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 such 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 publicly available. All submissions should refer to File Number SR–NYSEMKT–2014–17 and should be submitted on or before May 22, 2014.

VI. Accelerated Approval of Proposed Rule Change, as Modified by Amendment No. 2

The Commission finds good cause for approving the proposed rule change, as amended by Amendment No. 2, prior to the 30th day after the date of publication of notice in the **Federal Register**. Amendment No. 2: (1) Clarified that Exchange-sponsored Floor Broker systems are not enabled to accept orders into the CUBE Auction mechanism from Floor Brokers; (2) revised the rule text to clarify that unrelated quotes and orders will never trade through their limit prices; and (3) revised the rule text to clarify that the Contra Order may not be cancelled or modified. As to the first item, Amendment No. 2 provides additional clarity in the discussion concerning the analysis of the original proposal's compliance with the requirements of Section 11(a) of the Act. As to the second item, Amendment No. 2 merely clarifies the rule text. As to the third item, Amendment No. 2 merely conforms the rule text to the description of the limitation in the Notice. The CUBE Auction will function in a manner substantially similar to that described in the Notice and Amendment No. 2 simply provides additional clarity regarding a few features of the proposal.

VII. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,[121] that the proposed rule change, as modified by Amendment No. 2 (SR–NYSEMKT–2014–17) is approved on an accelerated basis, except that (1) paragraphs (b)(1)(B) and (b)(8) of Rule 971.1NY are approved on a pilot basis until April 25, 2015; and (2) there shall be no minimum size requirements for orders entered into the CUBE Auction for a pilot period expiring on April 25, 2015.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[122]

Kevin M. O'Neill,

Deputy Secretary.

[FR Doc. 2014–09921 Filed 4–30–14; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–72028; File No. SR–NYSEArca–2014–42]

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Proposed Rule Change Relating to the Listing and Trading of Shares of Schwab Active Short Duration Income ETF; Schwab TargetDuration 2-Month ETF; Schwab TargetDuration 9-Month ETF; and Schwab TargetDuration 12-Month ETF Under NYSEArca Equities Rule 8.600

April 25, 2014.

Pursuant to Section 19(b)(1)[1] of the Securities Exchange Act of 1934 (''Act'')[2] and Rule 19b–4 thereunder,[3] notice is hereby given that on April 14, 2014, NYSE Arca, Inc. (''Exchange'' or ''NYSE Arca'') filed with the Securities and Exchange Commission (''Commission'') the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Exchange proposes to list and trade shares (''Shares'') of the following under NYSE Arca Equities Rule 8.600, which governs the listing and trading of Managed Fund Shares[4] on the Exchange: Schwab Active Short Duration Income ETF; Schwab TargetDuration 2-Month ETF; Schwab TargetDuration 9-Month ETF; and Schwab TargetDuration 12-Month ETF (each a ''Fund'' and collectively, the ''Funds''). The text of the proposed rule change is available on the Exchange's Web site at *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 NYSE Arca Equities Rule 8.600, which governs the listing and trading of Managed Fund Shares[5] on the

[121] 15 U.S.C. 78s(b)(2).

[122] 17 CFR 200.30–3(a)(12).

[1] 15 U.S.C. 78s(b)(1).

[2] 15 U.S.C. 78a.

[3] 17 CFR 240.19b–4.

[4] A Managed Fund Share is a security that represents an interest in an investment company registered under the Investment Company Act of 1940 (15 U.S.C. 80a–1) (''1940 Act'') organized as an open-end investment company or similar entity that invests in a portfolio of securities selected by its investment adviser consistent with its investment objectives and policies. In contrast, an open-end investment company that issues Investment Company Units, listed and traded on the Exchange under NYSE Arca Equities Rule 5.2(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.

[5] A Managed Fund Share is a security that represents an interest in an investment company registered under the Investment Company Act of 1940 (15 U.S.C. 80a–1) (''1940 Act'') organized as an open-end investment company or similar entity that invests in a portfolio of securities selected by its investment adviser consistent with its investment objectives and policies. In contrast, an open-end investment company that issues Investment Company Units, listed and traded on the Exchange under NYSE Arca Equities Rule 5.2(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.

Exchange: Schwab Active Short Duration Income ETF; Schwab TargetDuration 2-Month ETF; Schwab TargetDuration 9-Month ETF; and Schwab TargetDuration 12-Month ETF (each a ''Fund'' and collectively, the ''Funds'').[6]

Each Fund is a series of the Schwab Strategic Trust (''Trust''), a statutory trust organized under the laws of the State of Delaware and registered with the Commission as an open-end management investment company.[7] Each Fund will be advised by Charles Schwab Investment Management, Inc. (''CSIM'' or the ''Adviser'').

Commentary .06 to Rule 8.600 provides that, if the investment adviser to the investment company issuing Managed Fund Shares is affiliated with a broker-dealer, such investment adviser shall erect a ''fire wall'' between the investment adviser and the broker-dealer with respect to access to information concerning the composition and/or changes to such investment company portfolio.[8] In addition, Commentary .06 further requires that personnel who make decisions on the open-end fund's portfolio composition must be subject to procedures designed to prevent the use and dissemination of material nonpublic information regarding the open-end fund's portfolio. CSIM is not a broker-dealer but is affiliated with a broker-dealer, Charles Schwab & Co., Inc., and has implemented and will maintain a fire wall with respect to such broker-dealer affiliate regarding access to information concerning the composition and/or changes to the portfolios. In the event (a) the Adviser becomes a registered broker-dealer or newly affiliated with a broker-dealer, or (b) any new adviser or sub-adviser is a registered broker-dealer or becomes affiliated with a broker-dealer, it will implement a fire wall with respect to its relevant personnel or its broker-dealer affiliate regarding access to information concerning the composition and/or changes to the portfolios, and will be subject to procedures designed to prevent the use and dissemination of material non-public information regarding such portfolios.

Schwab Active Short Duration Income ETF [9]

Principal Investments

According to the Short Duration Registration Statement, the investment objective of the Fund is to seek a high level of current income consistent with preservation of capital and daily liquidity.

To pursue its goal, it is the Fund's policy, under normal circumstances,[10] to invest at least 90% of its net assets [11] in a portfolio of investment grade short-term fixed income securities issued by U.S. and foreign issuers and other short-term investments, as described below. The short-term fixed income securities in which the Fund may invest include corporate and commercial debt instruments; [12] privately-issued securities; [13] mortgage-backed and asset-backed securities; [14] variable- and floating-rate fixed income securities; repurchase agreements; [15] money market

[6] The Commission has previously approved listing and trading on the Exchange of actively managed funds under Rule 8.600. *See, e.g.,* Securities Exchange Act Release Nos. 57801 (May 8, 2008), 73 FR 27878 (May 14, 2008) (SR–NYSEArca–2008–31) (order approving Exchange listing and trading of twelve actively-managed funds of the WisdomTree Trust); 66321 (February 3, 2012), 77 FR 6850 (February 9, 2012) (SR–NYSEArca–2011–95) (order approving listing and trading of PIMCO Total Return Exchange Traded Fund); 66670 (March 28, 2012), 77 FR 20087 (April 3, 2012) (SR–NYSEArca–2012–09) (order approving listing and trading of PIMCO Global Advantage Inflation-Linked Bond Strategy Fund).

