

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-57800; File No. SR-NASDAQ-2008-039)

May 8, 2008

Self-Regulatory Organizations; The NASDAQ Stock Market LLC; Notice of Filing of Proposed Rule Change and Amendment No. 1 Thereto Relating to the Listing and Trading of Managed Fund Shares

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on April 30, 2008, The NASDAQ Stock Market LLC (“Nasdaq” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been substantially prepared by the Exchange. On May 7, 2008, the Exchange filed Amendment No. 1 to the proposed rule change. The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to adopt new Nasdaq Rule 4420(o) to list and trade, or trade pursuant to unlisted trading privileges (“UTP”), securities issued by actively managed, open-end investment management companies (“Managed Fund Shares”) and to amend certain other Nasdaq rules to incorporate references to Managed Fund Shares. The text of the proposed rule change is available at the Exchange, the Commission’s Public Reference Room, and www.nasdaq.com.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the

¹ 15 U.S.C. 78s(b)(1).

purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to add new Nasdaq Rule 4420(o) to permit the listing and trading, or trading pursuant to UTP, of Managed Fund Shares.³ The Exchange also proposes to make conforming changes to the introductory paragraph of Nasdaq Rule 4420, Nasdaq Rules 4120(a)(9) and 4120(b)(4)(A), which relate to trading halts, and Nasdaq Rule 4540, which relates to entry and annual fees for issuers, to incorporate references to Managed Fund Shares.

Proposed Listing Rules for Managed Fund Shares

Proposed Nasdaq Rule 4420(o)(2)(A) provides that Nasdaq will file separate proposals under Section 19(b) of the Act before the listing and/or trading of Managed Fund Shares.

Proposed Nasdaq Rule 4420(o)(2)(B) provides that transactions in Managed Fund Shares will occur throughout Nasdaq's trading hours.⁴ Proposed Nasdaq Rule 4420(o)(2)(C) provides that the minimum price variation for quoting and entry of orders in Managed Fund Shares will be

² 17 CFR 240.19b-4.

³ The Exchange notes that proposed Nasdaq Rule 4420(o) is substantively identical to NYSE Arca Equities Rule 8.600. See Securities Exchange Act Release No. 57619 (April 4, 2008), 73 FR 19544 (April 10, 2008) (SR-NYSEArca-2008-25) (approving, among other things, listing standards for Managed Fund Shares).

⁴ See Nasdaq Rule 4120(b)(4) (describing the three trading sessions on the Exchange: (1) Pre-Market Session from 7:00 a.m. to 9:30 a.m.; (2) Regular Market Session from 9:30 a.m. to 4:00 p.m. or 4:15 p.m.; and (3) Post-Market Session from 4:00 p.m. or 4:15 p.m. to 8:00 p.m.).

\$0.01. Proposed Rule Nasdaq 4420(o)(2)(D) provides that Nasdaq will implement written surveillance procedures for Managed Fund Shares. Proposed Nasdaq Rule 4420(o)(2)(E) provides that, for Managed Fund Shares based on an international or global portfolio, the statutory prospectus or the application for exemption from provisions of the Investment Company Act of 1940 (“1940 Act”) for such series of Managed Fund Shares must state that such series must comply with the federal securities laws in accepting securities for deposits and satisfying redemptions with redemption securities, including that the securities accepted for deposits and the securities used to satisfy redemption requests are sold in transactions that would be exempt from registration under the Securities Act of 1933.

Proposed Definitions. Proposed Nasdaq Rule 4420(o)(3)(A) defines the term “Managed Fund Share” as a security that: (1) represents an interest in a registered investment company (“Investment Company”) organized as an open-end management investment company or similar entity, that invests in a portfolio of securities selected by the Investment Company’s investment adviser consistent with the Investment Company’s investment objectives and policies; (2) is issued in a specified aggregate minimum number in return for a deposit of a specified portfolio of securities and/or a cash amount with a value equal to the next determined net asset value (“NAV”); and (3) when aggregated in the same specified minimum number, may be redeemed at a holder’s request, which holder will be paid a specified portfolio of securities and/or cash with a value equal to the next determined NAV.

