

submissions should refer to File Number SR–CboeBZX–2019–102, and should be submitted on or before March 18, 2020.

V. Accelerated Approval of Proposed Rule Change, as Modified by Amendment No. 3

The Commission finds good cause to approve the proposed rule change, as modified by Amendment No. 3, prior to the thirtieth day after the date of publication of notice of the filing of Amendment No. 3 in the **Federal Register**. In Amendment No. 3, the Exchange modified the description of the Fund's investments and conformed the description of BZX Rule 14.11(k) to the final rule approved in the Managed Portfolio Shares Order. Amendment No. 3 also provides other clarifications and additional information to the proposed rule change.⁴⁴ The changes and additional information in Amendment No. 3 assist the Commission in finding that the proposal is consistent with the Exchange Act. Accordingly, the Commission finds good cause, pursuant to Section 19(b)(2) of the Exchange Act,⁴⁵ to approve the proposed rule change, as modified by Amendment No. 3, on an accelerated basis.

VI. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act⁴⁶ that the proposed rule change (SR–CboeBZX–2019–102), as modified by Amendment No. 3, be, and hereby is, approved on an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁴⁷

Jill M. Peterson,

Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–88255; File No. SR–NYSEArca–2019–60]

Self-Regulatory Organizations; NYSE Arca, Inc.; Notice of Filing of Amendment No. 4 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 4, To List and Trade Shares of the KFA Global Carbon ETF Under NYSE Arca Rule 8.600–E

February 20, 2020.

On August 14, 2019, 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”) ¹ and Rule 19b–4 thereunder,² a proposed rule change to list and trade shares (“Shares”) of the KFA Global Carbon ETF (“Fund”) under NYSE Arca Rule 8.600–E, which governs the listing and trading of Managed Fund Shares on the Exchange. The proposed rule change was published for comment in the **Federal Register** on August 29, 2019.³ On September 12, 2019, the Exchange filed Amendment No. 1 to the proposed rule change, which replaced and superseded the proposed rule change as originally filed.⁴ On October 10, 2019, pursuant to Section 19(b)(2) of the Exchange Act,⁵ the Commission designated a longer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.⁶ On October 22, 2019, the Exchange filed Amendment No. 2 to the proposed rule change, which replaced and superseded the proposed rule change, as modified by Amendment No. 1.⁷ On November 22, 2019, the Commission published notice of Amendment No. 2 and instituted proceedings under Section 19(b)(2)(B) of the Act ⁸ to determine

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b–4.

³ See Securities Exchange Act Release No. 86752 (Aug. 23, 2019), 84 FR 45557.

⁴ Amendment No. 1 is available on the Commission's website at: <https://www.sec.gov/comments/sr-nysearca-2019-60/srnysearca201960-6117868-192147.pdf>.

⁵ 15 U.S.C. 78s(b)(2).

⁶ See Securities Exchange Act Release No. 87277, 84 FR 55658 (Oct. 17, 2019). The Commission designated November 27, 2019, as the date by which the Commission shall approve or disapprove, or institute proceedings to determine whether to disapprove, the proposed rule change.

⁷ Amendment No. 2 is available on the Commission's website at: <https://www.sec.gov/comments/sr-nysearca-2019-60/srnysearca201960-6324054-194703.pdf>.

⁸ 15 U.S.C. 78s(b)(2)(B).

whether to approve or disapprove the proposed rule change.⁹ On December 16, 2019, the Exchange filed Amendment No. 3 to the proposed rule change, which replaced and superseded the proposed rule change, as modified by Amendment No. 2.¹⁰ On December 19, 2019, the Exchange filed Amendment No. 4 to the proposed rule change, which replaced and superseded the proposed rule change, as modified by Amendment No. 3.¹¹ The Commission has received no comment letters on the proposal. The Commission is publishing this notice to solicit comments on Amendment No. 4 from interested persons, and is approving the proposed rule change, as modified by Amendment No. 4, on an accelerated basis.

I. The Exchange's Description of the Proposed Rule Change, as Modified by Amendment No. 4

The Exchange proposes to list and trade shares of the KFA Global Carbon ETF under NYSE Arca Rule 8.600–E (“Managed Fund Shares”). This Amendment No. 4 to SR–NYSEArca–2019–60 replaces SR–NYSEArca–2019–60 as originally filed and Amendments 1, 2 and 3 thereto and supersedes such filings in their entirety. The proposed change is available on the Exchange's website 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.

⁹ See Securities Exchange Act Release No. 87589, 84 FR 65862 (Nov. 29, 2019).

¹⁰ Amendment No. 3 is available on the Commission's website at: <https://www.sec.gov/comments/sr-nysearca-2019-60/srnysearca201960-6555837-200935.pdf>.

¹¹ Amendment No. 4 is available on the Commission's website at: <https://www.sec.gov/comments/sr-nysearca-2019-60/srnysearca201960-6567293-201062.pdf>.

⁴⁴ See Amendment No. 3, *supra* note 9.

⁴⁵ 15 U.S.C. 78s(b)(2).

⁴⁶ 15 U.S.C. 78s(b)(2).

⁴⁷ 17 CFR 200.30–3(a)(12).

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 KFA Global Carbon ETF ("Fund") under NYSE Arca Rule 8.600-E, which governs the listing and trading of Managed Fund Shares¹² on the Exchange. The Fund will be an actively managed exchange-traded fund.

The Shares will be offered by KraneShares Trust (the "Trust"), which was established as a Delaware statutory trust on February 3, 2012. The Trust is registered with the Securities and Exchange Commission ("SEC" or "Commission") as an open-end management investment company.¹³

Krane Funds Advisors, LLC ("Krane" or "Adviser") will serve as the investment adviser to the Fund. Climate Finance Partners LLC ("Sub-Adviser") will serve as the non-discretionary investment sub-adviser to the Fund. SEI Investments Global Funds Services ("Administrator") will serve as administrator for the Fund.

SEI Investments Distribution Co. ("Distributor"), an affiliate of the Administrator, will serve as the Fund's distributor. Brown Brothers Harriman & Co. ("BBH") will serve as custodian and transfer agent for the Fund.

Commentary .06 to Rule 8.600-E 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 and maintain 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.¹⁴ 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. The Adviser and Sub-Adviser are not registered as broker-dealers, but the Adviser is affiliated with a broker-dealer, and has implemented and will maintain a fire wall with respect to its broker-dealer affiliate regarding access to information concerning the composition and/or changes to the portfolio. The Sub-Adviser is not affiliated with a broker-dealer. In the event (a) the Adviser or Sub-Adviser becomes registered as a 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 and maintain 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 portfolio, and will be subject to procedures designed to prevent the use and dissemination of material non-public information regarding such portfolio.

KFA Global Carbon ETF
Principal Investments

According to the Registration Statement, the Fund will seek to provide a total return that, before fees

and expenses, exceeds that of the IHS Markit Global Carbon Index (the "Index") over a complete market cycle. The Index is designed to track the performance of liquid carbon credit futures contracts maturing within the next two calendar years.

More specifically, the Index is designed to track, and the Fund and the Fund's Subsidiary (as defined below), under normal market conditions,¹⁵ intend to invest primarily in, liquid carbon credit futures contracts issued under the European Union Allowance (EUA), California Carbon Allowance (CCA), and Regional Greenhouse Gas Initiative (RGGI) regimes, and maturing within the next one to two calendar years. EUA futures are currently traded principally on ICE Futures Europe, and CCA futures and RGGI futures are currently traded principally on ICE Futures US. ICE Futures Europe, ICE Futures US and CME are members of the Intermarket Surveillance Group ("ISG"). As the global carbon credit market grows, as discussed below, additional liquid carbon credit contracts may enter the Index that are not issued under the EUA, CCA and RGGI regimes, and the Fund may invest in these additional carbon credit contracts. Any additional carbon credit futures contracts that enter the Index will have an average monthly trading volume for the six month look-back period prior to the annual rebalancing date that is a minimum of \$10,000,000 as of November 30th of a given year, and will be traded on exchanges that are members of the ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement. These additional liquid carbon credit contracts that may enter the Index in the future and the current liquid carbon credit contracts in the Index are referred to herein as "Carbon Credit Futures." The Fund and the Subsidiary may invest in these additional Carbon Credit Futures; however, as noted above, the Fund and the Subsidiary, under normal market conditions, will primarily invest in carbon credit futures contracts issued under the EUA, CCA and RGGI regimes.

According to the Registration Statement, although the Fund will seek to maintain exposure to Carbon Credit Futures that are the same as those included in the Index, the Fund and the Subsidiary will be actively managed and will not be required to replicate the performance of the Index or to invest in the specific instruments in the Index. For example, while the Fund may hold the same Carbon Credit Futures that are

¹² 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 Rule 5.2-E(j)(3), seeks to provide investment results that correspond generally to the price and yield performance of a specific foreign or domestic stock index, fixed income securities index or combination thereof.

