

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-77905; File No. SR-BatsEDGX-2016-19]

### Self-Regulatory Organizations; Bats EDGX Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Rule 11.7, Opening Process

May 25, 2016.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on May 13, 2016, Bats EDGX Exchange, Inc. (the “Exchange” or “EDGX”) 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 Exchange has designated this proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(6)(iii) thereunder,<sup>4</sup> which renders it effective upon filing with 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 Exchange filed a proposal to amend Rule 11.7, Opening Process, to await a two-sided quotation from the listing exchange prior to opening a security for trading during Regular Trading Hours.<sup>5</sup>

The text of the proposed rule change is available at the Exchange’s Web site at [www.batstrading.com](http://www.batstrading.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 Exchange 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 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 amend Rule 11.7, Opening Process, to await a two-sided quotation from the listing exchange prior to opening a security for trading during Regular Trading Hours.

Exchange Rule 11.7 describes the Exchange’s current opening process. Subparagraph (a) to Rule 11.7 states that prior to the beginning of the Regular Session,<sup>6</sup> Users<sup>7</sup> who wish to participate in the Opening Process may enter orders to buy or sell.<sup>8</sup> Subparagraph (a)(2) to Rule 11.7 provides that, with certain exceptions,<sup>9</sup> all orders with a time-in-force instruction of Regular Hours Only may participate in the Opening Process. Subparagraph (b) to Rule 11.7 states that the Exchange will open by performing the Opening Process in which the System will attempt to match buy and sell orders that are executable at the midpoint of the National Best Bid and Offer (“NBBO”). Subparagraph (c) to Exchange Rule 11.7 sets forth the process by which the System sets the opening price of the Opening Process. Currently, the System<sup>10</sup> sets the price of the first NBBO after 9:30:00 a.m. Eastern Time. However, for securities listed on either the New York Stock Exchange, Inc. (“NYSE”) or NYSE MKT LLC (“NYSE MKT”), the System currently sets the price of the Opening Process at the midpoint of the first NBBO subsequent to the first reported trade on the listing exchange after 9:30:00 a.m.

<sup>6</sup> See Exchange Rule 1.5(hh).

<sup>7</sup> See Exchange Rule 1.5(ee).

<sup>8</sup> Orders cancelled prior to the Opening Process will not participate in the Opening Process.

<sup>9</sup> The following order types and instruction may not participate in the opening process: (i) Limit Orders with a Post Only instruction, (ii) the Discretionary Range of Limit Orders, and (iv) Intermarket Sweep Orders (“ISOs”) not modified by Rule 11.7(a)(1), and (iii) orders with a Minimum Execution Quantity instruction. See Exchange Rule 11.7(a)(2). Orders that are designated for the Regular Session that cannot participate in the Opening Process will not be accepted by the System until the Opening Process is completed or a Contingent Opening. *Id.* Limit Orders with a Reserve Quantity may participate to the full extent of their displayed size and Reserve Quantity. *Id.* Limit Orders with a Discretionary Range may participate up to their ranked limit price for buy orders and down to their ranked limit price for sell orders. *Id.* All Limit Orders with a Pegged instruction will be eligible for execution in the Opening Process based on their pegged prices at the time the Opening Process is conducted. *Id.*

<sup>10</sup> See Exchange Rule 1.5(cc).

Eastern Time. The Exchange may alternatively set the price of the Opening Process for securities listed on either the NYSE or NYSE MKT at the midpoint of the then prevailing NBBO when the first two-sided quotation published by the relevant listing exchange after 9:30:00 a.m. Eastern Time, but before 9:45:00 a.m. Eastern Time if no first trade is reported by the listing exchange within one second of publication of the first two-sided quotation by the listing exchange. The System waits to set the price at the midpoint of the first NBBO as set forth above because securities listed on the NYSE or NYSE MKT may not open at precisely 9:30:00 a.m. Eastern Time.

Pursuant to subparagraph (b) of Rule 11.7, all orders executable at the midpoint of the NBBO will continue to be processed in time sequence, beginning with the order with the oldest time stamp and not in accordance with Exchange Rule 11.9(a)(2)(B), which outlines priority at the midpoint of the NBBO. Matches occur until there are no remaining contra-side orders or there is an imbalance of orders. An imbalance of orders may result in orders that cannot be executed in whole or in part. Any unexecuted orders may then be placed by the System on the EDGX Book,<sup>11</sup> cancelled, executed, or routed to away Trading Centers in accordance with the Users’ instructions pursuant to Exchange Rule 11.11.

