



REGULATORY INFORMATION BULLETIN

RB-10-16
January 29, 2010

TO: ETP Holders

SUBJECT: Grail McDonnell Intermediate Municipal Bond ETF
Grail McDonnell Core Taxable Bond ETF

Compliance and supervisory personnel should note that, among other things, this Information Bulletin discusses the need to deliver a prospectus to customers purchasing shares (“Shares”) of these exchange-traded funds (“Funds”) issued by the Grail Advisors ETF Trust (“Trust”). Please forward this Information Bulletin to other interested persons within your organization.

The following securities have been approved for listing on NYSE Arca and will commence trading on January 29, 2010:

Exchange-Traded Funds

Symbol

Grail McDonnell Intermediate Municipal Bond ETF

GMMB

Grail McDonnell Core Taxable Bond ETF

GMTB

Background Information on the Fund

As more fully explained in the Registration Statement (Nos. 811-22154 and 333-148082) for the Trust, the Trust is an open-end management investment company registered under the Investment Company Act of 1940, as amended (“1940 Act”).

The Funds use an actively managed investment strategy. The Funds are not index funds and do not seek to replicate the performance of a specified index. Thus, the Funds investment sub-advisers have the discretion on a daily basis to choose securities for the Funds’ portfolios consistent with the Funds’ investment objectives.

Grail McDonnell Intermediate Municipal Bond ETF

According to the Registration Statement, the Grail McDonnell Intermediate Municipal Bond ETF seeks long-term capital appreciation by investing at least 80% of its net assets (plus the amount of any borrowings for investment purposes) in debt securities with interest payments exempt from

federal income taxes. Grail McDonnell Intermediate will typically invest in municipal securities and will invest, under normal market conditions, primarily in tax exempt general obligation, revenue and private activity bonds and notes, which are issued by or on behalf of states, territories or possessions of the U.S. and the District of Columbia and their political subdivisions, agencies and instrumentalities (including Puerto Rico, the Virgin Islands and Guam).

Grail McDonnell Core Taxable Bond ETF

According to the Registration Statement, the Grail McDonnell Core Taxable Bond ETF seeks long-term capital appreciation by investing at least 80% of its net assets (plus the amount of any borrowings for investment purposes) in debt securities. The Grail McDonnell Core ETF will invest primarily in investment-grade securities, including securities issued by the U.S. Government, its agencies and instrumentalities, municipal securities, mortgage-backed and other asset-backed securities, and corporate and bank obligations, including commercial paper, corporate notes and bonds.

As described more fully in the Funds' Registration Statement, the Funds issue and redeem shares on a continuous basis at net asset value ("NAV") only in large blocks of 50,000 Shares (each, a "Creation Unit"), principally in-kind for securities included in a specified universe. Except when aggregated in Creation Units, the Shares are not redeemable securities of the Funds.

Availability of Information

The Funds' Web site (www.grailadvisors.com), will include a form of the Prospectus for the Funds that may be downloaded. The Funds' Web site will include additional quantitative information updated on a daily basis, including, for the Funds, (1) daily trading volume, the prior business day's reported closing price, NAV and mid-point of the bid/ask spread at the time of calculation of such NAV (the "Bid/Ask Price"), and a calculation of the premium and discount of the Bid/Ask Price against the NAV, and (2) data in chart format displaying the frequency distribution of discounts and premiums of the daily Bid/Ask Price against the NAV, within appropriate ranges, for each of the four previous calendar quarters. On each business day, before commencement of trading in Shares in the Core Trading Session on the Exchange, the Funds will disclose on their Web site the Disclosed Portfolio as defined in proposed Rule 8.600(c)(2) that will form the basis for the Funds' calculation of NAV at the end of the business day. In addition, a basket composition file, which includes the security names and share quantities required to be delivered in exchange for Fund shares, together with estimates and actual cash components, is publicly disseminated daily prior to the opening of the NYSE via the National Securities Clearing Corporation. The Web site information will be publicly available at no charge.

The NAV of the Funds will normally be determined as of the close of the regular trading session on the New York Stock Exchange (ordinarily 4:00 p.m. Eastern time) on each business day. NAV is calculated by dividing the value of the net assets of the Funds (i.e., the total value of its assets less all liabilities) by the number of Shares outstanding, rounded to the nearest cent. NAV

will be available from the Distributor and will also be available to National Securities Clearing Corporation participants through data made available from NSCC.

Investors can also obtain the Trust's Statement of Additional Information ("SAI"), the Funds' Shareholder Reports, and its Form N-CSR and Form N-SAR, filed twice a year. The Trust's SAI and Shareholder Reports are available free upon request from the Trust, and those documents and the Form N-CSR and Form N-SAR may be viewed on-screen or downloaded from the Commission's Web site at <http://www.sec.gov>.

Additional information regarding the Shares and the Funds, including investment strategies, risks, creation and redemption procedures, fees, portfolio holdings disclosure policies, distributions and taxes is included in the Registration Statement.

