ICI Industry Operations

ETF Share Class Operational Considerations

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Table of Contents

The Investment Company Institute (ICI) is the leading association representing regulated investment funds. ICI's mission is to strengthen the foundation of the asset management industry for the ultimate benefit of the long-term individual investor. Its members include mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and UCITS and similar funds offered to investors in other jurisdictions. ICI also represents its members in their capacity as investment advisers to collective investment trusts (CITs) and retail separately managed accounts (SMAs). ICI has offices in Washington DC, Brussels, and London.

Introduction

Exchange-traded funds (ETFs) have dramatically increased in popularity, with over $12 trillion dollars in total assets. This momentum shows no signs of slowing down, as investors are increasingly looking for ways to diversify portfolios and access this product type. With the 2023 expiration of the patent that permitted one fund sponsor to offer an ETF share class alongside open-end mutual fund[1] share class(es) within a portfolio, asset managers across the industry are considering the introduction of a dual share class structure as one way to expand investor choice, promote efficiency and economies of scale, and foster a more competitive marketplace.

The ETF share class structure will represent a significant modernization in the asset management industry, with at least 75 asset managers having filed for exemptive relief that would allow them to offer both mutual funds and ETFs as separate share classes under the same portfolio. On September 29, 2025, the Securities and Exchange Commission (SEC or Commission) indicated its intent to grant the necessary exemptive relief by issuing a notice of an application for an order that would permit the ETF share class structure.[2] In anticipation of this, asset managers, service providers, and intermediaries have been reviewing how to operationalize and support the dual share class structure.

This paper assumes that any SEC exemptive relief to be granted will generally align with the notice of application issued by the SEC on September 29, 2025.[3] The Investment Company Institute (ICI) will review the paper's contents against any final exemptive relief granted and update the paper to reflect material differences.

While the current applications seek to provide a framework to address the SEC's initial concerns regarding brokerage cost subsidization, tax consequences, and cash drag,[4] there are additional operational considerations that will require evaluation by an industry contemplating this structure.

When compared to a mutual fund, ETFs are attractive to certain investors due to their intraday liquidity, increased transparency of holdings, tax efficiency, and relatively low cost. ETFs operate differently from mutual funds, and those differences become important when deciding whether to operate both share class types in the same portfolio. Notably, ETFs and mutual funds have different operational structures, trade their shares in different ways, and are often supported by separate teams and service providers within an organization. These differences create unique operational challenges as separate portfolios, but they are magnified when adding an ETF share class to an existing mutual fund portfolio.

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1 Unless otherwise noted in this paper, the term "mutual fund" refers to "open-end mutual fund."

2 DFA Investment Dimensions Group Inc., et al., Investment Company Act Release No. 35770; File No. 812-15484 (Sept. 29, 2025), available at: **https://www.sec.gov/files/rules/ic/2025/ic-35770.pdf** (the Notice).

3 The Notice, and the associated application (Third Amended and Restated Application of DFA Investment Dimensions Group Inc., et al., File No. 812-15484 (Sept. 26, 2025), available at: **https://www.sec.gov/Archives/edgar/data/354204/000207184425000084/dfa40appamend092025.htm**) contain certain elements upon which ICI has not received member feedback. These elements are not addressed in detail in this paper.

4 *See* Exchange-Traded Funds, Release Nos. 33-10695; IC-33646; File No. S7-15-18 (Sept. 25, 2019) available at: **https://www.sec.gov/files/rules/final/2019/33-10695.pdf** (Rule 6c-11 Adopting Release).

NOTE: Most of the exemptive applications seek to permit both an ETF share class of a mutual fund and a mutual fund class of an ETF. Though many of the operational considerations are similar, this paper has been prepared from the perspective of adding an ETF share class to an existing mutual fund.

In response to these challenges, ICI formed the following working groups in April 2025 to review these topics in greater detail, with the intent of understanding what would need to be operationally considered to launch an ETF share class within an existing mutual fund portfolio.

- Intermediary Considerations
- Investor Experience Considerations
- Reporting Requirements
- Interclass Exchange Mechanics
- Technology & System Considerations

These working groups were composed of ICI members (asset managers) and their key counterparties and stakeholders in both the mutual fund and ETF ecosystems, including intermediaries, service providers, and the Depository Trust and Clearing Corporation (DTCC).

Each organization is unique, with its own set of circumstances, and must make independent determinations in considering these matters.

The document that follows is the result of numerous discussions of these parties that represent a broad cross-section of the mutual fund and ETF ecosystems and offers a consolidated overview of the many areas that industry members might consider when evaluating whether to launch or support the launch of an ETF share class. These materials are designed to assist the mutual fund and ETF asset management industry with identifying and considering the many factors that can potentially arise in connection with the development and launch of a dual share class product. While the paper seeks to be comprehensive in its contents, it does not purport to address every possible detail, nor should it be construed as recommendations from ICI. Each organization should independently draw its own conclusions and assess what considerations among those identified in this document are, in its own judgment, appropriate for its business in service to investors. Indeed, whether, how, and under what terms and conditions any market participant even chooses to offer any ETF share class product is an independent decision for each such market participant to make for itself.

Background: Product Differences and the Exemptive Relief Process

The growing popularity of ETFs is driven by investor interest in their specific features, as well as broader trends in the asset management industry. As described in the September 2025 edition of **ICI's Research Perspective on ETFs**, investors are drawn to ETFs for their relatively low cost, intraday tradability, transparency, tax efficiency, and exposure to specific markets or strategies. Additionally, ETF growth has been fueled by a sharp increase in use among fee-based advisors and full-service brokers, the continued shift toward index investments, and a recent surge in actively managed ETF adoption by individual investors and advisors relying on model portfolios.[5]

While ETFs have nuances that make them attractive investment products for some investors, there are important structural differences between ETFs and mutual funds. Such differences cause many of the operational challenges with offering both vehicle types in the dual share class structure of the same portfolio.

The following table provides an overview of key differences between ETFs and mutual funds:

Features	ETFs[6]	Mutual Funds
Purchases and redemptions	Shareholders generally purchase and sell shares on secondary markets (i.e., listed on exchanges) through intermediaries (e.g., a brokerage account) at market prices that can fluctuate throughout the day. As such, ETFs support intraday trading.	Shares are bought/sold directly from the fund once per day at the closing net asset value (NAV) price; all transactions occur at the fund's trading cutoff, as stated in the prospectus.
Tax Consequences	Typically offer greater tax efficiency from in-kind delivery of portfolio securities to settle creation/redemption unit transactions. This generally reduces the realization of capital gains/losses by the portfolio and thereby defers any potential tax liability on a funds' remaining shareholders in taxable accounts.	Fund managers typically sell securities to rebalance the portfolio or to generate cash to support shareholder redemption activity, thereby realizing capital gains/losses within the portfolio, potentially creating tax liability to shareholders on taxable accounts from required fund distributions.
Investment minimums	Can typically be purchased for the price of a single share with no minimum investment amount required. Fractional share programs, when available, are special arrangements through intermediaries.	Often require a minimum investment amount and are often offered in fractional share amounts.
Portfolio holdings disclosure requirements	Transparent ETFs publish portfolio holdings daily.[7]	Required to disclose monthly portfolio holdings on a quarterly basis.[8]

[5] *See* Atamanchuk, Irina, Hammad Qureshi, and Josh Weinberg. "A Close Look at Exchange-Traded Funds and Their Investors." ICI Research Perspective 31, no. 7 (September). Available at **www.ici.org/files/2025/per31-07.pdf** (ICI Research Perspective).

[6] For purposes of this paper, ETFs are limited to those operating pursuant to Rule 6c-11 under the Investment Company Act of 1940.

[7] Certain actively managed ETFs, typically referred to as semi-transparent ETFs, operate pursuant to exemptive relief from the SEC that permits them to disclose portfolio holdings on the same general timeframe as mutual funds.

