



Investors Exchange Product Information Circular 2016 - 0802

Date: August 31, 2016

Re: IQ ARB Merger Arbitrage ETF

Investors Exchange LLC commenced operating as a national securities exchange on August 19, 2016 followed by a two-week security-by-security phase-in period. This Information Circular is being issued to advise you that the following security has been approved for trading pursuant to unlisted trading privileges (“UTP”) on the Exchange as UTP Derivative Securities pursuant to IEX Rule 16.160, and will begin trading on IEX during the phase-in period. See the [Exchange’s Website](#) for the phase-in schedule.

<u>Securities (the “Fund”)</u>	<u>Symbol</u>
IQ ARB Merger Arbitrage ETF	MNA

Issuer/Trust: IndexIQ ETF Trust

Issuer Website: www.indexiq.com/

Primary Listing Exchange: NYSE Arca

Primary Exchange Circular: RB-09-165 (November 17, 2009)

Registration Statement: Nos. 333-152915 and 811-22227

The purpose of this information circular is to outline various rules and policies that will be applicable to trading in these new products pursuant to the Exchange’s unlisted trading privileges, as well as to provide certain characteristics and features of the Shares. For a more complete description of the Issuer, the Shares and the underlying market instruments or indexes, visit the Issuer Website, consult the Prospectus available on the Issuer Website, examine the Issuer Registration Statement or review the most current information bulletin issued by the Primary Listing Exchange. The Issuer Website, the Prospectus, the Issuer Registration Statement and the Primary Exchange Circular are hereafter collectively referred to as the “Issuer Disclosure Materials.”

Background Information on the Fund

The IndexIQ ETF Trust (the “Trust”) is a management investment company registered under the Investment Company Act of 1940, as amended (the “1940 Act”), consisting of several investment portfolios. This circular relates only to the PIMCO Enhanced Short Maturity Strategy Fund (the “Fund”). The shares of the Fund are referred to herein as “Shares.” IndexIQ Advisors LLC (the “Adviser” or “IndexIQ”) is the investment adviser to the Fund.

The Fund seeks investment results that correspond (before fees and expenses) generally to the price and yield performance of the IQ ARB Merger Arbitrage Index (the “Underlying Index”), developed by IndexIQ, which in turn seeks to identify investment opportunities in the acquisition and merger market segment globally.



The Fund employs a “passive management” – or indexing – investment approach designed to track the performance of the Underlying Index. The Fund invests primarily in the components (“Underlying Index Components”) that make up the Underlying Index.

The Fund invests, under normal circumstances, at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in the investments included in its Underlying Index. The Underlying Index consists of a number of Underlying Index Components selected in accordance with IndexIQ’s rules-based methodology.

Such Underlying Index Components will include primarily U.S. and non-U.S. equity securities. In tracking the Underlying Index, the Fund may invest in inverse and ultra-inverse ETFs, although the portfolio is expected to be predominantly non-ETF securities.

In addition, the Fund may invest up to 20% of its net assets in investments not included in its Underlying Index, but which the Advisor believes will help the Fund track the Underlying Index. Furthermore, the Fund may invest in one or more financial instruments, including but not limited to futures contracts, swap agreements and forward contracts, reverse repurchase agreements, and options on securities, indices and futures contracts (collectively, “Financial Instruments”). As an example of the use of such Financial Instruments, the Fund may use total return swaps on the Underlying Index Components, in order to track its Underlying Index.

Alternatively, the Fund may buy or sell futures contracts to replicate exposures to the Underlying Index Components. The Fund will not directly employ leverage in its investment strategies; nevertheless, it may indirectly be leveraged if and to the extent it invests in an Underlying Index Component that is a leveraged ETF or an ultra inverse ETF or otherwise invests in a Financial Instrument to replicate an exposure to such leveraged ETF or ultra inverse ETF.

The Fund may use a “Representative Sampling” strategy in seeking to track the performance of its Underlying Index. A fund using a Representative Sampling strategy generally will invest in a sample of its Underlying Index Components whose risk, return and other characteristics closely resemble the risk, return, and other characteristics of the Underlying Index as a whole.