In addition, proposed Nasdaq Rule 4420(o)(3)(B) defines the term “Disclosed Portfolio” as the identities and quantities of the securities and other assets held by the Investment Company that will form the basis for the Investment Company’s calculation of NAV at the end of the business day. Proposed Nasdaq Rule 4420(o)(3)(C) defines the term “Intraday Indicative Value”

as the estimated indicative value of a Managed Fund Share based on current information regarding the value of the securities and other assets in the Disclosed Portfolio. Proposed Nasdaq Rule 4420(o)(3)(D) defines the term “Reporting Authority” as Nasdaq, an institution, or a reporting service designated by Nasdaq or by the exchange that lists a particular series of Managed Fund Shares (if Nasdaq is trading such series pursuant to UTP) as the official source for calculating and reporting information relating to such series, including, but not limited to, the Intraday Indicative Value, the Disclosed Portfolio, the amount of any cash distribution to holders of Managed Fund Shares, NAV, or other information relating to the issuance, redemption, or trading of Managed Fund Shares. A series of Managed Fund Shares may have more than one Reporting Authority, each having different functions.

Initial and Continued Listing. Proposed Nasdaq Rule 4420(o)(4) sets forth the initial and continued listing criteria applicable to Managed Fund Shares.⁵ Proposed Nasdaq Rule

⁵ The Exchange represents that, for initial and/or continued listing, Managed Fund Shares must also be in compliance with Rule 10A-3 under the Act. See 17 CFR 240.10A-3. In addition, the Exchange represents that, with respect to a series of Managed Fund Shares, the investment adviser and its related personnel are subject to Rule 204A-1 under the Investment Advisers Act of 1940 (“Advisers Act”), which relates to codes of ethics for investment advisers. See 17 CFR 275.204A-1. Rule 204A-1 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, the Exchange notes that “firewall” procedures, as well as procedures designed to prevent the 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 (17 CFR 275.206(4)-7) 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 rules thereunder; (ii) implemented, at a minimum, an annual review regarding the adequacy of such policies and procedures and the effectiveness of their implementation; and (iii) designated an individual (who is a supervised person) responsible for administering such policies and procedures. See also Section 204A of the Advisers Act (15 U.S.C. 80b-4a) (requiring investment advisers to establish, maintain, and enforce written policies and procedures reasonably designed to prevent the misuse of material, non-public information by such

4420(o)(4)(A)(i) provides that, for each series of Managed Fund Shares, Nasdaq will establish a minimum number of Managed Fund Shares required to be outstanding at the time of commencement of trading. In addition, under proposed Nasdaq Rule 4420(o)(4)(A)(ii), Nasdaq must obtain a representation from the issuer of each series of Managed Fund Shares that the NAV per share for such series will be calculated daily and that the NAV and the Disclosed Portfolio will be made available to all market participants at the same time.

Proposed Nasdaq Rule 4420(o)(4)(B) provides that each series of Managed Fund Shares will be listed and traded subject to the application of the following continued listing criteria: (1) the Intraday Indicative Value for Managed Fund Shares must be widely disseminated by one or more major market data vendors at least every 15 seconds during the time when the Managed Fund Shares trade on Nasdaq; (2) the Disclosed Portfolio must be disseminated at least once daily and made available to all market participants at the same time; and (3) the Reporting Authority that provides the Disclosed Portfolio must 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 portfolio.

Proposed Nasdaq Rule 4420(o)(4)(B)(iii) provides that Nasdaq will consider the suspension of trading in, or removal from listing of, a series of Managed Fund Shares under any of the following circumstances: (1) if, following the initial twelve-month period after commencement of trading on the Exchange of a series of Managed Fund Shares, there are fewer than 50 beneficial holders of the series of Management Fund Shares for 30 or more consecutive

investment adviser or any person associated with such investment adviser). E-mail from Jonathan F. Cayne, Associate General Counsel, Exchange, to Edward Cho, Special Counsel, Division of Trading and Markets, Commission, dated May 5, 2008 (confirming policies and procedures relating to protections against the misuse of material, non-public information concerning an Investment Company's portfolio).

