For the Commission, by the Division of Trading and Markets, pursuant to delegated authority. 23
Brent J. Fields, Secretary.
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SECURITIES AND EXCHANGE COMMISSION
[Release No. 34–74742; File No. SR–
NASDAQ–2015–011]
Self-Regulatory Organizations; The
NASDAQ Stock Market LLC; Order
Approving a Proposed Rule Change, as
Modified by Amendments No. 1 and
No. 2, To List and Trade the Shares of
the First Trust Strategic Floating Rate
ETF of First Trust Exchange-Traded
Fund IV
April 16, 2015.
I. Introduction
On February 12, 2015, The NASDAQ
Stock Market LLC (the “Exchange” or
“NASDAQ”) filed with the Securities and
Exchange Commission (“Commission”), pursuant to Section 19(b)(1) 1 of the
Securities Exchange Act of 1934 (“Act”
or “Exchange Act”) 2 and Rule 19b–4
thereunder,3 a proposed rule change to
list and trade shares (“Shares”) of the
First Trust Strategic Floating Rate
ETF of First Trust Exchange-Traded Fund IV (the “Trust”) under
NASDAQ Rule 5735. The proposed rule change was published for comment in the Federal Register on March 3, 2015. 4
On April 6, 2015, the Exchange filed
Amendment No. 1 to the proposed rule change. 5 On April 15, 2015, the
Exchange filed Amendment No. 2 to the
proposed rule change. 6 The Commission
received no comments on the proposed rule change. This order approves the proposed rule change, as modified by
Amendments No. 1 and No. 2.

II. Description of the Proposal
The Exchange proposes to list and
trade the Shares under Nasdaq Rule
5735, which governs the listing and
trading of Managed Fund Shares on the
Exchange. The Fund will be an actively-
managed exchange-traded fund (“ETF”). The Shares will be offered by the Trust. 7
The Trust is registered with the Commission as an investment company and has filed a registration statement on Form N–1A (“Registration Statement”) with the Commission. 8 The Fund will be a series of the Trust.
First Trust Advisors L.P. will be the
investment adviser ("Adviser") to the
Fund. First Trust Portfolios L.P. (the
"Distributor") will be the principal
underwriter and distributor of the Fund’s Shares. The Bank of New York Mellon Corporation will act as the
administrator, accounting agent, custodian and transfer agent to the Fund. The Exchange states that the Adviser is not a broker-dealer, although it is affiliated with the Distributor, a broker-dealer. 9 In addition, the Exchange states that the Adviser has implemented a firewall with respect to its broker-dealer affiliate regarding access to information concerning the composition and/or changes to the portfolio, and that personnel who make decisions on the Fund’s portfolio composition will be subject to procedures designed to prevent the use and dissemination of material non-
public information regarding the Fund’s portfolio. 10 In the event (a) the Adviser becomes, or becomes newly affiliated with, a broker-dealer, or (b) any new adviser or sub-adviser is a registered broker-dealer or becomes affiliated with another broker-dealer, it will implement a firewall with respect to its relevant personnel and/or such broker-dealer affiliate, as applicable, 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

5 In Amendment No. 1, the Exchange clarified that the quotation and last-sale information will be available via the Options Price Reporting Authority only for U.S. exchange-listed options that the Fund holds. Amendment No. 1 is not subject to notice and comment because it is a technical amendment that does not materially alter the substance of the proposed rule change or raise any novel regulatory issues.
6 In Amendment No. 2, the Exchange removed exchange-listed options on U.S. Treasury securities from the types of derivative instruments in which the Fund may invest. Amendment No. 2 is not subject to notice and comment because it does not materially alter the substance of the proposed rule change or raise any novel regulatory issues.

7 The Commission has issued an order, upon which the Trust may rely, granting certain exemptive relief under the Investment Company Act of 1940 ("1940 Act"). See Investment Company Act Release No. 30029 (April 10, 2012) (File No. 812–13795) (the “Exemptive Relief”). In addition, the Commission has issued no-action relief that the Fund believes affects its ability to invest in derivatives notwithstanding certain representations in the application for the Exemptive Relief. See Commission No-Action Letter (December 6, 2012).
8 See Post-Effective Amendment No. 104 to Registration Statement on Form N–1A for the Trust, dated January 29, 2015 (File Nos. 333–174332 and 811–22559).
portfolio. The Fund does not currently intend to use a sub-adviser.

