



## INFORMATION CIRCULAR: ISHARES TRUST

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**TO:** Head Traders, Technical Contacts, Compliance Officers, Heads of ETF Trading, Structured Products Traders

**FROM:** BX / PHLX Listing Qualifications Department

**DATE:** June 16, 2016

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### EXCHANGE-TRADED FUND

### SYMBOL CUSIP #

|   |      |           |
|---|------|-----------|
| iShares Fallen Angels USD Bond ETF                          | FALN | 46435G474 |
| iShares iBoxx \$ High Yield ex Oil & Gas Corporate Bond ETF | HYXE | 46435G441 |

### BACKGROUND INFORMATION ON THE FUND

The iShares Trust (“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 Funds listed above (each, a “Fund” and together, the “Funds”). The shares of the Funds are referred to herein as “Shares.” BlackRock Fund Advisors (“BFA” or the “Adviser”) is the investment adviser to the Funds.

#### **iShares Fallen Angels USD Bond ETF**

The iShares Fallen Angels USD Bond ETF (“FALN Fund”) seeks to track the investment results of the Barclays US High Yield Fallen Angel 3% Capped Index (“FALN Underlying Index”), which is designed to reflect the performance of U.S. dollar denominated, high yield corporate bonds that were previously rated investment grade. Bonds are market value weighted with a 3% cap on each issuer.

The bonds eligible for inclusion in the FALN Underlying Index are U.S. dollar-denominated corporate bonds that: (i) are issued by companies domiciled in countries classified as developed markets by the index provider (based primarily on World Bank income classifications); (ii) have an average rating of below-investment grade (as determined by the Index Provider); (iii) previously had an average rating of investment grade; (iv) have at least \$150 million of outstanding face value; (v) have a fixed-rate coupon; and (vi) have at least one year to maturity. In determining whether a bond has an average rating of investment grade or below-investment grade, ratings from Moody’s Investors Services (“Moody’s”), Standard & Poor’s Ratings Services and Fitch Ratings, Inc. (“Fitch”) are considered. Securities in the FALN Underlying Index must be rated below-investment grade (lower than “BBB-” by Standard & Poor’s Ratings Services and Fitch, or “Baa3” by Moody’s) using the middle rating of Moody’s, Standard and Poor’s Ratings Services, or Fitch after dropping the highest and lowest available ratings. When a rating from only two agencies is available, the lower (“more conservative”) rating is used. When a rating from only one agency is available, that rating is used to determine

eligibility in the FALN Underlying Index. If an issue is unrated, the Index Provider may consider expected ratings and/or issuer-level ratings adopted by a ratings agency. There is no limit to the number of issues in the FALN Underlying Index, but as of May 31, 2016, the FALN Underlying Index included approximately 373 constituents. The FALN Underlying Index may include large-, mid- or small-capitalization companies, and components primarily include financials, industrials, and utilities companies. The components of the FALN Underlying Index, and the degree to which these components represent certain industries, may change over time.

BFA uses a “passive” or indexing approach to try to achieve FALN Fund’s investment objective. Unlike many investment companies, the FALN Fund does not try to “beat” the index it tracks and does not seek temporary defensive positions when markets decline or appear overvalued.

Indexing may eliminate the chance that the FALN Fund will substantially outperform the FALN Underlying Index but also may reduce some of the risks of active management, such as poor security selection. Indexing seeks to achieve lower costs and better after-tax performance by keeping portfolio turnover low in comparison to actively managed investment companies.

BFA uses a representative sampling indexing strategy to manage the FALN Fund. “Representative sampling” is an indexing strategy that involves investing in a representative sample of securities that collectively has an investment profile similar to that of the FALN Underlying Index. The securities selected are expected to have, in the aggregate, investment characteristics (based on factors such as market capitalization and industry weightings), fundamental characteristics (such as return variability, duration, maturity, credit ratings and yield) and liquidity measures similar to those of the FALN Underlying Index. The FALN Fund may or may not hold all of the securities in the FALN Underlying Index.