[8] The SEC adopted amendments to Form N-PORT which would increase the filing and publication frequency of Form N-PORT information. See Form N-PORT and Form N-CEN Reporting; Guidance on Open-End Fund Liquidity Risk Management Programs, Inv. Co. Act Rel. No. 35308 (Aug. 28, 2024), available at: **https://www.sec.gov/files/rules/final/2024/ic-35308.pdf**. The effectiveness of these amendments has been delayed. See Form N-PORT Reporting; Extension of Effective and Compliance Dates, Inv. Co. Act Rel. No. 35538 (Apr. 16, 2025), available at **https://www.sec.gov/files/rules/final/2025/ic-35538.pdf**.

Features	ETFs[6]	Mutual Funds
Regulatory frameworks	Regulated under the Investment Company Act of 1940, like mutual funds, with additional requirements pursuant to Rule 6c-11. Must comply with Exchange listing standards.	Primarily regulated under the Investment Company Act of 1940. Because they do not trade on exchanges, mutual funds are not subject to secondary market trading regulations.

Exemptive Relief Process

SEC Rule 6c-11 streamlined the regulatory framework for ETFs by eliminating the need for most ETFs to obtain individual exemptive relief. While Rule 6c-11 provides broad relief for ETFs meeting its conditions, funds with unique strategies, structures, or circumstances may still require relief from various provisions of the federal securities laws before they can operate. The Investment Company Act of 1940 (the Act) authorizes the Commission to exempt any person, security, or transaction from one or more provisions of the Act or Commission rules, provided that the exemption is "necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of [the Act].[9]

The Application and Approval Process:[10]

1. **Application Submission:**

   Applicants seeking exemptive relief must file an application with the Commission presenting a basis for the relief requested and identifying any benefits expected for investors and any conditions imposed to protect investors.

2. **SEC Review:**

   The SEC staff reviews the applications that the Commission receives under the Act. During the review process, the staff may issue comments to the applicant asking for clarification of or modification to an application to determine whether, or ensure that, the relief meets the Act's standards. The amount of time necessary for the staff to review an application depends in large part on the nature of the application.

   For applications that seek novel, largely unprecedented relief, or relief for which some Commission precedent exists but that raises additional questions of fact, law, or policy, substantial time and resources are needed to analyze thoroughly the legal and policy issues raised, and the recommendations the staff must make to the Commission often include significant policy considerations. As part of this process, the staff generally works with the applicant to refine the proposal and to develop appropriate terms and conditions for the relief that address the applicable standards under the Act.

   For all applications, the Commission must consider the applicants' desire to obtain prompt relief while ensuring it has sufficient time to meet its overarching responsibility to consider whether an application meets the standard for the requested relief.

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9 15 U.S.C. 80a-6(c). See also Amendments to Procedures With Respect to Applications Under the Investment Company Act of 1940, Release No. IC-33921; File No. S7-19-19 (Jul. 6, 2020), available at: **https://www.sec.gov/files/rules/final/2020/ic-33921.pdf**.

10 *See* 40 Act Exemptive Applications, Audit Report No. 230 (Mar. 29, 1996), available at: **https://www.sec.gov/about/reports-publications/aboutoigaudit230finhtm**.

3. **Public Notice:**

   If the request meets the applicable standards, the Commission publishes a notice of the application in the Federal Register and on its public website, stating its intent to grant the requested relief. The notice gives interested persons an opportunity to request a hearing on the application. If the Commission does not receive a hearing request during the notice period and does not otherwise order a hearing on an application, subsequent to the expiration of the notice period, the Commission generally issues an order granting the requested relief. If the required standards are met, SEC staff publishes the proposed relief for a public comment period.

4. **Commission Approval:**

   After a notice period of approximately twenty-five days, and unless a hearing is requested by an interested party or by the Commission on its own motion, an order is issued granting the requested relief.

   As of September 29, 2025, at least 75 asset managers have filed for exemptive relief to offer an ETF share class of a mutual fund. The applications generally indicate that applicants "believe that they are unable to rely on Rule 6c-11 because 'exchange-traded fund' is defined, in part, to mean a registered open-end management investment company 'whose shares are listed on an Exchange and traded at market-determined prices'" and "[b]ecause this definition suggests that all of the investment company's shares must be listed on an Exchange, a Multi-Class ETF Fund with Mutual Fund Shares in addition to ETF Shares would not meet this definition."[11]

   The applications generally commit to compliance with the requirements of Rule 6c-11, including the daily publication of portfolio holdings.

[11] *See, e.g.*, Third Amended and Restated Application of DFA Investment Dimensions Group Inc., et al., File No. 812-15484 (Sept. 26, 2025).

Primary ETF Share Class Operational Considerations

3.1 Initial Considerations

The determination of whether to launch an ETF share class of a mutual fund will require careful consideration by asset managers. Firms should be mindful not only of the regulatory requirements and operational challenges but also how the product will fit into their business models and strategic plans.

The following matrix outlines various areas of consideration asset managers may want to review prior to launching an ETF share class:

Area of Consideration	Relevant Topics
Regulatory Approval and Board Considerations There are several steps that asset managers must complete prior to offering an ETF share class. Asset managers may want to consider these requirements when determining their product launch timelines.	**SEC exemptive relief process:** Prior to launching an ETF share class, the asset manager must obtain exemptive relief from the SEC. The application must address specific conditions regarding the operational and compliance aspects of the dual share class structure. Exemptive application timelines can vary substantially, and there is no guarantee that an application will be approved. Factors such as similarity of characteristics to previously approved applications could have a bearing on the timeliness of the review process. **Board approval:** Approval from the fund's board must also be secured prior to offering the dual share class structure. ETFs generally, and the dual share class structure in particular, may be novel constructs for many boards. Asset managers should consider what level of education may be appropriate before seeking approval. This white paper will provide further information on the application framework and board considerations in Section 3.3, Reporting Requirements.
Product Selection Asset managers may determine that not all products are appropriate for the dual class structure. Asset managers may want to consider the following factors when determining product suitability.	**Portfolio holdings disclosure requirements:** The current exemptive relief applications generally commit to compliance with the substantive provisions of Rule 6c-11, which requires daily portfolio holdings disclosure, among other things. Asset managers may want to consider their level of comfort with this requirement. Many active managers use proprietary research and expertise to manage client portfolios and may determine that in some circumstances it may not be appropriate to fully disclose portfolios or strategies each day. Such full daily portfolio holdings transparency may be seen to make the fund susceptible to predatory trading practices such as "front running" and "free riding" by other investors or managers, which can harm and result in substantial costs to the fund and its shareholders. Existing exemptive applications for ETF share class relief do not currently contemplate the use of semi-transparent structures (in which full portfolio holdings are not disclosed on a daily basis) in connection with an ETF share class. **Product capacity considerations:** A key step for an asset manager in launching any product is the evaluation of any capacity constraints of a fund or strategy. For certain strategies, managers may elect to close or restrict new purchases into mutual funds to optimize investment performance for the good of existing shareholders. While mutual funds may limit incoming shareholder purchases to deal with capacity constraints, ETFs generally lack the ability to close to new creations in response to capacity constraints.[12] Asset managers may want to carefully evaluate the capacity of a mutual fund's strategy before determining to add an ETF share class that would, by association within the portfolio, impact the capacity management capabilities of the portfolio.

[12] *See* Rule 6c-11 Adopting Release (discussing the ability of an ETF to suspend the issuance of Creation Units only for a limited time and only due to extraordinary circumstances).