trading days; (2) if the value of the Intraday Indicative Value is no longer calculated or available or the Disclosed Portfolio is not made available to all market participants at the same time; (3) if the Investment Company issuing the Managed Fund Shares has failed to file any filings required by the Commission or if Nasdaq is aware that the Investment Company is not in compliance with the conditions of any exemptive order or no-action relief granted by the Commission to the Investment Company with respect to the series of Managed Fund Shares; or (4) if such other event shall occur or condition exists which, in the opinion of Nasdaq, makes further dealings on Nasdaq inadvisable.

Proposed Nasdaq Rule 4420(o)(4)(B)(iv) provides that, if the Intraday Indicative Value of a series of Managed Fund Shares is not being disseminated as required, Nasdaq may halt trading during the day in which the interruption to the dissemination of the Intraday Indicative Value occurs. If the interruption to the dissemination of the Intraday Indicative Value persists past the trading day in which it occurred, Nasdaq will halt trading no later than the beginning of the trading day following the interruption. If a series of Managed Fund Shares is trading on Nasdaq pursuant to UTP, Nasdaq will halt trading in that series as specified in Nasdaq Rules 4120 and 4121. In addition, if the Exchange becomes aware that NAV or the Disclosed Portfolio with respect to a series of Managed Fund Shares is not disseminated to all market participants at the same time, it will halt trading in such series until such time as the NAV or the Disclosed Portfolio is available to all market participants.

In addition, proposed Nasdaq Rule 4420(o)(4)(B)(v) provides that, upon termination of an Investment Company, the Managed Fund Shares issued in connection with such entity must be removed from listing on Nasdaq. Proposed Nasdaq Rule 4420(o)(4)(B)(vi) provides that voting rights must be as set forth in the applicable Investment Company prospectus. Proposed

Nasdaq Rule 4420(o)(5) relates to the limitation of liability of the Exchange in connection with an issuance of a series of Managed Fund Shares.

Proposed Nasdaq Rule 4420(o)(6) relates to obligations with respect to those Managed Fund Shares that receive an exemption from certain prospectus delivery requirements under Section 24(d) of the 1940 Act. Lastly, proposed Nasdaq Rule 4420(o)(7) provides that, if the investment adviser of the Investment Company issuing Managed Fund Shares is affiliated with a broker-dealer, such investment adviser must erect a “firewall” between such investment adviser and broker-dealer with respect to access to information regarding the composition and/or changes to the Investment Company’s portfolio. This proposed rule also requires personnel who make decisions on the Investment Company’s portfolio composition to be subject to procedures designed to prevent the use and dissemination of material, non-public information regarding the Investment Company’s portfolio.

Other Proposed Rule Changes

The Exchange also proposes to amend: (1) the introductory paragraph of Nasdaq Rule 4420 to add a reference to new paragraph (o) thereunder; (2) Nasdaq Rule 4120(a)(9) and Nasdaq Rule 4120(b)(4)(A) to add references to Managed Fund Shares with respect to trading halts;⁶ and (3) Nasdaq Rule 4540(a) and (b) to add references to Managed Fund Shares to those securities already covered under the rule relating to both entry and annual fees.

Key Features of Managed Fund Shares

Registered Investment Company. A Managed Fund Share means a security that represents an interest in an investment company registered under the 1940 Act organized as an

⁶ Nasdaq also seeks to make an unrelated, minor typographical change to Nasdaq Rule 4120(b)(4)(A) with respect to the term “Trust Issued Receipt.”

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, the open-end investment company that issues securities of an exchange-traded fund 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.