¹³ The Trust is registered under the 1940 Act. On June 11, 2019, the Trust filed with the Commission its registration statement on Form N-1A under the Securities Act of 1933 (15 U.S.C. 77a), and under the 1940 Act relating to the Fund (File Nos. 333-180870 and 811-22698) ("Registration Statement"). The description of the operation of the Trust and the Fund herein is based, in part, on the Registration Statement. In addition, the Commission has issued an order upon which the Trust may rely, granting certain exemptive relief under the 1940 Act. See Investment Company Act Release No. 32455 (January 27, 2017) (File No. 812-14675).

¹⁴ 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 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.

¹⁵ The term "normal market conditions" is defined in NYSE Arca Rule 8.600-E(c)(5).

included in the Index, the Fund also may hold liquid carbon credit futures issued under the carbon credit regimes included in the Index but which are not currently included in the Index solely because they have different maturity dates (“Non-Index Futures”) (collectively, Carbon Credit Futures and Non-Index Futures are “Carbon Futures”), or hold different weightings of Carbon Credit Futures than the Index.

As of the last annual rebalancing date, November 30, 2019, the weighting of Carbon Credit Futures in the Index was, and the weighting of Carbon Credit Futures in the Fund (including the Subsidiary (as defined below)) would have been, as follows:

- European Union Allowance (EUA)—65%
- California Carbon Allowance (CCA)—25%
- Regional Greenhouse Gas Initiative (RGGI)—10%

Although, as described in more detail below, the Carbon Credit Futures in the Index are physically settled futures contracts, the Adviser does not anticipate that the Fund will hold Carbon Futures until expiry or take or make delivery of any physical commodities. Instead, the Adviser expects to roll each Carbon Future contract in the Fund’s (or Subsidiary’s (as defined below)) portfolio approximately two weeks prior to expiry. Thus, the Adviser expects to sell near to expiry Carbon Futures and reinvest the proceeds in new Carbon Futures to achieve the Fund’s investment objective.

Other Investments

While the Fund, under normal market conditions, will invest primarily in Carbon Futures referenced above, the Fund may hold other securities and financial instruments, as described below.

Other than investing in Carbon Futures, the Fund, in seeking to achieve its investment objective, may invest up to 10% of its net assets in futures contracts that are not Carbon Futures, including interest rate futures and currency futures, and options on either Carbon Futures or other types of futures, including interest rate futures and currency futures.

The Fund may hold cash and cash equivalents.¹⁶

The Fund will seek to exceed the performance of the Index through the active management of a portfolio of debt instruments (other than cash

¹⁶ For purposes of this filing, cash equivalents include the securities included in Commentary .01(c) to NYSE Arca Rule 8.600–E.

equivalents). Such debt instruments in which the Fund intends to invest are government securities and corporate or other non-government fixed-income securities with maturities of up to 12 months.

The fixed income securities in which the Fund invests will comply with the generic listing requirements of Commentary .01(b) to Rule 8.600–E.

The Fund may invest in exchange-traded funds (“ETFs”)¹⁷ and exchange-traded notes (“ETNs”).¹⁸

The Fund may hold investment company securities (including ETFs), consistent with the requirements of Section 12(d)(1) of the 1940 Act.

The Fund may invest up to 25% of its assets in a wholly-owned subsidiary (the “Subsidiary”). The Fund will utilize the Subsidiary for purposes of investing in the Carbon Futures and other futures contracts and options on futures contracts. The Subsidiary is a corporation operating under Cayman Islands law that is wholly-owned and controlled by the Fund. The Subsidiary is advised by the Adviser and sub-advised by the Sub-Adviser. The Subsidiary has the same investment objective as the Fund and will follow the same investment policies and restrictions as the Fund. Accordingly, the Subsidiary will only invest in the same instruments as the Fund may invest in, as discussed herein, including Carbon Futures, other futures contracts and options on futures contracts, and cash and cash equivalents as margin or collateral with respect to its Carbon Futures and other futures contracts and options on futures contracts investments.

The Fund will conduct foreign currency exchange transactions to the extent necessary to purchase Carbon Futures and convert proceeds of sales of Carbon Futures into U.S. Dollars. The Fund will conduct such foreign currency transactions either on a spot (*i.e.*, cash) basis at the spot rate prevailing in the foreign currency exchange market, or through forwards

¹⁷ For purposes of this filing, “ETFs” are Investment Company Units (as described in NYSE Arca Rule 5.2–E(j)(3)); Portfolio Depositary Receipts (as described in NYSE Arca Rule 8.100–E); and Managed Fund Shares (as described in NYSE Arca Rule 8.600–E). All ETFs will be listed and traded in the U.S. on a national securities exchange. While the Fund may invest in inverse ETFs, the Fund will not invest in leveraged (*e.g.*, 2X, –2X, 3X or –3X) ETFs.

¹⁸ ETNs are securities as described in NYSE Arca Rule 5.2–E(j)(6) (Equity Index-Linked Securities, Commodity-Linked Securities, Currency-Linked Securities, Fixed Income Index-Linked Securities, Futures-Linked Securities and Multifactor Index-Linked Securities). While the Fund may invest in inverse ETNs, the Fund will not invest in leveraged (*e.g.*, 2X, –2X, 3X or –3X) ETNs.

and U.S. exchange-traded futures on foreign currencies.

The Exchange submits this proposal in order to allow the Fund to hold listed derivatives, in particular Carbon Futures, in a manner that does not comply with Commentary .01(d)(2) to Rule 8.600–E, as described below. While the Fund may invest up to 10% of its net assets in futures contracts that are not Carbon Futures and options on either Carbon Futures or other types of futures, these investments will comply with Commentary .01(d)(2) to Rule 8.600–E. Otherwise, the Fund will comply with all other listing requirements of Commentary .01 to NYSE Arca Rule 8.600–E on an initial and continued listing basis.

Description of the Index

According to the Registration Statement, the Index utilizes a rules-based methodology and is designed to track a portfolio of liquid, accessible carbon credit futures contracts with “physical delivery” of emission allowances issued under “cap and trade” regimes.¹⁹

The Index is provided by Markit Indices GmbH (the “Index Provider”), a wholly-owned subsidiary of IHS Markit Ltd. The Index Provider is not affiliated with the Fund or Krane.²⁰ The Index Provider determines the components and the relative weightings of the components in the Index. The Index Provider may consult with the IHS Markit Global Carbon Index Advisory Committee to review potential changes to the Index rules and methodology. Any decision as to the eligibility or ineligibility of a Carbon Credit Future will be published and the Index rules

¹⁹ According to the Registration Statement, in a typical “cap and trade” regime, a limit (or “cap”) is set by a regulator, such as a government entity or supranational organization, on the total amount of specific greenhouse gases (“GHG”), such as CO₂, that can be emitted by regulated entities, such as manufacturers or energy producers. The regulator then may issue or sell individual “emission allowances” to regulated entities. These emission allowances are issued by the regulator to regulated entities, which may then buy or sell (“trade”) the emission allowances on the open market. The regulator may gradually reduce the market cap on emission allowances, thereby increasing the value of such allowances and forcing regulated entities to reduce their GHG emissions. A cap on emission allowances available to the market supports the value of those allowances and is intended to incentivize regulated entities to reduce their GHG emissions, because they are permitted to sell unneeded emission allowances for profit. Commodity futures contracts linked to the value of emission allowances are known as carbon credit futures.

²⁰ The Index Provider is not a broker-dealer or affiliated with a broker-dealer and has implemented and will maintain procedures designed to prevent the use and dissemination of material, nonpublic information regarding the Index.

will be updated accordingly. Additional information about the Index is available on the Index Provider's website, www.ihsmarkit.com.

As of July 31, 2019, eligible components of the Index include emission allowances issued under the European Union Emissions Trading System (EUA),²¹ California Carbon Allowance (CCA)²² and Regional Greenhouse Gas Initiative (RGGI)²³ "cap and trade" regimes. As the global carbon credit market grows, additional liquid carbon credit futures contracts may enter the Index that are not issued under the EUA, CCA and RGGI regimes. Any additional carbon credit futures contracts that enter the Index will have an average monthly trading volume for the six month look-back period prior to the annual rebalancing date that is a minimum of \$10,000,000 as of November 30th of a given year, and will be traded on exchanges that are members of the ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement. The Fund and the Subsidiary may invest in these additional Carbon Credit Futures. However, the Fund and the Subsidiary, under normal market conditions, will invest primarily in carbon credit futures issued under the EUA, CCA, and RGGI regimes.

