



**Information Circular 10-256**

Date: March 18, 2010

To: ETP Holders

From: James C. Yong  
Chief Regulatory Officer

Re: PROSHARES SHORT REAL ESTATE ETF, PROSHARES SHORT BASIC MATERIALS ETF, PROSHARES SHORT FTSE/XINHUA CHINA 25 ETF TO BEGIN TRADING ON NSX

Pursuant to Regulatory Circular 08-005, we are issuing this Information Circular to advise you that the following securities of the exchange-traded funds discussed herein (the "Funds") have been approved for trading on the National Stock Exchange, Inc. ("NSX" or the "Exchange") as UTP Derivative Securities products pursuant to NSX Rule 15.9:

**Security:** (the "Shares")

**Symbol:**

ProShares Short Real Estate ETF  
ProShares Short Basic Materials ETF  
ProShares Short FTSE/Xinhua China 25 ETF

**REK**  
**SBM**  
**YXI**

**Commencement of Trading:** March 19, 2010

**Issuer:** ProShares Trust

**Issuer Website:** [www.proshares.com](http://www.proshares.com)

**Primary Listing Exchange:** NYSE Arca

**Primary Exchange Circular:** RB-10-43 (March 18, 2010)

**Issuer Registration Statement:** No. 811-21114

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 or prospectuses available on the Issuer Website (the "Prospectus"), examine the Issuer Registration Statement or review the most current information bulletin issued by the Primary Listing Exchange (which as of the date hereof is set forth above as the "Primary Exchange Circular"). The Issuer Website, the Prospectus, the Issuer Registration Statement and the Primary Exchange Circular are hereafter collectively referred to as the "Issuer Disclosure Materials."

The Primary Exchange Circular cited above contains the following information:

### **Background Information on the Funds**

As more fully explained in the Registration Statement (No. 811-21114), the Trust is registered under the Investment Company Act of 1940 (the "1940 Act") as an open-end management investment company that consists of separate exchange-traded funds. The Funds are registered investment companies and exchange-traded "index funds" ("ETFs").

### **ProShares Short Real Estate ETF**

The ProShares Short Real Estate ETF seeks daily investment results, before fees and expenses, that correspond to the inverse (opposite) of the daily performance of the Dow Jones U.S. Real Estate<sup>SM</sup> Index (the "Dow Jones U.S."). The Dow Jones U.S. measures the performance of the real estate sector of the U.S. equity market. Component companies include those that invest directly or indirectly through development, management or ownership of shopping malls, apartment buildings and housing developments; and real estate investment trusts ("REITs") that invest in apartments, office and retail properties. REITs are passive investment vehicles that invest primarily in income producing real estate or real estate related loans or interests. As of December 31, 2009 the Index included companies with capitalizations between \$589 million and \$22 billion.

### **ProShares Short Basic Materials ETF**

The ProShares Short Basic Materials ETF seeks daily investment results, before fees and expenses, that correspond to the inverse (opposite) of the daily performance of the Dow Jones U.S. Basic Materials<sup>SM</sup> Index (the "Dow Jones U.S. Basic") The Dow Jones U.S. Basic measures the performance of the basic materials industry of the U.S. equity market. Component companies are involved in the production of aluminum, steel, non ferrous metals, commodity chemicals, specialty chemicals, forest products, paper products, as well as the mining of precious metals and coal. As of December 31, 2009, the Index included companies with capitalizations between \$432 million and \$33 billion.

### **ProShares Short FTSE/Xinhua China 25 ETF**

The ProShares Short FTSE/Xinhua China 25 ETF seeks daily investment results, before fees and expenses, that correspond to the inverse (opposite) of the daily performance of the FTSE/Xinhua China 25 Index<sup>®</sup>. The FTSE/Xinhua China 25 is comprised of 25 of the largest and most liquid Chinese stocks listed on the Hong Kong Stock Exchange. As of December 31, 2009, the FTSE/Xinhua China 25 included companies with capitalizations between \$12 billion and \$353 billion.

ProShare Advisors LLC serves as the investment advisor for the Funds. SEI Investments Distribution Co. is the distributor for the Funds. JP Morgan Chase Bank, N.A. is the administrator, custodian and index receipt agent for the Funds.