1940 Act Exemptive Relief. The 1940 Act contemplates two categories of investment companies: (1) those which issue redeemable securities (i.e., open-end investment companies); and (2) those which do not issue redeemable securities (i.e., closed-end investment companies). Index Fund Shares⁷ and Portfolio Depository Receipts⁸ (collectively, “Index ETFs”) are redeemable, but only in large blocks of shares, not individually, so it is not certain whether they would be redeemable under the 1940 Act. Because Index ETFs do not fit neatly into either the open-end category or the closed-end category, Index ETFs have had to seek exemptive relief from the Commission to permit registration as an open-end investment company. Managed Fund Shares share key structural features with Index ETFs – creation and redemption in large blocks of shares being the most important one – that result in the need for exemptive relief, and therefore, Managed Fund Shares will require relief from the same provisions of the 1940 Act.

Intraday Trading. Like Index ETFs, Managed Fund Shares will be listed and traded on a national securities exchange, and therefore, will be available for sale and purchase on an intraday basis, like other listed securities. In contrast, shares of managed mutual funds may only be purchased and sold (issued and redeemed) in direct transactions with the fund, once each day.

⁷ See Nasdaq Rule 4420(j).

⁸ See Nasdaq Rule 4420(i).

Creations and Redemptions. As with Index ETFs, Managed Fund Shares will be issued and redeemed on a daily basis at NAV. Also, like Index ETFs, creations and redemptions for Managed Fund Shares must be in large specified blocks of shares called “Creation Units.” Purchases and sales of shares in amounts smaller than the number of shares required for a Creation Unit may be effected only in the secondary market and not directly with the fund.

In addition, for most Index ETFs, the creation and redemption process is effected “in kind.” Creation “in kind” typically means that the investor – usually a brokerage house or large institutional investor – purchases the Creation Unit with a “Portfolio Deposit” equal in value to the aggregate NAV of the shares in the Creation Unit. The Portfolio Deposit generally consists of a basket of securities that reflects the composition of the Index ETF’s portfolio. Similarly, an investor redeeming shares in the Index ETF receives in exchange for shares in the Index ETF the securities in the “Redemption Basket,” which is usually the same as the Portfolio Deposit and consists of securities that reflect the composition of the Index ETF’s portfolio.⁹ The Portfolio Deposit often includes a small cash component to make the value of the deposit or basket exactly equal to the aggregate NAV. Most Index ETFs also permit cash creations and redemptions under specified, limited circumstances.

Managed Fund Shares may use one or more of the following three approaches to creations and redemptions: (1) “in kind” creations and redemptions using a Portfolio Deposit that reflects the composition of the fund; (2) cash creations and redemptions; or (3) “in kind” creations and redemptions using a Portfolio Deposit consisting of securities that do not reflect

⁹ References to the “Portfolio Deposit” herein include the Redemption Basket unless otherwise specified.

the composition of the fund, but instead consisting of other securities including, for example, specified Index ETFs.

Portfolio Disclosure. One common feature of Index ETFs is disclosure of the contents of the Portfolio Deposit on a daily basis. Aside from providing the information required for daily creations and redemptions, the Portfolio Deposit gives market participants a basis for estimating the intraday value of the fund and thus, provides a basis for the arbitrage that keeps the market price of Index ETFs generally in line with the NAV of the Index ETF. While Managed Fund Shares may use an in-kind or cash creation and redemption mechanism, as noted above, each series of Managed Fund Shares will disclose daily the identities and quantities of the portfolio of securities and other assets (i.e., the Disclosed Portfolio) held by the applicable fund that will form the basis for the fund's calculation of NAV at the end of the business day.

Intraday Indicative Value.¹⁰ For each series of Managed Fund Shares, an estimated value, defined in proposed Nasdaq Rule 4420(o)(3)(C) as the "Intraday Indicative Value" that reflects an estimated intraday value of the fund portfolio, will be disseminated. The Intraday Indicative Value will be based upon the current value for the components of the Disclosed Portfolio and will be disseminated by the Exchange at least every 15 seconds during the regular market session through the facilities of the Consolidated Tape Association. The dissemination of the Intraday Indicative Value, together with the Disclosed Portfolio, will allow investors to determine the value of the underlying portfolio of a series of Managed Fund Shares on a daily basis and to provide a close estimate of that value throughout the trading day.

Trading Halts

¹⁰ This value of the estimated NAV is for use by investors, professionals, and persons wishing to create or redeem shares.