The Fund's holdings in listed derivatives, including Carbon Futures, will comply with the requirements of Commentary .01(d)(1) to Rule 8.600–E.²⁴

²¹ The EUA allowance is based on the ICE Futures ECX CFI Carbon Financial Instrument Futures Contract ("ECX CFI Futures"). ECX CFI Futures are standardized contracts developed by the European Climate Exchange ("ECX"). They are standardized contractual instruments for futures on deliverable carbon equivalent emissions allowances issued under the European Union Emissions Trading Scheme ("EU ETS"), which are listed and admitted to trading on ICE Futures Europe and the European Energy Exchange (EEX).

²² CCA—CBL California Carbon Allowance Futures Contracts ("California Contracts") are listed and traded on ICE Futures U.S and CME Globex (operated by CME Group, Inc. ("CME")). The California Contracts allow for trading of physically delivered greenhouse gas emissions allowances. Each California Contract is an allowance issued by the California Air Resources Board (or a linked program) to emit one metric ton of CO₂ equivalent under California Assembly Bill 32 "California Global Warming Solutions Act of 2006" and its associated regulations, rules and amendments (collectively the "California Cap and Trade Program").

²³ RGGI—Regional Greenhouse Gas Initiative Futures are traded on ICE Futures U.S. They are monthly physically delivered contracts on RGGI CO₂ allowances.

²⁴ Commentary .01(d)(1) to Rule 8.600–E provides that, with respect to a fund's holdings in listed derivatives, in the aggregate, at least 90% of the weight of such holdings invested in futures, exchange-traded options, and listed swaps shall, on both an initial and continuing basis, consist of

The Adviser represents that, as of November 30, 2019, the initial universe and weighting of Carbon Credit Futures in the Index was as follows:

Regional Component—Europe, Middle East and Africa

- European Union Allowance (EUA)—65%

Regional Component—Americas

- California Carbon Allowance (CCA)—25%
- Regional Greenhouse Gas Initiative (RGGI)—10%

The Adviser further represents that the Index allocated each of the EUA and CCA allowances to two Carbon Credit Futures with different expiration dates. Accordingly, according to the Adviser, the Fund's allocations to EUA and CCA Carbon Credit Futures, on a continuous basis, would similarly be to at least four different contracts (e.g., two different contracts each with two different expiry dates).

The Commodities Futures Trading Commission (the "CFTC") has adopted certain requirements that subject registered investment companies and their advisers to regulation by the CFTC if a registered investment company invests more than a prescribed level of its net assets in CFTC-regulated futures, options and swaps, or if a registered investment company markets itself as providing investment exposure to such instruments. Due to the Fund's intended use of CFTC-regulated futures above the prescribed levels, it will be a "commodity pool" under the Commodity Exchange Act.

The Index is calculated on each full Securities Industry and Financial Markets Association (SIFMA) recommended U.S. trading day and the last calendar day of November. To convert the value of foreign carbon credit futures contracts to U.S. dollars, the Index utilizes foreign exchange spot rates from WM Reuters, using foreign exchange rates as of 4:00 p.m. London time for any day the Index is calculated. The Index was launched on July 25, 2019 with a base date of July 31, 2014 and a base value of 100. As of the most recent rebalancing date of November 30, 2018, the Index included five futures contracts with market capitalizations ranging from a minimum of \$506

futures, options, and swaps for which the Exchange may obtain information via the ISG from other members or affiliates of the ISG or for which the principal market is a market with which the Exchange has a comprehensive surveillance sharing agreement. (For purposes of calculating this limitation, a portfolio's investment in listed derivatives will be calculated as the aggregate gross notional value of the listed derivatives).

million for the RGGI program to a maximum of \$29.463 billion for the EUA program. The average market capitalization of the futures of these programs was \$10.916 billion. The largest Regional Components in the Index were Europe and the Americas (EUA (65%), CCA (25%) and RGGI (10%)).²⁵

Other Restrictions

The Fund's and the Subsidiary's investments, including derivatives, will be consistent with the Fund's investment objective and will not be used to seek performance that is the multiple or inverse multiple (e.g., 2X or –3X) of the Index.

Use of Derivatives by the Fund

Investments in derivative instruments will be made in accordance with the Fund's investment objective and policies.

To limit the potential risk associated with such transactions, the Fund will enter into offsetting transactions or segregate or " earmark " assets determined to be liquid by the Adviser in accordance with procedures established by the Trust's Board of Trustees (the "Board"). In addition, the Fund has included appropriate risk disclosure in its offering documents, including leveraging risk. Leveraging risk is the risk that certain transactions of the Fund, including the Fund's use of derivatives, may give rise to leverage, causing the Fund to be more volatile than if it had not been leveraged.

Impact on Arbitrage Mechanism

The Adviser believes there will be minimal, if any, impact to the arbitrage mechanism as a result of the Fund's use of derivatives. The Adviser understands that market makers and participants should be able to value derivatives as long as the positions are disclosed with relevant information. The Adviser believes that the price at which Shares of the Fund trade will continue to be disciplined by arbitrage opportunities created by the ability to purchase or redeem Shares of the Fund at their net asset value ("NAV"), which should ensure that Shares of the Fund will not trade at a material discount or premium in relation to their NAV.

The Adviser does not believe there will be any significant impacts to the settlement or operational aspects of the Fund's arbitrage mechanism due to the use of derivatives.

²⁵ Sources: Intercontinental Exchange (<https://data.theice.com>) and IHS Markit OPIS (<https://indices.ihsmarkit.com/Carbonindex>).

Creation and Redemption of Shares

According to the Registration Statement, the Trust will issue and redeem Shares of the Fund only in “Creation Units” on a continuous basis through the Distributor at the NAV next determined after receipt, on any Business Day (as defined below), of an order in proper form. A “Business Day”, as used herein, is any day on which the New York Stock Exchange (“NYSE”) is open for business. A Creation Unit is 50,000 Shares. The size of a Creation Unit is subject to change. Creation Units may be purchased and redeemed only by or through a Depository Trust Company (“DTC”) Participant that has entered into an Authorized Participant Agreement with the Distributor (an “Authorized Participant”).

Purchases of Creation Units

The consideration for the purchase of Creation Units of the Fund will consist of an in-kind deposit of a designated portfolio of securities (or cash for all or any portion of such securities (“Deposit Cash”)) (collectively, the “Deposit Securities”) and the Cash Component, which is an amount equal to the difference between the aggregate NAV of a Creation Unit and the Deposit Securities. Together, the Deposit Securities and the Cash Component constitute the “Fund Deposit.”

The Custodian or the Administrator makes available through the National Securities Clearing Corporation (“NSCC”) on each Business Day, prior to the opening of the Exchange’s Core Trading Session (normally 9:30 a.m., Eastern time (“E.T.”)), the list of names and the required number of shares of each Deposit Security and Deposit Cash, as applicable, and the estimated amount of the Cash Component to be included in the current Fund Deposit. Such Fund Deposit is applicable, subject to any adjustments as described below, in order to effect purchases of Creation Units of the Fund until such time as the next-announced Fund Deposit is made available.

The Trust reserves the right to permit or require the substitution of an amount of cash to replace any Deposit Security under specified circumstances.

Cash purchases of Creation Units will be effected in essentially the same manner as in-kind purchases. The Authorized Participant will pay the cash equivalent of the Deposit Securities as Deposit Cash plus or minus the same Cash Component.

Placement of Purchase Orders

To initiate an order for a Creation Unit, an Authorized Participant must

submit to the Distributor an irrevocable order in proper form to purchase Shares of the Fund on a Business Day generally before the time as of which that day’s NAV is calculated. For a purchase order to be processed based on the NAV calculated on a particular Business Day, the purchase order must be received in proper form and accepted by the Trust prior to the time as of which the NAV is calculated (“Cutoff Time”).

Redemptions of Creation Units

The consideration paid by the Fund for the redemption of Creation Units consists of an in-kind basket of a designated portfolio of securities (or cash for all or any portion of such securities (“Redemption Cash”)) (collectively, the “Fund Securities”) and the Cash Component, which is an amount equal to the difference between the aggregate NAV of a Creation Unit and the Fund Securities. Together, the Fund Securities and the Cash Component constitute the “Fund Redemption.”

The Custodian or the Administrator will make available through NSCC on each Business Day, prior to the opening of the Exchange’s Core Trading Session, the list of names and the number of shares of each Fund Security and Redemption Cash, as applicable, and the estimated amount of the Cash Component to be included in the current Fund Redemption. Such Fund Redemption will be applicable, subject to any adjustments as described below, for redemptions of Creation Units of the Fund until such time as the next-announced Fund Redemption is made available. The delivery of Fund Shares will be settled through the DTC system.

The identity and number of shares of the Fund Securities change pursuant to, among other matters, changes in the composition of the Fund’s portfolio and as rebalancing adjustments and corporate action events are reflected from time to time. The composition of the Fund Securities may not be the same as the Deposit Securities.

