

Trading Permit Holder (“TPH”) requests a change in the classes to which said TPH is appointed to act as a Market-Maker. This Fee serves to pay for the labor involved in processing such requests. Beginning on September 4, 2012, TPHs became responsible for maintaining their own Market-Maker appointments via the Exchange’s online appointments system. TPHs received prior notification of this change.<sup>3</sup> Because TPHs now maintain their own Market-Maker appointments and the Exchange no longer processes requests to change the classes to which TPHs are appointed to act as Market-Makers, the Exchange hereby proposes to eliminate the Fee.

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the “Act”) and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.<sup>4</sup> Specifically, the Exchange believes the proposed rule change is consistent with Section 6(b)(4) of the Act<sup>5</sup>, which provides that Exchange rules may provide for the equitable allocation of reasonable dues, fees, and other charges among its Trading Permit Holders and other persons using its facilities. The proposed change is reasonable because TPHs will no longer have to pay a fee for changing their Market-Maker appointments, and is equitable and not unfairly discriminatory because it will apply to all TPHs.

### B. Self-Regulatory Organization’s Statement on Burden on Competition

CBOE does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

### C. Self-Regulatory Organization’s Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

The Exchange neither solicited nor received comments on the proposed rule change.

## III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)<sup>6</sup> of the Act and paragraph (f)

of Rule 19b-4<sup>7</sup> thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

## 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-CBOE-2012-089 on the subject line.

### Paper Comments

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

All submissions should refer to File Number SR-CBOE-2012-089. 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 on official business days between the hours of 10 a.m. and 3 p.m. Copies of such filing also will be available for inspection and copying at the principal offices 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-CBOE-2012-089, and should be submitted on or before October 17, 2012.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>8</sup>

**Kevin M. O’Neill,**

*Deputy Secretary.*

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**BILLING CODE 8011-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-67894; File No. SR-BATS-2012-033]

### Self-Regulatory Organizations; BATS Exchange, Inc.; Order Granting Approval of Proposed Rule Change, as Modified by Amendment No. 1 Thereto, To List and Trade Shares of the iShares Short Maturity Bond Fund

September 20, 2012.

## I. Introduction

On July 27, 2012, BATS Exchange, Inc. (“Exchange” or “BATS”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to list and trade shares (“Shares”) of the iShares Short Maturity Bond Fund (“Fund”). The proposed rule change was published for comment in the **Federal Register** on August 8, 2012.<sup>3</sup> The Commission received no comments on the proposal. On September 14, 2012, the Exchange filed Amendment No. 1 to the proposed rule change.<sup>4</sup> This order grants approval of the proposed rule change, as modified by Amendment No. 1.

<sup>8</sup> 17 CFR 200.30-3(a)(12).

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

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Securities Exchange Act Release No. 67583 (August 2, 2012), 77 FR 47461 (“Notice”).

<sup>4</sup> Amendment No. 1 reflects a change to the name of the Fund, from “iShares Ultrashort Duration Bond Fund” to “iShares Short Maturity Bond Fund,” and a revision to the citation to the Registration Statement, a corresponding amendment to which was filed with the Commission on September 4, 2012. In Amendment No. 1, the Exchange states that all other representations in the proposed rule change remain as stated therein and no other changes are being made. Because Amendment No. 1 is technical in nature and does not materially alter the substance of the proposed rule change, Amendment No. 1 is not subject to notice and comment.

<sup>3</sup> See CBOE Regulatory Circular RG12-114 (August 16, 2012).

<sup>4</sup> 15 U.S.C. 78f(b).

<sup>6</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>7</sup> 17 CFR [sic] 240.19b-4(f).

