sup> 17 CFR 240.10A-3(c)(7).

<sup>21</sup> See NYSE Arca Equities Rule 7.12.



futures contracts persists past the trading day in which it occurred, the Exchange will halt trading no later than the beginning of the trading day following the interruption. In addition, if the Exchange becomes aware that the NAV with respect to the Shares is not disseminated to all market participants at the same time, it will halt trading in the Shares until such time as the NAV is available to all market participants.

#### 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>22</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 federal securities laws applicable to trading on the Exchange.

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, Primary S&P Interests and options on futures 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>23</sup>

Not more than 10% of the net assets of a Fund in the aggregate invested in futures contracts or exchange-traded options contracts shall consist of futures contracts or exchange-traded options contracts whose principal market is not a member of ISG or is a market with which the Exchange does not have a comprehensive surveillance sharing agreement.

All statements and representations made in this filing regarding (a) the description of the portfolios, (b) limitations on portfolio holdings or reference assets, or (c) the applicability of Exchange rules and surveillance procedures shall constitute continued listing requirements for listing the Shares of a Fund on the Exchange.

The issuer has represented to the Exchange that it will advise the Exchange of any failure by a 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 a Fund is not in compliance with the applicable listing requirements, the Exchange will commence delisting procedures under NYSE Arca Equities Rule 5.5(m).

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

#### Information Bulletin

Prior to the commencement of trading, the Exchange will inform its ETP Holders in an Information Bulletin of the special characteristics and risks associated with trading the Shares. Specifically, the Information Bulletin will discuss the following: (1) The risks involved in trading the Shares during the Opening and Late Trading Sessions when an updated IFV will not be calculated or publicly disseminated; (2) the procedures for purchases and redemptions of Shares in Creation Baskets and Redemption Baskets (and that Shares are not individually redeemable); (3) NYSE Arca Equities Rule 9.2(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; (4) how information regarding the IFV is disseminated; (5) that a static IFV will be disseminated, between the close of trading on the applicable futures exchange and the close of the NYSE Arca Core Trading Session; (6) the

components of the Disclosed Portfolio for a Fund may trade on markets that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.

requirement that ETP Holders deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction; and (7) trading information.

In addition, the Information Bulletin will advise ETP Holders, prior to the commencement of trading, of the prospectus delivery requirements applicable to the Funds. The Exchange notes that investors purchasing Shares directly from each Fund will receive a prospectus. ETP Holders purchasing Shares from each Fund for resale to investors will deliver a prospectus to such investors. The Information Bulletin will also discuss any exemptive, no-action and interpretive relief granted by the Commission from any rules under the Act.

In addition, the Information Bulletin will reference that the Funds are subject to various fees and expenses. The Information Bulletin will also reference that the CFTC has regulatory jurisdiction over the trading of futures contracts traded on U.S. markets.

The Information Bulletin will also disclose the trading hours of the Shares of each Fund and that the NAV for the Shares will be calculated as of the earlier of 4:00 p.m. E.T. or the close of the Exchange each day. The NAV for a particular trading day will be released after 4:15 p.m. E.T. The Bulletin will disclose that information about the Shares of each Fund is publicly available on the Funds' Web site.

#### 2. Statutory Basis

The basis under the Act for this proposed rule change is the requirement under Section 6(b)(5)<sup>24</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 Equities Rule 8.200 and Commentary .02 thereto. The Exchange has in place surveillance procedures that are adequate to properly monitor trading in the Shares in all trading sessions and to deter and detect violations of Exchange rules and applicable federal securities laws. Not more than 10% of the net assets of a Fund in the aggregate invested in

<sup>22</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.

<sup>23</sup> For a list of the current members of ISG, see [www.isgportal.org](http://www.isgportal.org). The Exchange notes that not all

<sup>24</sup> 15 U.S.C. 78f(b)(5).

futures contracts or exchange-traded options contracts shall consist of futures contracts or exchange-traded options contracts whose principal market is not a member of ISG or is a market with which the Exchange does not have a comprehensive surveillance sharing agreement.

The closing price and settlement prices of the Primary S&P Interests are readily available from the CME. In addition, such prices are available from automated quotation systems, published or other public sources, or on-line information services. The Benchmark will be disseminated by one or more major market data vendors every 15 seconds during the NYSE Arca Core Trading Session of 9:30 a.m. to 4:00 p.m. E.T. Quotation and last-sale information regarding the Shares will be disseminated through the facilities of the CTA. The IFV will be disseminated on a per Share basis by one or more major market data vendors every 15 seconds during the NYSE Arca Core Trading Session. The Exchange may halt trading during the day in which an interruption to the dissemination of the IFV or the value of the underlying futures contracts occurs. If the interruption to the dissemination of the IFV or the value of the underlying futures contracts persists past the trading day in which it occurred, the Exchange will halt trading no later than the beginning of the trading day following the interruption. In addition, if the Exchange becomes aware that the NAV with respect to the Shares is not disseminated to all market participants at the same time, it will halt trading in the Shares until such time as the NAV is available to all market participants.

The proposed rule change is designed to promote just and equitable principles of trade and to protect investors and the public interest in that a large amount of information will be publicly available regarding the Funds and the Shares, thereby promoting market transparency. Quotation and last sale information for the futures contracts are widely disseminated through a variety of major market data vendors worldwide. Complete real-time data for such contracts is available by subscription from Reuters and Bloomberg. The CME also provides delayed futures information on current and past trading sessions and market news free of charge on their Web sites. The Benchmark will be disseminated by one or more major market data vendors every 15 seconds during the NYSE Arca Core Trading Session of 9:30 a.m. to 4:00 p.m. E.T. The NAV per Share will be calculated daily and made available to all market participants at the same time. NYSE

Arca will calculate and disseminate every 15 seconds throughout the NYSE Arca Core Trading Session an updated IFV.

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 additional types of exchange-traded products that principally exposed to futures contracts and that 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 in place a comprehensive surveillance sharing agreement.

#### *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 additional types of actively-managed exchange-traded products 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 within such longer period 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 email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-NYSEArca-2016-120 on the subject line.

#### *Paper Comments*

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street NE., Washington, DC 20549-1090.

All submissions should refer to File Number SR-NYSEArca-2016-120. This file number should be included on the subject line if email 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 Web site (<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 Web site viewing and printing in the Commission's Public Reference Room, 100 F Street NE., Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NYSEArca-2016-120, and should be submitted on or before November 25, 2016.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>25</sup>

**Brent J. Fields,**  
Secretary.

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<sup>25</sup> 17 CFR 200.30-3(a)(12).