The Trust reserves the right to permit or require the substitution of an amount of cash to replace any Redemption Security under circumstances specified in the Registration Statement.

Cash redemptions of Creation Units will be effected in essentially the same manner as in-kind redemptions. The Authorized Participant will receive the cash equivalent of the Fund Securities as Redemption Cash plus or minus the same Cash Component.²⁶

²⁶ The Adviser represents that, to the extent the Trust effects the creation or redemption of Shares wholly or partially in cash, such transactions will

Placement of Redemption Orders

To initiate a redemption order for a Creation Unit, an Authorized Participant must submit to the Distributor an irrevocable order in proper form to redeem Shares of the Fund on a Business Day generally before the time as of which that day’s NAV is calculated. For a redemption order to be processed based on the NAV calculated on a particular Business Day, the order must be received in proper form and accepted by the Trust prior to the time as of which the NAV is calculated (“Cutoff Time”). A redemption request, if accepted by the Trust, will be processed based on the NAV as of the next Cutoff Time.

Application of Generic Listing Requirements

The Exchange is submitting this proposed rule change because the portfolio for the Fund will not meet all of the “generic” listing requirements of Commentary .01 to NYSE Arca Rule 8.600–E applicable to the listing of Managed Fund Shares. Specifically, the Fund’s portfolio will meet all such requirements except for those set forth in Commentary .01(a)(1) with respect to the Fund’s investments in non-exchange-traded investment company securities and Commentary .01(d)(2) with respect to the Fund’s and the Subsidiary’s Investments in Carbon Futures.²⁷

In order to achieve its investment objective, under normal market conditions, the aggregate gross notional value of Carbon Futures may, in certain circumstances, approach 100% of the Fund (including gross notional values). As noted above, Commentary .01(d)(2) to Rule 8.600–E prohibits the Fund from holding listed derivatives based on any five or fewer underlying reference assets in excess of 65% of the weight of the portfolio (including gross notional exposures), and the aggregate gross notional value of listed derivatives based on any single underlying reference asset shall not exceed 30% of the weight of the portfolio (including gross notional exposures). The Exchange is proposing to allow the Fund to hold up to 100% of the weight of its portfolio

be effected in the same manner for all Authorized Participants.

²⁷ Commentary .01(d)(2) to Rule 8.600–E provides that, with respect to a fund’s portfolio, the aggregate gross notional value of listed derivatives based on any five or fewer underlying reference assets shall not exceed 65% of the weight of the portfolio (including gross notional exposures), and the aggregate gross notional value of listed derivatives based on any single underlying reference asset shall not exceed 30% of the weight of the portfolio (including gross notional exposures).

(as measured by gross notional exposures) in Carbon Futures.

As discussed below, although the Fund will concentrate its holdings in listed derivatives that are based on a smaller number of reference assets than allowed under Commentary .01(d)(2), the Exchange believes that sufficient protections are in place to protect against market manipulation of the Shares and Carbon Futures and otherwise satisfy the purposes of Rule 8.600–E. The Exchange believes that Carbon Futures are not subject to the concentration risk that the rule is intended to address because of the liquidity of such futures.²⁸ The Exchange notes that the exchange markets for Carbon Futures are highly liquid, and therefore believes that trading in such futures is not readily susceptible to manipulation. In addition, at least 90% of the weight of listed derivatives utilized by the Fund would be traded on exchanges that are members of the ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement, and Carbon Futures are currently traded on ISG markets.²⁹

²⁸The Adviser represents that these are currently the largest and most liquid futures markets on carbon offset credits: (1) Carbon credit futures on EUA: 1,269,401,000 contracts with open interest at a price of \$23.21 as of November 30, 2018 translating to a \$29.463 billion market capitalization. In addition, the average annual trading volume as of that date was \$98.856 billion (with approximately \$89 billion consisting of carbon credit futures with December expirations); (2) carbon credit futures on CCA: 178,800,000 contracts with open interest at a price of \$15.55 as of November 30, 2018 translates to a \$2.780 billion market capitalization. In addition, the average annual trading volume as of that date was \$2.39 billion (with approximately \$1.25 billion consisting of carbon credit futures with December expirations); and (3) carbon credit futures on RGGIs: 94,000,000 contracts with open interest at a price of \$5.38 as of November 30, 2018 translates to a \$506 million market capitalization. In addition, the average annual trading volume as of that date was \$250 million (with approximately \$182.9 million consisting of carbon credit futures with December expirations). Source: (<https://www.theice.com/microsite/usenvironmentalmonthlymarketreport>).

²⁹The Exchange notes that the Commission has approved proposed rule changes by a national securities exchange to list and trade series of Managed Fund Shares that may hold listed derivatives on underlying reference assets that may not comply with provisions similar to those in Commentary .01(d)(2) to Rule 8.600–E. See, e.g., Securities Exchange Act Release Nos. 80529 (April 26, 2017), 82 FR 20506 (May 2, 2017) (SR–BatsBZX–2017–14) (Order Granting Approval of a Proposed Rule Change to List and Trade Shares of the Amplify YieldShares Oil Hedged MLP Fund under BZX Rule 14.11(i)); 82906 (March 20, 2018), 83 FR 12992 (March 26, 2018) (SR–CboeBZX–2017–012) (Order Approving a Proposed Rule Change, as Modified by Amendment No. 2, to List and Trade Shares of the LHA Market State[®] Tactical U.S. Equity ETF under Rule 14.11(i)); 83014 (April 9, 2018), 83 FR 16150 (April 13, 2018) (SR–CboeBZX–2017–023) (Notice of Filing of Amendment No. 2 and Order Granting Accelerated Approval of a

The Exchange notes that the Commission has previously approved listing and trading on the Exchange under NYSE Arca Rule 8.204–E (Commodity Futures Trust Shares) of a trust with the investment objective of providing investment results that correspond generally to the performance of a basket of exchange-traded futures contracts for carbon equivalent emissions allowances issued under the European Union Emissions Trading Scheme (“EU ETS”).³⁰

The Fund may invest in shares of investment company securities (other than ETFs), which are equity securities. Therefore, to the extent the Fund invests in shares of other non-exchange-traded open-end management investment company securities, the Fund will not comply with the requirements of Commentary .01(a)(1)(A) through (E) to NYSE Arca Rule 8.600–E (U.S. Component Stocks) with respect to its equity securities holdings.³¹

Proposed Rule Change, as Modified by Amendment No. 2, to List and Trade Shares of the iShares Gold Strategy ETF Under Exchange Rule 14.11(i); 83146 (May 1, 2018), 83 FR 20103 (May 7, 2018) (SR–CboeBZX–2018–029) (Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Allow the Horizons Cadence Hedged US Dividend Yield ETF, a Series of the Horizons ETF Trust I, to Hold Listed Options Contracts in a Manner that Does Not Comply with Rule 14.11(i), Managed Fund Shares). See also, Securities Exchange Act Release No. 85701 (April 22, 2019), 84 FR 17902 (April 26, 2019) (SR–CboeBZX–2019–016) (Notice of Filing of Amendment No. 1 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 1, to Allow the JPMorgan Core Plus Bond ETF of the J.P. Morgan Exchange-Traded Fund Trust to Hold Certain Instruments in a Manner that May Not Comply with Rule 14.11(i), Managed Fund Shares).

³⁰See Securities Exchange Act Release No. 57838, (May 20, 2008), 73 FR 30649 (May 28, 2008) (SR–NYSEArca–2008–09) (Order Granting Approval of Proposed Rule Change, as Modified by Amendment Nos. 1 and 2 Thereto, Relating to the Listing and Trading of Shares of the AirShares EU Carbon Allowances Fund) (“AirShares Order”). The EU ETS is a “cap and trade” emissions trading program instituted by the European Union, in furtherance of the joint commitment of its member states under the Kyoto Protocol to achieve certain reductions in their emissions of greenhouse gases. The net assets of the AirShares EU Carbon Allowances Fund were to consist of long positions in ICE Futures ECX Carbon Financial Instrument Futures Contracts consisting of standardized contractual instruments for futures on deliverable EUAs issued under the EU ETS and developed by the European Climate Exchange. The Adviser represents that the European Union Emissions Trading System (EUA) referenced above is the same as the EU ETS referenced in the AirShares Order.