Area of Consideration	Relevant Topics
Product Selection, *Continued*	**Dividend schedules:** Most ETFs distribute dividends on a monthly or quarterly basis, whereas certain mutual funds accrue dividends daily. The most recent exemptive applications for ETF share class relief identify the possibility that certain dual share class funds may wish to declare dividends on a daily basis for their mutual fund shares and on a monthly basis for their ETF shares. Firms may want to consider the operational model necessary to support this daily/monthly declaration funds. Asset managers may wish to consider the costs of developing and supporting this structure, any potential impacts to net asset value (NAV) calculation, as well as potential conflicts of interest resulting from different classes paying or reinvesting dividends on different days.
Operational Model ETFs and open-end mutual funds transact on disparate systems and are often supported by separate internal and external teams. ETFs also have additional nuances to their operating model and different regulatory requirements. Asset managers may want to consider a variety of these operational model questions when considering the launch of an ETF share class.	**Review of service providers:** Asset managers will have varying considerations when it comes to service providers, which may include fund accountants, fund administrators, custodians, and transfer agents, among others: » **Fund sponsors entering the ETF market** will need to identify the ETF service provider(s) necessary to support an ETF share class. In some instances, the service provider(s) may include those supporting the asset manager's mutual funds as well as other entities. » **Fund sponsors already offering ETFs** can either leverage their existing ETF service provider relationships for the ETF share class or identify additional options for servicing and support. An asset manager will need to determine how to best position the support of the dual share class portfolio. Today, asset managers may have their mutual fund and ETF products supported by different service providers. Even when an asset manager uses the same service provider for its mutual funds and ETFs, that service provider may perform its recordkeeping duties through separate technology for each product structure. With the introduction of the dual share class structure, asset managers may want to review the existing bifurcated operating model. Integration may be either preferred or necessary across dual share classes for any combination of portfolio trading, regulatory reporting, fund accounting, custody, transfer agency, and interclass exchange privileges from the mutual fund into the ETF. Some asset managers may be evaluating which service provider model provides them with an optimal combination of efficiency and risk management at a reasonable cost. **Capital markets teams:** For those asset managers new to the ETF market, careful planning regarding the recruitment and staffing of capital markets teams will be required. ETFs rely on relationships with authorized participants (APs) to facilitate creation and redemption in the primary market and with market makers to support liquidity for investors on the secondary market. Capital markets teams are critical to these engagements and work closely with both APs and market makers to ensure optimal launch and trading of ETF products. **Compliance requirements:** While ETFs are registered under the Investment Company Act of 1940 and have regulatory requirements similar to open-end mutual funds, they do have additional requirements as outlined in Rule 6c-11. ETFs must also comply with the requirements of Exchange listing standards. Firms should ensure all regulatory requirements are understood and can be supported.[13]

[13] For additional information about the regulatory framework for ETFs in the United States, please see Section VI of ICI Research Perspective, **A Close Look at Exchange-Traded Funds and Their Investors**

Area of Consideration	Relevant Topics
Distribution Strategy/ Model Asset managers may want to review their current distribution model and longer-term strategy when evaluating the introduction of an ETF share class. The new product structure can affect intermediaries in a variety of ways, and an asset manager may want to engage intermediaries as part of a product evaluation or pre-launch process.	**Intermediary considerations:** The dual share class structure raises several considerations for intermediaries specifically in regard to regulatory, operational, and economic impacts. Asset managers may want to consider planning discussions with their intermediary partners prior to launching products to understand operational support readiness and time to market for these firms. Asset managers may also need to review and consider potential changes to selling and servicing agreements and seek to obtain any necessary product approvals from intermediary product teams in connection with the dual share class roll out. This white paper will provide further information on intermediary considerations in Section 3.2, Intermediary Considerations, and 3.4, Interclass Exchange Mechanics.
Shareholder Composition Asset managers may want to familiarize themselves with the composition of their shareholder populations and whether their accounts are held at intermediary firms or direct with the fund, and the types of investment accounts holding funds where an ETF share class may be introduced.	**Direct held accounts:** Shareholders that hold their mutual fund accounts directly at the fund and seek to invest in an ETF share class will experience several operational support changes with their decision. They will need to establish an account through an intermediary, such as a brokerage account, to hold the ETF share class. Based on current differences in product features between mutual funds and ETFs and taking into consideration the different systems environments that support both share class types, it is likely shareholders will see modifications to their investor privileges and statements/confirms, as well as shareholder servicing support contacts. Asset managers may want to consider providing education to investors on support model changes. **Intermediary accounts:** Related to considerations around the product distribution model and long-term strategy is understanding the asset manager's composition of intermediary-distributed accounts. The account types can be an important variable to help the asset manager and intermediary estimate the effect of introducing a dual share class product on the intermediary and its clients. For instance, intermediaries that predominantly support defined contribution plan participant accounts may be less impacted by an ETF share class introduction than those intermediaries supporting retail brokerage clients, due to differences in technological infrastructure supporting each intermediary type. Asset managers may want to understand which intermediaries will support the dual share class product and the support model expectations by firm. For instance, if the dual share class service infrastructure remains bifurcated between a mutual fund and ETF transfer agent, intermediaries will need to understand how that may affect their communication with fund transfer agents' and ETF agents' back-office operations. Intermediary firms may offer varying levels of support for interclass exchanges, such as whether they support manual exchanges, when interclass exchanges are offered (e.g., weekly, monthly), as well as using various communication protocols for trading and servicing. Asset managers may want to engage with intermediaries and understand these parameters when reviewing product launch plans. This white paper will provide further information on the investor considerations in Section 3.4, Interclass Exchange Mechanics, and 3.6, Investor Experience.

3.2 Intermediary Considerations

While an ETF share class may offer tangible benefits to investors and asset managers, the dual structure may create potentially complex challenges for intermediaries. Asset managers should be mindful of these challenges as they evaluate important product distribution and implementation considerations.

ICI working groups provided opportunities for ongoing dialogue with intermediaries, especially those from ICI's Broker/Dealer Advisory Committee and Bank, Trust, and Retirement Advisory Committee. Their insights and engagement were critically important in shaping this and other sections of this paper, and ICI is grateful for their input. ICI members are strongly encouraged to maintain open lines of communication with their intermediary partners as exemptive relief is granted and critical business decisions are made regarding introduction of dual share classes.

Operational impacts:

1. Similar to asset managers, intermediaries trade ETFs and mutual funds through disparate systems. Most platforms lack the connectivity to support both structures for the same fund, and while intermediaries often use a brokerage platform (or similar system) that can present a consolidated view of different asset types held by a customer, combining the share classes under a single portfolio could involve time and expense.
2. Most of the current ETF share class exemptive relief applications allow for an investor to exchange their mutual fund shares into the related ETF share class. The industry is developing an automated solution to support the interclass exchange feature, which is expected to be available by mid-2026. Because more mutual fund subaccounts are held and serviced by intermediaries operating as agents of the fund through omnibus recordkeeping[14] than accounts held directly with mutual fund transfer agents, the lack of an automated interclass exchange solution may be acutely impactful to intermediaries.
3. Mutual funds often have unique shareholder privileges (e.g., rights of accumulation, letters of intent, automatic investment/withdrawal provisions) that are not applicable to ETFs today. Any changes to these policies that expand to include ETFs could require updates to systems, policies, and procedures, as well as require staff training, all of which may cause intermediaries (and asset managers) to incur additional costs. For instance, considering both mutual fund and ETF assets when determining sales load discounts under rights of accumulation would require combining demographic and account balance data from disparate systems in ways not supported today.

[14] Omnibus accounts hold mutual fund shares that are registered with the mutual funds transfer agent in the name of the financial intermediary. The intermediary maintains the underlying shareholder account information on its own recordkeeping systems—a process known as subaccounting—and reports share transactions to the funds on an aggregate basis. The intermediary or its agent handles all communications and servicing of its customer accounts. As a result, the underlying shareholders in an omnibus account do not directly interact with the fund organization; the mutual fund organization may have limited to no knowledge or transparency about the underlying shareholders.