## II. Description of the Proposed Rule Change

The Exchange proposes to list and trade the Shares of the Fund pursuant to BATS Rule 14.11(i), which governs the listing and trading of Managed Fund Shares on the Exchange. The Shares will be offered by iShares U.S. ETF Trust ("Trust"), which was established as a Delaware statutory trust on June 21, 2011.<sup>5</sup> BlackRock Fund Advisors is the investment adviser ("Adviser") to the Fund.<sup>6</sup> BlackRock Financial Management, Inc. serves as sub-adviser for the Fund ("Sub-Adviser").<sup>7</sup> State Street Bank and Trust Company is the administrator, custodian, and transfer agent for the Trust. BlackRock Investments, LLC ("Distributor") serves as the distributor for the Trust. The Exchange represents the Adviser and Sub-Adviser are both affiliated with multiple broker-dealers, and both the Adviser and Sub-Adviser have implemented fire walls with respect to such broker-dealers regarding access to information concerning the composition and/or changes to the Fund's portfolio.<sup>8</sup>

### Description of the Fund and the Shares

The Fund will seek to maximize current income. To achieve its objective, the Fund will invest, under normal

<sup>5</sup> The Trust is registered as an open-end investment company under the Investment Company Act of 1940 ("1940 Act"). On September 4, 2012, the Trust filed with the Commission Amendment No. 1 to Registration Statement on Form N-1A under the Securities Act of 1933 and under the 1940 Act relating to the Fund (File Nos. 333-179904 and 811-22649) ("Registration Statement"). In addition, the Exchange notes that the Commission has issued an order granting certain exemptive relief to the Trust under the 1940 Act. See Investment Company Act Release No. 29571 (January 24, 2011) (File No. 812-13601) ("Exemptive Order").

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

<sup>7</sup> The Adviser manages the Fund's investments and its business operations subject to the oversight of the Board of Trustees of the Trust ("Board"). While the Adviser is ultimately responsible for the management of the Fund, it is able to draw upon the trading, research, and expertise of its asset management affiliates for portfolio decisions and management with respect to portfolio securities. The Adviser also has ongoing oversight responsibility. The Sub-Adviser, subject to the supervision and oversight of the Adviser and the Board, is responsible for day-to-day management of the Fund and, as such, typically makes all decisions with respect to portfolio holdings.

<sup>8</sup> See BATS Rule 14.11(i)(7). The Exchange represents further that, in the event (a) the Adviser or the Sub-Adviser becomes newly affiliated with a broker-dealer, or (b) any new adviser or sub-adviser becomes affiliated with a broker-dealer, it will implement a fire wall with respect to such broker-dealer regarding access to information concerning the composition and/or changes to the portfolio, and will be subject to procedures designed to prevent the use and dissemination of material, non-public information regarding such portfolio.

circumstances,<sup>9</sup> at least 80% of its net assets in a diversified portfolio of U.S. dollar-denominated investment grade fixed income securities ("Fixed Income Securities"). The Fund will not be a money market fund and thus will not seek to maintain a stable net asset value of \$1.00 per Share. In the absence of normal circumstances, the Fund may temporarily depart from its normal investment process, provided that such departure is, in the opinion of the portfolio management team of the Fund, consistent with the Fund's investment objective and in the best interest of the Fund. For example, the Fund may hold a higher than normal proportion of its assets in cash in response to adverse market, economic, or political conditions.

The Fund will hold Fixed Income Securities of at least 13 non-affiliated issuers.

The Fund will not purchase the securities of issuers conducting their principal business activity in the same industry if, immediately after the purchase and as a result thereof, the value of the Fund's investments in that industry would equal or exceed 25% of the current value of the Fund's total assets, provided that this restriction does not limit the Fund's: (i) Investments in securities of other investment companies; (ii) investments in securities issued or guaranteed by the U.S. government, its agencies or instrumentalities; or (iii) investments in repurchase agreements collateralized by U.S. government securities.

The Fund intends to qualify each year as a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended. The Fund will invest its assets, and otherwise conduct its operations, in a manner that is intended to satisfy the qualifying income, diversification, and distribution requirements necessary to establish and maintain RIC qualification under Subchapter M. The Fund will not invest in non-U.S. equity securities.