[7] The Trust is registered under the 1940 Act. On November 21, 2012, the Trust filed with the Commission a registration statement on Form N–1A under the Securities Act of 1933 (15 U.S.C. 77a) (''Securities Act'') and the 1940 Act relating to the Schwab Active Short Duration Income ETF (File Nos. 333–160595 and 811–22311) (the ''Short Duration Registration Statement''). In addition, on August 1, 2013, the Trust filed with the Commission a registration statement on Form N–1A under the Securities Act and the 1940 Act for the Schwab TargetDuration 2-Month ETF; Schwab TargetDuration 9-Month ETF; and Schwab TargetDuration 12-Month ETF (File Nos. 333–160595 and 811–22311) (the ''TargetDuration Registration Statement'' and, together with the Short Duration Registration Statement, the ''Registration Statements''). The description of the operation of the Trust and each Fund herein is based, in part, on the Registration Statements. In addition, the Commission has issued an order granting certain exemptive relief to the Adviser (as defined herein) under the 1940 Act. *See* Investment Company Act Release No. 30606 (July 23, 2013) (File No. 812–14009) (''Exemptive Order''). Each Fund will be offered in reliance upon the Exemptive Order issued to the Adviser.

[8] An investment adviser to an open-end fund is required to be registered under the Investment Advisers Act of 1940 (the ''Advisers Act''). As a result, the Adviser and its related personnel are subject to the provisions of Rule 204A–1 under the Advisers Act relating to codes of ethics. This Rule requires investment advisers to adopt a code of ethics that reflects the fiduciary nature of the relationship to clients as well as compliance with other applicable securities laws. Accordingly, procedures designed to prevent the communication and misuse of non-public information by an investment adviser must be consistent with Rule 204A–1 under the Advisers Act. In addition, Rule 206(4)–7 under the Advisers Act makes it unlawful for an investment adviser to provide investment advice to clients unless such investment adviser has (i) adopted and implemented written policies and procedures reasonably designed to prevent violation, by the investment adviser and its supervised persons, of the Advisers Act and the Commission rules adopted thereunder; (ii) implemented, at a minimum, an annual review regarding the adequacy of the policies and procedures established pursuant to subparagraph (i) above and the effectiveness of their implementation; and (iii) designated an individual (who is a supervised person) responsible for administering the policies and procedures adopted under subparagraph (i) above.

[9] The Adviser represents that the name of the Fund will be changed to the Schwab TargetDuration 6-Month ETF prior to commencement of listing and trading of Shares of the Fund on the Exchange. Such change will be reflected in an amendment to the Short Duration Registration Statement.

[10] With respect to each of the Funds, the term ''under normal circumstances'' includes, but is not limited to, the absence of extreme volatility or trading halts in the fixed income markets or the financial markets generally; events or circumstances causing a disruption in market liquidity or orderly markets; operational issues causing dissemination of inaccurate market information; or force majeure type events such as systems failure, natural or man-made disaster, act of God, armed conflict, act of terrorism, riot or labor disruption or any similar intervening circumstance.

[11] Each Fund's 90% investment policy may be satisfied by the investments outlined in a Fund's ''Principal Investments'' section. Certain ''Non-Principal Investments'' of each Fund, as discussed below, may also be considered within a Fund's 90% investment policy to the extent they are investment grade short-term fixed income securities. *See* note 58.

[12] The Adviser expects that under normal market circumstances, each Fund will generally seek to invest in corporate bond issuances that have at least $100,000,000 par amount outstanding in developed countries and at least $200,000,000 par amount outstanding in emerging market countries.

[13] Privately-issued securities are generally issued under Rule 144A of the Securities Act.

[14] Each Fund's investments in each of the following security types will be limited to 10% of a Fund's net assets: (1) Non-agency residential mortgage-backed securities, (2) non-agency commercial mortgage-backed securities and (3) non-agency asset-backed securities. Each Fund's aggregate investments in the following security types will be limited to 20% of a Fund's net assets: (1) Non-agency residential mortgage-backed securities, (2) non-agency commercial mortgage-backed securities, and (3) non-agency asset-backed securities. As noted for each Fund, at least 90% of a Fund's net assets will be, under normal circumstances, invested in U.S. dollar denominated fixed income securities. All fixed income securities, including mortgage-backed and asset-backed securities, purchased by a Fund will be rated A – or higher. Neither high-yield asset-backed securities nor high-yield mortgage-backed securities are included in a Fund's principal investment strategies. The liquidity of a security, especially in the case of asset-backed and mortgage-backed debt securities, is a factor in each Fund's security selection process. Asset-backed securities backed by a specific industry receivable are classified into distinct industries based on the underlying credit and liquidity structures. Asset-backed commercial paper programs backed by multiple industry receivables are classified within a multi-industry category. Each Fund will limit investments in each identified industry individually and to the multi-industry category to less than 25% of its net assets.

[15] Repurchase agreements are instruments under which a buyer acquires ownership of certain securities (usually U.S. government securities) from a seller who agrees to repurchase the securities at a mutually agreed-upon time and price, thereby determining the yield during the buyer's holding period. The period to maturity for repurchase agreements is generally short (from overnight to one week), although it may be longer. In addition, the securities collateralizing a repurchase agreement may have longer maturity periods.

instruments, including, but not limited to certificates of deposit, commercial paper, promissory notes and asset-backed commercial paper; obligations issued by the U.S. government and its agencies and instrumentalities, including but not limited to, obligations that are not guaranteed by the U.S. Treasury, such as those issued by Fannie Mae and Freddie Mac; and bank notes and similar demand deposits. To gain exposure to short-term fixed income securities, the Fund may invest in other short-term investments including (1) money market funds (including funds that are managed by the Adviser or one of its affiliates), (2) other investment companies,[16] including exchange-traded funds (''ETFs''),[17] that invest in securities similar to those in which the Fund may invest directly, and (3) cash and cash equivalents. All of these investments will be denominated in U.S. dollars, including those that are issued by foreign issuers.

All fixed income securities purchased by the Fund will be rated A− or higher by Standard & Poor's Corporation (''S&P'') and/or an equivalent rating by another Nationally Recognized Statistical Rating Organization (''NRSRO'') such as Fitch Inc. (''Fitch'') or Moody's Investor Services, Inc. (''Moody's''), or, if unrated, determined by the Adviser to be of equivalent quality.[18]

Under normal circumstances, the Fund will generally maintain a portfolio duration of less than six months.[19] The Adviser may adjust the Fund's duration within the stated limit based on current or anticipated changes in interest rates.

Additionally, under normal circumstances, the Fund generally expects to maintain a portfolio maturity (which is the weighted average maturity of all the securities held in the portfolio) of less than twelve months (1 year). For most security types, the security's final maturity date (the date on which the final principal payment of the security is scheduled to be paid) will be used to determine the Fund's portfolio maturity.[20] The Fund will not purchase any security with a maturity, or for securitized investments, the security's weighted average life, of more than twenty-four months (2 years) from the date of acquisition. The Adviser may adjust the Fund's maturity within the stated limit based on current and anticipated changes in interest rates.