As described more fully in the Funds' prospectus ("Prospectus") and Statement of Additional Information ("SAI"), the Funds issues and redeem ETF shares on a continuous basis

at NAV in large specified numbers of shares called Creation Units (“Creation Units”). Creation Units of the Funds are purchased and redeemed in cash. Except when aggregated in Creation Units, Shares are not redeemable securities of the Funds. Purchases and redemptions of Creation Units must be made by an Authorized Participant or through a firm that is either a member of the Continuous Net Settlement System of the National Securities Clearing Corporation (“NSCC”) or a Depository Trust Company participant, and in each case, must have executed an agreement with the Distributor with respect to creations and redemptions of Creation Unit aggregations.

The Funds intends to declare and distribute to its shareholders at least annually virtually all of its net income (interest and dividends, less expenses), if any, as well as net capital gains, if any, realized from the sale of its holdings. Subject to board approval, some or all of any net capital gains distribution may be declared payable in either additional Shares of the respective Fund or in cash. If such a distribution is declared payable in that fashion, holders of Shares will receive additional Shares of the respective Fund unless they elect to receive cash. Dividends may be declared and paid more frequently.

The Depository Trust Company (“DTC”) will serve as securities depository for the Shares, which may be held only in book-entry form; stock certificates will not be issued. DTC, or its nominee, is the record or registered owner of all outstanding Shares.

The NAV per Share of the Funds will be determined as of the close of trading (normally, 4:00 p.m. Eastern Time (“ET”)) on each day that the New York Stock Exchange (“NYSE”) and NYSE Arca are open for business (a “Business Day”). NAV will be available from the Distributor and is also available to National Securities Clearing Corporation (“NSCC”) participants through data made available from NSCC.

The Trust’s registration statement describes the various fees and expenses for the Funds’ Shares. For a more complete description of the Funds and the underlying index, visit [www.proshares.com](http://www.proshares.com).

## **Principal Risks**

Interested persons are referred to the Prospectus for a description of risks associated with an investment in the Shares. These risks include foreign market risk, and the risk that the Fund’s return may not match the return of its index for a number of reasons including the incursion by the 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 may 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.

The Fund seeks a return of the inverse of an index for a single day. Due to the compounding of daily returns, returns over periods other than one day will likely differ in amount and possibly direction from the target return for the same period. Investors should monitor their holdings consistent with their strategies, as frequently as daily. The Funds’ prospectus describing correlation, leverage and other risks is available at [www.proshares.com](http://www.proshares.com).

### **Delivery of a Prospectus**

Consistent with the requirements of the Securities Act and the rules there-under, investors purchasing Shares in the initial public offering and anyone purchasing Shares directly from a Fund (by delivery of the designated securities) must receive a Prospectus. In addition, ETP Holders are required to deliver a Prospectus to all purchasers of newly-issued Shares (i.e., during the initial public offering). ETP Holders purchasing shares from a Fund for resale to investors will deliver a Prospectus to such investors.

Prospectuses may be obtained through the Funds' website. The Prospectus does not contain all of the information set forth in the Registration Statement (including the exhibits to the Registration Statement), parts of which have been omitted in accordance with the rules and regulations of the Commission.

Upon request of a customer, ETP Holders shall also provide a copy of the Prospectus.

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

The Commission has issued a letter dated January 24, 2007 (the "No-Action Letter") granting exemptive, interpretive and no-action relief from certain provisions of and rules under the Securities Exchange Act of 1934 for the ProShares Trust.

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

### **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 Commission issued a No-Action Letter by which persons participating in a distribution of shares of a fund may engage in secondary market transactions in such shares during their participation in such a distribution, despite the requirements of from Rule 101 under Regulation M. In addition, the SEC has permitted persons who may be deemed to be participating in the distribution of shares of a 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 Commission 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 Funds' securities during the restricted period of Rule 101. The Commission has issued a No-Action Letter to paragraph (e) of Rule 102 under Regulation M which allows 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 Units 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 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**

The Commission has permitted any person acting as a dealer-manager of a tender offer for a component security of 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 Letter has been issued under Rule 14e-5 which states that 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, it must be made in conformance with the following:

- (i) 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
- (ii) 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
- (iii) such bids or purchases are not affected 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 Commission 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 a 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 a 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 dated November 22, 2005 from Brian A. Bussey, Assistant Chief Counsel, SEC Division of Market Regulation, to Barclays Global Investors, N.A., dated November 22, 2005. The Commission has issued a No-Action Letter under Section 11(d)(1) of the Act stating that broker-dealers may treat shares of a 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 Commission has issued a No-Action Letter 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.