³¹Commentary .01(a) to Rule 8.600–E specifies the equity securities accommodated by the generic criteria in Commentary .01(a), namely, U.S. Component Stocks (as described in Rule 5.2–E(j)(3)) and Non-U.S. Component Stocks (as described in Rule 5.2–E(j)(3)). Commentary .01(a)(1) to Rule 8.600–E (U.S. Component Stocks) provides that the component stocks of the equity portion of a portfolio that are U.S. Component Stocks shall meet the following criteria initially and on a continuing basis: (A) Component stocks (excluding Derivative

However, it is appropriate and in the public interest to approve listing and trading of Shares of the Fund notwithstanding that the Fund’s holdings in such securities would not meet the requirements of Commentary .01(a)(1)(A) through (E) to Rule 8.600–E. Investments in other non-exchange-traded open-end management investment company securities will not exceed 20% of the total assets of the Fund. Such investments, which may include mutual funds that invest, for example, principally in fixed income securities, would be utilized to help the Fund meet its investment objective and to equitize cash in the short term. The Fund will invest in such securities only to the extent that those investments would be consistent with the requirements of Section 12(d)(1) of the 1940 Act and the rules thereunder.³²

Securities Products and Index-Linked Securities) that in the aggregate account for at least 90% of the equity weight of the portfolio (excluding such Derivative Securities Products and Index-Linked Securities) each shall have a minimum market value of at least \$75 million; (B) Component stocks (excluding Derivative Securities Products and Index-Linked Securities) that in the aggregate account for at least 70% of the equity weight of the portfolio (excluding such Derivative Securities Products and Index-Linked Securities) each shall have a minimum monthly trading volume of 250,000 shares, or minimum notional volume traded per month of \$25,000,000, averaged over the last six months; (C) The most heavily weighted component stock (excluding Derivative Securities Products and Index-Linked Securities) shall not exceed 30% of the equity weight of the portfolio, and, to the extent applicable, the five most heavily weighted component stocks (excluding Derivative Securities Products and Index-Linked Securities) shall not exceed 65% of the equity weight of the portfolio; (D) Where the equity portion of the portfolio does not include Non-U.S. Component Stocks, the equity portion of the portfolio shall include a minimum of 13 component stocks; provided, however, that there shall be no minimum number of component stocks if (i) one or more series of Derivative Securities Products or Index-Linked Securities constitute, at least in part, components underlying a series of Managed Fund Shares, or (ii) one or more series of Derivative Securities Products or Index-Linked Securities account for 100% of the equity weight of the portfolio of a series of Managed Fund Shares; (E) Except as provided herein, equity securities in the portfolio shall be U.S. Component Stocks listed on a national securities exchange and shall be NMS Stocks as defined in Rule 600 of Regulation NMS under the Securities Exchange Act of 1934; and (F) American Depositary Receipts (“ADRs”) in a portfolio may be exchange-traded or nonexchange-traded. However, no more than 10% of the equity weight of a portfolio shall consist of non-exchange-traded ADRs.

³²The Commission has previously approved proposed rule changes under Section 19(b) of the Act for series of Managed Fund Shares that may invest in non-exchange traded investment company securities to the extent permitted by Section 12(d)(1) of the 1940 Act and the rules thereunder. See, e.g., Securities Exchange Act Release No. 86362 (July 12, 2019), 84 FR 34457 (July 18, 2019) (SR–NYSEArca–2019–36 (Notice of Filing of Amendment No. 3 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified

Continued

Because such securities must satisfy applicable 1940 Act diversification requirements, and have a net asset value based on the value of securities and financial assets the investment company holds, it is both unnecessary and inappropriate to apply to such investment company securities the criteria in Commentary .01(a)(1).

The Exchange notes that Commentary .01(a)(1)(A) through (D) to Rule 8.600–E exclude certain “Derivative Securities Products” that are exchange-traded investment company securities, including Investment Company Units (as described in NYSE Arca Rule 5.2–E(j)(3)), Portfolio Depositary Receipts (as described in NYSE Arca Rule 8.100–E)) and Managed Fund Shares (as described in NYSE Arca Rule 8.600–E)).³³ In its 2008 Approval Order approving amendments to Commentary .01(a) to Rule 5.2(j)(3) to exclude Derivative Securities Products from certain provisions of Commentary .01(a) (which exclusions are similar to those in Commentary .01(a)(1) to Rule 8.600–E), the Commission stated that “based on the trading characteristics of Derivative Securities Products, it may be difficult for component Derivative Securities Products to satisfy certain quantitative index criteria, such as the minimum market value and trading volume limitations.” The Exchange notes that it would be difficult or impossible to apply to mutual fund shares certain of the generic quantitative criteria (e.g.,

by Amendment No. 3, to List and Trade Shares of JPMorgan Income Builder Blend ETF under NYSE Arca Rule 8.600–E).

³³ The Commission initially approved the Exchange’s proposed rule change to exclude “Derivative Securities Products” (i.e., Investment Company Units and securities described in Section 2 of Rule 8) and “Index-Linked Securities (as described in Rule 5.2–E(j)(6)) from Commentary .01(a)(1) through (4) to Rule 5.2–E(j)(3) in Securities Exchange Act Release No. 57751 (May 1, 2008), 73 FR 25818 (May 7, 2008) (SR–NYSEArca–2008–29) (Order Granting Approval of a Proposed Rule Change, as Modified by Amendment No. 1 Thereto, to Amend the Eligibility Criteria for Components of an Index Underlying Investment Company Units) (“2008 Approval Order”). See also Securities Exchange Act Release No. 57561 (March 26, 2008), 73 FR 17390 (April 1, 2008) (Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto to Amend the Eligibility Criteria for Components of an Index Underlying Investment Company Units). The Commission subsequently approved generic criteria applicable to listing and trading of Managed Fund Shares, including exclusions for Derivative Securities Products and Index-Linked Securities in Commentary .01(a)(1)(A) through (D), in Securities Exchange Act Release No. 78397 (July 22, 2016), 81 FR 49320 (July 27, 2016) (Order Granting Approval of Proposed Rule Change, as Modified by Amendment No. 7 Thereto, Amending NYSE Arca Rule 8.600–E To Adopt Generic Listing Standards for Managed Fund Shares). See also Amendment No. 7 to SR–NYSEArca–2015–110, available at <https://www.sec.gov/comments/sr-nysearca-2015-110/nysearca2015110-9.pdf>.

market capitalization, trading volume, or portfolio criteria) in Commentary .01(a)(1) (A) through (D) applicable to U.S. Component Stocks. For example, the requirements for U.S. Component Stocks in Commentary .01(a)(1)(B) that there be minimum monthly trading volume of 250,000 shares, or minimum notional volume traded per month of \$25,000,000, averaged over the last six months are tailored to exchange-traded securities (i.e., U.S. Component Stocks) and not to mutual fund shares, which do not trade in the secondary market and for which no such volume information is reported. In addition, Commentary .01(a)(1)(A) relating to minimum market value of portfolio component stocks, Commentary .01(a)(1)(C) relating to weighting of portfolio component stocks, and Commentary .01(a)(1)(D) relating to minimum number of portfolio components are not appropriately applied to open-end management investment company securities; open-end investment companies hold multiple individual securities as disclosed publicly in accordance with the 1940 Act, and application of Commentary .01(a)(1)(A) through (D) would not serve the purposes served with respect to U.S. Component Stocks, namely, to establish minimum liquidity and diversification criteria for U.S. Component Stocks held by series of Managed Fund Shares.

Other than Commentary .01(a)(1) and (d)(2) to Rule 8.600–E, as described above, the Fund’s portfolio will meet all other requirements of Rule 8.600–E.

Availability of Information

The Fund’s website (www.kraneshares.com) will include the prospectus for the Fund that may be downloaded. The Fund’s website will include additional quantitative information updated on a daily basis including, for the Fund, (1) daily trading volume, the prior business day’s reported closing price, NAV and midpoint of the bid/ask spread at the time of calculation of such NAV (the “Bid/Ask Price”),³⁴ 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

³⁴ The Bid/Ask Price of the 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 the Fund’s NAV. The records relating to Bid/Ask Prices will be retained by the Fund and its service providers.

commencement of trading in Shares in the Core Trading Session on the Exchange, the Fund will disclose on its website the Disclosed Portfolio as defined in NYSE Arca Rule 8.600–E(c)(2) that forms the basis for the Fund’s calculation of NAV at the end of the business day.³⁵

On a daily basis, the Fund will disclose the information required under NYSE Arca Rule 8.600–E(c)(2) to the extent applicable. The website information will be publicly available at no charge.

In addition, a basket composition file, which includes the security names and share quantities, if applicable, required to be delivered in exchange for the Fund’s Shares, together with estimates and actual cash components, will be publicly disseminated daily prior to the opening of the Exchange via the NSCC. The basket represents one Creation Unit of the Fund. Authorized Participants may refer to the basket composition file for information regarding financial instruments that may comprise the Fund’s basket on a given day.

