

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, by correcting inadvertent errors within the rule text of Supplementary Material .07 to ISE Rule 722. Correcting this rule text error will help to ensure the accuracy of the current Rulebook. This rule change is not substantive.

#### *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 not necessary or appropriate in furtherance of the purposes of the Act. Specifically, the proposal does not impose a burden on intra-market or inter-market competition, because the purpose of this rule change is to correct inadvertent rule text errors within Supplementary Material .07 to Rule 722. This rule change is not substantive.

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

No written comments were either solicited or received.

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

Because the foregoing proposed rule change does not: (i) Significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>7</sup> and Rule 19b-4(f)(6) thereunder.<sup>8</sup>

A proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act<sup>9</sup> normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)(iii)<sup>10</sup> permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. ISE has requested that

the Commission waive the 30-day operative delay to allow the Exchange to immediately correct the errors in ISE Rule 722, Supplementary Material .07 and display Supplementary Material .07 to Rule 722 as intended. The Commission believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest. As noted above, the proposal, which makes no substantive changes to ISE's rules, is designed to correct inadvertent errors in the text of ISE Rule 722, Supplementary Material .07 and to assure that Supplementary Material .07 accurately reflects the changes included in SR-ISE-2018-55 and SR-ISE-2018-56.<sup>11</sup> Accordingly, the Commission waives the operative delay and designates the proposed rule change operative upon filing.<sup>12</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule change should be approved or disapproved.

### **IV. Solicitation of Comments**

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

#### *Electronic Comments*

- Use the Commission's internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-ISE-2018-95 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-ISE-2018-95. This file number should be included on the subject line if email is used. To help the Commission process and review your

<sup>11</sup> See notes 3 and 4, *supra*.

<sup>12</sup> For purposes only of waiving the 30-day operative delay, the Commission also has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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-ISE-2018-95, and should be submitted on or before December 26, 2018.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>13</sup>

**Eduardo A. Aleman,**  
*Assistant Secretary.*

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BILLING CODE 8011-01-P

## **SECURITIES AND EXCHANGE COMMISSION**

[Securities Exchange Act of 1934; Release No. 34-84676/November 29, 2018]

### **In the Matter of the NYSE Arca, Inc.; for an Order Granting the Approval of Proposed Rule Change To List and Trade Shares of the ForceShares Daily 4X US Market Futures Long Fund and ForceShares Daily 4X US Market Futures Short Fund Under Commentary .02 to NYSE Arca Equities Rule 8.200 (SR-NYSEArca-2016-120); Request for Additional Comment**

On October 17, 2016, NYSE Arca, Inc. ("NYSE Arca" or "Exchange") filed with the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities

<sup>13</sup> 17 CFR 200.30-3(a)(12).

<sup>7</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>8</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

<sup>9</sup> 17 CFR 240.19b-4(f)(6).

<sup>10</sup> 17 CFR 240.19b-4(f)(6)(iii).

Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to list and trade shares of the ForceShares Daily 4X US Market Futures Long Fund and ForceShares Daily 4X US Market Futures Short Fund (“ForceShares ETPs”) under Commentary .02 to NYSE Arca Equities Rule 8.200. On November 4, 2016, the proposal was published for comment in the **Federal Register**.<sup>3</sup> On December 14, 2016, the Division of Trading and Markets, for the Commission pursuant to delegated authority, extended the time period for Commission action on the proposed rule change.<sup>4</sup> On February 1, 2017, the Division of Trading and Markets, for the Commission pursuant to delegated authority, instituted proceedings to determine whether to approve or disapprove the proposed rule change.<sup>5</sup> On April 20, 2017, NYSE Arca submitted Amendment No. 3 to the proposed rule change, which replaced and superseded the proposed rule change as modified by previous amendments.<sup>6</sup> No comments on the proposed rule change were received. On May 2, 2017, the Division of Trading and Markets, for the Commission pursuant to delegated authority,<sup>7</sup> approved the proposed rule change, as modified by Amendment No. 3 (“May 2, 2017 Order”).<sup>8</sup>

On May 12, 2017, the Secretary of the Commission notified the Exchange that pursuant to Rule 431 of the Commission’s Rules of Practice,<sup>9</sup> the Commission would review the delegated action and that the May 2, 2017 Order was stayed until the Commission ordered otherwise.<sup>10</sup> On May 25, 2017, the Commission issued an order scheduling filing of statements on review (“May 25, 2017 Order”), in

which the Commission ordered that any party or other person may file any additional statement by June 15, 2017. The Commission further ordered that the May 2, 2017 Order shall remain stayed pending further order of the Commission. The Commission received six comment letters in response to the May 25, 2017 Order that support approval of the proposed rule change.<sup>11</sup>