The FALN Fund generally will invest at least 90% of its assets in the component securities of the FALN Underlying Index and may invest up to 10% of its assets in certain futures, options and swap contracts, cash and cash equivalents, including shares of money market funds advised by BFA or its affiliates (“BlackRock Cash Funds”), as well as in securities not included in the FALN Underlying Index, but which BFA believes will help the FALN Fund track the FALN Underlying Index. From time to time when conditions warrant, however, the FALN Fund may invest at least 80% of its assets in the component securities of the FALN Underlying Index and may invest up to 20% of its assets in certain futures, options and swap contracts, cash and cash equivalents, including shares of BlackRock Cash Funds, as well as in securities not included in the FALN Underlying Index, but which BFA believes will help the FALN Fund track the FALN Underlying Index. The FALN Fund seeks to track the investment results of the FALN Underlying Index before fees and expenses of the FALN Fund.

The FALN Fund may lend securities representing up to one-third of the value of the FALN Fund's total assets (including the value of any collateral received).

The FALN Underlying Index is sponsored by Barclays Capital Inc. or its affiliates (the “Index Provider” or “Barclays”), which is independent of the FALN Fund and BFA. The Index Provider determines the composition and relative weightings of the securities in the FALN Underlying Index and publishes information regarding the market value of the FALN Underlying Index.

The FALN Fund will concentrate its investments (i.e., hold 25% or more of its total assets) in a particular industry or group of industries to approximately the same extent that the FALN Underlying

Index is concentrated. For purposes of this limitation, securities of the U.S. government (including its agencies and instrumentalities), repurchase agreements collateralized by U.S. government securities, and securities of state or municipal governments and their political subdivisions are not considered to be issued by members of any industry.

### **iShares iBoxx \$ High Yield ex Oil & Gas Corporate Bond ETF**

The iShares iBoxx \$ High Yield ex Oil & Gas Corporate Bond ETF (“HYXE Fund”) seeks to track the investment results of an index composed of a broad range of U.S. dollar-denominated, high yield corporate bonds that excludes those issued by companies in the Oil and Gas sector.

The HYXE Fund seeks to track the investment results of the Markit iBoxx USD Liquid High Yield ex-Oil and Gas Index (“HYXE Underlying Index”), which is designed to reflect the performance of U.S. dollar-denominated, high yield corporate bonds, excluding those issued by companies in the Oil and Gas sector, as determined by the index provider. As used in this Prospectus, the term “Oil and Gas” includes both producers of oil and gas products and suppliers of equipment and services related to the oil and gas industry. The HYXE Underlying Index is designed to provide a broad representation of the U.S. dollar-denominated high yield corporate bond market excluding those issued by companies in the Oil and Gas sector. The HYXE Underlying Index is a modified market-value weighted index with a cap on each issuer of 3%. The bonds eligible for inclusion in the HYXE Underlying Index are U.S. dollar-denominated corporate bonds that: (i) are issued by companies domiciled in countries classified as developed markets by the index provider based primarily on quantitative economic criteria established by the index provider; (ii) have an average rating of below-investment grade (as determined by the Index Provider); (iii) are from issuers with at least \$1 billion outstanding face value; (iv) have an original maturity date of less than 15 years; (v) have at least one year to maturity; and (vi) are not issued by companies whose primary activities are in the oil and gas sector, as determined by the index provider. In determining whether a bond has an average rating of below-investment grade, ratings from Moody’s Investors Services (“Moody’s”), Standard & Poor’s Ratings Services and Fitch Ratings, Inc. (“Fitch”) are considered. Securities in the HYXE Underlying Index must be rated below-investment grade (lower than “BBB-” by Standard & Poor’s Ratings Services and Fitch, or “Baa3” by Moody’s) using the middle rating of Moody’s, Standard and Poor’s Ratings Services, or Fitch after dropping the highest and lowest available ratings. When a rating from only two agencies is available, the lower (“more conservative”) rating is used. When a rating from only one agency is available, that rating is used to determine eligibility in the HYXE Underlying Index. If a particular tranche is unrated but its parent is rated, the parent’s rating is adopted. There is no limit to the number of issues in the HYXE Underlying Index, but as of May 31, 2016, the HYXE Underlying Index included approximately 859 constituents. The HYXE Underlying Index may include large-, mid-, or small-capitalization companies. Components of the HYXE Underlying Index primarily include consumer services, industrials, and telecommunications companies. The components of the HYXE Underlying Index, and the degree to which these components represent certain industries, may change over time.

