

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-80399; File No. SR-BatsBZX-2017-10)

April 7, 2017

Self-Regulatory Organizations; Bats BZX Exchange, Inc.; Order Approving a Proposed Rule Change, as Modified by Amendments No. 1 and No. 2, to List and Trade Shares of the iShares iBonds Dec 2024 AMT-Free Muni Bond ETF, iShares iBonds Dec 2025 AMT-Free Muni Bond ETF, and iShares iBonds Dec 2026 AMT-Free Muni Bond ETF of the iShares U.S. ETF Trust Under Exchange Rule 14.11(i)

I. Introduction

On January 31, 2017, Bats BZX Exchange, Inc. (“Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1)¹ of the Securities Exchange Act of 1934 (“Act”)² and Rule 19b–4 thereunder,³ a proposed rule change to list and trade shares of the iShares iBonds Dec 2024 AMT-Free Muni Bond ETF, iShares iBonds Dec 2025 AMT-Free Muni Bond ETF, and iShares iBonds Dec 2026 AMT-Free Muni Bond ETF (each a “Fund” or, collectively, the “Funds”) of the iShares U.S. ETF Trust (“Trust”) under Exchange Rule 14.11(i).⁴ The proposed rule change was published for comment in the Federal Register on February 21, 2017.⁵ On March 28, 2017, the Exchange filed Amendment No. 1 to the proposed rule change, which replaced the original proposal in its entirety, and on March 29, 2017, the Exchange filed Amendment No. 2 to the proposed rule change.⁶ The Commission has

¹ 15 U.S.C.78s(b)(1).

² 15 U.S.C. 78a.

³ 17 CFR 240.19b-4.

⁴ The shares of the Funds are referred to herein as the “Shares.”

⁵ See Securities Exchange Act Release No. 80036 (February 14, 2017), 82 FR 11278.

⁶ The amendments to the proposed rule change are available at: <https://www.sec.gov/comments/sr-batsbzx-2017-10/batsbzx201710.htm>. In Amendment No. 1, the Exchange clarified the operation of the portfolio diversification requirements and its description of how the Funds’ net asset values will be calculated. In Amendment No. 2, the Exchange affirmed that: (1) all statements and representations made in the

received no comment letters on the proposed rule change. The Commission is approving the proposed rule change, as modified by Amendments No. 1 and No. 2.

II. The Exchange's Description of the Proposed Rule Change⁷

The Exchange proposes to list and trade the Shares under Exchange Rule 14.11(i), which governs the listing and trading of Managed Fund Shares on the Exchange. The Exchange deems the Shares to be equity securities, thus rendering trading in the Shares subject to the Exchange's existing rules governing the trading of equity securities.⁸

The Shares will be offered by the Trust,⁹ which is established as a Delaware statutory trust. BlackRock Fund Advisors is the investment adviser ("BFA" or "Adviser") to the Funds.¹⁰

proposed rule change regarding (a) the description of the portfolio, (b) limitations on portfolio holdings or reference assets, or (c) the applicability of Exchange rules and surveillance procedures shall constitute continued listing requirements for listing the Shares on the Exchange; (2) the issuer has represented to the Exchange that it will advise the Exchange of any failure by a Fund to comply with the continued listing requirements; (3) the Exchange will surveil for compliance with the continued listing requirements; and (4) if a Fund is not in compliance with the applicable listing requirements, the Exchange will commence delisting procedures under Exchange Rule 14.12. Each of the amendments is a technical amendment, and none of them is subject to notice and comment.

⁷ The Commission notes that additional information regarding the Trust, the Funds, their investments, and the Shares, including investment strategies, risks, creation and redemption procedures, fees, portfolio holdings disclosure policies, calculation of net asset value ("NAV"), distributions, and taxes, among other things, can be found in Amendment No. 1 and the Registration Statement, as applicable. See Amendment No. 1, supra note 6, and Registration Statement, infra note 9.

⁸ See Amendment No. 1, supra note 6, at 39.

⁹ The Trust is registered with the Commission as an open-end investment company and has filed a registration statement on behalf of the Funds on Form N-1A ("Registration Statement") with the Commission. See Registration Statement on Form N-1A for the Trust, dated November 2, 2015 (File Nos. 333-179904 and 811-22649). See also Investment Company Act Release No. 29571 (January 24, 2011) (File No. 812-13601).