The Exchange has made the following representations and statements regarding the Fund.12

**Principal Investments for the Fund**

The investment objective of the Fund will be to seek current income. To achieve its objective, the Fund will invest, under normal market conditions, at least 80% of its net assets in a portfolio of the following types of floating-rate debt instruments issued by U.S. and non-U.S. public- and private-sector entities: Floating-rate corporate and government bonds and notes; floating-rate agency securities; floating-rate instruments of non-U.S. issuers; floating-rate privately-issued securities; floating-rate asset-backed securities; floating-rate mortgage-backed securities; floating-rate loans; and investment companies that invest primarily in the foregoing types of debt instruments (collectively, “Floating Rate Debt Instruments”).

According to the Exchange, at least 65% of the Fund’s net assets will be invested in Floating Rate Debt Instruments that are, at the time of purchase, investment grade. The Exchange represents that to be considered “investment grade,” under normal market conditions, rated Floating Rate Debt Instruments will carry, at the time of purchase, a rating in the highest four rating categories of at least one nationally recognized statistical ratings organization (“NRSRO”) (e.g., BBB- or higher by Standard & Poor’s Ratings Services, and/or Fitch Ratings, or Baa3 or higher by Moody’s Investors Service, Inc.). For unrated securities to be considered “investment grade,” under normal market conditions, such securities will be determined, at the time of purchase, to be of comparable quality by the Adviser. The Exchange states that the Fund may invest up to 35% of its net assets in securities that are, at the time of investment, rated below investment grade by each NRSRO rating such securities (or securities that are unrated and determined by the Adviser to be of comparable quality), commonly referred to as “high yield” or “junk” bonds. If, subsequent to purchase by the Fund, a security held by the Fund experiences a decline in credit quality and falls below investment grade, the Fund may continue to hold the security, and it will not cause the Fund to violate the 35% investment limitation; however, the security will be taken into account for purposes of determining whether purchases of additional securities will cause the Fund to violate such limitation.18

The Exchange states that the Fund will limit its investments in asset-backed securities (excluding agency mortgage-backed securities) and non-agency mortgage-backed securities (in the aggregate) to 20% of its net assets. In addition, the Fund will limit its investments in junior loans to 20% of its net assets.19

The Fund will hold debt securities (including, in the aggregate, Floating Rate Debt Instruments and the fixed-rate debt securities described below) of at least 13 non-affiliated issuers.

13 See id.

14 The Adviser expects that, generally, under normal market conditions, for a corporate bond to be considered as an eligible investment, after taking into account such an investment, at least 75% of the Fund’s net assets that are invested in floating-rate corporate bonds and, as described below, fixed-rate corporate bonds (in the aggregate), will be comprised of corporate bonds that have, at the time of original issuance, $100 million or more principal amount outstanding to be considered eligible investments. See id. at 11511, n.12.

15 Under normal market conditions, the privately-issued obligations, in which the Fund will invest will have, at the time of original issuance, $100 million or more principal amount outstanding to be considered eligible investments. See id. at 11511, n.12.

16 The Adviser expects that, generally, under normal market conditions, for a corporate bond to be considered as an eligible investment, after taking into account such an investment, at least 75% of the Fund’s net assets that are invested in floating-rate corporate bonds and, as described below, fixed-rate corporate bonds (in the aggregate), will be comprised of corporate bonds that have, at the time of original issuance, $100 million or more principal amount outstanding to be considered eligible investments. See id. at 11511, n.12.

17 See id.

18 See id. at 11511.

19 See id. at 11511.

Other Investments

Under normal market conditions, the Fund will invest primarily in the Floating Rate Debt Instruments described above to meet its investment objective. In addition, the Fund may invest up to 20% of its net assets in the following types of fixed-rate debt securities: Corporate and government bonds and notes; agency securities; instruments of non-U.S. issuers in developed markets; privately-issued securities; asset-backed securities; mortgage-backed securities; municipal bonds; money market securities; and investment companies (including investment companies advised by the Adviser) that invest primarily in the foregoing types of debt securities.