### Fixed Income Securities

The Fund intends to achieve its investment objective by investing, under normal circumstances, at least 80% of its net assets in a diversified portfolio of

<sup>9</sup> The term "under normal circumstances" includes, but is not limited to, the absence of adverse market, economic, political, or other conditions, including extreme volatility or trading halts in the fixed income markets or the financial markets generally; 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.

U.S. dollar-denominated investment grade Fixed Income Securities, rated a minimum of BBB- or higher by Standard & Poor's Financial Services LLC and/or Fitch Inc., or Baa3 or higher by Moody's Investors Service, Inc., or, if unrated, determined by the portfolio management team of the Fund to be of equivalent quality.

Fixed Income Securities will primarily include fixed and floating rate debt securities of varying maturities, such as corporate<sup>10</sup> and government bonds, agency securities,<sup>11</sup> instruments of non-U.S. issuers, municipal bonds, money market instruments,<sup>12</sup> and investment companies that invest in such Fixed Income Securities. The Adviser or its affiliates may advise the money market funds and investment companies in which the Fund may

<sup>10</sup> While the Fund is permitted to invest without restriction in corporate bonds, the Adviser expects that, under normal market conditions, the Fund will generally seek to invest in corporate bond issuances that have at least \$100 million par amount outstanding in developed countries and at least \$200 million par amount outstanding in emerging market countries.

<sup>11</sup> While the Fund is permitted to invest without restriction in agency securities, the Adviser expects that, under normal market conditions, the Fund will generally not seek to invest more than 50% of the Fund's assets in agency securities. "Agency securities" for these purposes generally includes securities issued by the following entities: Government National Mortgage Association (Ginnie Mae), Federal National Mortgage Association (Fannie Mae), Federal Home Loan Banks (FHLBanks), Federal Home Loan Mortgage Corporation (Freddie Mac), Farm Credit System (FCS) Farm Credit Banks (FCBanks), Student Loan Marketing Association (Sallie Mae), Resolution Funding Corporation (REFCORP), Financing Corporation (FICO), and the Farm Credit System (FCS) Financial Assistance Corporation (FAC). Agency securities can include, but are not limited to, mortgage-backed securities.

<sup>12</sup> While the Fund will invest at least 80% of its net assets in a diversified portfolio of U.S. dollar-denominated investment grade Fixed Income Securities, the Adviser expects that, under normal circumstances, the Fund also intends to invest in money market securities (as described below) in a manner consistent with its investment objective in order to help manage cash flows in and out of the Fund, such as in connection with payment of dividends or expenses, and to satisfy margin requirements, to provide collateral or to otherwise back investments in derivative instruments. For these purposes, money market securities include: Short-term, high-quality obligations issued or guaranteed by the U.S. Treasury or the agencies or instrumentalities of the U.S. government; Short-term, high-quality securities issued or guaranteed by non-U.S. governments, agencies, and instrumentalities; repurchase agreements backed by U.S. government securities; money market mutual funds; commercial paper; and deposits and other obligations of U.S. and non-U.S. banks and financial institutions. All money market securities acquired by the Fund will be rated investment grade. The Fund does not intend to invest in any unrated money market securities. However, it may do so, to a limited extent, such as where a rated money market security becomes unrated, if such money market security is determined by the Adviser or the Sub-Adviser to be of comparable quality.

invest, in accordance with the 1940 Act. The Fund may invest up to 5% of its net assets in Fixed Income Securities and instruments of issuers that are domiciled in emerging market countries.

The Fund will invest in asset-backed and mortgage-backed Fixed Income Securities.<sup>13</sup> Asset-backed securities are fixed-income securities that are backed by a pool of assets, usually loans such as installment sale contracts or credit card receivables. Mortgage-backed securities are asset-backed securities based on a particular type of asset, a mortgage. There is a wide variety of mortgage-backed securities involving commercial or residential, fixed-rate or adjustable rate mortgages, and mortgages issued by banks or government agencies. Most transactions in fixed-rate mortgage pass-through securities occur through standardized contracts for future delivery in which the exact mortgage pools to be delivered are not specified until a few days prior to settlement, known as TBA transactions. The Fund may enter into such contracts on a regular basis. The Fund, pending settlement of such contracts, will invest the relevant assets in high-quality, liquid short-term instruments, including shares of money market funds affiliated with the Adviser. Collateralized mortgage obligations (“CMOs”) are Fixed Income Securities that are backed by cash flows from pools of mortgages. CMOs may have multiple classes with different payment rights and protections.