¹⁰ The Exchange represents that the Adviser is not registered as a broker-dealer. The Adviser is affiliated with multiple broker-dealers and has implemented fire walls with respect to such respective broker-dealer affiliate(s) regarding access to information concerning the composition of and/or changes to the portfolio. In the event (a) the

State Street Bank and Trust Company is the administrator, custodian, and transfer agent for the Trust. BlackRock Investments, LLC serves as the distributor for the Trust.

According to the Exchange, the investment objective of each Fund will be to maximize tax-free current income and terminate on or around December 2024, December 2025 or December 2026, as applicable.

A. The Funds' Principal Investments

Under normal circumstances,¹¹ each Fund will invest at least 80% of its net assets in U.S.-dollar denominated investment-grade fixed-rate Municipal Securities,¹² as defined below, such that the interest on each security is exempt from U.S. federal income taxes and the federal alternative minimum tax ("AMT"). The Municipal Securities in which the Funds will invest are

Adviser becomes newly affiliated with a broker-dealer or registers as a broker-dealer, or (b) any new adviser or sub-adviser is a registered broker-dealer or becomes affiliated with a broker-dealer, it will implement a fire wall with respect to its relevant personnel and/or such broker-dealer affiliate, if applicable, regarding access to information concerning the composition of, 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. See Amendment No. 1, supra note 6, at 6; see also Exchange Rule 14.11(i)(7).

¹¹ The term "under normal circumstances" includes, but is not limited to, the absence of adverse market, economic, political, or other conditions, including extreme volatility or trading halts in the financial markets; operational issues causing dissemination of inaccurate market information; or force majeure type events such as systems failure, natural or man-made disaster, act of God, armed conflict, act of terrorism, riot, or labor disruption, or any similar intervening circumstance.

¹² Investment-grade securities are rated a minimum of BBB- or higher by Standard & Poor's Ratings Services and/or Fitch, or Baa3 or higher by Moody's, or if unrated, determined by the Adviser to be of equivalent quality. According to the Adviser, BFA may determine that unrated securities are of "equivalent quality" based on such credit quality factors that it deems appropriate, which may include among other things, performing an analysis similar, to the extent possible, to that performed by a nationally recognized statistical ratings organization when rating similar securities and issuers. In making such a determination, BFA may consider internal analyses and risk ratings, third party research and analysis, and other sources of information, as deemed appropriate by the Adviser. See Amendment No. 1, supra note 6, at 8, n.9.

fixed and variable rate securities issued in the United States by U.S. states and territories, municipalities and other political subdivisions, agencies, authorities, and instrumentalities of states and multi-state agencies and authorities and will consist of only the following instruments: general obligation bonds, limited obligation bonds (or revenue bonds), municipal notes, municipal commercial paper, tender option bonds, variable rate demand obligations (“VRDOs”), municipal lease obligations, stripped securities, structured securities,¹³ when issued securities, zero coupon securities, and exchange-traded and non-exchange-traded investment companies that invest in such Municipal Securities.

In each Fund’s last year of operation, as the bonds held by the Fund mature, the proceeds will not be reinvested in bonds but instead will be held in cash and cash equivalents, including, without limitation, shares of affiliated money market funds, AMT-free tax-exempt municipal notes, VRDOs, tender option bonds and municipal commercial paper. In or around December 2024, December 2025, or December 2026, as applicable, the Fund will wind up and terminate, and its net assets will be distributed to then current shareholders.

B. Other Portfolio Holdings of the Funds

Under normal circumstances each Fund may also hold, to a limited extent (less than 20% of the Fund’s net assets), interest rate futures, interest rate options, interest rate swaps, and swaps on Municipal Securities indexes.¹⁴

¹³ Structured securities, when combined with those instruments held as part of the other portfolio holdings described below, will not exceed 20% of the Fund’s net assets. See id. at 9, n.19.

¹⁴ The derivatives will be centrally cleared and they will be collateralized. See Amendment No. 1, supra note 6, at 12, n.26.

A Fund may also enter into repurchase and reverse repurchase agreements for Municipal Securities. A Fund may also invest in short-term instruments, which includes exchange-traded and non-exchange-traded investment companies that invest in money market instruments.