Further, to pursue its investment objective, the Fund may invest up to 20% of the value of its net assets in exchange-listed options on U.S. Treasury futures contracts and exchange-listed U.S. Treasury futures contracts.20 The use of these derivative transactions may allow the Fund to obtain net long or short exposures to selected interest rates. These derivatives may also be used to hedge risks, including interest rate risks and credit risks, associated with the Fund’s portfolio investments. According to the Exchange, the Fund’s investments in derivative instruments will be consistent with the Fund’s investment objective and the 1940 Act and will not be used to seek to achieve a multiple or inverse multiple of an index.

**Investment Restrictions**

The Fund will not invest 25% or more of the value of its total assets in securities of issuers in any one industry. This restriction does not apply to (a) obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities or (b) securities of other investment companies.

The Fund may hold up to an aggregate amount of 15% of its net assets in illiquid assets (calculated at the time of investment), including Rule 144A securities deemed illiquid by the Adviser. The Fund will monitor its portfolio liquidity on an ongoing basis to determine whether, in light of current circumstances, an adequate level of liquidity is being maintained, and will consider taking appropriate steps in order to maintain adequate liquidity if, through a change in values, net assets,

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13 See id.

14 The Adviser expects that, generally, under normal market conditions, for a corporate bond to be considered as an eligible investment, after taking into account such an investment, at least 75% of the Fund’s net assets that are invested in floating-rate corporate bonds and, as described below, fixed-rate corporate bonds (in the aggregate), will be comprised of corporate bonds that have, at the time of original issuance, $100 million or more principal amount outstanding to be considered eligible investments. See id. at 11511, n.12.

15 Under normal market conditions, the privately-issued obligations, in which the Fund will invest will have, at the time of original issuance, $100 million or more principal amount outstanding to be considered eligible investments. See id. at 11511, n.12.

16 The Adviser expects that, generally, under normal market conditions, for a corporate bond to be considered as an eligible investment, after taking into account such an investment, at least 75% of the Fund’s net assets that are invested in floating-rate corporate bonds and, as described below, fixed-rate corporate bonds (in the aggregate), will be comprised of corporate bonds that have, at the time of original issuance, $100 million or more principal amount outstanding to be considered eligible investments. See id. at 11511, n.12.

17 See id.

18 See id. at 11511.

19 See id. at 11511.

20 At least 90% of the Fund’s net assets that are invested in exchange-traded derivative instruments will be invested in instruments that trade in markets that are members of the Intermarket Surveillance Group (“ISG”) or are parties to a comprehensive surveillance sharing agreement with the Exchange. See id. at 11512, n.28.
or other circumstances, more than 15% of the Fund's net assets are held in illiquid assets. Illiquid assets include securities subject to contractual or other restrictions on resale and other instruments that lack readily available markets as determined in accordance with Commission staff guidance.

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

III. Discussion and Commission Findings

After careful review, the Commission finds that the Exchange's proposal to list and trade the Shares is consistent with the Exchange Act and the rules and regulations thereunder applicable to a national securities exchange. In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Exchange Act, which requires, among other things, that the Exchange's rules be designed 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 finds that the proposal to list and trade the Shares on the Exchange is consistent with Section 11A(a)(1)(C)(iii) of the Exchange Act, which sets forth Congress' finding that it is in the public interest and appropriate for the protection of investors and the maintenance of fair and orderly markets to assure the availability to brokers, dealers and investors of information with respect to quotations for and transactions in securities. Quotation and last-sale information for the Shares will be available via Nasdaq proprietary quote and trade services, as well as in accordance with the Unlisted Trading Privileges and the Consolidated Tape Association (“CTA”) plans for the Shares. Quotation and last-sale information for the other ETFs in which the Fund will invest will be available via Nasdaq proprietary quote and trade services of their respective primary exchanges, as well as in accordance with the Unlisted Trading Privileges and the CTA plans, as applicable. Quotation and last-sale information for U.S. exchange-listed options will be available via the Options Price Reporting Authority.

