

## How ETFs Compare with Other Investments: FAQs

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#### How are ETFs similar to mutual funds?

Mutual funds and exchange-traded funds (ETFs) share similarities and can serve similar purposes for investors. Both, for example, can provide the basic building blocks of investors' portfolios. And both offer investors a proportionate share in a pool of stocks, bonds, and other assets. The vast majority of ETFs are most commonly structured as open-end investment companies (that is, like mutual funds) and are governed by the same regulations as mutual funds. Also, like a mutual fund, an ETF is required to post the mark-to-market net asset value (NAV) of its portfolio at the end of each trading day and must conform to the main investor protection mechanisms of the Investment Company Act of 1940, including limitations on leverage, daily valuation and liquidity requirements, prohibitions on transactions with affiliates, and rigorous disclosure obligations. Also, like mutual funds, creations and redemptions of ETF shares are aggregated and executed just once per day at NAV.

#### How are ETFs different from mutual funds?

One major difference is that retail investors buy and sell ETF shares on the secondary market (stock exchange) through a broker-dealer, much like they would any other type of stock. In contrast, mutual fund shares are not listed on stock exchanges, but are purchased and sold through a variety of distribution channels, including through investment professionals—full-service brokers, independent financial planners, bank or savings institution representatives, or insurance agents—or directly from a fund company or discount broker.

Pricing also differs between mutual funds and ETFs. Mutual funds are “forward priced,” which means that although investors can place orders to buy or sell mutual fund shares throughout the day, all orders placed during the day will receive the same price—the NAV—the next time it is computed. Most mutual funds calculate their NAV as of 4:00 p.m. eastern time because that is the time US stock exchanges typically close. In contrast, the market price of an ETF share is continuously determined on a stock exchange. Consequently, the price at which investors buy and sell ETF shares on the secondary market may not necessarily equal the NAV of the portfolio of securities in the ETF. Two investors selling the same ETF shares at different times on the same day may receive different prices for their shares, both of which may differ from the ETF's NAV, which—like a mutual fund—generally is calculated as of 4:00 p.m. eastern time.

For more on ETF pricing, visit [“Frequently Asked Questions About ETF Basics and Structure.”](#)

#### How large are ETF net assets relative to all assets managed by mutual funds and other investment companies?

At year-end 2022, equity, bond, and hybrid mutual funds had total net assets of \$17.3 trillion and ETFs had assets of \$6.5 trillion. Money market funds had \$4.8 trillion in total net assets at year-end 2022, while closed-end funds had total assets of \$252 billion and unit investment trusts had total net assets of \$73 billion. Thus, assets in ETFs accounted for 22 percent of the \$28.9 trillion total net assets in investment companies at year-end 2022. For more on the US ETF market, see [“Frequently Asked Questions About the US ETF Market.”](#)

## Are ETFs regulated in the same manner as mutual funds?

The vast majority of assets in US ETFs are in funds registered with and regulated by the Securities and Exchange Commission (SEC) under the Investment Company Act of 1940. At year-end 2022, less than 2 percent of net assets were held in ETFs that are not registered with or regulated by the SEC under the Investment Company Act of 1940; these funds invest primarily in commodities, currencies, and futures. Non-1940 Act ETFs that invest in commodity or currency futures are regulated by the Commodity Futures Trading Commission (CFTC) under the Commodity Exchange Act and by the SEC under the Securities Act of 1933. Those that invest solely in physical commodities or currencies are regulated by the SEC under the Securities Act of 1933. At year-end 2022, there were 60 of these non-1940 Act ETFs with \$119 billion in net assets.

## What are ETNs, and how do they differ from ETFs?

Exchange-traded notes (ETNs) are unsecured debt securities, which, like bonds, can be held to maturity by an investor. These securities are registered under the Securities Act of 1933 but not under the Investment Company Act of 1940.

ETNs and ETFs are similar in that they both trade throughout the day on an exchange. Also, like many ETFs, an ETN's value is linked to the performance of a given benchmark or strategy.

ETNs, however, are not funds because they do not hold a pool of securities. An ETN's value depends, not only on the performance of the specified benchmark or strategy, but also on the creditworthiness of the ETN provider. The value of an ETN can be affected by the credit rating of the ETN issuer. For example, a downgrade in the issuer's credit rating could cause the value of the ETN to drop.

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