C. The Funds' Investment Restrictions

Each Fund will hold a minimum of 40 different Municipal Securities diversified among issuers in at least 8 different states with no more than 30% of the Fund's assets comprised of Municipal Bonds that provide exposure to any single state (collectively, "Minimum Requirement 1"). Each Fund will hold a minimum of 75 different Municipal Securities when at least four creation units are outstanding ("Trigger Number 1A"). Each Fund will hold a minimum of 100 different Municipal Securities diversified among issuers in at least 20 different states when at least eight creation units are outstanding ("Trigger Number 1B"). No single Municipal Security held by any Fund will exceed 4% of the weight of the Fund's portfolio and no single issuer of Municipal Securities will account for more than 10% of the weight of any Fund's portfolio (collectively, "Minimum Requirement 2"). Each Fund will hold Municipal Securities of at least 20 non-affiliated issuers ("Minimum Requirement 3"). Each Fund will hold Municipal Securities of at least 30 non-affiliated issuers when at least four creation units are outstanding ("Trigger Number 2").¹⁵ To the extent that a Fund at one point has sufficient creation units outstanding necessary to trigger a diversity requirement laid out above (each of Trigger Numbers 1A, 1B and 2, a "Trigger Number"), but subsequently has fewer creation units outstanding than the applicable Trigger Number, the Fund may no longer comply with the applicable diversity requirement. However, while a Fund may no longer comply with the diversity requirements

¹⁵ The Exchange clarifies that each state and each separate political subdivision, agency, authority, or instrumentality of such state, each multi-state agency or authority, and each guarantor, if any, will be treated as separate issuers of Municipal Securities. See Amendment No. 1, supra note 6, at 11, n.23; at 18, n.47; and at 26, n.71.

applicable to the previously applicable Trigger Number, the Fund will continue to comply with any diversity requirement for which the number of creation units outstanding continues to exceed the Trigger Number (i.e., Trigger Number 1A), as well as each of Minimum Requirements 1, 2 and 3.¹⁶

Each Fund may hold up to an aggregate amount of 15% of its net assets in illiquid assets (calculated at the time of investment), as deemed illiquid by the Adviser. Each Fund will monitor its portfolio liquidity on an ongoing basis to determine whether, in light of current circumstances, an adequate level of liquidity is being maintained and will consider taking appropriate steps in order to maintain adequate liquidity if, through a change in values, net assets, or other circumstances, more than 15% of the Fund's net assets are held in illiquid assets.¹⁷

Each Fund may also invest up to 20% of its net assets in Municipal Securities that pay interest that is subject to the AMT.¹⁸

III. Discussion and Commission's Findings

The Commission has carefully reviewed the proposed rule change and finds that it is consistent with the requirements of Section 6 of the Act¹⁹ and the rules and regulations thereunder applicable to a national securities exchange.²⁰ In particular, the Commission finds

¹⁶ Id. at 11, n.24; at 18, n.48; and at 26, n.72.

¹⁷ Id. at 13-14.

¹⁸ Id. at 14.

¹⁹ 15 U.S.C. 78f.

²⁰ In approving this proposed rule change, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

that the proposed rule change is consistent with Section 6(b)(5) of the Act,²¹ 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.

The Commission also finds that the proposal to list and trade the Shares on the Exchange is consistent with Section 11A(a)(1)(C)(iii) of the Act,²² which sets forth the finding of Congress that it is in the public interest and appropriate for the protection of investors and the maintenance of fair and orderly markets to assure the availability to brokers, dealers, and investors of information with respect to quotations for, and transactions in, securities. The Exchange provides that quotation and last-sale information for the Shares will be available on the facilities of the Consolidated Tape Association ("CTA"). In addition, for each Fund, an Intraday Indicative Value will be calculated and disseminated by one or more major market data vendors at least every 15 seconds during the Exchange's Regular Trading Hours.²³

According to the Exchange, each Fund's NAV will be determined as of the close of regular trading on the New York Stock Exchange ("NYSE") (generally 4:00 p.m., E.T.) on each day the NYSE is open for trading. Information regarding market price and volume of the Shares will be continually available on a real-time basis throughout the day on brokers' computer screens and other electronic services. The previous day's closing price and trading volume

²¹ 15 U.S.C. 78f(b)(5).

²² 15 U.S.C. 78k-1(a)(1)(C)(iii).

²³ See Exchange Rule 14.11(i)(4)(B)(i). "Regular Trading Hours" means the time between 9:30 a.m. and 4:00 p.m. Eastern Time. See Exchange Rule 1.5(w). The Intraday Indicative Value will be based upon the current value for the components of the Disclosed Portfolio. See Exchange Rule 14.11(i)(3)(C).

information for the Shares will be published daily in the financial section of newspapers.