Intraday executable price quotations on Floating Rate Debt Instruments and other assets not traded on an exchange will be available from major broker-dealer firms or market data vendors, as well as from automated quotation systems, published or other public sources, or online information services. Additionally, the Trade Reporting and Compliance Engine (“TRACE”) of the Financial Industry Regulatory Authority (“FINRA”) will be a source of price information for corporate bonds, privately-issued securities, mortgage-backed securities and asset-backed securities to the extent transactions in such securities are reported to TRACE. For exchange-traded assets, intraday pricing information will be available directly from the applicable listing exchange. 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.

The Commission also 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. On each business day, before commencement of trading in Shares in the Regular Market Session (9:30 a.m. to 4:00 p.m. or 4:15 p.m., Eastern Time) on the Exchange, the Fund will disclose on its Web site the identities and quantities of the portfolios of securities and other assets (the "Disclosed Portfolio") as defined in Nasdaq Rule 5735(c)(2) held by the Fund that will form the basis for the Fund’s calculation of NAV at the end of the business day. The Fund’s disclosure of derivative positions in the Disclosed Portfolio will include information that market participants can use to value these positions intraday. The Web site information will be publicly available at no charge. The NAV of the Fund’s Shares generally will be calculated once daily Monday through Friday as of the close of regular trading on the New York Stock Exchange, generally 4:00 p.m., Eastern Time. 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 Intraday Indicative Value, available on the NASDAQ OMX Information LLC proprietary index data service, will be based upon the current value for the components of the Disclosed Portfolio and will be updated and widely disseminated by one or more major market data vendors and broadly displayed at least every 15 seconds during the Regular Market Session. The Fund’s Web site will include a form of the prospectus for the Fund and additional data relating to NAV and other applicable quantitative information.

The Exchange represents that it may consider all relevant factors in exercising its discretion to halt or suspend trading in the Shares of the Fund. NASdaq will halt trading in the Shares under the conditions specified in Nasdaq Rule 4120 and 4121, including the trading pauses under Nasdaq Rules 4120(a)(11) and (12). 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 Shares also will be subject to Rule 5735(d)(2)(D), which sets forth circumstances under which Shares of the Fund may be halted.

The Exchange states that it has a general policy prohibiting the distribution of material, non-public information by its employees. The Exchange states that the Adviser is not a broker-dealer, although it is affiliated with the Distributor, a broker-dealer. In addition, the Exchange states that the Adviser has implemented a fire wall.

See id. at 11516.

See id.

See id.

See id. at 11516.

These may include: (1) The extent to which trading is not occurring in the securities and/or the other assets constituting the Disclosed Portfolio of the Fund; or (2) whether other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present. See id. at 11514.

See id. at 11515.
with respect to its broker-dealer affiliate regarding access to information concerning the composition and/or changes to the portfolio, and that personnel who make decisions on the Fund’s portfolio composition will be subject to procedures designed to prevent the use and dissemination of material non-public information regarding the Fund’s portfolio.\textsuperscript{34} In the event (a) the Adviser becomes, or becomes newly affiliated with, a broker-dealer, or (b) any new adviser or sub-adviser is a registered broker-dealer or becomes affiliated with another broker-dealer, it will implement a fire wall with respect to its relevant personnel and/or such broker-dealer affiliate, as applicable, 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.

FINRA, on behalf of the Exchange, will communicate as needed regarding trading in the Shares and the exchange-traded securities and instruments held by the Fund with other markets and other entities that are members of ISG,\textsuperscript{35} and FINRA may obtain trading information regarding trading in the Shares and the exchange-traded securities and instruments held by the Fund from such markets and other entities. In addition, the Exchange may obtain information regarding trading in the Shares and the exchange-traded securities and instruments held by the Fund from markets and other entities that are members of ISG, which includes securities and futures exchanges, or with which the Exchange has in place a comprehensive surveillance sharing agreement. Moreover, FINRA, on behalf of the Exchange, will be able to access, as needed, trade information for certain components of the Disclosed Portfolio may trade on concurrent with the confirmation of a transaction; and (f) trading information.