Investors can purchase or redeem Shares directly from the Fund only in Creation Units of 50,000 Shares or multiples thereof. The Funds will not issue fractional Creation Units. Creation Units may generally be purchased or redeemed in exchange for a basket of securities, as discussed in the Registration Statement.

To purchase or redeem Shares directly from an ETF, the investor must be an Authorized Participant or must purchase or redeem through a broker that is an Authorized Participant, as described in the Registration Statement. An "Authorized Participant" is a participant of the Continuous Net Settlement System of the NSCC or the DTC that has executed a Participant Agreement with the Distributor. The Fund will impose a "Creation Transaction Fee" on each purchase of Creation Units.

Grail Advisors, LLC is the investment manager to the Funds. ALPS Distributors, Inc. is the distributor for the Funds ("Distributor"). The Bank of New York Mellon Corporation is the administrator, fund accountant and transfer agent for the Funds.

The Funds pay out dividends from its net investment income to shareholders annually. The Funds distribute net capital gains, if any, annually.

The Funds are subject to the risks identified in the Prospectus as applicable to the Funds.

The Funds' registration statement describes the various fees and expenses for the Funds' Shares. For a more complete description of the Funds and the underlying portfolios, visit www.grailadvisors.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 fixed income equities risk and the risk that 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 Funds' 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.

Exchange 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.

Trading Hours

The Portfolio Indicative Value for the Shares will be disseminated to data vendors every 15 seconds during the Exchange's Core Trading Session or from 9:30 a.m. ET until 4:15 p.m. ET. The Shares will trade on NYSE Arca in the Opening, Core and Late Trading Sessions or from 4:00 a.m. ET until 8:00 p.m. ET in accordance with NYSE Arca Equities Rule 7.34(a). The trading increment for the Fund's Shares will be \$0.01.

Extended Hours Trading

ETP Holders are reminded of NYSE Arca Equities Rule 7.34(e) regarding Customer Disclosure and that trading in the Funds' Shares during the Exchange's Opening and Late Trading Sessions may result in additional trading risks which include: (1) that the current underlying Portfolio Indicative Value may not be updated during the Opening and Late Sessions, (2) lower liquidity in the Opening or Late Trading Sessions may impact pricing, (3) higher volatility in the Opening or Late Trading Sessions may impact pricing, (4) wider spreads may occur in the Opening or Late Trading Sessions, and (5), because the Portfolio Indicative Value is not calculated or widely disseminated during the Opening and Late Trading Sessions, an investor who is unable calculate an implied value for an ETF in those sessions may be at a disadvantage to market professionals.

Suitability

ETP Holders are reminded of their obligations under NYSE Arca Equities Rule 9.2(a)-(b) whereby 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. ETP Holders should adopt appropriate procedures for the opening and maintaining of accounts, including the maintaining of records prescribed by any applicable regulatory organization and by the rules and regulations of the Commission.

Trading Halts

The Exchange will halt trading in the Shares if for a regulatory halt similar to a halt based on NYSE Arca Equities Rule 7.12 and/or a halt because dissemination of the intraday indicative value of the Shares and has ceased. Further, the Exchange will halt trading in the Shares in accordance with NYSE Arca Equities Rule 7.12 ('Trading Halts Due to Extraordinary Market Volatility). The Shares will be traded following a trading halt in accordance with NYSE Arca Equities Rule 7.35(f) ('Re-Opening After Trading Halts").

Delivery of a Prospectus

Consistent with the requirements of the Securities Act and the rules thereunder, 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 Securities and Exchange Commission ("Commission"). For further information about the Fund, please refer to the Registration Statement.

In the event that a Fund relies upon an order by the Commission exempting the Shares from certain Prospectus delivery requirements under Section 24(d) of the 1940 Act and makes available a written product description, NYSE Arca Equities Rule 5.2(j)(3) Commentary .01(h) requires that ETP Holders provide to all purchasers of Shares a written description of the terms and characteristics of such securities, in a form prepared by the Trust, no later than the time a confirmation of the first transaction in the Shares, is delivered to such purchaser. In addition, ETP Holders 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 a ETP Holder 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 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."

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 Shares for such omnibus account will be deemed to constitute agreement by the non-ETP Holder to make such written description available to its customers on the same terms as are directly applicable to ETP Holders under this rule.

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 to the Funds dated January 27, 2010 (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 Fund. ETP Holders should refer to the No- Action Letter for additional information.

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 (d)(4) of Rule 102 under Regulation M which allow the redemption of fund shares in creation unit aggregations during the continuous offering of shares.

SEC 10b-17

Rule 10b-17, with certain exceptions, requires an issuer of a class of publicly traded securities to give notice of certain specified actions (for example, a dividend distribution, stock split, or rights offering) relating to such class of securities in accordance with Rule 10b-17(b). The Commission has granted an exemption from the 1940 Act to register the Trust as an open-end management investment company notwithstanding the fact that it issues Shares with limited redeemability.

This Information Bulletin is not a statutory Prospectus. ETP Holders should consult the Trust's Registration Statement, SAI, Prospectus and the Fund's website for relevant information.