To the extent that the Fund’s Underlying Index concentrates (i.e., holds 25% or more of its total assets) in the securities of a particular industry or group of industries, the Fund will concentrate its investment to approximately the same extent as its Underlying Index.

The Underlying Index’s objective is to employ a systematic investment process designed to identify opportunities in companies whose equity securities trade in developed markets, including the U.S., and which are involved in announced mergers, acquisitions and other buyout-related transactions. The Underlying Index seeks to capitalize on the spread between the current market price of the target company’s stock and the price received by the holder of that stock upon consummation of the buyout-related transaction. The Underlying Index first identifies companies that have been announced as targets of mergers, acquisitions, leveraged buyouts or private equity transactions, where the bidder is seeking a majority interest in the company. Based on certain criteria, the list of eligible index components is narrowed to include a smaller group of qualified companies segmented based on computations regarding the price differentials between the current market price of each target company’s stock and the announced price for the buyout-related transaction. From this smaller universe of companies, IndexIQ constructs a constrained liquidity-weighted group of Underlying Index Components, with position sizes limited by trading activity. In addition, the Underlying Index includes short exposure to the U.S. and non-U.S. equity markets, effected through a long position in inverse and/or ultra inverse ETFs, in order to isolate, at least in part, the merger arbitrage-related attributes of



the Underlying Index from the general equity market exposure of the Underlying Index.

Pursuant to the Underlying Index's rules, to the extent there are an insufficient number of target companies in which to invest, insufficient liquidity exists in such companies, or target companies are removed from the Underlying Index between monthly reconstitutions, the Underlying Index will allocate the available cash to one or more short-term fixed income ETFs. In seeking to track the Underlying Index, the Funds may invest, with approximately the same allocation proportions as the Underlying Index, in short-term fixed income ETFs, money market instruments, high quality short-term debt securities, or derivative securities thereon. To the extent the Fund invests in cash and cash equivalents, the Fund will not be pursuing a merger arbitrage strategy.

As described more fully in the Trust's prospectus and Statement of Additional Information, the Fund will issue and redeem Shares on a continuous basis at their net asset value ("NAV") only in large blocks of 50,000 Shares (each, a "Creation Unit"). Creation Units will be issued and redeemed principally in-kind for securities included in the underlying index. Except when aggregated in Creation Units, the Shares may not be redeemed with the Fund.

Net investment income and net capital gains are typically distributed to shareholders at least annually.

Shares are held in book-entry form, which means that no Share certificates are issued. The Depository Trust Company or its nominee is the record owner of all outstanding Shares of the Funds and is recognized as the owner of all Shares for all purposes.

The NAV per Share for the Fund is computed by dividing the value of the net assets of the Fund (i.e., the value of its total assets less total liabilities) by the total number of Shares outstanding. Expenses and fees are accrued daily and taken into account for purposes of determining NAV. The NAV of each Fund is determined each business day after the close of trading (ordinarily 4:00 p.m., Eastern Time or "ET") of the New York Stock Exchange. Any assets or liabilities denominated in currencies other than the U.S. dollar are converted into U.S. dollars at the current market rates on the date of valuation as quoted by one or more sources.

The registration statement for the Fund describes the various fees and expenses for the Fund's Shares. For a more complete description of the Fund and the underlying Index, visit the Issuer Website.

Principal Risks

Interested persons are referred to the prospectus for a description of risks associated with an investment in the Shares. These risks include the risk that a Fund's return may not match the return of its index for a number of reasons including the incursion by a Fund of operating expenses and costs not applicable to its index. In addition, as noted in the prospectus, the Shares may trade at market prices that differ from their NAV. The NAV of the Shares will fluctuate with changes in the market value of the Fund's holdings. The market prices of the Shares will fluctuate in accordance with changes in NAV as well as the supply and demand for the Shares on the Exchange.

Exchange Rules Applicable to Trading in the Shares

Trading in the Shares on IEX is subject to IEX trading rules.