The Fund’s investments will be consistent with the Fund’s investment objective and will not be used to enhance leverage. Under normal circumstances, the effective duration of the Fund’s portfolio is expected to be one year or less, as calculated by the Adviser.<sup>14</sup>

#### Other Portfolio Holdings

In addition to money market securities in which the Fund invests as

<sup>13</sup> Although the Fund has not established a fixed limit to the amount of asset-backed and/or mortgage-backed debt securities in which it will invest, as noted above, at least 80% of the Fund’s net assets will be, under normal circumstances, invested in U.S. dollar-denominated investment grade Fixed Income Securities, including asset-backed and/or mortgage-backed debt securities. Neither high-yield asset-backed securities nor high-yield mortgage-backed securities are included in the Fund’s principal investment strategies. The liquidity of a security, especially in the case of asset-backed and mortgage-backed debt securities, is a substantial factor in the Fund’s security selection process.

<sup>14</sup> Effective duration is a measure of the potential responsiveness of a bond or portfolio price to small parallel shifts in interest rates. When measured across a portfolio, the effective duration of a portfolio is equivalent to the average portfolio duration.

part of its principal investment strategies, as described above, the Fund may invest in money market securities in a manner consistent with its investment objective in order to help manage cash flows in and out of the Fund, such as in connection with payment of dividends or expenses, and to satisfy margin requirements, to provide collateral or to otherwise back investments in derivative instruments.

The Fund may hold up to an aggregate amount of 15% of its net assets in illiquid securities (calculated at the time of investment), including Rule 144A securities. The 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 the Fund’s net assets are held in illiquid securities.

Pursuant to the Exemptive Order, the Fund will not invest in swap agreements, futures contracts, or option contracts. The Fund will also not invest in convertible securities or preferred stock, but may invest in currency forwards for hedging against foreign currency exchange rate risk and/or trade settlement purposes.

Additional information regarding the Trust, Shares, and the Fund, including investment strategies, risks, creation and redemption procedures, fees and expenses, portfolio holdings and disclosure policies, distributions, taxes, and reports to be distributed to beneficial owners of the Shares can be found in the Notice and the Registration Statement, as applicable.<sup>15</sup> Information can also be found on the Web site for the Fund ([www.iShares.com](http://www.iShares.com)).

### III. Discussion and Commission’s Findings

The Commission has carefully reviewed the proposed rule change and finds that it is consistent with the requirements of Section 6 of the Act<sup>16</sup> and the rules and regulations thereunder applicable to a national securities exchange.<sup>17</sup> In particular, the Commission finds that the proposal is consistent with Section 6(b)(5) of the Act,<sup>18</sup> which requires, among other things, that the Exchange’s rules be designed to prevent fraudulent and

manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. The Commission notes that the Fund and the Shares must comply with the requirements of BATS Rule 14.11(i) to be listed and traded on the Exchange.

The Commission finds that the proposal to list and trade the Shares on the Exchange is consistent with Section 11A(a)(1)(C)(iii) of the Act,<sup>19</sup> which sets forth Congress’ finding that it is in the public interest and appropriate for the protection of investors and the maintenance of fair and orderly markets to assure the availability to brokers, dealers, and investors of information with respect to quotations for, and transactions in, securities. Quotation and last-sale information for the Shares will be available on the facilities of the Consolidated Tape Association (“CTA”). The Intraday Indicative Value (“IIV”), which will be based upon the current value for the components of the Disclosed Portfolio, will be updated and widely disseminated by one or more major market data vendors at least every 15 seconds during the Exchange’s Regular Trading Hours.<sup>20</sup> On each business day, before commencement of trading in Shares during Regular Trading Hours, the Fund will disclose on its Web site the Disclosed Portfolio that will form the basis for the Fund’s calculation of Net Asset Value (“NAV”) at the end of the business day.<sup>21</sup> The NAV of the Fund’s Shares generally will be calculated once daily Monday through Friday as of the close of regular trading on the New York Stock Exchange, generally 4:00 p.m. Eastern Time. Additionally, information regarding market price and volume of the Shares will be continually available on a real-time basis throughout the day on brokers’ computer screens and other electronic services. The previous day’s