The Exchange proposes to amend subparagraph (c) to Rule 11.7 to now await a two-sided quotation from the listing exchange prior to opening a security for trading during Regular Trading Hours. As amended, subparagraph (c)(2) to Rule 11.7 would state that the System would set the price of the Opening Process at the midpoint of the first NBBO subsequent to the first two-sided quotation published by the listing exchange after 9:30:00 a.m. Eastern Time. For securities listed on either the NYSE or NYSE MKT, subparagraph (c)(1)(i) to Rule 11.7 would state that the System would set the price of the Opening Process at the midpoint of the first NBBO subsequent to the first reported trade and first reported quotation on the listing exchange after 9:30:00 a.m. Eastern Time. Pursuant to subparagraph (c)(1)(i) to Rule 11.7, the Exchange will utilize the existing NBBO to calculate each securities’ [sic] opening price once a trade and two-sided quotation are received from the listing exchange, regardless of the order in which the

<sup>11</sup> The term “EDGX Book” is defined as “the System’s electronic file of orders.” See Exchange Rule 1.5(d).

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

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

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

<sup>4</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>5</sup> See Exchange Rule 1.5(y).

trade or quotation are received. The Exchange believes the proposed rule change will enable the listing market's quotation to be incorporated into the NBBO, which the Exchange would, in turn, utilize in its calculation of the midpoint of the NBBO. The Exchange believes doing so would result in an opening price that more closely reflect the opening market prices and conditions for that security. Under subparagraph (c)(1)(ii) to Rule 11.7, the Exchange will continue to alternatively set the price of the Opening Process for securities listed on either the NYSE or NYSE MKT at the midpoint of the then prevailing NBBO when the first two-sided quotation published by the relevant listing exchange after 9:30:00 a.m. Eastern Time, but before 9:45:00 a.m. Eastern Time if no first trade is reported by the listing exchange within one second of publication of the first two-sided quotation by the listing exchange.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>12</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>13</sup> in particular, in that it is designed 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 Exchange believes the proposed rule change will promote just and equitable principles of trade, removes impediments to, and perfect the mechanism of, a free and open market and a national market system because it enables the System to execute the Opening Process at a price that is objectively established by the market for the security. The proposal would enable the listing market's quotation to be incorporated into the NBBO, which the Exchange would, in turn, utilize in its calculation of the midpoint of the NBBO. The Exchange believes doing so would result in an opening price that more closely reflect the opening market prices and conditions for that security. Therefore, the Exchange believes the proposed rule change promotes just and equitable principles of trade because it ensures a midpoint price that the Exchange believes would accurately reflect the market for the security.

<sup>12</sup> 15 U.S.C. 78f(b).

<sup>13</sup> 15 U.S.C. 78f(b)(5).

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

The Exchange does not believe that the proposal will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The proposed rule change will enable the Exchange to incorporate the listing market's quotation into its calculation of the midpoint of the NBBO, resulting in an opening price that would more closely reflect the opening market prices and conditions for that security. Therefore, the Exchange believes the proposed rule change will promote competition by enhancing the quality of the Exchange's opening process.

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

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

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

Because the proposed rule change does not (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>14</sup> and Rule 19b-4(f)(6) thereunder.<sup>15</sup>

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act<sup>16</sup> normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)<sup>17</sup> permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay so that the proposal may become operative immediately upon filing. The Exchange states that waiver of the 30-day operative delay would allow market participants to immediately realize the benefits of what may be more accurate opening prices.

<sup>14</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>15</sup> 17 CFR 240.19b-4(f)(6). As required under Rule 19b-4(f)(6)(iii), the Exchange provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and the text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission.

<sup>16</sup> 17 CFR 240.19b-4(f)(6).

<sup>17</sup> 17 CFR 240.19b-4(f)(6)(iii).

Based on the foregoing, the Commission believes the waiver of the operative delay is consistent with the protection of investors and the public interest. Therefore, the Commission hereby waives the operative delay and designates the proposal operative upon filing.<sup>18</sup>

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. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule change should be approved or disapproved.

## IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

### Electronic Comments

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File No. SR-BatsEDGX-2016-19 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 No. SR-BatsEDGX-2016-19. 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

<sup>18</sup> For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

public in accordance with the provisions of 5 U.S.C. 552, will be available for Web site viewing and printing in the Commission's Public Reference Room, 100 F Street NE., Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File No. SR-BatsEDGX-2016-19, and should be submitted on or before June 22, 2016.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>19</sup>

**Brent J. Fields,**  
Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-77904; File No. SR-NYSEArca-2016-17]

### Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Amendment No. 3 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 3, to List and Trade of Shares of the JPMorgan Diversified Alternative ETF Under NYSE Arca Equities Rule 8.600

May 25, 2016.