In response to the May 25, 2017 Order, one commenter cited a working paper from staff of the Federal Reserve Board regarding the impact of leveraged and inverse exchange-traded products (“ETPs”) on the underlying market, and quoted the following statements from the paper: (a) “capital flows substantially reduce the need for ETFs to rebalance when returns are large in magnitude and, therefore, mitigate the potential for these products to amplify volatility. We also show theoretically that flows can completely eliminate ETF rebalancing in the limit” and (b) “[l]everaged and inverse ETFs have received heavy criticism based on the belief that they exacerbate volatility in financial markets. We show that concerns about these types of products are likely exaggerated. Empirically, we find that capital flows considerably reduce ETF rebalancing demand and, therefore, mitigate the potential for ETFs to amplify volatility. Our analysis has relevant and timely policy implications, as regulators are reportedly considering changes to how ETFs are regulated.”<sup>12</sup>

The Commission believes that questions and concerns remain regarding the potential systemic impact of the ForceShares ETPs. In particular, the amount of rebalancing activity for a leveraged or inverse ETP increases significantly as the ETP’s leverage ratio and net assets increase. Moreover, the rebalancing activities of both leveraged and inverse ETPs are in the same direction as the movement in the reference asset (*i.e.*, they sell when the market is going down and buy when the market is going up), which could

potentially further exacerbate market movements, particularly during periods of high market volatility. Because the ForceShares ETPs would have 4X and –4X leverage, they would have greater rebalancing activities than existing ETPs that have lower leverage ratios per dollar of net assets under management. In particular, there are questions concerning whether rebalancing activities of the ForceShares ETPs could potentially result in significant additional market volatility as compared to existing ETPs, and interfere with fair and orderly markets. This raises a potential concern that the listing and trading of shares of the ForceShares ETPs may not be consistent with Section 6(b)(5) of the Act, which requires, among other things, that the rules of a national securities exchange be designed to protect investors and the public interest.

The Commission notes that another working paper from staff of the Federal Reserve Board suggests that the rebalancing activities of leveraged and inverse ETPs increase volatility in the underlying securities.<sup>13</sup> In particular, that working paper suggests that the rebalancing activities of leveraged and inverse ETPs in response to a large market move, especially in periods of high volatility, could pose market risks.

The Commission invites additional written views of interested persons concerning whether the proposed rule change is consistent with Section 6(b)(5) or any other provision of the Act, or the rules and regulations thereunder. In particular, the Commission requests that interested persons provide additional written submissions of their views, data, and arguments with respect to the market impact issue identified above (including the market impact issue discussed in the Ivanov and Lenkey Paper and the Tuzun Paper), as well as any other comments they wish to submit regarding the proposed rule change. In particular, the Commission seeks comment, including, where relevant, any specific data, statistics, or studies, on the following:

1. Would the rebalancing activities of the ForceShares ETPs impact daily volatility of the portfolio holdings, the underlying index, or the underlying names comprising the index (together “underlying assets”)?<sup>14</sup> If so, how?

<sup>13</sup> See Tugkan Tuzun, *Are Leveraged and Inverse ETFs the New Portfolio Insurers?* (Board of Governors of the Federal Reserve System, Working Paper May 28, 2014) (“Tuzun Paper”).

<sup>14</sup> As explained in Amendment No. 3 to the proposed rule change, under normal market conditions, each ForceShares ETP may invest in Standard & Poor’s 500 Stock Price Index Futures contracts (“Big S&P Contracts”), E-Mini S&P 500

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

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

<sup>3</sup> See Securities Exchange Act Release No. 79201 (October 31, 2016), 81 FR 76977 (November 4, 2016) (SR-NYSEArca-2016-120).

<sup>4</sup> See Securities Exchange Act Release No. 79550 (December 14, 2016), 81 FR 92892 (December 20, 2016).

<sup>5</sup> See Securities Exchange Act Release No. 79914 (February 1, 2017), 82 FR 9625 (February 7, 2017).

<sup>6</sup> Amendment No. 3 replaced and superseded the proposed rule change as modified by Amendment No. 2. Amendment No. 2 had previously replaced and superseded the proposed rule change as modified by Amendment No. 1. Amendment No. 1 replaced and superseded the original filing in its entirety.

<sup>7</sup> 17 CFR 200.30-3(a)(12).

<sup>8</sup> See Securities Exchange Act Release No. 80579 (May 2, 2017), 82 FR 21443 (May 8, 2017).

<sup>9</sup> 17 CFR 201.431.

<sup>10</sup> See letter to Elizabeth King, General Counsel and Corporate Secretary, New York Stock Exchange, from Brent J. Fields, Secretary, Commission, dated May 12, 2017, available at <https://www.sec.gov/rules/sro/nysearca/2017/34-80770-letter-from-secretary.pdf>.