<sup>19</sup> 15 U.S.C. 78k–1(a)(1)(C)(iii).

<sup>20</sup> According to the Exchange, several major market data vendors display and/or make widely available IIVs published via the CTA or other data feeds. In addition, the quotations of certain of the Fund’s holdings may not be updated during U.S. trading hours if such holdings do not trade in the United States or if updated prices cannot be ascertained.

<sup>21</sup> The Disclosed Portfolio will include, as applicable, the names, quantity, percentage weighting, and market value of Fixed Income Securities and other assets held by the Fund, and the characteristics of such assets. The Web site information will be publicly available at no charge.

<sup>15</sup> See *supra* notes 3 and 5, respectively.

<sup>16</sup> 15 U.S.C. 78f.

<sup>17</sup> In approving this proposed rule change, the Commission has considered the proposed rule’s impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>18</sup> 15 U.S.C. 78f(b)(5).

closing price and trading volume information for the Shares will also be published daily in the financial section of newspapers. Intraday, executable price quotations on Fixed Income Securities and other assets are available from major broker-dealer firms. Such intraday price information is also available through subscription services, such as Bloomberg, Thomson Reuters, and International Data Corporation, which can be accessed by authorized participants and other investors. The Web site for the Fund will include a form of the prospectus for the Fund, additional data relating to NAV, and other applicable quantitative information.

The Commission further believes that the proposal to list and trade the Shares is reasonably designed to promote fair disclosure of information that may be necessary to price the Shares appropriately and to prevent trading when a reasonable degree of transparency cannot be assured. The Commission notes that the Exchange will obtain a representation from the issuer of the Shares that the NAV per Share will be calculated daily and that the NAV and the Disclosed Portfolio will be made available to all market participants at the same time.<sup>22</sup> Trading in the Shares also will be subject to BATS Rule 14.11(i)(4)(B)(iv), which sets forth circumstances under which Shares of the Fund may be halted.<sup>23</sup> The Exchange may halt trading in the Shares if trading is not occurring in the securities and/or the financial instruments comprising the Disclosed Portfolio of the Fund, or if other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present.<sup>24</sup> Further, the Commission notes that the Reporting Authority that provides the Disclosed Portfolio must implement and maintain, or be subject to, procedures designed to prevent the use and dissemination of material, non-public information regarding the actual components of the portfolio.<sup>25</sup> The Exchange states that it prohibits the distribution of material, non-public

information by its employees. The Exchange also states that the Adviser and Sub-Adviser are both affiliated with multiple broker-dealers, and both the Adviser and Sub-Adviser have implemented fire walls with respect to such broker-dealers regarding access to information concerning the composition and/or changes to the Fund's portfolio.<sup>26</sup> Moreover, the Exchange represents that it is able to obtain information via the Intermarket Surveillance Group ("ISG") from other exchanges that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.

The Exchange further represents that the Shares are deemed to be equity securities, thus rendering trading in the Shares subject to the Exchange's existing rules governing the trading of equity securities. In support of this proposal, the Exchange has made representations, including:

(1) The Shares will be subject to BATS Rule 14.11(i), which sets forth the initial and continued listing criteria applicable to Managed Fund Shares.

(2) The Exchange has appropriate rules to facilitate transactions in the Shares during all trading sessions.

(3) The Exchange's surveillance procedures applicable to derivative products, which include Managed Fund Shares, are adequate to properly monitor the trading of the Shares on the Exchange during all trading sessions and to deter and detect violations of Exchange rules and applicable federal securities laws.