BFA uses a “passive” or indexing approach to try to achieve the HYXE Fund’s investment objective. Unlike many investment companies, the HYXE Fund does not try to “beat” the index it tracks and does not seek temporary defensive positions when markets decline or appear overvalued. Indexing may eliminate the chance that the HYXE Fund will substantially outperform the HYXE Underlying Index but also may reduce some of the risks of active management, such as poor security selection.

Indexing seeks to achieve lower costs and better after-tax performance by keeping portfolio turnover low in comparison to actively managed investment companies.

BFA uses a representative sampling indexing strategy to manage the HYPE Fund. "Representative sampling" is an indexing strategy that involves investing in a representative sample of securities that collectively has an investment profile similar to that of the HYPE Underlying Index. The securities selected are expected to have, in the aggregate, investment characteristics (based on factors such as market capitalization and industry weightings), fundamental characteristics (such as return variability, duration, maturity, credit ratings and yield) and liquidity measures similar to those of the HYPE Underlying Index. The HYPE Fund may or may not hold all of the securities in the HYPE Underlying Index.

The HYPE Fund generally will invest at least 90% of its assets in the component securities of the HYPE Underlying Index and may invest up to 10% of its assets in certain futures, options and swap contracts, cash and cash equivalents, including shares of money market funds advised by BFA or its affiliates ("BlackRock Cash Funds"), as well as in securities not included in the HYPE Underlying Index, but which BFA believes will help the HYPE Fund track the HYPE Underlying Index. From time to time when conditions warrant, however, the HYPE Fund may invest at least 80% of its assets in the component securities of the HYPE Underlying Index and may invest up to 20% of its assets in certain futures, options and swap contracts, cash and cash equivalents, including shares of BlackRock Cash Funds, as well as in securities not included in the HYPE Underlying Index, but which BFA believes will help the HYPE Fund track the HYPE Underlying Index. The HYPE Fund seeks to track the investment results of the HYPE Underlying Index before fees and expenses of the HYPE Fund.

The HYPE Fund may lend securities representing up to one-third of the value of the HYPE Fund's total assets (including the value of any collateral received).

The HYPE Underlying Index is sponsored by Markit Indices Limited (the "Index Provider" or "Markit"), which is independent of the HYPE Fund and BFA. The Index Provider determines the composition and relative weightings of the securities in the HYPE Underlying Index and publishes information regarding the market value of the HYPE Underlying Index.

The HYPE Fund will concentrate its investments (i.e., hold 25% or more of its total assets) in a particular industry or group of industries to approximately the same extent that the HYPE Underlying Index is concentrated. For purposes of this limitation, securities of the U.S. government (including its agencies and instrumentalities), repurchase agreements collateralized by U.S. government securities, and securities of state or municipal governments and their political subdivisions are not considered to be issued by members of any industry.

For more information regarding the Funds' investment strategy, please read the prospectus for the Fund.

As described more fully in the Trust's prospectus and Statement of Additional Information ("SAI"), the Funds issue and redeem Shares at net asset value ("NAV") only in large blocks of 50,000 Shares (each block of Shares called a "Creation Unit"). As a practical matter, only broker-dealers or large institutional investors with creation and redemption agreements (called Authorized Participants) can purchase or redeem these Creation Units. Except when aggregated in Creation Units, the Shares may not be redeemed with the Funds.

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 each 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 Funds describes the various fees and expenses for the Funds' Shares. For a more complete description of the Funds and the underlying indexes, visit the Funds' website at [www.ishares.com](http://www.ishares.com).

#### **PURCHASES AND REDEMPTIONS IN CREATION UNIT SIZE**

BX members and PHLX members and member organizations are hereby informed that procedures for purchases and redemptions of Shares in Creation Unit Size are described in the Trust's prospectus and Statement of Additional Information and that Shares are not individually redeemable but are redeemable only in Creation Unit Size aggregations or multiples thereof.