The Commission notes that the Fund and the Shares must comply with the requirements of Nasdaq Rule 5735 to be listed and traded on the Exchange. Nasdaq deems the Shares to be equity securities, thus rendering trading in the Shares subject to Nasdaq’s existing rules governing the trading of equity securities. In support of this proposal, the Exchange represented that:

\textsuperscript{34} See id. at 11510.

\textsuperscript{35} For a list of the current members of ISG, see www.isgportal.org. The Exchange notes that not all components of the Disclosed Portfolio may trade on markets that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.

(1) The Shares will be subject to Nasdaq Rule 5735, which sets forth the initial and continued listing criteria applicable to Managed Fund Shares.

(2) Trading in the Shares will be subject to the existing trading surveillances administered by both Nasdaq and FINRA on behalf of the Exchange, which are designed to detect violations of Exchange rules and applicable federal securities laws, and these procedures are adequate to properly monitor Exchange trading of the Shares in all trading sessions and to detect and deter violations of Exchange rules and applicable federal securities laws.

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

(4) Prior to the commencement of trading, the Exchange will inform its members in an Information Circular of the special characteristics and risks associated with trading the Shares. Specifically, the Information Circular will discuss the following: (a) The procedures for purchases and redemptions of Shares in Creation Units (and that Shares are not individually redeemable); (b) Nasdaq Rule 2111A, which imposes suitability obligations on Nasdaq members with respect to recommending transactions in the Shares to customers; (c) how information regarding the Intraday Indicative Value is disseminated; (d) the risks involved in trading the Shares during the Pre-Market and Post-Market Sessions when an updated Intraday Indicative Value will not be calculated or publicly disseminated; (e) the requirement that members deliver a prospectus to investors purchasing newly issued Shares prior to or concurrently with the confirmation of a transaction; and (f) trading information.

(5) For initial and/or continued listing, the Fund must be in compliance with Rule 10A–3\textsuperscript{36} under the Act.

(6) Under normal market conditions, privately-issued securities will have, at the time of original issuance, $100 million or more principal amount outstanding to be considered eligible investments.

(7) Not more than 35% of the Fund’s net assets will be invested in securities that are, at the time of investment, rated below investment grade by each NRSRO rating such securities (or securities that are unrated and determined by the Adviser to be of comparable quality).

(8) Not more than 20% of the Fund’s net assets will be invested in asset-backed securities (excluding agency mortgage-backed securities) and non-agency mortgage-backed securities (in the aggregate) to 20% of its net assets.

(9) Not more than 20% of the Fund’s net assets will be invested in in junior loans.

(10) At least 90% of the Fund’s net assets that are invested in exchange-traded derivative instruments will be invested in instruments that trade in markets that are members of ISG or are parties to a comprehensive surveillance sharing agreement with the Exchange.

(11) The Fund will not invest 25% or more of the value of its total assets in securities of issuers in any one industry. This restriction does not apply to (a) obligations issued or guaranteed by the U.S. government, its agencies or instrumentalities or (b) securities of other investment companies.

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

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

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

This approval order is based on all of the Exchange’s representations, including those set forth above and in the Notice. For the foregoing reasons, the Commission finds that the proposed rule change, as modified by Amendment No. 1 and No. 2, is consistent with Section 6(b)(5) of the Act\textsuperscript{37} and the rules and regulations thereunder applicable to a national securities exchange.

IV. Conclusion

It is therefore ordered, pursuant to Section 19(b)(2) of the Exchange Act,\textsuperscript{38} that the proposed rule change (SR–NASDAQ–2015–011), as modified by Amendments No. 1 and No. 2, is hereby approved.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.\textsuperscript{39}

Brent J. Fields, Secretary.

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\textsuperscript{34} See id. at 11510.

\textsuperscript{35} For a list of the current members of ISG, see www.isgportal.org. The Exchange notes that not all components of the Disclosed Portfolio may trade on markets that are members of ISG or with which the Exchange has in place a comprehensive surveillance sharing agreement.

\textsuperscript{36} See 17 CFR 240.10A–3.


\textsuperscript{39} 17 CFR 200.30–3(a)(12).