Trading Hours

The value of the Index underlying the Shares will be disseminated to data vendors every 15 seconds during the Regular Trading Session.

The Shares will trade on IEX between 8:00 a.m. and 5:00 p.m. Please note that trading in the Shares during the Exchange's Pre-Market and Post-Market Sessions ("Extended Market Sessions") may result in additional trading risks which include: (1) that the current underlying indicative value may not be updated during the Extended Market Sessions, (2) lower liquidity in the Extended Market Sessions may impact pricing, (3) higher volatility in the Extended Market Sessions may impact pricing, (4) wider spreads may occur in the Extended Markets Sessions, and (5) because the indicative value is not calculated or widely disseminated during the Extended Market Sessions, an investor who is unable to calculate an implied value for the Shares in those sessions may be at a disadvantage to market professionals.

Delivery of a Prospectus

Exchange Members should be mindful of applicable prospectus delivery requirements under the federal securities laws with respect to transactions in the Fund. Prospectuses may be obtained through the Fund's website. The prospectus for a Fund does not contain all of the information set forth in the Fund's Registration Statement (including the exhibits to the Registration Statement), parts of which have been omitted in accordance with the rules and regulations of the SEC. For further information about the Fund, please refer to its Registration Statement.

In the event that the Fund relies upon an order by the SEC exempting the Shares from certain prospectus delivery requirements under Section 24(d) of the Investment Company Act of 1940 and in the future make available a written product description, Exchange Rules requires that Exchange Members provide to all purchasers of Shares a written description of the terms and characteristics of such securities, in a form prepared by the Issuer of the Fund, no later than the time a confirmation of the first transaction in the Shares is delivered to such purchaser. In addition, Exchange Members shall include such a written description with any sales material relating to the Shares that is provided to customers or the public. Any other written materials provided by an Exchange member to customers or the public making specific reference to the Shares as an investment vehicle must include a statement in substantially the following form: "A circular describing the terms and characteristics of [*the UTP Derivative Securities*] has been prepared by the [*open-ended management investment company name*] and is available from your broker. It is recommended that you obtain and review such circular before purchasing [*the UTP Derivative Securities*]."

An Exchange member carrying an omnibus account for a non-member broker-dealer is required to inform such non-member that execution of an order to purchase Shares for such omnibus account will be deemed to constitute agreement by the non-member to make such written description available to its customers on the same terms as are directly applicable to Exchange member under this rule.

Upon request of a customer, Exchange Members also shall provide a copy of the Prospectus.

Suitability

Trading in the securities on the Exchange will be subject to the provisions of IEX Rule 3.170 and other applicable suitability rules. Members recommending transactions in the securities to customers should make a determination that the recommendation is suitable for the customer.



Trading Halts

Exchange will halt trading in the Shares of a security in accordance with Exchange Rules. The grounds for a halt under Exchange Rules include a halt by the primary market because the intraday indicative value of the security and/or the value of its underlying index are not being disseminated as required, or a halt for other regulatory reasons. In addition, Exchange will stop trading the Shares of a security if the primary market de-lists the security.

Exemptive, Interpretive and No-Action Relief Under Federal Securities Regulations

The Securities and Exchange Commission (the “SEC”) has issued letters granting exemptive, interpretive and no-action relief from certain provisions of rules under the Securities Exchange Act of 1934 for exchange-traded securities listed and traded on a registered national securities exchange that meet certain criteria.

AS WHAT FOLLOWS IS ONLY A SUMMARY OF THE RELIEF OUTLINED IN THE NO-ACTION LETTERS REFERENCED ABOVE, THE EXCHANGE ADVISES INTERESTED PARTIES TO CONSULT THE NO-ACTION LETTERS FOR MORE COMPLETE INFORMATION REGARDING THE MATTERS COVERED THEREIN AND THE APPLICABILITY OF THE RELIEF GRANTED IN RESPECT OF TRADING IN SECURITIES. INTERESTED PARTIES SHOULD ALSO CONSULT THEIR PROFESSIONAL ADVISORS.