The Fund is an actively-managed fund that does not seek to track the performance of a specific index. The Exchange notes, however, that the Fund's portfolio, under normal circumstances, will meet certain criteria similar to those applicable to index-based, fixed income exchange-traded funds contained in NYSE Arca Equities Rule 5.2(j)(3), Commentary .02.[21]

Schwab TargetDuration 2-Month ETF Principal Investments

According to the TargetDuration Registration Statement, the investment objective of the Fund is to seek current income consistent with preservation of capital and daily liquidity.

To pursue its goal, it is the Fund's policy, under normal circumstances,[22] to invest at least 90% of its net assets[23] in a portfolio of investment grade short-term fixed income securities issued by U.S. and foreign issuers and other short-term investments. The fixed income securities in which the Fund may invest include corporate and commercial debt instruments;[24] privately-issued securities;[25] mortgage-backed and asset-backed securities;[26] variable- and floating-rate fixed income securities; repurchase agreements;[27] money market instruments, including, but not limited to certificates of deposit, commercial paper, promissory notes and asset-backed commercial paper; obligations issued by the U.S. government and its agencies and instrumentalities, including but not limited to, obligations that are not guaranteed by the U.S. Treasury, such as those issued by Fannie Mae and Freddie Mac; and bank notes and similar demand deposits. To gain exposure to short-term fixed income securities, the Fund may invest in other short-term investments including (1) money market funds (including funds that are managed by the Adviser or one of its affiliates), (2) other investment companies,[28] including ETFs,[29] that invest in securities similar to those in which the Fund may invest directly, and (3) cash and cash equivalents. All of these investments will be denominated in U.S. dollars, including those that are issued by foreign issuers.

All fixed income securities purchased by the Fund will be rated A- or higher by S&P and/or an equivalent rating by another NRSRO such as Fitch or Moody's, or, if unrated, determined by the Adviser to be of equivalent quality.[30]

Under normal circumstances, the Fund will generally maintain a portfolio duration of less than two months.[31] The Adviser may adjust the Fund's duration within the stated limit based on current

[16] Each Fund may invest in other investment companies to the extent permitted by Section 12(d)(1) of the 1940 Act and rules thereunder and/or any applicable exemption under the 1940 Act with respect to such investments.

[17] For purposes of this proposed rule change, ETFs include Investment Company Units (as described in NYSE Arca Equities Rule 5.2(j)(3)); Portfolio Depositary Receipts (as described in NYSE Arca Equities Rule 8.100); and Managed Fund Shares (as described in NYSE Arca Equities Rule 8.600). The ETFs all will be listed and traded in the U.S. on registered exchanges. While each Fund may invest in inverse ETFs, a Fund will not invest in leveraged (*e.g.,* 2X or 3X) or leveraged inverse ETFs.

[18] In determining whether a security is of ''equivalent quality,'' the Adviser may consider various factors, including but not limited to: Whether the issuer of the security has issued other rated securities; whether the obligations under the security are guaranteed by another entity and the rating of such guarantor (if any); whether and (if applicable) how the security is collateralized; other forms of credit enhancement (if any); the security's maturity date; liquidity features (if any); relevant cash flow(s); valuation features; and other structural analysis.

[19] Duration measures the price sensitivity of a security to interest rate changes. The longer the duration, the more sensitive the portfolio will be to a change in interest rates.

[20] For securitized investments such as asset-backed and mortgage-backed securities, the security's weighted average life (the weighted average time to receipt of all principal payments) will be used to determine a Fund's portfolio maturity while for securities with embedded demand features, such as puts or calls, either the security's demand date or the final maturity date, depending on interest rates, yields and other market conditions, will be used.

[21] *See* NYSE Arca Equities Rule 5.2(j)(3), Commentary .02 governing fixed income based Investment Company Units. Under normal circumstances, each Fund's portfolio will meet the following criteria: (i) Components that in the aggregate account for at least 65% of the weight of the index or portfolio must each have a minimum original principal amount outstanding of $100 million or more (in contrast to the requirement in NYSE Arca Equities Rule 5.2(j)(3), Commentary .02(a)(3) that 75% of the weight of the index or portfolio meet such requirement); (ii) no component fixed-income security (excluding Treasury Securities, government-sponsored entity and other exempted securities) will represent more than 30% of the weight of the portfolio, and the five highest weighted component fixed income securities (excluding Treasury Securities, government-sponsored entity and other exempted securities) will not in the aggregate account for more than 65% of the weight of the portfolio); and (iii) the portfolio (excluding Treasury Securities, government-sponsored entity and other exempted securities) will include securities from a minimum of 13 non-affiliated issuers. Each Fund will not be required to meet the requirements of NYSE Arca Equities Rule 5.2(j)(3), Commentary .02(a)(3) (which relates to convertible security index components and removal of such components from an index or portfolio once the convertible security converts to the underlying security), and Commentary .02(a)(6) (which relates to reporting, numerical, or other enumerated requirements applicable to issuers of index component securities).

[22] *See* note 10, *supra.*

[23] *See* note 11, *supra.*

[24] *See* note 12, *supra.*

[25] *See* note 13, *supra.*

[26] *See* note 14, *supra.*

[27] *See* note 15, *supra.*

[28] *See* note 16, *supra.*

[29] *See* note 17, *supra.*

[30] *See* note 18, *supra.*

[31] *See* note 19, *supra.*

and anticipated changes in interest rates.

Additionally, under normal circumstances, the Fund generally expects to maintain a portfolio maturity (which is the weighted average maturity of all the securities held in the portfolio) of less than four months. For most security types, the security's final maturity date (the date on which the final principal payment of the security is scheduled to be paid) will be used to determine the Fund's portfolio maturity.[32] The Fund will not purchase any security with a maturity, or for securitized investments, the security's weighted average life, of more than eighteen months (1.5 years) from the date of acquisition. The Adviser may adjust the Fund's maturity within the stated limit based on current and anticipated changes in interest rates.

The Fund is an actively-managed fund that does not seek to track the performance of a specific index. The Exchange notes, however, that the Fund's portfolio, under normal circumstances, will meet certain criteria similar to those applicable to index-based, fixed income exchange-traded funds contained in NYSE Arca Equities Rule 5.2(j)(3), Commentary .02.[33]

Schwab TargetDuration 9-Month ETF

Principal Investments

According to the TargetDuration Registration Statement, the investment objective of the Fund is to seek a high level of current income consistent with preservation of capital.

To pursue its goal, it is the Fund's policy, under normal circumstances,[34] to invest at least 90% of its net assets [35] in a portfolio of investment grade short-term fixed income securities issued by U.S. and foreign issuers and other short-term investments. The fixed income securities in which the Fund may invest include corporate and commercial debt instruments; [36] privately-issued securities; [37] mortgage-backed and asset-backed securities; [38] variable- and floating-rate fixed income securities; repurchase agreements,[39] money market instruments, including, but not limited to certificates of deposit, commercial paper, promissory notes and asset-backed commercial paper; obligations issued by the U.S. government and its agencies and instrumentalities, including but not limited to, obligations that are not guaranteed by the U.S. Treasury, such as those issued by Fannie Mae and Freddie Mac; and bank notes and similar demand deposits. To gain exposure to short-term fixed income securities, the Fund may invest in other short-term investments including (1) money market funds (including funds that are managed by the Adviser or one of its affiliates), (2) other investment companies,[40] including ETFs,[41] that invest in securities similar to those in which the Fund may invest directly, and (3) cash and cash equivalents. All of these investments will be denominated in U.S. dollars, including those that are issued by foreign issuers.