Regulatory and compliance impacts:

1. SEC Regulation Best Interest (Reg. BI)[15] requires broker-dealers and their associated persons to act in the best interest of their retail customers at the time of making recommendations regarding any "securities transaction or investment strategy involving securities (including account recommendations)" and to place the interests of the retail customers ahead of the financial or other interests of the broker-dealer and its associated persons. A broker-dealer may have to evaluate the costs and features of a particular class of a fund in determining whether that class is in the best interest of a customer, including relative to other classes of the same fund available through the broker-dealer. While there are often legitimate reasons that it would be in the best interest of the retail investor to be invested in one class or another, the introduction of ETF share classes may introduce challenges and complexities for broker-dealers making that determination that potentially increase operating costs and heighten regulatory risk.
2. The exemptive relief applications provide a framework for monitoring and oversight in an effort to support the required finding that the dual class structure is, and continues to be, in the best interest of each class individually and of the fund as a whole. While the exemptive relief applications put the onus on asset managers to conduct the monitoring, subject to board oversight, the dual class structure could introduce certain additional responsibilities on intermediaries. For example, when comparing a similar stand-alone ETF to an ETF share class, intermediaries may want to understand the impact of the dual class structure when making their recommendations.
3. Although ETF popularity continues to grow rapidly, there may be investors who are unfamiliar with the product and its operational nuances. Intermediaries may need to spend time educating investors on product specifics, as well as training internal staff on the dual share class structure. Questions remain about sources of funding for educational efforts in this space.

Revenue and business model impacts:

1. Historically, the distribution model for mutual funds has differed from that for ETFs. For instance, ETFs typically do not pay 12b-1 or sub-transfer agent fees to intermediaries for distribution and shareholder servicing, respectively. Some fund affiliates (e.g., the distributor or adviser) may make certain arrangements with intermediaries. Sometimes referred to as "revenue sharing," these arrangements typically involve mutual fund education and marketing. Intermediaries will assess potential revenue impact of any change to product mix that may result from the introduction of a dual share class strategy.
2. As previously mentioned, and discussed in greater detail in Section 3.4, many of the exemptive relief filings include an interclass exchange feature from a mutual fund class to the ETF share class. The potential migration of mutual fund shareholders to the ETF class may impact the intermediary's revenue model.
3. Support for the dual class structure is likely to require technology and systems upgrades at many platforms. In addition to supporting an interclass exchange mechanism, changes could include updates to front end systems to support input of client instructions, back-end system enhancements to integrate sub accounting platforms to ensure client records are accurate, as well as updates to confirmation and statement templates.

[15] Reg BI is a federal standard that in simple terms requires broker-dealers to act in the best interests of their retail customers. Regulation Best Interest: The Broker-Dealer Standard of Conduct, SEC Rel No. 34-86031 (June 5, 2019); 84 Fed. Reg. 33318 (Jul. 12, 2019). Available at: **https://www.govinfo.gov/content/pkg/FR-2019-07-12/pdf/2019-12164.pdf**.

Throughout the ICI working group sessions, asset managers and intermediaries have stressed the critical importance of bilateral discussions to address the issues above—product access, servicing and distribution fees, and support for the interclass exchange process. Intermediaries have stated their desire to provide products and services that help fund shareholders, i.e., the intermediary's clients, meet their financial goals. For some intermediaries, questions remain about near- and long-term customer demand for the dual share class product. Asset managers should ensure they are actively engaging with their distribution partners as part of their dual share class product implementation plans to ensure proper alignment between the product, its attributes, and needs of the intermediary and its customers.

3.3 Reporting Requirements

The latest exemptive relief applications as of the date of this paper provide a framework for advisers to provide ongoing monitoring and reporting to the fund's board to inform the required finding that the dual class structure is in the best interest of each share class individually and the entire fund as a whole.

Current filings seek to address the SEC's concerns on brokerage and trading cost allocations, potential cash drag, and tax efficiency.

ICI's Industry Operations team formed a working group focused solely on reviewing the current exemptive relief framework—as drawn from original and amended filings—to ensure the requirements were understood, as well as to provide members with thought leadership on ways they might compile the requisite data.

Following is an overview of three proposed areas, as drawn from the existing exemptive relief filings, where funds will need to implement policies and procedures to ensure SEC concerns are being addressed and the necessary framework is in place to inform the required finding that the dual share class structure is in the best interests of each class individually and the entire fund portfolio.

Initial Adviser Report

The exemptive relief application conditions would require a report to be produced by the fund's adviser and presented to the board for review prior to launching the dual share class structure. Boards will consider the information included in this report to evaluate whether the structure is in the best interest of each individual share class, as well as the fund as a whole.

Examples of potential information included in this report are:

- A discussion of the reasonably expected benefits and costs to each class individually and the fund as a whole, including, as applicable, the sources of potential cost savings and other benefits of operating the structure;
- A discussion of how each of the classes will be affected by reasonably expected cash flows and costs associated with portfolio transactions, cash levels, and distributable capital gains;
- A discussion of how the adviser intends to manage the reasonably expected costs associated with the transition to the new structure and a discussion of the appropriateness of the fund's investment strategy for the structure; and
- A discussion of any other potential material conflicts of interest, including any other sources of potential cross-subsidization, identified by the adviser associated with operating the structure.

Ongoing Adviser Report

The exemptive relief application conditions would require a fund's adviser-produced report to be provided to the funds' board at least annually to inform the board's finding that the dual share class continues to be in the best interests of each class individually and of the fund as a whole.

Examples of potential information included in this report are:

- A discussion of any observed benefits or cost savings to the fund resulting from the dual class structure;
- A discussion of any observed material conflicts of interest between the ETF class and the mutual fund class(es) resulting from the structure, including how purchase and redemption activity in each class impacts the other(s) with respect to cash levels, tax consequences, and trading costs, as well as any performance difference due to different dividend payment dates; and
- Any other information that the board requests.

Monitoring Process

The exemptive relief application conditions would require fund advisers to create a framework for ongoing monitoring of certain metrics relevant to the board's oversight.

Components of this process include the following:

- adviser-recommended numerical thresholds with respect to (i) costs associated with portfolio transactions, (ii) cash levels, and (iii) capital gains distributions;
- the method for calculating such thresholds and the time period over which they are measured and compared; and
- in the case a numerical threshold is exceeded, a report to the board or its designated committee or designated member, as appropriate, accompanied by a written explanation of the adviser's assessment of the cause and any proposed recommendations for remediation.

The thresholds will be used to assist in the identification of potential conflicts of interest including potential cost disparities.

The reporting requirements will be a key focus area for asset managers once the exemptive relief is granted. While the above overview provides examples of the types of information that the conditions of the exemptive relief applications would require to be included in each applicable report, it is by no means an exhaustive list. Asset managers are encouraged to engage with their internal and external counsel to ensure the exemptive relief application requirements are fully understood and the reporting presented to fund boards includes the information prescribed by any final exemptive relief granted by the SEC.

A key concern of the SEC as articulated in the Rule 6c-11 adopting release is that "an ETF share class, and a mutual fund share class may give rise to differing costs to the portfolio. As a result, while certain of these costs may result from the features of one share class or another, all shareholders would generally bear these portfolio costs."[16]

[16] *See* Rule 6c-11 Adopting Release.

The Rule 6c-11 Adopting Release discusses three potential sources of these cost impacts:

1. Trading Costs: resulting from brokerage and other costs related to portfolio transactions.[17]
2. Tax Drag: resulting from distributable capital gains generated by portfolio transactions.
3. Cash Drag: resulting from the need to hold cash to satisfy mutual fund share class redemptions.

These potential cost impacts have generally been referred to as "cross-subsidization." As detailed above, fund boards will evaluate these potential impacts, along with the potential benefits, in making a determination as to whether the dual-class structure is in the best interests of each mutual fund class and the ETF class individually and of the multi-class fund as a whole.