(4) Prior to the commencement of trading, the Exchange will inform its

<sup>26</sup> See *supra* note 8 and accompanying text. The Commission notes that an investment adviser to an open-end fund is required to be registered under the Investment Advisers Act of 1940 ("Advisers Act"). As a result, the Adviser, Sub-Adviser, and their 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.

members in an Information Circular ("Circular") of the special characteristics and risks associated with trading the Shares. Specifically, the Circular will discuss the following: (a) The procedures for purchases and redemptions of Shares in Creation Units (and that Shares are not individually redeemable); (b) BATS Rule 3.7, which imposes suitability obligations on Exchange members with respect to recommending transactions in the Shares to customers; (c) how information regarding the IIV is disseminated; (d) the risks involved in trading the Shares during the Pre-Opening<sup>27</sup> and After Hours Trading Sessions<sup>28</sup> when an updated IIV will not be calculated or publicly disseminated; (e) the requirement that members deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction; and (f) trading information.

(5) For initial and/or continued listing, the Fund must be in compliance with Rule 10A-3 under the Act.<sup>29</sup>

(6) The Fund may hold up to an aggregate amount of 15% of its net assets in illiquid securities (calculated at the time of investment), including Rule 144A securities. The 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 the Fund's net assets are held in illiquid securities.

(7) Pursuant to the Exemptive Order, the Fund will not invest in swap agreements, futures contracts, or option contracts.

(8) The Fund's investments will be consistent with the Fund's investment objective and will not be used to enhance leverage.

(9) The Fund will not invest in non-U.S. equity securities.

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

This approval order is based on all of the Exchange's representations and description of the Fund, including those set forth above and in the Notice.

For the foregoing reasons, the Commission finds that the proposed

<sup>27</sup> The Pre-Opening Session is from 8:00 a.m. to 9:30 a.m. Eastern Time.

<sup>28</sup> The After Hours Trading Session is from 4:00 p.m. to 5:00 p.m. Eastern Time.

<sup>29</sup> See 17 CFR 240.10A-3.

<sup>22</sup> See BATS Rule 14.11(i)(4)(A)(ii).

<sup>23</sup> See BATS Rule 14.11(i)(4)(B)(iv).

<sup>24</sup> See BATS Rule 14.11(i)(4)(B)(iii) (providing additional considerations for the suspension of trading in or removal from listing of Managed Fund Shares on the Exchange). With respect to trading halts, the Exchange may consider all relevant factors in exercising its discretion to halt or suspend trading in the Shares of the Fund. The Exchange will halt trading in the Shares under the conditions specified in BATS Rule 11.18. Trading also may be halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable.

<sup>25</sup> See BATS Rule 14.11(i)(4)(B)(ii)(B).

rule change is consistent with Section 6(b)(5) of the Act<sup>30</sup> and the rules and regulations thereunder applicable to a national securities exchange.

#### IV. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>31</sup> that the proposed rule change (SR-BATS-2012-033), as modified by Amendment No. 1 thereto, be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>32</sup>

**Kevin M. O'Neill,**

*Deputy Secretary.*

[FR Doc. 2012-23633 Filed 9-25-12; 8:45 am]

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-67896; File No. SR-OCC-2012-17]

### Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change Relating to the Margining of Segregated Futures Customer Accounts on a Gross Basis

September 20, 2012.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder<sup>2</sup> notice is hereby given that on September 14, 2012, The Options Clearing Corporation (“OCC”) 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 primarily by OCC. 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 proposed rule change would allow OCC to become compliant with Commodity Futures Trading Commission (“CFTC”) Rule 39.13(g)(8)(i) which requires the margining of segregated futures customer accounts on a gross basis.