All fixed income securities purchased by the Fund will be rated A- or higher by S&P and/or an equivalent rating by another NRSRO such as Fitch or Moody's, or, if unrated, determined by the Adviser to be of equivalent quality.[42]

Under normal circumstances, the Fund will generally maintain a portfolio duration of less than nine months.[43] The Adviser may adjust the Fund's duration within the stated limit based on current and anticipated changes in interest rates.

Additionally, under normal circumstances, the Fund generally expects to maintain a portfolio maturity (which is the weighted average maturity of all the securities held in the portfolio) of less than eighteen months (1.5 years). For most security types, the security's final maturity date (the date on which the final principal payment of the security is scheduled to be paid) will be used to determine the Fund's portfolio maturity.[44] The Fund will not purchase any security with a maturity, or for securitized investments, the security's weighted average life, of more than thirty months (2.5 years) from the date of acquisition. The Adviser may adjust the Fund's maturity within the stated limit based on current and anticipated changes in interest rates.

The Fund is an actively-managed fund that does not seek to track the performance of a specific index. The Exchange notes, however, that the Fund's portfolio, under normal circumstances, will meet certain criteria similar to those applicable to index-based, fixed income exchange-traded funds contained in NYSE Arca Equities Rule 5.2(j)(3), Commentary .02.[45]

Schwab TargetDuration 12-Month ETF

Principal Investments

According to the TargetDuration Registration Statement, the investment objective of the Fund is to seek maximum current income consistent with preservation of capital.

To pursue its goal, it is the Fund's policy, under normal circumstances,[46] to invest at least 90% of its net assets [47] in a portfolio of investment grade short-term fixed income securities issued by U.S. and foreign issuers and other short-term investments. The fixed income securities in which the Fund may invest include corporate and commercial debt instruments; [48] privately-issued securities,[49] mortgage-backed and asset-backed securities; [50] variable- and floating-rate fixed income securities; repurchase agreements; [51] money market instruments, including, but not limited to certificates of deposit, commercial paper, promissory notes and asset-backed commercial paper; obligations issued by the U.S. government and its agencies and instrumentalities, including but not limited to, obligations that are not guaranteed by the U.S. Treasury, such as those issued by Fannie Mae and Freddie Mac; and bank notes and similar demand deposits. To gain exposure to short-term fixed income securities, the Fund may invest in other short-term investments including (1) money market funds (including funds that are managed by the Adviser or one of its affiliates), (2) other investment companies,[52] including ETFs,[53] that invest in securities similar to those in which the Fund may invest directly, and (3) cash and cash equivalents. All of these investments will be denominated in U.S. dollars, including those that are issued by foreign issuers.

All fixed income securities purchased by the Fund will be rated A- or higher by S&P and/or an equivalent rating by another NRSRO such as Fitch or Moody's, or, if unrated, determined by the Adviser to be of equivalent quality.[54]

Under normal circumstances, the Fund will generally maintain a portfolio

[32] *See* note 20, *supra*.
[33] *See* note 21, *supra*.
[34] *See* note 10, *supra*.
[35] *See* note 11, *supra*.
[36] *See* note 12, *supra*.
[37] *See* note 13, *supra*.
[38] *See* note 14, *supra*.
[39] *See* note 15, *supra*.
[40] *See* note 16, *supra*.
[41] *See* note 17, *supra*.
[42] *See* note 18, *supra*.
[43] *See* note 19, *supra*.
[44] *See* note 20, *supra*.
[45] *See* note 21, *supra*.
[46] *See* note 10, *supra*.
[47] *See* note 11, *supra*.
[48] *See* note 12, *supra*.
[49] *See* note 13, *supra*.
[50] *See* note 14, *supra*.
[51] *See* note 15, *supra*.
[52] *See* note 16, *supra*.
[53] *See* note 17, *supra*.
[54] *See* note 18, *supra*.

duration of less than twelve months (1 year).[55] The Adviser may adjust the Fund's duration within the stated limit based on current and anticipated changes in interest rates.

Additionally, under normal circumstances, the Fund generally expects to maintain a portfolio maturity (which is the weighted average maturity of all the securities held in the portfolio) of less than twenty-four months (2 years). For most security types, the security's final maturity date (the date on which the final principal payment of the security is scheduled to be paid) will be used to determine the Fund's portfolio maturity.[56] The Fund will not purchase any security with a maturity, or for securitized investments, the security's weighted average life, of more than thirty-six months (3 years) from the date of acquisition. The Adviser may adjust the Fund's maturity within the stated limit based on current and anticipated changes in interest rates.

The Fund is an actively-managed fund that does not seek to track the performance of a specific index. The Exchange notes, however, that the Fund's portfolio, under normal circumstances, will meet certain criteria similar to those applicable to index-based, fixed income exchange-traded funds contained in NYSE Arca Equities Rule 5.2(j)(3), Commentary .02.[57]

Non-Principal Investments[58]

According to the Registration Statements, as part of each Fund's non-principal investment strategies, a Fund may invest in other securities such as Build America Bonds,[59] capital and trust preferred securities,[60] fixed income securities with put features, sinking funds[61] and zero-coupon, step-coupon, and pay-in-kind securities.[62] Also as part of each Fund's non-principal investment strategies, a Fund may borrow money in accordance with the 1940 Act as outlined in a Fund's Registration Statement.

A Fund may not hold more than 15% of its net assets in illiquid assets, including Rule 144A securities[63] except for Rule 144A securities deemed liquid by the Adviser, based on criteria for liquidity established by the Board, consistent with Commission guidance.[64] Each Fund will monitor its portfolio liquidity on an ongoing basis to determine whether, in light of current circumstances, an adequate level of liquidity is being maintained, and will consider taking appropriate steps in order to maintain adequate liquidity if, through a change in values, net assets, or other circumstances, more than 15% of a Fund's net assets are held in illiquid assets. Illiquid assets include securities subject to contractual or other restrictions on resale and other instruments that lack readily available markets as determined in accordance with Commission staff guidance.[65]

Furthermore, a Fund may not concentrate investments in a particular industry or group of industries, as concentration is defined under the 1940 Act, the rules or regulations thereunder or any exemption therefrom, as such statute, rules or regulations may be amended or interpreted from time to time.[66]

Each Fund will not invest in options, futures, swaps or other derivatives or in non-U.S. equity securities. A Fund's investments will be consistent with its investment objective and will not be used to enhance leverage.