Investors can also obtain the Trust’s Statement of Additional Information (“SAI”), the Fund’s Shareholder Reports, and the Fund’s Forms N–CSR and N–CEN and Forms N–PORT, filed twice a year. The Fund’s SAI and Shareholder Reports will be available free upon request from the Trust, and those documents and the Form N–PX, Form N–CEN and Form N–PORT (formerly Forms N–Q and N–SAR) may be viewed on-screen or downloaded from the Commission’s website at www.sec.gov.

Intra-day and the closing settlement price information regarding carbon credit futures and other U.S. exchange-traded futures will be available from the exchange on which such instruments are traded and from major market data vendors. Spot currency prices and price information regarding currency forwards, debt instruments (other than cash equivalents) and cash equivalents also will be available from major market data vendors. Additionally, the Trade Reporting and Compliance Engine (“TRACE”) of the Financial Industry Regulatory Authority (“FINRA”) will be a source of price information for certain fixed income securities to the extent transactions in such securities are

³⁵ Under accounting procedures followed by the Fund, trades made on the prior business day (“T”) will be booked and reflected in NAV on the current business day (“T+1”). Accordingly, the 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.

reported to TRACE.³⁶ Price information regarding U.S. government securities and other cash equivalents generally may be obtained from brokers and dealers who make markets in such securities or through nationally recognized pricing services through subscription agreements. The Index price is available via Bloomberg and Reuters. The Index methodology and constituent list is available via IHS Markit's website (<https://indices.ihsmarkit.com>).

Quote and last-sale information for Carbon Futures, futures that are not Carbon Futures and options on futures are widely disseminated through major market data vendors and from the exchange on which they trade. ICE Futures US, ICE Futures Europe and CME also provide delayed futures information on current and past trading sessions and market news on their respective websites.

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 regarding the previous day's closing price and trading volume information for the Shares will be published daily in the financial section of newspapers. Price information regarding non-exchange-traded investment company securities is available from major market data vendors.

Quotation and last sale information for the Shares, ETFs and ETNs will be available via the Consolidated Tape Association ("CTA") high-speed line. In addition, the Portfolio Indicative Value ("PIV"), as defined in NYSE Arca Rule 8.600-E(c)(3), will be widely disseminated by one or more major market data vendors at least every 15 seconds during the Core Trading Session.

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 the Fund.³⁷ Trading in Shares of the Fund will be halted if the circuit breaker parameters in NYSE Arca Rule 7.12-E 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 inadvisable. Trading in the Fund's Shares also will be subject to Rule 8.600-E(d)(2)(D) ("Trading Halts").

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., E.T. in accordance with NYSE Arca Rule 7.34-E (Early, 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 Rule 7.6-E, 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.

With the exception of the requirements of Commentary .01(a)(1) with respect to the Fund's investments in non-exchange-traded investment company securities and Commentary .01(d)(2) (with respect to listed derivatives) to Rule 8.600-E as described above in "Application of Generic Listing Requirements," the Shares of the Fund will conform to the initial and continued listing criteria under NYSE Arca Rule 8.600-E. Consistent with NYSE Arca Rule 8.600-E(d)(2)(B)(ii), the Adviser will 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 Fund's portfolio. The Exchange represents that, for initial and continued listing, the Fund will be in compliance with Rule 10A-3³⁸ under the Act, as provided by NYSE Arca Rule 5.3-E. A minimum of 100,000 Shares will be outstanding at the commencement of trading on the Exchange. 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. The Fund's investments will be consistent with its investment goal and will not be used to provide multiple returns of a benchmark or to produce leveraged returns.

Surveillance

The Exchange represents that trading in the Shares will be subject to the

existing trading surveillances, administered by FINRA on behalf of the Exchange, or by regulatory staff of the Exchange, which are designed to detect violations of Exchange rules and applicable federal securities laws. 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.³⁹

The surveillances referred to above generally focus on detecting securities trading outside their normal patterns, which could be indicative of manipulative or other violative activity. When such situations are detected, surveillance analysis follows and investigations are opened, where appropriate, to review the behavior of all relevant parties for all relevant trading violations.

The Exchange or FINRA, on behalf of the Exchange, or both, will communicate as needed regarding trading in the Shares, ETFs, ETNs, certain futures and options on futures with other markets and other entities that are members of the ISG, and the Exchange or FINRA, on behalf of the Exchange, or both, may obtain trading information regarding trading in such securities and financial instruments from such markets and other entities.⁴⁰ In addition, the Exchange may obtain information regarding trading in such securities and financial instruments from markets and other entities that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement. In addition, FINRA, on behalf of the Exchange, is able to access, as needed, trade information for certain fixed income securities held by the Fund reported to FINRA's TRACE.

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

All statements and representations made in this filing regarding (a) the description of the portfolio or reference assets, (b) limitations on portfolio holdings or reference assets, or (c) the applicability of Exchange listing rules specified in this rule filing shall constitute continued listing

³⁶ For fixed income securities that are not reported to TRACE, (i) intraday price quotations will generally be available from broker-dealers and trading platforms (as applicable) and (ii) price information will be available from feeds from market data vendors, published or other public sources, or online information services, as described above.

³⁷ See NYSE Arca Rule 7.12-E.

³⁸ 17 CFR 240.10A-3.

³⁹ FINRA conducts cross-market surveillances on behalf of the Exchange pursuant to a regulatory services agreement. The Exchange is responsible for FINRA's performance under this regulatory services agreement.

⁴⁰ For a list of the current members of ISG, see www.isgportal.org. The Exchange notes that certain Index components and holdings of the Fund may not be listed or traded on ISG exchanges.

requirements for listing the Shares of the Fund on the Exchange.

The issuer must notify the Exchange of any failure by the Fund to comply with the continued listing requirements, and, pursuant to its obligations under Section 19(g)(1) of the Act, the Exchange will monitor for compliance with the continued listing requirements. If the Fund is not in compliance with the applicable listing requirements, the Exchange will commence delisting procedures under NYSE Arca Rule 5.5–E (m).

Information Bulletin

Prior to the commencement of trading, the Exchange will inform its Equity Trading Permit Holders in an Information Bulletin (“Bulletin”) of the special characteristics and risks associated with trading the Shares. Specifically, the Bulletin will discuss the following: (1) The procedures for purchases and redemptions of Shares in Creation Unit aggregations (and that Shares are not individually redeemable); (2) NYSE Arca Rule 9.2–E(a), which imposes a duty of due diligence on its Equity Trading Permit 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 Early and Late Trading Sessions when an updated PIV will not be calculated or publicly disseminated; (4) how information regarding the PIV and the Disclosed Portfolio is disseminated; (5) the requirement that Equity Trading Permit 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 the Fund is subject to various fees and expenses described in the Registration Statement. 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 will be calculated after 4:00 p.m., E.T. each trading day.

2. Statutory Basis

The basis under the Act for this proposed rule change is the requirement under Section 6(b)(5)⁴¹ that an exchange have rules that are designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to remove impediments to, and perfect the mechanism of a free and open market

and, in general, to protect investors and the public interest.

The Exchange believes that the proposed rule change is designed to prevent fraudulent and manipulative acts and practices in that the Shares will be listed and traded on the Exchange pursuant to the initial and continued listing criteria in NYSE Arca Rule 8.600–E notwithstanding that the Fund will not comply with the requirement in Commentary .01 (a)(1) and Commentary .01(d)(2) to Rule 8.600–E, as described herein.

The Exchange believes that sufficient protections are in place to protect against market manipulation of the Shares and Carbon Futures due to, among other matters (a) the liquidity and market capitalization of Carbon Futures, including EUA futures, CCA futures and RGGI futures,⁴² and (b) surveillance by the Exchange and FINRA of the Shares and futures designed to detect violations of the federal securities laws and self-regulatory organization rules. The current Carbon Futures—*i.e.*, EUA futures, CCA futures, RGGI futures—trade in competitive auction markets with price, quote transparency and arbitrage opportunities. Any additional carbon credit futures contracts that enter the Index will have an average monthly trading volume for the six month look-back period prior to the annual rebalancing date that is a minimum of \$10,000,000 as of November 30th of a given year, and will be traded on exchanges that are members of the ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement. Further, the Exchange believes that because the assets in the Fund’s portfolio will be acquired in extremely liquid and highly regulated markets, the Shares are less readily susceptible to manipulation. EUA futures, CCA futures and RGGI futures are traded on ISG markets.

The Exchange believes that these factors, coupled with the highly regulated EUA, CCA and RGGI markets, are sufficiently great to deter fraudulent [sic] and market manipulation. The Exchange also believes that such liquidity is sufficient to support the creation and redemption mechanism.

