



Information Circular: Reality Shares ETF Trust

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

From: NASDAQ / BX / PHLX Listing Qualifications Department

Date: December 18, 2014

Exchange-Traded Fund	Symbol	CUSIP #
Reality Shares DIVS ETF	DIVY	75605A108

Background Information on the Fund

The Reality Shares 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 Reality Shares DIVS ETF (the "Fund"). The shares of the Fund are referred to herein as "Shares." Reality Shares Advisors, LLC (the "Adviser") is the investment adviser to the Fund.

The Fund seeks to produce long-term capital appreciation.

The Fund's principal investment strategy is designed to provide exposure to the aggregate value of ordinary dividends expected to be paid on a portfolio of large capitalization equity securities listed for trading in the U.S., Europe and Japan ("Large Cap Securities"). These are sometimes referred to as the "expected dividend values" of the Large Cap Securities. The Adviser believes expected dividend values generally correspond to the aggregate value of actual dividend payments on the Large Cap Securities. Unlike more traditional products, the Fund does not seek to produce returns based on appreciation in the stock market price of Large Cap Securities. Instead, the Fund seeks to produce returns based primarily on increases in the expected dividend values of Large Cap Securities. The Fund uses a variety of investment strategies to achieve this objective. Under normal circumstances, the Fund generally invests in a combination of listed option contracts, total return swaps, dividend swaps, futures and forwards on indexes of Large Cap Securities ("Large Cap Securities Indexes") or exchange traded funds ("ETFs") designed to track Large Cap Securities Indexes ("Large Cap Securities ETFs").

Option Contracts

An option contract is a financial contract in which the purchaser of the contract has the right, but not the obligation, to buy (call) or sell (put) a financial asset, such as an index or ETF, at an agreed-upon price, known as the "strike price," during a specific time period or on a specific exercise date. The seller of an option contract has a corresponding obligation to sell or buy, as applicable, the financial asset at the strike price during the

option period or on the exercise date. A put option gives the purchaser of the option the right to sell, and the issuer of the option the obligation to buy, the underlying asset during the option period. A call option gives the purchaser of the option the right to buy, and the seller of the option the obligation to sell, the underlying asset during the option period.

The price of an option on Large Cap Securities reflects several factors, including:

- aggregate trading prices of the Large Cap Securities,
- exposure to interest rate changes, and
- expected dividend values.

The Fund may purchase a series of option contracts that, when combined together, are designed to eliminate the effect of changes in the trading prices of the Large Cap Securities and the effect of interest rate changes on the prices of the option contracts. As a result, the value of the Fund's options portfolio is designed to change based primarily on changes in the expected dividend values reflected in the options' prices. These option combinations are designed to reflect expected dividend values and eliminate the Fund's exposure to changes in the trading prices of the Large Cap Securities.

This combination of option contracts is often referred to as a "jelly roll." A typical jelly roll is created by buying and selling four options at the same time, at the same strike price, on the same underlying asset; in this case, either options on a Large Cap Securities Index or options on a Large Cap Securities Index ETF. The first combination consists of selling a call and buying a put at the same strike price with a longer-dated maturity (the "Longer-Dated Combination"). The second combination consists of buying a call and selling a put at the same strike price but with a shorter-dated maturity (the "Shorter-Dated Combination"). The simultaneous purchase of the Shorter-Dated Combination and Longer-Dated Combination at the same strike price is designed to eliminate the effect of changes in the trading prices of the Large Cap Securities on the price of each option. As a result, changes in the aggregate trading prices of Large Cap Securities should not change the value of the Fund's options portfolio.

The Shorter-Dated Combination and Longer-Dated Combination do not, however, eliminate exposure to interest rate changes or changes in the expected dividend values reflected in the prices of the options. The Fund therefore may invest in additional offsetting option contracts designed to eliminate the options' exposure to interest rate changes, leaving exposure to the expected dividend values in the prices of each option contract. The value of the Fund's options portfolio therefore is designed to change in accordance with changes in the expected dividend values reflected in the prices of the option contracts, without the effect of trading prices or interest rate changes. As market expectations for dividends change over time, changes in the expected dividend values reflected in the options' prices between the expiration of the Shorter-Dated Combination and the expiration of the Longer-Dated Combination change the value of the Fund's options portfolio.

Total Return Swaps, Futures and Forwards

In a typical total return swap, the buyer pays the swap counterparty a premium and is entitled to receive the total return of the underlying security or index, consisting of dividends, capital gains and price appreciation or depreciation. A futures contract is a standardized contract traded on a recognized exchange in which two parties agree to exchange either a specified financial asset or the cash equivalent of said asset at a

specified future date and price. A forward contract involves the obligation to purchase or sell either a specified financial asset or the cash equivalent of said asset at a future date at a price set at the time of the contract.