Creation and Redemption of Shares

Each Fund will issue and redeem the Shares only in ''Creation Units,'' which shall be aggregations of at least 25,000 Shares or more. Only institutional investors, who have entered into an authorized participant agreement (known as ''Authorized Participants''), may purchase or redeem Creation Units of a Fund as set forth in the Registration Statements. Creation Units will generally be issued and redeemed in exchange for a specified basket of securities approximating the holdings of a Fund (''Deposit Securities'') and a designated amount of cash denominated in U.S. Dollars (the ''Cash Component''). Together, the Deposit Securities and the Cash Component constitute the ''Fund

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[55] *See* note 19, *supra.*

[56] *See* note 20, *supra.*

[57] *See* note 21, *supra.*

[58] Certain investments have been identified as ''Non-Principal Investments'' within the Registration Statements given the limited extent to which these investments are expected to comprise of [sic] each Fund's portfolio. These non-principal investments, however, may be considered within a Fund's 90% investment policy to the extent they are investment grade short-term fixed income securities.

[59] According to the Registration Statements, Build America Bonds offer an alternative form of financing to state and local governments whose primary means for accessing the capital markets has historically been through the issuance of tax-free municipal bonds. Issuance of Build America Bonds ceased on December 31, 2010. Outstanding Build America Bonds will continue to be eligible for the federal interest rate subsidy, which continues for the life of the bonds.

[60] According to the Registration Statements, capital securities are certain subordinated securities and generally rank senior to common stock and preferred stock in an issuer's capital structure, but have a lower security claim than the issuer's corporate bonds. Trust preferred securities have the characteristics similar to other capital securities. They are issued by a special purpose trust subsidiary backed by subordinated debt of the corporate parent.

[61] According to the Registration Statements, sinking funds are generally established by bond issuers to set aside a certain amount of money to cover timely repayment of bondholders' principal raised through a bond issuance. By creating a sinking fund, the issuer is able to spread repayment of principal to numerous bondholders while reducing reliance on its then current cash flows. A sinking fund also may allow the issuer to annually repurchase certain of its outstanding bonds from the open market or repurchase certain of its bonds at a call price named in a bond's sinking fund provision. This call provision allows bonds to be prepaid or called prior to a bond's maturity.

[62] According to the Registration Statements, zero-coupon, step-coupon, and pay-in-kind securities are fixed income securities that do not make regular cash interest payments throughout the period prior to maturity. Zero-coupon and step-coupon securities are sold at a deep discount to their face value. A zero-coupon security pays no interest to its holders during its life. Step-coupon securities are debt securities that, instead of having a fixed coupon for the life of the security, have coupon or interest payments that may increase or decrease to predetermined rates at future dates. Pay-in-kind securities pay interest through the issuance of additional securities. To continue to qualify as a ''regulated investment company'' or ''RIC'' under the Internal Revenue Code of 1986, as amended, and avoid a certain excise tax, each Fund may be required to distribute a portion of such discount and income and may be required to dispose of other portfolio securities, which may occur in periods of adverse market prices, in order to generate cash to meet these distribution requirements.

[63] Rule 144A securities are securities which, while privately placed, are eligible for purchase and resale pursuant to Rule 144A of the Securities Act.

[64] In reaching liquidity decisions, the Adviser may consider the following factors: The frequency of trades and quotes for the security; the number of dealers wishing to purchase or sell the security and the number of other potential purchasers; dealer undertakings to make a market in the security; and the nature of the security and the nature of the marketplace in which it trades (*e.g.,* the time needed to dispose of the security, the method of soliciting offers and the mechanics of transfer).

[65] The Commission has stated that long-standing Commission guidelines have required open-end funds to hold no more than 15% of their net assets in illiquid securities and other illiquid assets. *See* Investment Company Act Release No. 28193 (March 11, 2008), 73 FR 14618 (March 18, 2008), footnote 34. *See also,* Investment Company Act Release No. 5847 (October 21, 1969), 35 FR 19989 (December 31, 1970) (Statement Regarding ''Restricted Securities''); Investment Company Act Release No. 18612 (March 12, 1992), 57 FR 9828 (March 20, 1992) (Revisions of Guidelines to Form N–1A). A fund's portfolio security is illiquid if it cannot be disposed of in the ordinary course of business within seven days at approximately the value ascribed to it by the fund. *See* Investment Company Act Release No. 14983 (March 12, 1986), 51 FR 9773 (March 21, 1986) (adopting amendments to Rule 2a–7 under the 1940 Act); Investment Company Act Release No. 17452 (April 23, 1990), 55 FR 17933 (April 30, 1990) (adopting Rule 144A under the Securities Act).

[66] According to the Registration Statements, the Commission has defined concentration as investing 25% or more of an investment company's total assets in an industry or group of industries, with certain exceptions such as with respect to investments in obligations issued or guaranteed by the U.S. Government or its agencies and instrumentalities, or tax-exempt obligations of state or municipal governments and their political subdivisions. See, e.g., Investment Company Act Release No. 9011 (October 30, 1975), 40 FR 54241 (November 21, 1975).

Deposit,'' which will represent the minimum initial and subsequent investment amount for a Creation Unit of a Fund.

According to the Registration Statements, a Fund may accept a basket of money market instruments, non-U.S. currency or cash denominated in U.S. dollars that differs from the composition of the published basket. A Fund may permit or require the consideration for Creation Units to consist solely of cash or non-U.S. currency. A Fund may permit or require the substitution of an amount of cash denominated in U.S. Dollars (*i.e.,* a ''cash in lieu'' amount) to be added to the Cash Component to replace any Deposit Security.

The identity and amount of Deposit Securities and Cash Component for a Fund may change as the composition of the Fund's portfolio changes and as rebalancing adjustments and corporate action events are reflected from time to time by CSIM with a view to the investment objective of a Fund.

Shares of each Fund may be redeemed only in Creation Units at their net asset value (''NAV'') and only on a day the NYSE Arca is open for business (normally from 9:30 a.m. until 4:00 p.m. Eastern time, each a ''Business Day''). According to the Registration Statements, Fund securities received on redemption will generally correspond pro rata, to the extent practicable, to the securities in a Fund's portfolio. Fund securities received on redemption may not be identical to Deposit Securities that are applicable to creations of Creation Units.

Net Asset Value

According to the Registration Statements, each Fund will calculate its NAV at the close of the regular trading session of each Business Day using the values of the respective Fund's portfolio securities.

In valuing their securities, each Fund will use market quotes or official closing prices if they are readily available. In cases where quotes are not readily available, a Fund may value securities based on fair values developed using methods approved by the Funds' Board of Trustees (as discussed below). When valuing fixed income securities with remaining maturities of more than 60 days, each Fund will use the value of the security provided by independent pricing services. The pricing services may value fixed income securities at an evaluated price by employing methodologies that use actual market transactions, broker-supplied valuations, or other methodologies designed to identify the market value for such securities. When valuing fixed income securities with remaining maturities of 60 days or less, each Fund may use the security's amortized cost, which approximates the security's market value.