The Exchange has in place surveillance procedures that are adequate to properly monitor trading in the Shares in all trading sessions and to deter and detect violations of Exchange rules and applicable federal securities laws. The Exchange or FINRA, on behalf of the Exchange, or both, will communicate as needed regarding

trading in the Shares, ETFs, ETNs, certain futures and options on futures with other markets and other entities that are members of the ISG, and the Exchange or FINRA, on behalf of the Exchange, or both, may obtain trading information regarding trading in such securities and financial instruments from such markets and other entities. In addition, the Exchange may obtain information regarding trading in such securities and financial instruments from markets and other entities that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement. In addition, FINRA, on behalf of the Exchange, is able to access, as needed, trade information for certain fixed income securities held by the Fund reported to FINRA’s TRACE.

The Adviser and Sub-Adviser are not registered as broker-dealers, but the Adviser is affiliated with a broker-dealer, and has implemented and will maintain a fire wall with respect to its broker-dealer affiliate regarding access to information concerning the composition and/or changes to the portfolio. The Sub-Adviser is not affiliated with a broker-dealer.

The Exchange notes that the Commission has previously approved listing and trading on the Exchange under NYSE Arca Rule 8.204–E (Commodity Futures Trust Shares) of a trust with the investment objective of providing investment results that correspond generally to the performance of carbon credit futures on EUAs.⁴³ Other than cash and cash equivalents, the AirShares Trust sought investment exposure exclusively to carbon credit futures on EUAs. Thus, the Commission has already considered and approved for listing a product with the same types of assets in which the Fund will invest.

The Exchange notes that the Commission has approved proposed rule changes by a national securities exchange to list and trade series of Managed Fund Shares that may hold listed derivatives on underlying reference assets that may not comply with provisions similar to those in Commentary .01(d)(2) to Rule 8.600–E.⁴⁴ In addition, the Exchange believes that the listing and trading of Shares of the Fund would further an interest in the U.S. maintaining a competitive position in the global securities markets, which requires that U.S. participants respond to new developments and encourage the development of new products. Innovative financial vehicles such as the Fund will provide investors

⁴¹ 15 U.S.C. 78f(b)(5).

⁴² See note 28, *supra*.

⁴³ See note 30, *supra*.

⁴⁴ See note 29, *supra*.

greater access to U.S. markets. By providing a wide range of investors with a U.S. exchange-traded security that primarily invests in Carbon Futures, the Exchange believes that the listing of the Fund will benefit both investors and the markets.

As noted above, the Fund may invest in shares of non-exchange-traded investment company securities, which are equity securities. Therefore, to the extent the Fund invests in shares of non-exchange-traded open-end management investment company securities, the Fund will not comply with the requirements of Commentary .01(a)(1)(A) through (E) to NYSE Arca Rule 8.600-E (U.S. Component Stocks) with respect to its equity securities holdings.⁴⁵ The Exchange believes it is appropriate and in the public interest to approve listing and trading of Shares of the Fund notwithstanding that the Fund's holdings in such securities would not meet the requirements of Commentary .01(a)(1)(A) through (E) to Rule 8.600-E. Investments in non-exchange-traded open-end management investment company securities will not exceed 20% of the total assets of the Fund. Such investments, which may include mutual funds that invest, for example, principally in fixed income securities, would be utilized to help the Fund meet its investment objective and to equitize cash in the short term. The Fund will invest in such securities only to the extent that those investments would be consistent with the requirements of Section 12(d)(1) of the 1940 Act and the rules thereunder. Because such securities must satisfy applicable 1940 Act diversification requirements, and have a net asset value based on the value of securities and financial assets the investment company holds, it is both unnecessary and inappropriate to apply to such investment company securities the criteria in Commentary .01(a)(1). The Commission has previously approved proposed rule changes under Section 19(b) of the Act for series of Managed Fund Shares that may invest in non-exchange traded investment company securities to the extent permitted by Section 12(d)(1) of the 1940 Act and the rules thereunder.⁴⁶

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 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. In addition, a large amount of information will be publicly available regarding the Fund and the Shares, thereby promoting market transparency. Intra-day and the closing settlement price information regarding carbon credit futures and other U.S. exchange-traded futures will be available from the exchange on which such instruments are traded and from major market data vendors. Spot currency prices and price information regarding currency forwards, debt instruments (other than cash equivalents) and cash equivalents also will be available from major market data vendors. Additionally, FINRA's TRACE will be a source of price information for certain fixed income securities to the extent transactions in such securities are reported to TRACE. Price information regarding U.S. government securities and other cash equivalents generally may be obtained from brokers and dealers who make markets in such securities or through nationally recognized pricing services through subscription agreements. The Index price is available via Bloomberg and Reuters. The Index methodology and constituent list is available via IHS Markit's website.

Quote and last-sale information for Carbon Futures, futures that are not Carbon Futures and options on futures are widely disseminated through major market data vendors and from the exchange on which they trade. ICE Futures US, ICE Futures Europe and CME also provide delayed futures information on current and past trading sessions and market news on their respective websites.

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 regarding the previous day's closing price and trading volume information for the Shares will be published daily in the financial section of newspapers. Price information regarding non-exchange-traded investment company securities is available from major market data vendors.

Quotation and last sale information for the Shares, ETFs and ETNs will be available via the CTA. In addition, the PIV, as defined in NYSE Arca Rule 8.600-E(c)(3), will be widely disseminated by one or more major market data vendors at least every 15 seconds during the Core Trading Session.

Prior to the commencement of trading, the Exchange will inform its

Equity Trading Permit Holders in an Information Bulletin of the special characteristics and risks associated with trading the Shares. Trading in Shares of the Fund will be halted if the circuit breaker parameters in NYSE Arca Rule 7.12-E have been reached or because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable. Trading in the Shares will be subject to NYSE Arca Rule 8.600-E (d)(2)(D), which sets forth circumstances under which Shares of the Fund may be halted. In addition, as noted above, investors will have ready access to information regarding the Fund's holdings, NAV, the PIV, the Disclosed Portfolio, and quotation and last sale information for the 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 an actively-managed exchange-traded product that, through permitted use of an increased level of listed derivatives above that currently permitted by the generic listing requirements of Commentary .01(d)(2) to NYSE Arca Rule 8.600-E, and through investment in non-exchange-traded investment company securities (notwithstanding the requirements of Commentary .01(a)(1) to NYSE Arca Rule 8.600-E), will enhance competition among market participants, to the benefit of investors and the marketplace. As noted above, the Exchange has in place surveillance procedures relating to trading in the Shares and may obtain information via ISG from other exchanges that are members of ISG or with which the Exchange has entered into a comprehensive surveillance sharing agreement. In addition, as noted above, investors have ready access to information regarding the Fund's holdings, the PIV, the Disclosed Portfolio, and quotation and last sale information for the Shares.

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 an additional type of actively-managed exchange-traded product that will enhance competition among market participants, to the benefit of investors and the marketplace.

⁴⁵ See note 31, *supra*.

⁴⁶ See note 32, *supra*.

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. Discussion and Commission's Findings

After careful review, the Commission finds that the proposed rule change, as modified by Amendment No. 4, is consistent with the Act and the rules and regulations thereunder applicable to a national securities exchange.⁴⁷ In particular, the Commission finds that the proposed rule change, as modified by Amendment No. 4, is consistent with Section 6(b)(5) of the Act,⁴⁸ 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 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.

According to the Exchange, other than Commentary .01(a)(1) with respect to the Fund's investments in non-exchange-traded investment company securities and Commentary .01(d)(2) with respect to the Fund's and the Subsidiary's investments in Carbon Futures, as described above, the Fund's portfolio will meet all other requirements of NYSE Arca Rule 8.600–E, and the Shares of the Fund will conform to the initial and continued listing criteria under NYSE Arca Rule 8.600–E.

With respect to the Fund's investments in shares of non-exchange-traded open-end management investment company securities, which will not comply with Commentary .01(a)(1) to NYSE Arca Rule 8.600–E,⁴⁹ the Commission notes that: (1) Such securities must satisfy applicable 1940 Act diversification requirements; and (2) the value of such securities is based on the value of securities and financial assets held by those investment companies.⁵⁰ In addition, the Exchange states that investments in non-exchange-traded open-end management investment company securities will not exceed 20% of the total assets of the

Fund.⁵¹ The Commission therefore believes that the Fund's investments in non-exchange-traded open-end management investment company securities would not make the Shares susceptible to fraudulent or manipulative acts and practices.⁵²

With respect to the Fund's investments in Carbon Futures, which may be up to 100% of the weight of the portfolio (as measured by gross notional exposure), and will not comply with Commentary .01(d)(2) to NYSE Arca Rule 8.600–E,⁵³ the Commission notes that the Exchange has represented that the markets for Carbon Futures are sufficiently liquid and highly regulated.⁵⁴ In addition, the Exchange represents that at least 90% of the weight of listed derivatives utilized by the Fund will be traded on exchanges that are members of the ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement, and that all Carbon Futures are currently traded on ISG markets. The Exchange also represents that its surveillance procedures 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 the applicable federal securities laws. Moreover, the Exchange, represents that the Exchange or FINRA, on behalf of the Exchange, or both, will communicate as needed, and may obtain information regarding, trading in the Shares, ETFs, ETNs, certain futures and options on futures with other markets and other entities that are members of the ISG, and that the Exchange may obtain information regarding trading in such securities and financial instruments from markets and other entities with which the Exchange has in place a

⁵¹ See *id.*

⁵² The Commission notes it has approved other exchange-traded funds that can hold non-exchange-traded open-end management investment company securities in a manner that does not comply with Commentary .01(a)(1) to Rule 8.600–E. See, e.g., Securities Exchange Act Release No. 86362 (July 12, 2019), 84 FR 34457 (July 18, 2019) (SR–NYSEArca–2019–36).