#### **PRINCIPAL RISKS**

Interested persons are referred to the discussion in the prospectus for the Fund of the principal risks of an investment in the Fund. These include tracking error risk (factors causing the Fund's performance to not match the performance of the underlying index), market trading risk (for example, trading halts, trading above or below net asset value), asset class risk, authorized participant concentration risk, call risk, concentration risk, credit risk, custody risk, cyber security risk, extension risk, financials sector risk, high yield securities risk, income risk, index-related risk, industrials sector risk, interest rate risk, issuer risk, liquidity risk, management risk, market risk, market trading risk, national closed market trading risk, non-diversification risk, non-U.S. issuers risk, operational risk, passive investment risk, risk of investing in developed countries, risk of investing in the United States, securities lending risk, tracking error risk, and utilities sector risk.

#### **EXCHANGE RULES APPLICABLE TO TRADING IN THE SHARES**

Trading of the Shares on BX is on a UTP basis and is subject to BX equity trading rules. Trading of the Shares on PHLX's PSX system is on a UTP basis and is subject to PHLX rules.

#### **TRADING HOURS**

The values of each index underlying the Shares are disseminated to data vendors every 15 seconds. The Shares will trade on BX between 8:00 a.m. and 7:00 p.m. ET. The Shares will trade on PSX between 9:00 a.m. and 5:00 p.m. ET. For trading during each market's pre-market and post-market sessions, market participants should note that additional risks may exist with respect to trading the

Fund during these sessions, when the underlying index’s values, intraday indicative value, or similar value may not be disseminated or calculated.

### DISSEMINATION OF FUND DATA

The Consolidated Tape Association will disseminate real time trade and quote information for the Funds to Tape C.

| Fund Name   | Listing Market | Trading Symbol | IOPV Symbol | NAV Symbol |
|---|----------------|----------------|-------------|------------|
| iShares Fallen Angels USD Bond ETF                          | NASDAQ         | FALN           | FALN.IV     | FALN.NV    |
| iShares iBoxx \$ High Yield ex Oil & Gas Corporate Bond ETF | NASDAQ         | HYXE           | HYXE.IV     | HYXE.NV    |

### SUITABILITY

Trading in the Shares on BX will be subject to the provisions of BX Equity Rule 2310. Shares trading on PSX will be subject to the provisions of PHLX Rule 763. Members and member organizations recommending transactions in the Shares to customers should make a determination that the recommendation is suitable for the customer. In addition, members must possess sufficient information to satisfy the “know your customer” obligation that is embedded in the BX Conduct Rules.

BX members and PHLX members and member organizations should also review NASD Notice to Members 03-71 for guidance on trading these products. The Notice reminds members of their obligations to: (1) conduct adequate due diligence to understand the features of the product; (2) perform a reasonable-basis suitability analysis; (3) perform customer-specific suitability analysis in connection with any recommended transactions; (4) provide a balanced disclosure of both the risks and rewards associated with the particular product, especially when selling to retail investors; (5) implement appropriate internal controls; and (6) train registered persons regarding the features, risk and suitability of these products.

### TRADING HALTS

BX will halt trading in the Shares of a Fund in accordance with BX Equity Rule 4120. PHLX will halt trading in the Shares of a Fund in accordance with PHLX Rule 3100. The grounds for a halt under these rules include a halt by the primary market because the intraday indicative value of the Fund, the value of its underlying index, or a similar value are not being disseminated as required, or a halt for other regulatory reasons. In addition, BX and PHLX will also stop trading the Shares of a Fund if the primary market delists the Fund.

## **DELIVERY OF A PROSPECTUS**

BX members and PHLX members and member organizations 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 the Funds 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 Securities and Exchange Commission ("SEC"). For further information about the Fund, please refer to the 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 1940 Act and in the future make available a written product description, BX Equity Rules 4420 and 4421, and PHLX Rule 803 require that members and member organizations, respectively, provide to all purchasers of Shares a written description of the terms and characteristics of such securities, in a form prepared by the Trust for the Fund, no later than the time a confirmation of the first transaction in the Shares is delivered to such purchaser. In addition, members and member organizations 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 members or member organizations 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 Shares of the Fund has been prepared by the Trust and is available from your broker. It is recommended that you obtain and review such circular before purchasing Shares of the Fund. In addition, upon request you may obtain from your broker a prospectus for Shares of the Fund."

Any BX or PHLX member or member organization 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 BX members and PHLX members or member organizations under this rule.

Upon request of a customer, BX members and PHLX members or member organizations shall provide a copy of the prospectus.