As with options, the prices of total return swaps, futures and forwards on a Large Cap Securities Index or a Large Cap Securities Index ETF are influenced by the aggregate trading prices of the Large Cap Securities, exposure to interest rate changes, and expected dividend values, among other factors. The Fund may use combinations of total return swaps, futures and forwards to gain exposure to the expected dividend value of Large Cap Securities reflected in those portfolio holdings' prices in a similar manner as it uses combinations of option pairs in a jelly roll trade. For example, the Fund may sell a total return swap on a Large Cap Securities Index or a Large Cap Securities Index ETF with a longer dated maturity (the "Longer-Dated Position") and simultaneously buy a total return swap on the same underlying asset with a shorter dated maturity (the "Shorter-Dated Position"). The simultaneous purchase of the Shorter-Dated Combination and Longer-Dated Combination is designed to eliminate the effect of changes in the trading prices of the Large Cap Securities on the price of each total return swap. As a result, changes in the aggregate trading prices of Large Cap Securities should not change the value of the Fund's total return swap portfolio. The Fund may invest in combinations of futures and forwards in a similar manner.

Dividend Swaps

The Fund may buy index dividend swaps in order to gain exposure to changes in the expected dividend value of the Large Cap Securities. Index dividend swaps are over-the-counter derivative contracts that allow investors to take a view on the actual dividend value that will be paid by the constituents of an index over a period of time. In a typical index dividend swap transaction, the buyer and seller agree at inception to the aggregate value of dividends they expect to be paid on the index constituents over the life of the contract – the expected dividend value. At maturity of the contract, the buyer pays this amount to the seller and receives the aggregate value of actual dividends paid on the index constituents – the actual dividend value. During the life of the index dividend swap, the contract is valued on the current expected dividend value of the index for the specific maturity. As the contract approaches maturity, the expected dividend value will change primarily based on information about actual dividends until final settlement of the contract where expected dividend value and actual dividend value converge.

The Fund may enter into interest rate swap transactions and futures transactions designed to eliminate the impact of changing interest rates on the value of the Fund's investments. The Fund may also invest in short term fixed income securities, commercial paper and money market securities to serve as collateral for its derivatives positions. Subject to the provisions of the Investment Company Act of 1940, as amended, the Fund may invest up to 80% of its assets in swaps, options, futures and forwards, and any one type of such portfolio holdings or any combination of such portfolio holdings may represent a substantial portion of the Fund's portfolio at any time.

Before making an investment in the Fund you should know:

- The Fund generally will have a positive rate of return if the actual future growth in dividends exceeds the expected growth in dividends as reflected in the market prices at which the Fund buys and sells the option contracts that are used to implement the Fund's investment strategy.

- The Fund generally will have a zero rate of return, excluding fees and transaction costs, if the actual future growth in dividends equals the expected growth in dividends as reflected in the market prices at which the Fund buys and sells the option contracts that are used to implement the Fund's investment strategy, even though actual dividends may have grown during the holding period of this investment.
- The Fund generally will have a negative rate of return if the actual future growth in dividends is below the expected growth in dividends as reflected in the market prices at which the Fund buys and sells the option contracts that are used to implement the Fund's investment strategy, even though actual dividends may have grown during the holding period of this investment.
- Unlike more traditional products, the Fund does not seek returns based on appreciation in the stock market price of equity securities. This means that the returns on your Fund investment are not intended to correlate to the returns of the overall stock market (for example, the value of your Fund investment may go down when overall equity markets go up, or vice versa).
- The Fund does not produce dividend income and is not an appropriate investment if you are seeking dividend income.
- The investment returns of the Fund are treated for tax purposes as capital gains or losses, as applicable.

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 25,000 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.

Please see the Fund's prospectus for more information regarding the Fund and its investment objectives.

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 Fund's website at www.realityshares.com.

Purchases and Redemptions in Creation Unit Size

NASDAQ members, 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), investment style risk, sector risk, investment approach risk, non-diversification risk, derivatives risk, foreign securities risk and active management risk.

Exchange Rules Applicable to Trading in the Shares

Trading in the Shares on NASDAQ is on a UTP basis and is subject to NASDAQ equity trading rules. 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 NASDAQ between 7:00 a.m. and 8:00 p.m. ET. 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 B.

Fund Name	Listing Market	Trading Symbol	IOPV Symbol	NAV Symbol
Reality Shares DIVS ETF	NYSE Arca	DIVY	DIVY.IV	DIVY.NV

Suitability

Trading in the Shares on NASDAQ will be subject to the provisions of NASDAQ Rule 2310. 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 both the NASDAQ Conduct Rules and the BX Conduct Rules.

NASDAQ members, 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

NASDAQ will halt trading in the Shares of a Fund in accordance with NASDAQ Rule 4120. 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, NASDAQ, BX and PHLX will also stop trading the Shares of a Fund if the primary market delists the Fund.

Delivery of a Prospectus

NASDAQ members, 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, NASDAQ Rules 5705 and 5740, 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 NASDAQ, 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 NASDAQ members, BX members and PHLX members or member organizations under this rule.

Upon request of a customer, NASDAQ members, 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. NASDAQ members, BX members and PHLX members and member organizations should consult the Fund's prospectus and/or the Fund's website for relevant information.

Inquiries regarding this Information Circular should be directed to:

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