⁵³ See *supra* note 27.

⁵⁴ The Exchange states that the carbon credit futures issued under the carbon credit regimes currently included in the Index (*i.e.*, carbon credit futures on EUA, CCA, and RGGI) trade on ISG markets and are currently the largest and most liquid futures markets on carbon offset credits. See *supra* note 28. In addition, the Exchange represents that any additional carbon credit futures contracts that enter the Index will have an average monthly trading volume for the six month look-back period prior to the annual rebalancing date that is a minimum of \$10,000,000 as of November 30th of a given year, and will be traded on exchanges that are members of the ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.

comprehensive surveillance sharing agreement. For the foregoing reasons, the Commission believes that the Fund's investments in Carbon Futures would not make the Shares susceptible to fraudulent or manipulative acts and practices.

The Exchange represents that all statements and representations made in the filing regarding (a) the description of the portfolio or reference assets, (b) limitations on portfolio holdings or reference assets, or (c) the applicability of Exchange listing rules specified in the filing shall constitute continued listing requirements for listing the Shares of the Fund on the Exchange. In addition, the issuer has represented to the Exchange that it will advise the Exchange of any failure by the Fund to comply with the continued listing requirements, and, pursuant to its obligations under Section 19(g)(1) of the Act, the Exchange will monitor⁵⁵ for compliance with the continued listing requirements. If the Fund is not in compliance with the applicable listing requirements, the Exchange will commence delisting procedures under NYSE Arca Rule 5.5–E(m).

This approval order is based on all of the Exchange's representations, including those set forth above and in Amendment No. 4. For the foregoing reasons, the Commission finds that the proposed rule change, as modified by Amendment No. 4, is consistent with Section 6(b)(5) of the Act⁵⁶ and the rules and regulations thereunder applicable to a national securities exchange.

IV. Solicitation of Comments on Amendment No. 4 to the Proposed Rule Change

Interested persons are invited to submit written views, data, and arguments concerning whether Amendment No. 4 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

⁵⁵ The Commission notes that certain proposals for the listing and trading of exchange-traded products include a representation that the exchange will "surveil" for compliance with the continued listing requirements. See, e.g., Securities Exchange Act Release No. 77499 (April 1, 2016), 81 FR 20428, 20432 (April 7, 2016) (SR–BATS–2016–04). In the context of this representation, it is the Commission's view that "monitor" and "surveil" both mean ongoing oversight of compliance with the continued listing requirements. Therefore, the Commission does not view "monitor" as a more or less stringent obligation than "surveil" with respect to the continued listing requirements.

⁵⁶ 15 U.S.C. 78f(b)(5).

⁴⁷ 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).

⁴⁸ 15 U.S.C. 78f(b)(5).

⁴⁹ See *supra* note 31.

⁵⁰ See *supra* Section II.A.2.

• Send an email to rule-comments@sec.gov. Please include File Number SR-NYSEArca-2019-60 on the subject line.

Paper Comments

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

All submissions should refer to File Number SR-NYSEArca-2019-60. 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 website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street NE, Washington, DC 20549 on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NYSEArca-2019-60 and should be submitted on or before March 18, 2020.

V. Accelerated Approval of the Proposed Rule Change, as Modified by Amendment No. 4

The Commission finds good cause to approve the proposed rule change, as modified by Amendment No. 4, prior to the thirtieth day after the date of publication of notice of the filing of Amendment No. 4 in the **Federal Register**. The Commission notes that Amendment No. 4 clarified the investments of the Fund and the application of NYSE Arca Rule 8.600-E, Commentary .01 to the Fund's investments. Amendment No. 4 also provided other clarifications and additional information related to the proposed rule change. The changes and

additional information in Amendment No. 4 assist the Commission in evaluating the Exchange's proposal and in determining that it is consistent with the Act. Accordingly, the Commission finds good cause, pursuant to Section 19(b)(2) of the Act,⁵⁷ to approve the proposed rule change, as modified by Amendment No. 4, on an accelerated basis.

VI. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,⁵⁸ that the proposed rule change (SR-NYSEArca-2019-60), as modified by Amendment No. 4, be, and it hereby is, approved on an accelerated basis.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁵⁹

Jill M. Peterson,

Assistant Secretary.

[FR Doc. 2020-03774 Filed 2-25-20; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-88254; File No. SR-FINRA-2019-027]

Self-Regulatory Organizations; Financial Industry Regulatory Authority, Inc.; Order Approving a Proposed Rule Change To Amend FINRA Rule 12000 Series To Expand Options Available to Customers if a Firm or Associated Person Is or Becomes Inactive

February 20, 2020.

I. Introduction

On November 5, 2019, Financial Industry Regulatory Authority, Inc. ("FINRA") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Exchange Act")¹ and Rule 19b-4 thereunder,² a proposed rule change to amend FINRA Rules 12100, 12202, 12214, 12309, 12400, 12601, 12702, 12801, and 12900 of the Code of Arbitration Procedure for Customer Disputes ("Customer Code" or "Code") to expand a customer's options to withdraw an arbitration claim if a member or an associated person becomes inactive before a claim is filed or during a pending arbitration. In addition, the proposed amendments

⁵⁷ 15 U.S.C. 78s(b)(2).

⁵⁸ *Id.*

⁵⁹ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

would allow customers to amend pleadings, postpone hearings, request default proceedings, and receive a refund of filing fees in these situations.

The proposed rule change was published for comment in the **Federal Register** on November 22, 2019.³ The public comment period closed on December 13, 2019. The Commission received five comment letters in response to the Notice.⁴ On February 11, 2020, FINRA responded to the comment letters received in response to the Notice.⁵ On December 18, 2019, FINRA extended the time period in which the Commission must approve the proposed rule change, disapprove the proposed rule change, or institute proceedings to determine whether to approve or disapprove the proposed rule change to February 20, 2020.⁶ This order approves the proposed rule change.

II. Description of the Proposed Rule Change⁷

Background

Firms and individuals whose FINRA registration has been terminated, suspended, cancelled, or revoked, or who have been expelled from FINRA are generally referred to as "inactive," and are no longer FINRA members or associated with a FINRA member, although they may continue to operate in another area of the financial services industry where FINRA registration is

³ See Exchange Act Release No. 87577 (Nov. 18, 2019), 84 FR 64581 (Nov. 22, 2019) (File No. SR-FINRA-2019-027) ("Notice").

⁴ See Letter from Steven B. Caruso, Maddox Hargett Caruso, P.C., dated November 19, 2019 ("Caruso Letter"); letter from Benjamin P. Edwards, Associate Professor of Law, University of Nevada, Las Vegas, December 11, 2019 ("Edwards Letter"); letter from Kevin M. Carroll, Managing Director and Associate General Counsel, SIFMA, December 12, 2019 ("SIFMA Letter"); letter from Samuel B. Edwards, President, Public Investors Arbitration Bar Association ("PIABA"), December 13, 2019 ("PIABA Letter"); and letter from Robin M. Traxler, Senior Vice President, Policy & Deputy General Counsel, Financial Services Institute ("FSI"), December 13, 2019 ("FSI Letter"). Comment letters are available on the Commission's website at <https://www.sec.gov>.

⁵ See Letter from Mignon McLemore, Assistant General Counsel, Office of General Counsel, FINRA, to Vanessa Countryman, Secretary, U.S. Securities and Exchange Commission, dated February 11, 2020 ("FINRA Letter"). The FINRA Letter is available on FINRA's website at <http://www.finra.org>, at the principal office of FINRA, at the Commission's website at <https://www.sec.gov/comments/sr-finra-2019-027/srfinra2019027-6796335-208356.pdf>, and at the Commission's Public Reference Room.

⁶ See Letter from Mignon McLemore, Assistant General Counsel, FINRA, to Lourdes Gonzalez, Assistant Chief Counsel, Division of Trading and Markets, U.S. Securities and Exchange Commission, dated December 18, 2019.

⁷ The subsequent description of the proposed rule change is substantially excerpted from FINRA's description in the Notice. See Notice, 83 FR at 64581-64583.