The Exchange represents that intraday, executable price quotations on assets held by each Fund are available from major broker-dealer firms, and for exchange-traded assets such intraday information is available directly from the applicable listing exchange. All such intraday price information is available through subscription services, such as Bloomberg, Thomson Reuters and International Data Corporation, which can be accessed by authorized participants and other investors. Pricing information for repurchase agreements and securities not listed on an exchange or national securities market will be available from major broker-dealer firms and/or subscription services, such as Bloomberg, Thomson Reuters, and International Data Corporation. Price information relating to all other securities held by the Funds will be available from major market data vendors. The Funds' website, which will be publicly available prior to the public offering of Shares, will include a form of the prospectus for each Fund that may be downloaded. The website will also include additional quantitative information, updated on a daily basis, for each Fund.

The Commission believes that the proposal to list and trade the Shares is reasonably designed to promote fair disclosure of information that may be necessary to price the Shares appropriately and to prevent trading when a reasonable degree of transparency cannot be assured. The Commission notes that the Exchange will obtain a representation from the issuer of the Shares that the NAV per Share will be calculated daily and that the NAV and the identities and quantities of the portfolio of securities and other assets (the "Disclosed Portfolio") held by the Fund that will form the basis for the Fund's calculation of NAV at the end of the business day, will be made available to all market participants at the same time. Trading in Shares of a Fund will be halted under the conditions specified in Exchange Rule 11.18. Trading may also be

halted because of market conditions or for reasons that, in the view of the Exchange, make trading in the Shares inadvisable. Finally, trading in the Shares will be subject to Exchange Rule 14.11(i)(4)(B)(iv), which sets forth circumstances under which trading in the Shares may be halted.

The Exchange states that it prohibits the distribution of material, non-public information by its employees. In addition, the Exchange represents that the Adviser is not registered as a broker-dealer; however, the Adviser is affiliated with multiple broker-dealers, and has implemented a fire wall with respect to its respective broker-dealer affiliates regarding access to information concerning the composition and/or changes to the portfolio.²⁴

The Exchange represents that trading in the Shares through the Exchange will be subject to the Exchange's surveillance procedures for derivative products, including Managed Fund Shares. The Exchange may obtain information regarding trading in the Shares and the underlying shares in exchange traded equity securities via the Intermarket Surveillance Group ("ISG"), from other exchanges that are members or affiliates of the ISG, or with which the

²⁴ See Amendment No. 1, supra note 6, at 6. The Exchange further represents that an investment adviser to an open-end fund is required to be registered under the Investment Advisers Act of 1940 ("Advisers Act"). As a result, the Adviser and its related personnel are subject to the provisions of Rule 204A-1 under the Advisers Act relating to codes of ethics. This Rule requires investment advisers to adopt a code of ethics that reflects the fiduciary nature of the relationship to clients as well as compliance with other applicable securities laws. Accordingly, procedures designed to prevent the communication and misuse of non-public information by an investment adviser must be consistent with Rule 204A-1 under the Advisers Act. In addition, Rule 206(4)-7 under the Advisers Act makes it unlawful for an investment adviser to provide investment advice to clients unless such investment adviser has (i) adopted and implemented written policies and procedures reasonably designed to prevent violation, by the investment adviser and its supervised persons, of the Advisers Act and the Commission rules adopted thereunder; (ii) implemented, at a minimum, an annual review regarding the adequacy of the policies and procedures established pursuant to subparagraph (i) above and the effectiveness of their implementation; and (iii) designated an individual (who is a supervised person) responsible for administering the policies and procedures adopted under subparagraph (i) above.

Exchange has entered into a comprehensive surveillance sharing agreement.²⁵ In addition, the Exchange is able to access, as needed, trade information for certain fixed income instruments reported to the Financial Industry Regulatory Authority's Trade Reporting and Compliance Engine ("TRACE").