## **EXEMPTIVE, INTERPRETIVE AND NO-ACTION RELIEF UNDER FEDERAL SECURITIES REGULATIONS**

The SEC has issued exemptive, interpretive or no-action relief from certain provisions of rules under the Securities Exchange Act of 1934 (the "Act") regarding trading in the above mentioned exchange-traded Fund.

## **REGULATION M EXEMPTIONS**

Generally, Rules 101 and 102 of Regulation M prohibit any "distribution participant" and its "affiliated purchasers" from bidding for, purchasing, or attempting to induce any person to bid for or purchase any security which is the subject of a distribution until after the applicable restricted

period, except as specifically permitted in Regulation M. The provisions of the Rules apply to underwriters, prospective underwriters, brokers, dealers, and other persons who have agreed to participate or are participating in a distribution of securities.

The SEC has granted an exemption from Rule 101 under Regulation M to permit persons participating in a distribution of shares of the above-mentioned Fund to engage in secondary market transactions in such shares during their participation in such a distribution. In addition, the SEC has granted relief under Regulation M to permit persons who may be deemed to be participating in the distribution of Shares of the above-mentioned Fund (i) to purchase securities for the purpose of purchasing Creation Unit Aggregations of Fund Shares and (ii) to tender securities for redemption in Creation Unit Aggregations. Further, the SEC has clarified that the tender of Fund Shares to the Fund for redemption does not constitute a bid for or purchase of any of the Fund's securities during the restricted period of Rule 101. The SEC has also granted an exemption pursuant to paragraph (e) of Rule 102 under Regulation M to allow the redemption of Fund Shares in Creation Unit Aggregations during the continuous offering of Shares.

#### **CUSTOMER CONFIRMATIONS FOR CREATION OR REDEMPTION OF FUND SHARES (SEC RULE 10B-10)**

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 redemptions 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);
- 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).

#### **SEC 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 purchased; 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.

#### **SECTION 11(D)(1); SEC RULES 11D1-1 AND 11D1-2**

Section 11(d)(1) of the Act generally prohibits a person who is both a broker and a dealer from effecting any transaction in which the broker-dealer extends credit to a customer on any security which was part of a new issue in the distribution of which he participated as a member of a selling syndicate or group within thirty days prior to such transaction. The SEC has clarified that Section 11(d)(1) does not apply to broker-dealers that are not Authorized Participants (and, therefore, do not create Creation Unit Aggregations) that engage in both proprietary and customer transactions in Shares of the Fund in the secondary market, and for broker-dealer Authorized Participants that engage in creations of Creation Unit Aggregations. This relief is subject to specific conditions, including the condition that such broker-dealer (whether or not an Authorized Participant) does not, directly or indirectly, receive from the fund complex any payment, compensation or other economic incentive to promote or sell the Shares of the Fund to persons outside the fund complex, other than non-cash compensation permitted under NASD Rule 2830(I)(5)(A), (B) or (C). (See [letter](#) from Catherine McGuire, Chief Counsel, SEC Division of Market Regulation, to Securities Industry Association, Derivative Products Committee, dated November 21, 2005.) The SEC also has taken a no-action position under Section 11(d)(1) of the Act that broker-dealers may treat Shares of the Fund, for purposes of Rule 11d1-2, as "securities issued by a registered open-end investment company as defined in the Investment Company Act" and thereby extend credit or maintain or arrange for the extension or maintenance of credit on Shares that have been owned by the persons to whom credit is provided for more than 30 days, in reliance on the exemption contained in the rule.

#### **SEC RULE 15C1-5 AND 15C1-6**

The SEC has taken a no-action position with respect to Rule 15c1-5 and Rule 15c1-6 as to the required disclosure of control by a broker or dealer with respect to creations and redemptions of Fund Shares and secondary market transactions therein. (See [letter](#) from Catherine McGuire, Chief Counsel, SEC Division of Market Regulation, to Securities Industry Association, Derivative Products Committee, dated November 21, 2005.)

**This Information Circular is not a statutory prospectus. BX members and PHLX members and member organizations should consult the Fund's prospectus and/or the Fund's website for relevant information.**

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Inquiries regarding this Information Circular should be directed to:

- Will Slattery, Listing Qualifications, at 301.978.8088
- BX / PSX Market Sales, at 800.846.0477