To assist members in exploring how certain factors could potentially impact the ETF share class, ICI prepared narrative and hypothetical examples illustrating one possible way to quantify the impact of mutual fund trading costs, tax drag, and potential cash drag on the ETF share class. There are multiple ways to quantify these costs. The methods and hypothetical examples below are provided to help members evaluate which methodologies best fit their funds, considering the specific facts and circumstances of each fund.

Potential Sources of Cross-Subsidization

Trading Costs

A key difference between mutual funds and ETFs lies in how they handle inflows and outflows. Mutual funds typically transact directly with shareholders on a cash basis, requiring portfolio managers to buy or sell securities on the secondary market (e.g., stock exchanges or other trading venues) in response to investor flows. In contrast, ETFs transact with authorized participants (APs) via the creation and redemption process, generally on an in-kind basis by exchanging securities for ETF shares.[18] As a result, many ETF portfolio managers typically do not trade on the secondary market or incur trading costs.

Fund managers also may need or want to adjust the fund's holdings. For mutual funds, these changes are executed through the buying and selling of underlying securities, which incurs trading costs. ETFs, however, can often use the in-kind creation and redemption mechanism to make these adjustments and minimize trading costs.

In a dual share class structure—where both mutual fund and ETF share classes exist within the same portfolio—adjustments to the fund's portfolio can potentially be executed through the ETF's in-kind creation and redemption process. Consequently, the impact of trading costs to the fund will likely stem primarily from inflows and outflows of the mutual fund share class. One potential approach to estimating this trading cost is to estimate the timing and volume of trading in response to mutual fund share class flows and identify the securities traded. For this exercise, a conservative assumption could be that the fund trades a pro-rata slice of its portfolio within a single day to accommodate flows.[19] This assumption is conservative for two reasons. First, fund managers typically spread trading over multiple days, allowing inflows and outflows to offset each other over time, which reduces the need for trading. Second, managers may prioritize trading more liquid securities

[17] Other costs such as bid-ask spreads or market impact cost.

[18] For additional information about the ETF creation and redemption process, please see Appendix A of ICI Research Perspective, **A Close Look at Exchange-Traded Funds and Their Investors**.

[19] The pro-rata slice example is used herein for simplicity and illustrative purposes only; active and index funds alike typically do not buy and sell portfolio securities in such a mechanistic way in response to fund flows.

first to minimize trading costs, especially during periods of market stress.[20] As a result, assuming pro-rata trading within a day likely overstates both the volume of trading and the resulting cost impact.

The impact of trading costs on the fund also depends on the proportion of assets held in the ETF share class. A larger ETF share class reduces the overall impact of trading costs on the fund, as those costs are spread across a larger asset base.

Figure 1 provides a simple illustrative example of trading cost impact under the pro-rata trading within a single day assumption, across varying proportions of ETF share class ownership. Fund A in this example is a stand-alone bond mutual fund comprised of investment grade bonds and high-yield bonds in equal proportions. To meet a $100 redemption, the fund manager liquidates a pro-rata portion of the $100,000 portfolio. With trading costs of 1% for the investment grade bonds and 2% for the high-yield bonds, the total cost amounts to $1.50.[21] This cost is then divided by the total assets of the fund to determine the trading cost impact as a percentage of fund assets—0.15 basis points.

FIGURE 1
Trading Cost Impact – A Hypothetical Example

	Fund Description	Total net assets	Net flows	Asset allocation		Trading volume		Trading cost			"Trading cost impact (basis points)"
				Investment grade bond	High-yield bond	Investment grade bond	High-yield bond	Investment grade bond	High-yield bond	Total	
Fund A	**Standalone mutual fund**			50%	50%	-$50	-$50	$0.5	$1.0	$1.5	0.150
Fund B	**Dual share class fund**										
	Mutual fund share class	$100,000	-$100	50%	50%	-$50	-$50	$0.5	$1.0	$1.5	
	ETF share class	$100,000	-$100	50%	50%	-$50	-$50	$0.0	$0.0	$0.0	0.075
	Mutual fund and ETF share classes	$200,000	-$200	50%	50%	-$100	-$100	$0.5	$1.0	$1.5	
Fund C	**Dual share class fund**										
	Mutual fund share class	$100,000	-$100	50%	50%	-$50	-$50	$0.5	$1.0	$1.5	
	ETF share class	$300,000	-$100	50%	50%	-$50	-$50	$0.0	$0.0	$0.0	0.0375
	Mutual fund and ETF share classes	$400,000	-$200	50%	50%	-$100	-$100	$0.5	$1.0	$1.5	

Note: All statistics in this figure are hypothetical and presented solely for illustrative purposes. In this hypothetical example, trading costs are 1% for the investment grade bond and 2% for the high-yield bond.

[20] See ICI Viewpoints series by Shelly Antoniewicz and Sean Collins, **ICI Bond Mutual Fund Survey Brings Facts to the Debate**.

[21] To fulfill the redemption, the fund liquidates $50 of investment-grade bonds and $50 of high-yield bonds, incurring trading costs of $0.50 (1%) and $1.00 (2%), respectively.

Fund B extends the first case (Fund A) to a dual share class fund with $100,000 of assets in both the mutual fund and ETF share classes. In this case, the same $1.50 in trading costs is distributed across total fund assets of $200,000, resulting in a trading cost impact of 0.075 basis points. Fund C is identical to Fund B, except it holds $300,000 in ETF share class assets, resulting in a trading cost impact of 0.0375 basis points. These examples illustrate that the larger the ETF share class ownership, the lower the overall trading cost impact on the individual share classes and the fund.

As a result, fund advisers may need to consider this dynamic when evaluating trading cost implications. For example, in the Initial Adviser Report, the adviser may need to rely on projections of ETF share class ownership. These projections could be based on potential market opportunities, expected net flows into the mutual fund and ETF share classes, and anticipated conversions to the ETF share class, among other factors. Once the ETF share class is launched, the adviser could also leverage historical data on ETF share class ownership.

For trading cost impact estimates, the adviser could use information on fund flows, portfolio holdings, and the trading costs of the underlying securities. The adviser may collect data on trading costs from third-party data providers and pricing vendors or may rely on information gathered from intermediaries or other service providers as part of the advisor's evaluation of best execution requirements.

Fund advisers would also need to determine numerical thresholds, subject to board approval, to monitor trading cost impacts for ongoing oversight. These thresholds may need to account for the underlying assumptions used in estimating trading cost impacts and be adjusted accordingly when those assumptions are either too restrictive and overstate trading cost estimates or are too lenient and understate them.

Tax Drag

One potential method for estimating the tax impact of mutual fund share class distributions on the ETF share class is to compare taxable distributions of ETF share classes to those of comparable standalone ETFs. When comparing such distributions to those of stand-alone ETFs, advisers should be mindful to identify ETFs that share similar characteristics such as asset class, investment strategy (active or index), holdings, and fund size, among other factors that can affect distributions.

Because there are different types of distributions, each category could have a different tax impact. For example, short-term capital gains are typically taxed at a higher rate than long-term capital gains. One potential way to address this is to estimate a tax burden measure that combines the tax impact of capital gains, dividends, and interest income into a single statistic.[22] For example, the tax burden for a domestic equity fund can be calculated by multiplying the tax rates on dividends, short-term gains, and long-term gains by their respective annual yields, then summing the results.

Data inputs needed for the calculation include annual distribution information and tax rates. The hypothetical example in Figure 2 uses annual distribution yields of 0.5% and tax rates from the highest individual tax brackets, providing an estimate of maximum tax burden. Because individual investor tax rates may be unknown to the adviser, using the highest tax rates can serve as a conservative approach. However, the adviser may need to use different rates and account for any available information about whether shareholder assets are held in taxable or tax-exempt accounts.