Corporate and commercial debt instruments; privately-issued securities; mortgage-backed and asset-backed securities; variable- and floating-rate fixed income securities; repurchase agreements; money market instruments; obligations issued by the U.S. government and its agencies and instrumentalities; bank notes and similar demand deposits; Build America Bonds; fixed income securities with put features; sinking funds; over-the-counter capital and trust preferred securities; and step-coupons will be valued based on price quotations or other equivalent indications of value provided by a third-party pricing service. Any such third-party pricing service may use a variety of methodologies to value some or all of a Fund's debt securities to determine the market price. For example, the prices of securities with characteristics similar to those held by each Fund may be used to assist with the pricing process. In addition, the pricing service may use proprietary pricing models. A Fund's debt securities may be valued at the mean between the last available bid and ask prices for such securities or, if such prices are not available, at prices for securities of comparable maturity, quality, and type. Short-term securities for which market quotations are not readily available will be valued at amortized cost, which approximates market value. ETFs and exchange-traded capital and trust preferred securities will be valued at market value, which will generally be determined using the last reported official closing or last trading price on the exchange or market on which the security is primarily traded at the time of valuation. Investment company securities, including money market funds, (other than ETFs) will be valued at NAV.

When market prices for securities are not ''readily available'' or are unreliable, the securities will be valued at fair value. For example, a Fund may fair value a security when a security is de-listed or its trading is halted or suspended; when a security's primary pricing source is unable or unwilling to provide a price; when a security's primary trading market is closed during regular market hours; or when a security's value is materially affected by events occurring after the close of the security's primary trading market. By fair valuing securities whose prices may have been affected by events occurring after the close of trading, each Fund will seek to establish prices that investors might expect to realize upon the current sales of these securities. Each Fund's fair value methodologies seek to ensure that the prices at which each Fund's Shares are purchased and redeemed are fair and do not result in dilution of shareholder interest or other harm to shareholders. Generally, when fair valuing a security, a Fund will take into account all reasonably available information that may be relevant to a particular valuation including, but not limited to, fundamental analytical data regarding the issuer, information relating to the issuer's business, recent trades or offers of the security, general and specific market conditions and the specific facts giving rise to the need to fair value the security. Each Fund will make fair value determinations in good faith and in accordance with the fair value methodologies included in the Board of Trustees' adopted valuation procedures and in accordance with the 1940 Act.

Portfolio Indicative Value

The Portfolio Indicative Value (''PIV'') as defined in NYSE Arca Equities Rule 8.600(c)(3) of Shares of each Fund will be widely disseminated by one or more major market data vendors at least every fifteen seconds during the Exchange's Core Trading Session. Such approximate value generally will be determined by using current market quotations and/or price quotations obtained from broker-dealers that may trade in the portfolio securities held by a Fund. This approximate value should not be viewed as a ''real-time'' update of the NAV per Share of a Fund because the approximate value may not be calculated in the same manner as the NAV, which is computed once a day, generally at the end of the Business Day. The PIV will be based upon the current value for the components of a Fund's Disclosed Portfolio, as defined in NYSE Arca Equities Rule 8.600(c)(2).

Availability of Information

The Funds' Web site (*www.schwabetfs.com*), which will be publicly available prior to the public offering of Shares, will include a form of the prospectus for each Fund that may be downloaded (*www.schwabetfs.com/prospectus*). The Funds' Web site will include additional quantitative information updated on a daily basis, including, for each Fund, (1) daily trading volume, the prior business day's reported closing price, NAV and mid-point of the bid/ask spread at the time of calculation of such NAV (the

''Bid/Ask Price''),[67] and a calculation of the premium and discount of the Bid/Ask Price against the NAV, and (2) data in chart format displaying the frequency distribution of discounts and premiums of the daily Bid/Ask Price against the NAV, within appropriate ranges, for each of the four previous calendar quarters. On each Business Day, before commencement of trading in Shares in the Core Trading Session on the Exchange, the Adviser will disclose on each Fund's Web site the Disclosed Portfolio for each Fund as defined in NYSE Arca Equities Rule 8.600(c)(2) that will form the basis for a Fund's calculation of NAV at the end of the Business Day.[68]

Each Fund's portfolio holdings will be disclosed on its Web site daily after the close of trading on the Exchange and prior to the opening of trading on the Exchange the following day.

On a daily basis, the Adviser will disclose on behalf of each Fund [sic] each portfolio security and other financial instrument of each Fund the following information: Ticker symbol (if applicable), name of security and financial instrument, number of shares, if applicable, and dollar value of securities and financial instruments held in the portfolio, and percentage weighting of the security and financial instrument in the portfolio. The Web site information will be publicly available at no charge. In addition, intra-day and end-of-day prices for all securities and other financial instruments held by each Fund will be available through major market data vendors or broker-dealers or on the exchanges on which they are traded.

In addition, a basket composition file disclosing each Fund's Securities [sic], which includes the security names and share quantities required to be delivered in exchange for Fund Shares, together with estimates and actual cash components, will be publicly disseminated daily prior to the opening of the New York Stock Exchange via the National Securities Clearing Corporation. The basket represents one Creation Unit of a Fund. Investors can also obtain the Trust's Statement of Additional Information (''SAI''), each Fund's Shareholder Report, and its Form N–CSR and Form N–SAR, filed twice a year. The Trust's SAI and Shareholder Reports are available free upon request from the Trust, and those documents and the Form N–CSR and Form N–SAR may be viewed on-screen or downloaded from the Commission's Web site at *www.sec.gov*. Information regarding market price and trading volume of the Shares will be continually available on a real-time basis throughout the day on brokers' computer screens and other electronic services. Information for the Shares regarding the previous day's closing price and trading volume information will be published daily in the financial section of newspapers or available via the respective newspapers' Web sites and other such sources. Quotation and last sale information for the Shares will be available via the Consolidated Tape Association (''CTA'') high-speed line. Intra-day and closing price information regarding corporate and commercial debt instruments; privately-issued securities; mortgage-backed and asset-backed securities; variable- and floating-rate fixed income securities; repurchase agreements; money market instruments; obligations issued by the U.S. government and its agencies and instrumentalities; bank notes and similar demand deposits; Build America Bonds; fixed income securities with put features; sinking funds; capital and trust preferred securities; and step-coupons will be available from major market data vendors. Price information for ETFs and exchange-traded capital and trust preferred securities will be available from the applicable exchange or major market data vendors. Price information for other investment company securities (including money market funds) will be available from major market data vendors. In addition, as noted above, the PIV will be widely disseminated by one or more major market data vendors at least every 15 seconds during the Core Trading Session.[69] The dissemination of the PIV, together with the Disclosed Portfolio, will allow investors to determine the value of the underlying portfolio of each Fund on a daily basis and will provide a close estimate of that value throughout the trading day.

Additional information regarding the Trust and the Shares of each Fund, including investment strategies, risks, creation and redemption procedures, fees, portfolio holdings disclosure policies, distributions and taxes is included in the Registration Statements.

Trading Halts

With respect to trading halts, the Exchange may consider all relevant factors in exercising its discretion to halt or suspend trading in the Shares of a Fund.[70] Trading in Shares of a Fund will be halted if the circuit breaker parameters in NYSE Arca Equities Rule 7.12 have been reached. Trading also may be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares of a Fund inadvisable. These may include: (1) The extent to which trading is not occurring in the securities and/or the financial instruments comprising the Disclosed Portfolio of a Fund; or (2) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present. Trading in the Shares will be subject to NYSE Arca Equities Rule 8.600(d)(2)(D), which sets forth circumstances under which Shares of a Fund may be halted.