Regulation M Exemptions

Generally, the Fund is exempted from Rule 101 pursuant to paragraph (c)(4) of Rule 101, permitting persons who may be deemed to be participating in a distribution of the Shares to bid for or purchase Shares during their participation in such distribution. The Fund is exempted under Rule 102(d)(4), permitting a Fund to redeem Shares during the continuous offering of Shares.

Rule 10b-10 (Customer Confirmations for Creation or Redemption of Fund Shares)

Broker-dealers who handle purchases or redemptions of Fund Shares in Creation Unit size for customers will be permitted to provide such customers with a statement of the number of Creation Unit Aggregations created or redeemed without providing a statement of the identity, number and price of shares of the individual securities tendered to the Fund for purposes of purchasing Creation Unit Aggregations (“Deposit Securities”) or the identity, number and price of shares to be delivered by the Trust for the Fund to the redeeming holder (“Redemption Securities”). The composition of the securities required to be tendered to the Fund for creation purposes and of the securities to be delivered on redemption will be disseminated each business day and will be applicable to requests for creations or redemption, as the case may be, on that day. This exemptive relief under Rule 10b-10 with respect to creations and redemption is subject to the following conditions:

- 1) Confirmations to customers engaging in creations or redemptions must state that all information required by Rule 10b-10 will be provided upon request;
- 2) Any such request by a customer for information required by Rule 10b-10 will be filed in a timely manner, in accordance with Rule 10b-10(c); and



- 3) Except for the identity, number, and price of shares of the component securities of the Deposit Securities and Redemption Securities, as described above, confirmations to customers must disclose all other information required by Rule 10b-10(a).

Rule 10b-17 (Untimely Announcement of Record Dates)

The SEC has granted an exemption from the requirements of Rule 10b-17 that will cover transactions in the Shares.

Section 11(d)(1); Rule 11d1-2 (Customer Margin)

The SEC has taken a no-action position under Section 11(d)(1) that will permit broker-dealers that do not create Shares but engage in both proprietary and customer transactions in such Shares exclusively in the secondary market to extend or maintain or arrange for the extension or maintenance of credit on the Shares, in connection with such secondary market transactions. For broker-dealers that engage in the creation of Shares, the SEC has also taken a no-action position under Rule 11d1-2 that will cover the extension or maintenance or the arrangement for the extension or maintenance of credit on the Shares that have been owned by the persons to whom credit is provided for more than 30 days.

Rule 14e-5

An exemption from Rule 14e-5 has been granted to permit any person acting as a dealer-manager of a tender offer for a component security of the Fund (1) to redeem Fund Shares in Creation Unit Aggregations from the issuer that may include a security subject to such tender offer and (2) to purchase Fund Shares during such tender offer. In addition, a no-action position has been taken under Rule 14e-5 if a broker-dealer acting as a dealer-manager of a tender offer for a security of the Fund purchases or arranges to purchase such securities in the secondary market for the purpose of tendering such securities

to purchase one or more Creation Unit Aggregations of Shares, if made in conformance with the following:

- 1) such bids or purchases are effected in the ordinary course of business, in connection with a basket of 20 or more securities in which any security that is the subject of a distribution, or any reference security, does not comprise more than 5% of the value of the basket purchase; or
- 2) purchases are effected as adjustments to such basket in the ordinary course of business as a result of a change in the composition of the underlying index; and
- 3) such bids or purchases are not effected for the purpose of facilitating such tender offer.

SEC Rule 15c1-5 and 15c1-6 (Disclosure of Control and interest in Distributions)

The SEC has taken a no-action position under Rule 15c1-5 that will permit a broker-dealer to execute transactions in Shares without disclosing any control relationship with an issuer of a component security. In addition, the SEC has taken a no-action position under Rule 15c1-6 that will permit a broker



dealer to execute transactions in the Shares without disclosing its participation or interest in a primary or secondary distribution of a component security.

This Information Circular is not a statutory prospectus. Members should consult the prospectus for a security and the security's website for relevant information.

Please contact IEX Regulation at 646-343-2000 with any inquiries regarding this Information Circular.