### **NSX Rules Applicable to Trading in the Shares**

The Shares are considered equity securities, thus rendering trading in the Shares subject to the Exchange's existing rules governing the trading of equity securities. The Shares are also a UTP Derivative Securities product as specified in NSX Rule 15.9, and as such are subject to the additional provisions specific to that NSX Rule. In particular, ETP Holders are reminded of their obligations under the following NSX Rules:

1. Trading Hours: This product will trade during the regular trading hours of the Exchange (between 9:30 am to 4:00 pm ET), during pre-market hours (8:00 am to 9:29:59 am ET) and during post-market hours (4:00:01 pm to 6:30 pm ET). Please note that trading in the Shares during the Exchange's pre-market and post-market hours may result in additional trading risks which include: (1) lower liquidity in the Opening or Late Trading Sessions may impact pricing, (2) higher volatility in the Opening or Late Trading Sessions may impact pricing, (3) wider spreads may occur in the Opening or Late Trading Sessions. The minimum trading increment is \$.01.

2. Recommendations To Customers: NSX Rule 3.7 provides that the ETP Holder shall use due diligence to learn the essential facts relative to every customer prior to trading the

Shares or recommending a transaction in the Shares that an investment in the Shares is suitable for the customer.

3. Product Description: In the event that a Fund relies upon an order by the Securities and Exchange Commission exempting the Shares from certain prospectus delivery requirements under Section 24(d) of the 1940 Act and makes available a written product description, NSX Rule 15.9B(3)(c) requires that ETP Holders shall provide all purchasers of a series of exchange-traded funds (“ETFs”) a written description of the terms and characteristics of those securities, in a form approved by the Exchange or prepared by the open-ended management company issuing such securities, not later than the time a confirmation of the first transaction in such series is delivered to such purchaser. In addition, the ETP Holders shall include a written description with any sales material relating to a series of ETFs that is provided to customers or the public. Any other written materials provided by an ETP Holder to customers or the public making specific reference to the series of ETFs as an investment vehicle must include a statement substantially in the following form:

“A circular describing the terms and characteristics of [*the series of ETFs*] 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 series of ETFs*].”

An ETP Holder carrying an omnibus account for a non-ETP Holder is required to inform such non-ETP Holder that execution of an order to purchase a series of ETFs for such omnibus account will be deemed to constitute an agreement by the non-ETP Holder to make such written description available to its customers on the same terms as are directly applicable to the ETP Holder under this Rule.

4. Customer Requests for a Prospectus: NSX Rule 15.9B(3)(d) provides that, upon request of a customer, an ETP Holder shall provide a prospectus for the particular series of UTP Derivative Securities.

5. Trading Halts: NSX Rule 15.9B(4) provides that, in addition to the Exchange’s authority to suspend or halt trading under NSX Rules 11.20 (Trading Halts Due To Extraordinary Market Volatility), 12.11 (Trading Suspensions) and 15.7 (Suspension and/or Delisting By Exchange), if a temporary interruption occurs in the calculation or wide dissemination of the intraday indicative value (or similar value) or the value of the underlying index or instrument and the listing market halts trading in the product, the Exchange, upon notification by the listing market of such halt due to such temporary interruption, also shall immediately halt trading in that product on the Exchange. The Shares will be traded following a trading halt in accordance with Interpretations and Policy .03 of NSX Rule 11.20.

In addition, for a UTP Derivative Securities product where a net asset value is disseminated, if the primary listing exchange notifies the Exchange that the net asset value is not being disseminated to all market participants at the same time, the Exchange will immediately halt trading in such security. The Exchange may resume trading in the UTP Derivative Security only when the net asset value is disseminated to all market participants at the same time or trading in the UTP Derivative Security resumes on the listing market.

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**THIS INFORMATION CIRCULAR IS NOT A STATUTORY PROSPECTUS. ETP HOLDERS SHOULD CONSULT THE ISSUER DISCLOSURE MATERIALS (AS DEFINED ABOVE) FOR ALL RELEVANT INFORMATION RESPECTING THE SHARES.**

Inquiries regarding this Information Circular should be directed to James C. Yong, Chief Regulatory Officer, at (312) 786-8893.