[22] This measure is also used in the academic literature. See, e.g., Sialm, C., & Zhang, H. (2020). Tax-Efficient Asset Management: Evidence from Equity Mutual Funds. The Journal of Finance, 75(2), 735-777.

FIGURE 2:
Tax Burden Calculation – A Hypothetical Example

	Distribution yield		Tax rate		Tax burden
Dividend	0.5%	×	37%	=	0.19%
Short-term capital gain	0.5%	×	37%	=	0.19%
Long-term capital gain	0.5%	×	15%	=	0.08%
All					0.45%

Note: All statistics in this figure are hypothetical and presented solely for illustrative purposes.

This calculation can be used to estimate the tax burden of the ETF share class and the average tax burden of comparable standalone ETFs. Tax drag can then be estimated as the difference between these tax burdens. Figure 3 presents hypothetical examples for four ETF share classes, each corresponding to a different investment objective. For example, the hypothetical tax burden for the ETF share class of a domestic equity fund is 0.45%, while the hypothetical average tax burden for a comparable standalone ETFs is 0.44%, resulting in a hypothetical estimated tax drag of 0.01%.

FIGURE 3:
Tax Drag – A Hypothetical Example

	Tax Burden		
	ETF share class	**Comparable standalone ETFs[1]**	**Estimated tax drag[2]**
Domestic equity fund	0.45%	0.44%	0.01%
International equity fund	0.60%	0.58%	0.02%
Taxable bond fund	0.90%	0.89%	0.01%
Municipal bond fund	0.01%	0.01%	0.00%

Note: All statistics in this figure are hypothetical and presented solely for illustrative purposes.
1 Corresponds to average tax burden of comparable standalone ETFs.
2 Calculated as the difference between the tax burden of the ETF share class and the average tax burden of comparable standalone ETFs.

Cash Drag

One possible starting point for evaluating the potential impact of cash on the ETF share class could be to compare cash holdings of the ETF share class to those of a comparable standalone ETFs. Again, when selecting an ETF to compare, advisers should select ETFs with similar characteristics.

FIGURE 4:
Cash Holdings – A Hypothetical Example

	ETF share class	Comparable standalone ETFs[1]
Domestic equity fund	2.0%	1.8%
International equity fund	2.5%	2.3%
Taxable bond fund	6.0%	5.5%
Municipal bond fund	3.0%	2.8%

Note: All statistics in this figure are hypothetical and presented solely for illustrative purposes.
1 Corresponds to average cash holdings of comparable standalone ETFs.

It is important to note that the impact of cash holdings on fund performance can be positive or negative:

- *Missed opportunities for higher returns (-):* When markets are rising, cash holdings may underperform compared to invested assets. This opportunity cost can reduce overall portfolio returns, especially in bull markets where equities or other risk assets are delivering strong gains.
- *Improved performance in down markets (+):* Cash can act as a defensive asset during market downturns. By not being fully exposed to declining securities, the fund may experience less significant drawdowns.
- *Ability to quickly take advantage of unexpected buying opportunities (+)*: Having cash on hand can allow fund managers to act swiftly when attractive investment opportunities arise—such as market dislocations, undervalued securities, or sudden price drops—without needing to liquidate existing positions.
- *Improved yields, especially in high-interest rate environment (+):* In periods of elevated interest rates, cash holdings can generate meaningful returns through money market instruments or short-term Treasury securities. This can enhance the fund's yield and provide a low-risk income stream.

As a result, even if the ETF share class holds more cash than a comparable standalone ETF, it does not necessarily imply a performance drag.

Benefits of Dual Share Class Structure

A key benefit of the dual share class structure that applies to both mutual fund and ETF share classes is the potential for cost savings through economies of scale. One way to estimate these savings is by comparing the expense ratio of the ETF share class to that of similar standalone ETFs. The difference between these expense ratios can serve as an estimate of the expected cost savings. When selecting a comparable ETF, advisers should ensure the product shares similar characteristics to maintain accuracy in the comparison.

Figure 5 illustrates hypothetical examples from four different funds, each aligned with a distinct investment objective.

FIGURE 5:
Cost Savings – A Hypothetical Example

	Expense ratio		
	ETF share class	**Comparable stand-alone ETFs[1]**	**Estimated cost savings[2]**
Domestic equity fund	0.30%	0.50%	0.20%
International equity fund	0.40%	0.60%	0.20%
Taxable bond fund	0.25%	0.35%	0.10%
Municipal bond fund	0.28%	0.40%	0.12%

Note: All statistics in this figure are hypothetical and presented solely for illustrative purposes.
1 Corresponds to average expense ratio of comparable standalone ETFs in this hypothetical example.
2 Calculated as the difference between the expense ratio of the ETF share class and the average expense ratio of comparable standalone ETFs.

Estimating these cost savings, as well as other benefits, may help advisers compare the costs, benefits, and the net impact of the multi-share class structure on each share class and on the fund as a whole.

As asset managers process the requirements included in the exemptive relief applications, they must consider how they will source the various data inputs necessary within their operational ecosystems. With much of the information potentially residing on multiple, disparate systems and potentially with different service providers, careful planning on how to combine information will be required.

While each firm will be unique in its circumstances, asset managers will likely need to engage with the following teams (presented alphabetically) when preparing the required board reporting:

- Client Services
- Data Management
- Fund Administration and Accounting
- IT and Technology support
- Legal
- Middle Office Operations
- Portfolio Management
- Product Management
- Risk and Compliance
- Third party service providers
- Transfer Agents

3.4 Interclass Exchange Mechanics

Asset managers may consider, as part of their product design, offering interclass exchanges between the mutual fund and ETF share classes, if deemed in the best interest of shareholders. Such action, if structured appropriately, should not realize a taxable capital gain or loss in an otherwise taxable transaction by keeping the shareholder fully invested throughout the transaction.[23] This is typically a better overall investor experience from today's practice of using a "cloned" (but separate) mutual fund and ETF portfolio structure which requires a sell and buy (with corresponding realized taxable gain/loss) to achieve a similar investment strategy.

The interclass exchange is an evolution of a business strategy whereby an asset manager converts an entire mutual fund into an ETF.[24] An entire mutual fund to ETF conversion typically occurs over a weekend following weeks or months of planning, is a one-time event, and because the mutual fund closes (all shares are disposed of through conversion or liquidation), it uses a conversion ratio to determine how many shares will convert (e.g., 1.02 mutual fund shares equal 1 ETF share, and any leftover mutual fund shares are paid out in cash to shareholders). All shareholders must either exchange their mutual fund shares into a different strategy/product or liquidate them prior to conversion weekend, or their shares are automatically included in the ETF conversion.

In contrast, the dual share class allows each investor to determine which product structure is in the investor's best interest. The interclass exchanges would be ad hoc, will likely occur more frequently and at shareholder request. Because the mutual fund remains operational and the shareholder's account will most likely retain post-exchange fractional shares, a conversion ratio cannot be used, but rather a shareholder's "individual interclass exchange calculation" is computed (see callout box) to determine how many ETF shares can be bought from their mutual fund account proceeds.

Today's separate system and service infrastructure for investors in mutual funds and ETFs means the automated interclass exchange capability described above does not yet exist. Because most mutual fund and all ETF shares are distributed through intermediaries, this situation has broad implications for trading and recordkeeping throughout the mutual fund and ETF ecosystems. While the dual share class portfolio creates unique challenges for portfolio management and administration, the exchange process brings into sharp focus the back-office operational differences between mutual funds and ETFs, but it also provides the opportunity to identify, document, and—where possible—align differences into a more harmonious system and service environment that manages risk while optimizing operational efficiencies. The goal is to provide shareholders with the best possible investment experience.