#### I. Introduction

On February 5, 2016, NYSE Arca, Inc. ("Exchange") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act" or "Exchange Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to list and trade shares ("Shares") of the JPMorgan Diversified Alternative ETF ("Fund") under NYSE Arca Equities Rule 8.600. The Commission published notice of the proposed rule change in the **Federal Register** on February 25, 2016.<sup>3</sup> On April 4, 2016, the Exchange filed Amendment No. 1 to the proposed rule

change, which replaced the original filing in its entirety. Also on April 4, 2016, the Commission designated a longer period within which to approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to disapprove the proposed rule change.<sup>4</sup> On May 9, 2016, the Exchange filed Amendment No. 2 to the proposed rule change, which replaced Amendment No. 1 and the original filing in their entirety. On May 20, 2016, the Exchange filed Amendment No. 3 to the proposed rule change, which replaced Amendment No. 2 and the original filing in their entirety.<sup>5</sup> The Commission received no comments on the proposed rule change. The Commission is publishing this notice to solicit comment on Amendment No. 3 to the proposed rule change from interested persons, and is approving the proposed rule change, as modified by Amendment No. 3, on an accelerated basis.

<sup>4</sup> See Securities Exchange Act Release No. 77512 (April 4, 2016), 81 FR 20718 (April 8, 2016). The Commission determined that it was appropriate to designate a longer period within which to take action on the proposed rule change so that it has sufficient time to consider the proposed rule change. Accordingly, the Commission designated May 25, 2016 as the date by which it should approve, disapprove, or institute proceedings to determine whether to disapprove the proposed rule change.

<sup>5</sup> In Amendment No. 3, the Exchange modified the original proposed rule change by, among other things: (1) Changing certain permitted investments of the Fund; (2) representing that the Fund would not invest in inverse exchange-traded funds ("ETFs"); (3) describing where pricing information could be found for U.S. government mortgage backed securities; (4) representing that not more than 10% of the net assets of the Fund in the aggregate invested in equity securities (other than non-exchange-traded investment company securities) shall consist of equity securities whose principal market is not a member of the Intermarket Surveillance Group ("ISG") or is a market with which the Exchange does not have a comprehensive surveillance sharing agreement; and (5) representing that all statements and representations made in the filing regarding (a) the description of the portfolio, (b) limitations on portfolio holdings or reference assets, or (c) the applicability of Exchange rules and surveillance procedures shall constitute continued listing requirements for listing the Shares on the Exchange; (6) representing that, under normal market conditions, the Fund will invest at least 75% of its corporate debt securities in issuances that have at least \$100,000,000 par amount outstanding in developed countries or at least \$200,000,000 par amount outstanding in emerging market countries; and (7) modifying certain surveillance representations. All of the amendments to the proposed rule change, including Amendment No. 3, are available at: <http://www.sec.gov/comments/sr-nysearca-2016-17/nysearca201617.shtml>.

#### II. The Exchange's Description of the Proposal<sup>6</sup>

The Exchange proposes to list and trade the Shares under NYSE Arca Equities Rule 8.600, which governs the listing and trading of Managed Fund Shares on the Exchange. The Shares will be offered by the J.P. Morgan Exchange-Traded Fund 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.<sup>7</sup> J.P. Morgan Investment Management Inc. ("Adviser") will be the investment advisor to the Fund.<sup>8</sup> The Adviser is a wholly-owned subsidiary of JPMorgan Asset Management Holdings Inc., which is a wholly-owned subsidiary of JPMorgan Chase & Co., a bank holding company. JPMorgan Funds Management, Inc. will serve as the administrator ("Administrator"). SEI

<sup>6</sup> The Commission notes that additional information regarding the Fund, the Trust (as defined below), and the Shares, including investment strategies, risks, creation and redemption procedures, fees, portfolio holdings, disclosure policies, calculation of net asset value ("NAV"), distributions, and taxes, among other things, can be found in Amendment No. 3 and the Registration Statement, as applicable. See Amendment No. 3, supra note 5, and Registration Statement, *infra* note 7.

<sup>7</sup> The Trust is registered under the 1940 Act. On December 14, 2015, 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 Fund (File Nos. 333-192733 and 811-22917) ("Registration Statement"). The Trust filed an Application for an Order under Section 6(c) of the 1940 Act for exemptions from various provisions of the 1940 Act and rules thereunder (File No. 812-13761), initially filed March 10, 2010, and most recently amended on December 23, 2015 ("Exemptive Application"). The Exemptive Application was published for notice in IC Release No. 31956 on January 14, 2016. The Shares will not be listed on the Exchange until an order ("Exemptive Order") under the 1940 Act has been issued by the Commission with respect to the Exemptive Application. Investments made by the Fund will comply with the conditions set forth in the Exemptive Order.

<sup>8</sup> The Adviser is not a registered broker-dealer but is affiliated with a broker-dealer. The Adviser has implemented and will maintain a firewall with respect to its broker-dealer affiliate regarding access to information concerning the composition and/or changes to a portfolio and will be subject to procedures designed to prevent the use and dissemination of material non-public information regarding such portfolio. In the event (a) the Adviser becomes registered as a broker-dealer or newly affiliated with a broker-dealer or (b) any new adviser or sub-adviser is a broker-dealer or becomes affiliated with a broker-dealer, it will implement a fire wall with respect to its personnel or 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.

<sup>19</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. 77179 (February 19, 2016), 81 FR 9521 ("Notice").