Nasdaq will halt trading in Managed Fund Shares under the conditions specified in Nasdaq Rules 4120 and 4121, as proposed to be amended, and in proposed Nasdaq Rule 4420(o)(4)(B)(iv), as discussed above. With respect to trading of Managed Fund Shares pursuant to UTP, the conditions for a halt include a regulatory halt by the listing market, and Nasdaq will stop trading Managed Fund Shares if the listing market delists them. Additionally, Nasdaq may cease trading Managed Fund Shares if other unusual conditions or circumstances exist which, in the opinion of Nasdaq, make further dealings on Nasdaq detrimental to the maintenance of a fair and orderly market.

Trading Rules

Nasdaq deems Managed Fund Shares to be equity securities, thus rendering trading in the Managed Fund Shares subject to Nasdaq's existing rules governing the trading of equity securities. Nasdaq will allow trading in Managed Fund Shares from 7:00 a.m. until 8:00 p.m. Eastern Time.¹¹

Surveillance

The Exchange intends to utilize its existing surveillance procedures applicable to derivative products (including exchange-traded funds) to monitor trading in Managed Fund Shares and represents that such procedures are adequate to address any concerns regarding the trading of Managed Fund Shares on Nasdaq. Trading of Managed Fund Shares on Nasdaq will be subject to surveillance procedures of the Financial Industry Regulatory Authority ("FINRA") for equity securities, in general, and exchange-traded funds, in particular.¹² The Exchange may

¹¹ See supra note 4.

¹² The Exchange states that FINRA surveils trading on Nasdaq pursuant to a regulatory services agreement. Nasdaq is responsible for FINRA's performance under this regulatory services agreement.

also obtain information via the Intermarket Surveillance Group (“ISG”) from other exchanges who are members or affiliate members of ISG.

Information Circular

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 Managed Fund Shares. Specifically, the Information Circular will discuss the following: (1) the procedures for purchases and redemptions of Managed Fund Shares in Creation Units (and that Managed Fund Shares are not individually redeemable); (2) Nasdaq Rule 2310, which imposes suitability obligations on Nasdaq members with respect to recommending transactions in Managed Fund Shares to customers; (3) how information regarding the Intraday Indicative Value is disseminated; (4) the requirement that members deliver a prospectus to investors purchasing newly issued Managed Fund Shares prior to or concurrently with the confirmation of a transaction; (5) the risks involved in trading Managed Fund Shares during the Pre-Market and Post-Market Sessions when an updated Intraday Indicative Fund value will not be calculated or publicly disseminated; (6) any exemptive, no-action, or interpretive relief granted by the Commission from any rules under the Act; (7) related fees and expenses; (8) trading hours of the Managed Fund Shares; (9) NAV calculation and dissemination; and (10) trading information.

The Exchange notes that investors purchasing Managed Fund Shares directly from a Fund will receive a prospectus. Members purchasing Managed Fund Shares from a Fund for resale to investors will deliver a prospectus to such investors.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of

the Act,¹³ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹⁴ in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanism of a free and open market and a national market system. The Exchange believes that the proposed rules will facilitate the listing and trading of additional types of exchange-traded products that will enhance competition among market participants, to the benefit of investors and the marketplace. In addition, the Exchange believes that the listing and trading criteria set forth in the proposed rules are intended to protect investors and the public interest.

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 purposes of the Act.

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

The Exchange states that written comments on the proposed rule change were neither solicited nor received.

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

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission will:

¹³ 15 U.S.C. 78f(b).

¹⁴ 15 U.S.C. 78f(b)(5).

- A. by order approve such proposed rule change, or
- B. institute proceedings to determine whether the proposed rule change should be 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 e-mail to rule-comments@sec.gov. Please include File Number SR-NASDAQ-2008-039 on the subject line.

Paper Comments:

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

All submissions should refer to File Number SR-NASDAQ-2008-039. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room, 100 F Street,

NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NASDAQ-2008-039 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁵

Florence E. Harmon
Deputy Secretary

¹⁵ 17 CFR 200.30-3(a)(12).