#### II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, OCC 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. OCC has prepared summaries, set forth in sections (A), (B) and (C) below, of the most significant aspects of such statements.<sup>3</sup>

##### (A) Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

The purpose of this proposed rule change is to provide for the margining of OCC segregated futures customer accounts on a gross basis, as required by CFTC Rule 39.13(g)(8)(i).<sup>4</sup>

The CFTC’s Customer Gross Margin Rule

On October 18, 2011, the CFTC issued final regulations implementing many of the new statutory core principles for CFTC-registered derivatives clearing organizations (“DCOs”) enacted under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”). As a registered DCO (as well as a registered securities clearing agency), OCC has previously implemented rule changes designed to bring OCC into compliance with CFTC rules applicable to DCOs that went into effect on January 9, 2012<sup>5</sup> and May 7, 2012.<sup>6</sup> OCC believes it is necessary to amend its Rules in order to ensure compliance with the gross margin rule, which requires a DCO to “collect initial margin on a gross basis for each clearing member’s customer account(s) equal to the sum of the initial margin amounts that would be required by the derivatives clearing organization for each individual customer within that account if each individual customer were a clearing member.”<sup>7</sup> The gross margin rule goes into effect on November 8, 2012, however, OCC intends to begin complying with the gross margin rule on November 5, 2012 as described herein.

<sup>3</sup> The Commission has modified the text of the summaries prepared by OCC.

<sup>4</sup> 17 CFR 39.13(g)(8)(i).

<sup>5</sup> See SR-OCC-2011-18.

<sup>6</sup> See SR-OCC-2012-06.

<sup>7</sup> Derivatives Clearing Organization General Provisions and Core Principles, 76 FR 69334, 69439 (November 8, 2011).

#### OCC’s System for Calculating Margin

OCC currently calculates margin requirements for each clearing member’s segregated futures customer account held at OCC on a net basis by applying OCC’s System for Theoretical Analysis and Numerical Simulations (“STANS”). STANS calculates margin with respect to each account of a clearing member, including each clearing member’s futures customer account(s), on a net basis. STANS includes both a net asset value (“NAV”) component and a risk component. The NAV component marks all positions to market and nets long and short positions to determine the NAV of each clearing member’s portfolio of customer positions. The NAV component represents the cost to liquidate the portfolio at current prices by selling the net long positions and buying in the net short positions. The risk component is estimated by means of an expected shortfall risk measure obtained from “Monte Carlo” simulations designed to measure the additional asset value required in any portfolio to eliminate an unacceptable level of risk that the portfolio would liquidate to a deficit.

OCC presently lacks sufficient information about individual customer positions to calculate margin at the level of each individual customer. However, OCC has been coordinating with other DCOs to establish an industry-wide mechanism for complying with the customer gross margin rule. Pursuant to this new system, each DCO’s clearing members will submit data files to the DCO identifying positions by numerical customer identifiers.<sup>8</sup> OCC will use this information to calculate margins, using STANS, for each customer identifier of a clearing member and to aggregate those margin calculations to determine the total futures customer margin requirement for the clearing member’s segregated futures customer account(s) held at OCC.<sup>9</sup> OCC will then compare

<sup>8</sup> The position data provided to OCC by clearing members will not include (a) information with respect to the allocation of margin assets to particular customers, nor (b) information with respect to settlement obligations arising from the exercise, assignment or maturity of cleared contracts. For this reason, OCC will treat all margin assets and settlement obligations for each account to which the gross margin rule applies as being in sub-accounts of the Clearing Member. OCC will calculate margin, using STANS, separately for each sub-account and will aggregate the calculated margin requirements at the level of the clearing member’s segregated futures customer account to which the sub-accounts relate.

<sup>9</sup> OCC currently carries the following account types that are segregated pursuant to Section 4d of the Commodity Exchange Act: Segregated Futures Accounts, Segregated Futures Professional Accounts, non-Proprietary X-M accounts, and

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<sup>30</sup> 15 U.S.C. 78f(b)(5).

<sup>31</sup> 15 U.S.C. 78s(b)(2).

<sup>32</sup> 17 CFR 200.30-3(a)(12).

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

<sup>2</sup> 17 CFR 240.19b-4.