<sup>11</sup> See letters to Brent J. Fields, Secretary, Commission, from Boris Ilyevsky, dated June 5, 2017; Kris Wallace, Member, ForceShares LLC, dated June 13, 2017; Douglas M. Yones, Head of Exchange Traded Products, New York Stock Exchange, dated June 13, 2017; Jonathan Yao, CEO, SogoTrade, Inc., dated June 14, 2017; and Kris Wallace, Member, ForceShares LLC, dated July 24, 2017 (“ForceShares Letter”); and letter to Commission, from James J. Angel, Associate Professor of Finance, Georgetown University, dated July 10, 2017.

<sup>12</sup> See ForceShares Letter at 5 (quoting Ivan T. Ivanov and Stephen L. Lenkey, *Are Concerns About Leveraged ETFs Overblown?* (Finance and Economics Discussion Series, Divisions of Research & Statistics and Monetary Affairs, Federal Reserve Board, Washington, DC, Working Paper 2014-106) (“Ivanov and Lenkey Paper”).

2. How much additional end-of-day trading volume in the underlying assets would the ForceShares ETPs potentially add? How much volume has existing leveraged and inverse ETPs added to end-of-day trading in their underlying assets?

3. Would the trading activity relating to the ForceShares ETPs exacerbate market movements or market volatility? Why or why not?

4. What type of hedging exposure is expected to arise from trading activity in these products?

5. How would this hedging exposure change or otherwise react to significant down market moves? For example, how might such hedging exposure be adjusted?

6. Would the listing and trading of shares of the ForceShares ETPs change the current leveraged and inverse ETP market? If so, how?

7. Do investors have access to information sufficient to fully understand the operation and risks of the ForceShares ETPs?

*It is ordered* that by December 20, 2018, any party or other person may file any additional statement.

By the Commission.

**Eduardo A. Aleman,**

*Assistant Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–84709; File No. 10–234]

### Long-Term Stock Exchange, Inc.; Notice of Filing of Application for Registration as a National Securities Exchange Under Section 6 of the Securities Exchange Act of 1934

November 30, 2018.

On November 9, 2018, Long-Term Stock Exchange, Inc. (“LTSE” or “Applicant”) filed with the Securities and Exchange Commission

Futures contracts (“E-Minis” and, together with Big S&P Contracts, “Primary S&P Interests”), swap agreements referencing Primary S&P Interests or the S&P 500 Index, over-the-counter forward contracts referencing Primary S&P Interests, options on Primary S&P Interests, and certain “Cash Equivalents.” For more information regarding the ForceShares ETPs, see Amendment No. 3, available at <https://www.sec.gov/comments/sr-nysearca-2016-120/nysearca2016120-1714666-150363.pdf>.

(“Commission”) a Form 1 application under the Securities Exchange Act of 1934 (“Exchange Act”), seeking registration as a national securities exchange under Section 6 of the Exchange Act.

The Commission is publishing this notice to solicit comments on LTSE’s Form 1 application. The Commission will take any comments it receives into consideration in making its determination about whether to grant LTSE’s request to be registered as a national securities exchange. The Commission will grant the registration if it finds that the requirements of the Exchange Act and the rules and regulations thereunder with respect to LTSE are satisfied.<sup>1</sup>

The Applicant’s Form 1 application provides detailed information on how LTSE proposes to satisfy the requirements of the Exchange Act. The Form 1 application also provides that LTSE would operate a fully automated electronic trading platform for the trading of listed equities and would not maintain a physical trading floor. It also provides that liquidity would be derived from orders to buy and orders to sell submitted to LTSE electronically by its registered broker-dealer members, as well as from quotes submitted electronically by market makers. Further, the Form 1 application states that LTSE would be wholly-owned by its parent company, LTSE Holdings, Inc. (“LTSEH”).

A more detailed description of the manner of operation of LTSE’s proposed system can be found in Exhibit E to LTSE’s Form 1 application. The proposed rulebook for the proposed exchange can be found in Exhibit B to LTSE’s Form 1 application, and the governing documents for both LTSE and LTSEH can be found in Exhibit A and Exhibit C to LTSE’s Form 1 application, respectively. A listing of the officers and directors of LTSE can be found in Exhibit J to LTSE’s Form 1 application.

LTSE’s Form 1 application, including all of the Exhibits referenced above, is available online at [www.sec.gov/rules/other.shtml](http://www.sec.gov/rules/other.shtml) as well as in the Commission’s Public Reference Room. Interested persons are invited to submit written data, views, and arguments concerning LTSE’s Form 1, including whether the application is consistent with the Exchange Act.

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

Comments may be submitted by any of the following methods:

#### *Electronic Comments*

- Use the Commission’s internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number 10–234 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 10–234. 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/other.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to LTSE’S Form 1 filed with the Commission, and all written communications relating to the application 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. 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 publicly available. All submissions should refer to File Number 10–234 and should be submitted on or before January 22, 2019.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>2</sup>

**Eduardo A. Aleman,**

*Assistant Secretary.*

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<sup>2</sup> 17 CFR 200.30–3(a)(71)(i).