The Exchange represents that all statements and representations made in the proposed rule change regarding (a) the description of the portfolio, (b) limitations on portfolio holdings or reference assets, or (c) the applicability of Exchange rules and surveillance procedures shall constitute continued listing requirements for listing the Shares on the Exchange. In addition, the issuer has represented to the Exchange that it will advise the Exchange of any failure by a Fund to comply with the continued listing requirements, and, pursuant to its obligations under Section 19(g)(1) of the Act, the Exchange will monitor for compliance with the continued listing requirements. If a Fund is not in compliance with the applicable listing requirements, the Exchange will commence delisting procedures under the Exchange Rule 14.12.²⁶

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. In support of this proposal, the Exchange has made representations, including the following:

- (1) The Shares will be subject to Exchange Rule 14.11(i), which sets forth the initial and continued listing criteria applicable to Managed Fund Shares.²⁷
- (2) The Exchange's 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.²⁸

²⁵ For a list of the current members of ISG, see www.isgportal.org.

²⁶ See Amendment No. 2, *supra* note 6, at 3-4.

²⁷ See Amendment No. 1, *supra* note 6, at 38.

- (3) The Exchange may obtain information regarding trading in the Shares and the underlying shares in exchange traded equity securities via the ISG, from other exchanges that are members or affiliates of the ISG, or with which the Exchange has entered into a comprehensive surveillance sharing agreement. In addition, the Exchange is able to access, as needed, trade information for certain fixed income instruments reported to TRACE.²⁹
- (4) Structured securities, when combined with instruments held as part of the other portfolio holdings as described above, will not exceed 20% of each Fund's net assets.³⁰
- (5) Each Fund will comply with Minimum Requirements 1, 2, and 3. If a Fund at any point has sufficient creation units outstanding necessary to trigger a diversity requirement and subsequently has fewer creation units outstanding than those applicable to the Trigger Number, the Fund will continue to comply with any diversity requirement for which the number of creation units outstanding continues to exceed the Trigger Number, as well as each of Minimum Requirements 1, 2 and 3.
- (6) Each Fund may hold up to an aggregate amount of 15% of its net assets in illiquid assets (calculated at the time of investment), as deemed illiquid by the Adviser.³¹
- (7) Prior to the commencement of trading, the Exchange will inform its members in an Information Circular of the special characteristics and risks associated with

²⁸ See id. at 39.

²⁹ See id. at 43.

³⁰ See id. at 9, n.19.

³¹ See id. at 11, 18 and 26.

trading the Shares. Specifically, the Information Circular will discuss the following: (1) the procedures for purchases and redemptions of Shares in Creation Units (and that Shares are not individually redeemable); (2) Exchange Rule 3.7, which imposes suitability obligations on Exchange members with respect to recommending transactions in the Shares to customers; (3) how information regarding the Intraday Indicative Value is disseminated; (4) the risks involved in trading the Shares during the Pre-Opening³² and After Hours Trading Sessions³³ when an updated Intraday Indicative Value will not be calculated or publicly disseminated; (5) the requirement that members 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 Information Circular will advise members, prior to the commencement of trading, of the prospectus delivery requirements applicable to the Funds. Members purchasing Shares from the Funds for resale to investors will deliver a prospectus to such investors. The Information Circular will also discuss any exemptive, no-action, and interpretive relief granted by the Commission from any rules under the Act.³⁴

- (8) For initial and/or continued listing, each Fund must be in compliance with Rule 10A-3 under the Act.³⁵

³² The Pre-Opening Session is from 8:00 a.m. to 9:30 a.m. Eastern Time.

³³ The After Hours Trading Session is from 4:00 p.m. to 5:00 p.m. Eastern Time.

³⁴ See Amendment No. 1, supra note 6, at 41.

³⁵ See id. at 38.

- (9) A minimum of 100,000 Shares of each Fund will be outstanding at the commencement of trading on the Exchange.³⁶
- (10) 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.³⁷

This approval order is based on all of the Exchange's representations, including those set forth above and in Amendments No. 1 and No. 2.

For the foregoing reasons, the Commission finds that the proposed rule change, as modified by Amendments No. 1 and No. 2, is consistent with Section 6(b)(5) of the Act³⁸ and the rules and regulations thereunder applicable to a national securities exchange.

³⁶ See id.

³⁷ See id.

³⁸ 15 U.S.C. 78f(b)(5).

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,³⁹ that the proposed rule change (SR-BatsBZX-2017-10), as modified by Amendments No. 1 and No. 2, be, and it hereby is, approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁴⁰

Eduardo A. Aleman
Assistant Secretary

³⁹ 15 U.S.C. 78s(b)(2).

⁴⁰ 17 CFR 200.30-3(a)(12).