Trading Rules

The Exchange deems the Shares to be equity securities, thus rendering trading in the Shares subject to the Exchange's existing rules governing the trading of equity securities. Shares will trade on the NYSE Arca Marketplace from 4:00 a.m. to 8:00 p.m. Eastern Time in accordance with NYSE Arca Equities Rule 7.34 (Opening, Core, and Late Trading Sessions). The Exchange has appropriate rules to facilitate transactions in the Shares during all trading sessions. As provided in NYSE Arca Equities Rule 7.6, Commentary .03, 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 Shares of each Fund will conform to the initial and continued listing criteria under NYSE Arca Equities Rule 8.600. The Exchange represents that, for initial and/or continued listing, each Fund will be in compliance with Rule 10A–3 [71] under the Act, as provided by NYSE Arca Equities Rule 5.3. A minimum of 100,000 Shares of each Fund will be outstanding at the commencement of trading on the Exchange. The Exchange will obtain a representation from the issuer of the Shares of each Fund that the NAV and

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

[68] Under accounting procedures to be followed by each Fund, trades made on the prior Business Day (''T'') generally will be booked and reflected in NAV on the current Business Day (''T+1''). Accordingly, each Fund will be able to disclose at the beginning of the business day the portfolio that will form the basis for the NAV calculation at the end of the Business Day.

[69] Currently, it is the Exchange's understanding that several major market data vendors widely disseminate PIVs taken from CTA or other data feeds.

[70] *See* NYSE Arca Equities Rule 7.12, Commentary .04.

[71] 17 CFR 240 10A–3.

the Disclosed Portfolio will be made available to all market participants at the same time.

Surveillance

The Exchange represents that trading in the Shares of each Fund will be subject to the existing trading 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.[72] 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.

FINRA, on behalf of the Exchange, will communicate as needed regarding trading in the Shares, ETFs, exchange-traded capital and trust preferred securities, and other exchange-listed assets, as applicable, with other markets and other entities that are members of the Intermarket Surveillance Group (''ISG''), and FINRA, on behalf of the Exchange, may obtain trading information regarding trading in such Shares, ETFs, exchange-traded capital and trust preferred securities, and other exchange-listed assets, as applicable, from such markets and other entities. In addition, the Exchange may obtain information regarding trading in such Shares, ETFs, exchange-traded capital and trust preferred securities, and other exchange-listed assets, as applicable, from markets and other entities that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.[73] In addition, FINRA, on behalf of the Exchange, is able to access, as needed, trade information for certain fixed income securities held by each Fund reported to FINRA's Trade Reporting and Compliance Engine (''TRACE'').

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

Information Bulletin

Prior to the commencement of trading, the Exchange will inform its Equity Trading Permit (''ETP'') Holders in an Information Bulletin (''Bulletin'') of the special characteristics and risks associated with trading the Shares of each Fund. Specifically, the Bulletin will discuss the following: (1) The procedures for purchases and redemptions of Shares in Creation Units (and that Shares are not individually redeemable); (2) NYSE Arca 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; (3) the risks involved in trading the Shares during the Opening and Late Trading Sessions when an updated PIV will not be calculated or publicly disseminated; (4) how information regarding the PIV is disseminated; (5) the requirement that ETP Holders deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction; and (6) trading information.

In addition, the Bulletin will reference that each Fund is subject to various fees and expenses described in the Registration Statements. The Bulletin will discuss any exemptive, no-action, and interpretive relief granted by the Commission from any rules under the Act. The Bulletin will also disclose that the NAV for the Shares of each Fund will be calculated after 4:00 p.m. Eastern Time each trading day.

2. Statutory Basis

The basis under the Act for this proposed rule change is the requirement under Section 6(b)(5) [74] 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. Each Fund will not invest in non-U.S. equity securities. Each Fund will not invest in leveraged or leveraged inverse ETFs. A Fund's investments will be consistent with the Funds' investment objective and will not be used to enhance leverage. Each Fund will, under normal market circumstances, invest at least 90% of its net assets in a portfolio of investment grade short-term fixed income securities issued by U.S. and foreign issuers and other short-term investments as described above. All debt securities purchased by each Fund will be rated A− or higher by S&P and/or an equivalent rating by another NRSRO such as Fitch or Moody's, or, if unrated, determined by the Adviser to be of equivalent quality. Each Fund's investments in each of the following security types will be limited to 10% of a Fund's net assets: (1) Non-agency residential mortgage-backed securities, (2) non-agency commercial mortgage-backed securities and (3) non-agency asset-backed securities. Each Fund's aggregate investments in the following security types will be limited to 20% of a Fund's net assets: (1) Non-agency residential mortgage-backed securities, (2) non-agency commercial mortgage-backed securities, and (3) non-agency asset-backed securities. A Fund may not hold more than 15% of its net assets in illiquid assets, including Rule 144A securities except for Rule 144A securities deemed liquid by the Adviser, based on criteria for liquidity established by the Board, consistent with Commission guidance. The Adviser expects that under normal market circumstances, each Fund will generally seek to invest in corporate bond issuances that have at least $100,000,000 par amount outstanding in developed countries and at least $200,000,000 par amount outstanding in emerging market countries. Each Fund will not invest in options, futures, swaps or other derivatives. Each Fund's portfolio, under normal circumstances, will meet certain criteria similar to those applicable to index-based, fixed income exchange-traded funds contained in NYSE Arca Equities Rule 5.2(j)(3), Commentary .02.[75]

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 8.600. The Exchange has in place surveillance procedures that are adequate to properly monitor trading in the Shares of each Fund in all trading sessions and to deter and detect violations of Exchange rules and federal securities laws applicable to trading on the Exchange. Additionally, FINRA, on behalf of the Exchange, will communicate as needed regarding trading in the Shares, ETFs, exchange-traded capital and trust preferred

[72] FINRA surveils trading on the Exchange pursuant to a regulatory services agreement. The Exchange is responsible for FINRA's performance under this regulatory services agreement.

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

[74] 15 U.S.C. 78f(b)(5).

[75] *See* note 21, *supra*.

securities, and other exchange-listed assets, as applicable, with other markets and other entities that are members of the ISG, and FINRA, on behalf of the Exchange, may obtain trading information regarding trading in such Shares, ETFs, exchange-traded capital and trust preferred securities, and other exchange-listed assets, as applicable, from such markets and other entities. In addition, the Exchange may obtain information regarding trading in such Shares, ETFs, exchange-traded capital and trust preferred securities, and other exchange-listed securities, as applicable, from markets and other entities that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement. In addition, FINRA, on behalf of the Exchange, is able to access, as needed, trade information for certain fixed income securities held by a Fund reported to FINRA's TRACE.