To address the important impediment to interoperability and inefficiency highlighted by the cross-class exchange limitations, ICI convened ICI members, intermediaries, and service providers from its many committees, as well as key ETF service providers, and the DTCC, to develop a model workflow to exchange a mutual fund share

[23] Certain retirement products do not recognize capital gains on the sale or exchange of assets. Depending on the qualifying event, similar "sale-like" transactions for retirement products may be exempt from tax reporting and/or taxation. Individual tax situations may vary, and tax laws may change over time. Please consult a tax professional.

[24] For more information, please see the ICI Operations white paper "Mutual Fund to ETF Conversion: Operational Considerations" September 2024. Available at: **https://www.ici.org/system/files/2024-09/24-ppr-mf-to-etf-conversion.pdf**.

into an ETF primary market share.[25] Back and middle-office practitioners clarified trading, accounting, mutual fund fractional share treatment, and valuation practices and established a framework to consider corrective processing, which oftentimes will be manual in nature.

Individual Investor Interclass Exchange Calculation:

The interclass exchange calculation refers to the process of determining the number of ETF shares a mutual fund investor will receive in exchange for their mutual fund shares. It is a four-step process that is core to the model workflow that follows:

1. **The closing value of the mutual fund is multiplied by the investor's share balance to determine the end of day market value of the account.**

Mutual fund account shares outstanding =	100.235
Mutual fund NAV =	× $15.40
Maximum value eligible for interclass exchange =	$1,543.62

2. **The end of day value of the mutual fund account is divided by the official end of day NAV for the ETF share class to determine the number of shares eligible for purchase.**

Maximum value eligible for interclass exchange =	$1,543.62
ETF end of day NAV =	÷ $15.50
Full and fractional shares =	99.588

3. **Because ETFs do not trade in fractional shares, the amount available for purchase into the ETF share class is rounded down to a full share amount.**

Round down to full ETF shares =	99.000
ETF end of day NAV =	× $15.50
Dollars invested in the ETF through interclass exchange = *(Needed to determine what remains in the mutual fund)*	$1,534.50

4. **The investor will receive the full ETF shares into their new ETF account, and the fractional shares will remain within the mutual fund account to be transacted at a later date and per investor's trading decisions.**

Maximum value eligible for interclass exchange =	$1,543.62
Dollars invested in the ETF through interclass exchange =	- $1,534.50
Dollars to remain in mutual fund account =	$9.12
Mutual fund NAV =	÷ $15.40
Fractional shares remaining in mutual fund =	0.592

	$ Portfolio	$ Mutual Fund	Mutual Fund Shrs.	$ ETF	ETF Shrs
Before Exchange	$1,543.62	$1,543.62	100.235	$0.00	0.000
After Exchange	1,543.62	9.12	0.592	1,534.50	99.000
Difference	$0.00	-$1,534.50	-99.643	$1,534.50	99.000

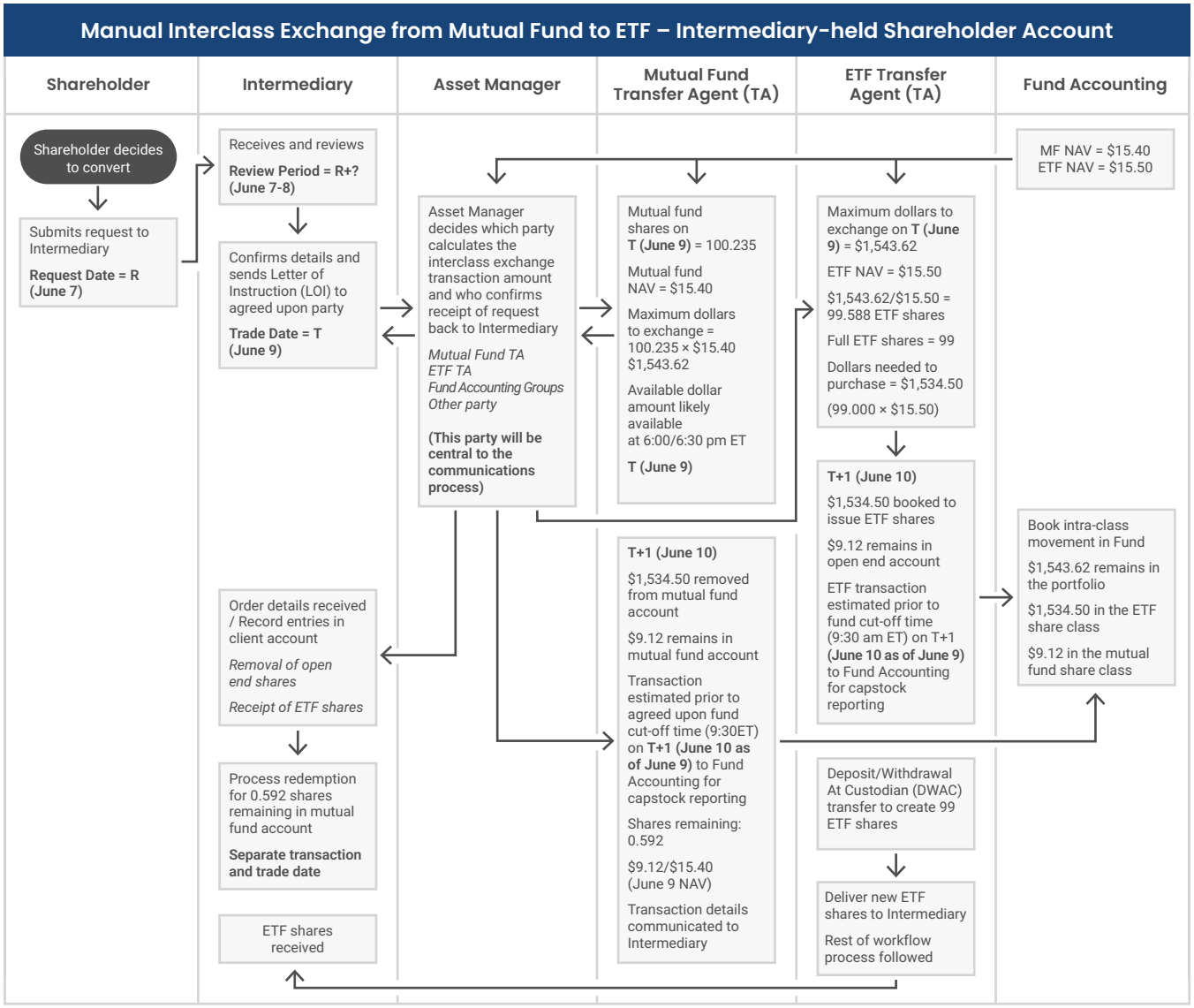
The overall portfolio value does not change, but the dollars and shares allocated to the mutual fund share class decline while those allocated to the ETF share class increase. The dollars offset, but the shares are different due to the differences in NAV.

[25] The ETF shares will be newly issued ETF shares, and not ETF shares purchased in the secondary market. They are valued at the fund's closing, or end-of-day NAV and are not drawn from the *secondary* market inventory (e.g., exchange). This is essential for the asset manager to ensure alignment of the NAV, assets, and outstanding shares of the ETF share class, following the exchange from the mutual fund.

3.4.1. Sample Workflow

In this example, a shareholder who holds their account through an intermediary requests an interclass exchange of their mutual fund holding into an ETF share class of the same portfolio. The shareholder submits the request to the intermediary on June 7. When the interclass exchange is processed on June 9, the mutual fund account has 100.235 shares with a value of $1,543.62.