The proposed rule change is designed to promote just and equitable principles of trade and to protect investors and the public interest in that the Adviser is not a broker-dealer but is affiliated with a broker-dealer and has represented that it has implemented a fire wall with respect to its broker-dealer affiliate regarding access to information concerning the composition and/or changes to the portfolios. The Exchange will obtain a representation from the issuer of the Shares of each Fund that the NAV per Share will be calculated daily and that the NAV and the Disclosed Portfolio will be made available to all market participants at the same time. In addition, a large amount of information is publicly available regarding each Fund and the respective Shares, thereby promoting market transparency. Each Fund's portfolio holdings will be disclosed on its Web site daily after the close of trading on the Exchange and prior to the opening of trading on the Exchange the following day. Intra-day and end-of-day prices for all securities or other financial instruments held by each Fund will be available through major market data vendors or broker-dealers or on the exchanges on which they are traded. Moreover, the PIV will be widely disseminated by one or more major market data vendors at least every 15 seconds during the Exchange's Core Trading Session. On each Business Day, before commencement of trading in Shares in the Core Trading Session on the Exchange, each Fund will disclose on the Funds' Web site the Disclosed Portfolio that will form the basis for each Fund's calculation of NAV at the end of the Business Day. Information regarding market price and trading volume of the Shares of each Fund will be continually available on a real-time basis throughout the day on brokers' computer screens and other electronic services, and quotation and last sale information will be available via the CTA high-speed line. The Web site for the Funds will include a form of the prospectus for each Fund and additional data relating to NAV and other applicable quantitative information. Moreover, prior to the commencement of trading, the Exchange will inform its ETP Holders in an Information Bulletin of the special characteristics and risks associated with trading the Shares of each Fund. Trading in Shares of each Fund will be halted if the circuit breaker parameters in NYSE Arca Equities Rule 7.12 have been reached or because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable, and trading in the Shares will be subject to NYSE Arca Equities Rule 8.600(d)(2)(D), which sets forth circumstances under which Shares of each Fund may be halted. In addition, as noted above, investors will have ready access to information regarding a Fund's holdings, the PIV, the Disclosed Portfolio, and quotation and last sale information for the respective Shares.

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 actively-managed exchange-traded products 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 of each Fund and may obtain information via ISG from other exchanges that are members of ISG or with which the Exchange has entered into a comprehensive surveillance sharing agreement. In addition, as noted above, investors will have ready access to information regarding each Fund's holdings, the PIV, the Disclosed Portfolio for each Fund, and quotation and last sale information for the Shares of each Fund.

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 hold 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 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.* Please include File Number SR–NYSEArca–2014–42 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–2014–42. 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 Section, 100 F Street NE., Washington, DC 20549, on official business days between 10:00 a.m. and 3:00 p.m. Copies of the filing will also be available for inspection and copying at the principal office of NYSE. 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–2014–42 and should be submitted on or before May 22, 2014.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.[76]

Kevin M. O'Neill,

Deputy Secretary.

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[76] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–72019; File No. SR–MSRB–2014–03]

Self-Regulatory Organizations; Municipal Securities Rulemaking Board; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Consisting of New Rule A–11, on Assessments for Municipal Advisor Professionals

April 25, 2014.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the ''Act'')[1] and Rule 19b–4 thereunder,[2] notice is hereby given that on April 17, 2014, the Municipal Securities Rulemaking Board (the ''MSRB'' or ''Board'') filed with the Securities and Exchange Commission (the ''SEC'' or ''Commission'') the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the MSRB. The MSRB has designated the proposed rule change as changing fees imposed by the MSRB under Section 19(b)(3)(A)(ii) of the Act,[3] which renders the proposal effective upon receipt of this filing by the Commission. 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 MSRB is filing with the Commission a proposed rule change consisting of new Rule A–11, on assessments for municipal advisor professionals (the ''proposed rule change'').

The text of the proposed rule change is available on the MSRB's Web site at *www.msrb.org/Rules-and-Interpretations/SEC-Filings/2014-Filings.aspx,* at the MSRB's principal office, 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 MSRB included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The MSRB has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The proposed rule change consists of new Rule A–11, on assessments for municipal advisor professionals. In the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (''Dodd-Frank Act''),[4] Congress charged the SEC and MSRB with the regulation of municipal advisors. The Dodd-Frank Act specifically amended the Exchange Act to grant the MSRB authority to charge municipal advisors reasonable fees to defray the costs of the operation of the MSRB. The purpose of the proposed rule change is to assess a reasonable fee on municipal advisors to help defray the costs and expenses of operating and administering the MSRB, particularly the increased costs as a result of the regulation of municipal advisors. New Rule A–11 will charge each municipal advisor an annual fee of $300 for each Form MA–I on file with the SEC in the relevant year.[5] This fee is separate from the initial $100 and annual $500 registration fees the MSRB charges all market participants subject to MSRB regulation[6] and is a step towards the MSRB's goal to provide for assessments that are fairly and equitably apportioned among all such registrants.[7]

Section (a) of Rule A–11 establishes an annual municipal advisor professional fee. This section provides that, beginning with the MSRB's fiscal year 2015 (which begins October 1, 2014), each municipal advisor that is registered with the Commission will be required to pay a recurring annual fee of $300 for each Form MA–I filed with the Commission as of January 31 of the relevant year by the municipal advisor. Section (a) further provides that the professional fee will be due by April 30 of each year and will be payable in the manner provided by the MSRB Registration Manual.

Section (b) of Rule A–11 provides for a late fee for any municipal advisor that fails to pay timely in full any professional fee due under section (a) or (c) of the proposed rule. The total late fee will equal twenty-five dollars monthly for each $300 assessment not paid in full, plus a late fee on the total overdue balance based on the prime rate as provided for in the MSRB Registration Manual.

Section (c) of Rule A–11 provides for a transitional municipal advisor professional fee. This transitional fee takes account of the timing of the phased-in compliance period for the SEC's permanent registration process, which begins in the second half of calendar year 2014, and which entails the first filings of Forms MA–I by municipal advisors. Each municipal advisor registered, either temporarily or permanently, with the SEC on or before September 30, 2014 (the last day of the MSRB's fiscal year 2014), will be required to pay an assessment of $300 for each Form MA–I filed with the SEC by the municipal advisor in connection with its permanent registration. The transitional fee will be payable in the manner provided by the MSRB

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.

[3] 15 U.S.C. 78s(b)(3)(A)(ii).

[4] Public Law 111–203, 124 Stat. 1376 (2010).

[5] *See* 17 CFR 240.15Ba1–2(b) (setting forth requirements to file Form MA–I with the SEC).

[6] *See* MSRB Rules A–12 and A–14. *See also* MSRB Notice 2014–05 (Feb. 27, 2014) (describing SEC-approved amendments to MSRB Rule A–12 and deletion of Rule A–14 to consolidate MSRB registration requirements in Rule A–12, which will become effective on May 12, 2014).

[7] On July 26, 2011, the MSRB filed a proposed rule change with the SEC that would have established an interim $300 per professional assessment of municipal advisors and would have required municipal advisors to complete a survey for the MSRB to use in establishing a permanent assessment for municipal advisor professionals. This filing was subsequently withdrawn due to the SEC's continuing consideration of the definition of the term ''municipal advisor'' under the Act. *See* MSRB Notice 2011–51 (Sept. 12, 2011).