The goal of the interclass exchange workflow is to move shareholders from a mutual fund into an ETF share class while keeping the shareholder and the portfolio fully invested. The key is the interclass exchange calculation previously described:



Step	Description of Activity	Responsible Party/Parties
1	Shareholder requests interclass exchange from mutual fund share class into ETF share class through their intermediary on June 7. Intermediaries and asset managers each may develop specific policies and procedures to follow when making these requests.	Shareholder

Step	Description of Activity	Responsible Party/Parties
2	Intermediary reviews request, and assuming the request is deemed to be in good order, creates a letter of instruction to request the interclass exchange. As noted in the workflow, there could be one or more days of review that take place before instructions are forwarded. For instance, there could be need to clarify instructions with the shareholder, exchanges may only be processed on a set schedule, or there could be other considerations that affect generation of a letter of instruction.	Intermediary
3	Asset manager role with interclass exchange letters of instruction. Working group members indicated that asset managers may take any number of actions regarding letters of instruction. Some asset managers may want to receive and process every letter of instruction, subsequently instructing the mutual fund transfer agent (TA) or others to take next steps. In other instances, the asset manager may designate the mutual fund TA, ETF TA, its Fund Accountant, or other entity as the direct recipient of letters of instruction, bypassing the asset manager entirely. Regardless of who receives the letter, that entity reviews it for clarity, confirms receipt to the submitter, and determines who will calculate the conversion transaction amount. *Please review the separate Letter of Instruction communication workflow and template located in the appendix of this document for additional details.*	Intermediary, Asset Manager, ETF Transfer Agent, Mutual Fund Transfer Agent, Fund Accounting, Other
4	Effective with the close of business on the transaction date (June 9), it is necessary to calculate the maximum eligible dollar value of interclass exchange out of the mutual fund account, as designated by the shareholder's request. This calculation uses the full and fractional shares outstanding in the shareholder's account multiplied by the end-of-day mutual fund NAV, which is typically available from Fund Accounting between 6:00 and 6:30 p.m. ET each business day. While the calculation could be done by any number of entities, it most logically is done by the mutual fund TA, who will eventually need to book a transaction to remove shares equal to the dollars exchanged into the ETF share class (which most likely will be *less than* the account's total share balance). Account shares outstanding = 100.235 Mutual fund NAV = × $15.40 Maximum value eligible for interclass exchange = $1,543.62 Because the mutual fund and ETF NAVs will most likely be different values, and the mutual fund holds fractional shares while the ETF only permits purchases in full share increments, it is almost certain there will be residual dollars/shares remaining in the mutual fund following the ETF share class interclass exchange transaction.	Mutual Fund TA Fund Accounting

Step	Description of Activity	Responsible Party/Parties
5	Using the maximum dollar value available for interclass exchange determined in step 4, along with the official end of day ETF NAV determined by Fund Accounting and used to value ETF shares created by the fund, the number of ETF shares acquired through the interclass exchange process can be determined. This calculation is most logically done by the ETF TA. Maximum value eligible for interclass exchange = $1,543.62 ETF end of day NAV = ÷ $15.50 Unrounded ETF shares = 99.588 Round down to full ETF shares = 99.000 ETF end of day NAV = × $15.50 Dollar value of ETF shares = $1,534.50 Shares issued through the interclass exchange process are primary market shares, like those acquired by APs. They are issued directly from the fund and not acquired through an exchange. For this reason, the shares are valued at the end-of-day NAV for the ETF, and not the last exchange-traded NAV. Although some intermediaries offer special programs that support fractional ETF shares, ETFs are only offered in whole share increments. These factors shape how the calculation occurs. As noted in step 4, the dollar value of the 99.000 shares acquired by interclass exchange into the ETF ($1,534.50) is less than the maximum dollar value available for interclass exchange. **Note:** It is possible that this calculation may not be completed until early the following business morning (in the example, June 10), due to final availability of information by the ETF agent.	Mutual Fund TA Fund Accounting ETF TA
6	The next morning (June 10), it is necessary to adjust shares outstanding and total dollars held in the mutual fund and ETF share classes for June 9 to reflect the movement of the shareholder's position. *The overall portfolio's dollar value has not changed.* Adjustments of this nature (e.g., to reflect a back-dated redemption of mutual fund shares and creation of ETF shares due to the interclass exchange) are commonplace for mutual funds and reflect the prevalence of omnibus recordkeeping and overnight reporting of intermediary activity. They must be made prior to pre-arranged cutoff times to not adversely affect NAV calculations and other reporting obligations. Adjustments of this nature are less common for ETFs because of the nature of the product but become necessary in the dual share class environment. For the mutual fund, the following is the impact of the interclass exchange transaction: Maximum value eligible for interclass exchange = $1,543.62 Dollars invested in the ETF = - $1,534.50 Dollars to remain in mutual fund = $9.12 **Changes** — **Shares** — **Dollars** Mutual fund share class = - 99.643 - $1,534.50 *($1,534.50 / $15.40 = 99.6428, rounded to 99.643)* ETF share class = + 99.000 + $1,534.50 Net dollar impact to portfolio = $0.00 Remaining mutual fund shares = 0.592 $9.12 *(These are fractional shares remaining in the shareholder account)*	Fund Accounting Mutual Fund TA ETF TA

Step	Description of Activity	Responsible Party/Parties
7	The final steps of the transaction are to ensure the intermediary's books in their sub-accounting recordkeeping system are in sync with the asset manager's mutual fund and ETF transfer agent records for the shareholder. For the mutual fund, the intermediary must remove, from their sub-accounts, mutual fund shares equal to the 99.643 shares redeemed as part of the interclass exchange to the ETF share class.	Mutual fund TA Intermediary
8	For the ETF, additional steps are required because shares must be delivered to an ETF position held by the intermediary on behalf of the shareholder. 1. Assuming the ETF TA is a Depository Trust Company (DTC) customer, they can use a Deposit/Withdrawal At Custodian (DWAC) transfer to issue 99 ETF shares necessary to deliver the shares created by the ETF interclass exchange. 2. Once the DWAC has been processed, the ETF TA can deliver order (DO) the shares to the intermediary. 3. Intermediaries may need to develop a process to book receivables of shares to be delivered via DO from an ETF agent to prevent DK (don't know) rejects. The DWAC/DO process is electronic and can be executed same day.[26]	ETF TA Intermediary
9	At the intermediary's discretion, in consultation with the shareholder, the remaining 0.592 fractional mutual fund shares could be redeemed to close out the mutual fund position. The redemption would be considered effective on the date it was submitted in good order, which would not be the same day as the interclass exchange to the ETF. Such activity would typically occur via automated transaction, such as through Fund/SERV® or other trading platforms.	Intermediary Mutual fund TA

While the above diagrams outline the basic process for supporting an interclass exchange, there are additional considerations that asset managers, intermediaries, and service providers should be mindful of when implementing this process.

Areas of Consideration	Relevant Topic
Roles & Responsibilities	Asset managers will need to determine who within their operational model will be the central point of contact for the exchange process, as well as which party is responsible for computing the interclass exchange calculation. Responsibility for the process may reside with service providers and/or internal operational teams (transfer agent, fund accounting, client service teams, etc.).
Intermediary support	Asset managers may want to engage with their distribution partners to understand the level of support offered for the manual process, which may vary by intermediary. Asset managers may also want to inquire if there are specific guidelines and parameters they may need to abide by (e.g., manual conversions are only processed weekly, specific instructions are required, no partial share conversions, etc.)
Disclosure requirements	Asset managers should consult with legal counsel to determine whether any changes should be made to the funds' offering documents (e.g., differing levels of intermediary support, conversion process time frames, shareholder eligibility, potential impacts to shareholder privileges, blackout periods, handling of fractional shares).
Blackout periods	There may be certain time periods where interclass exchanges may not be offered to investors. Asset managers may want to review the distribution schedules of their product ranges and determine if there are times when exchanges may not be available and ensure that information is disclosed to investors (e.g., around distribution periods, quarter/year-end).

[26] The DTC DWAC service provides participants with the ability to make electronic book-entry deposits and withdrawals of eligible securities into and out of their DTC book-entry accounts using a Fast Automated Securities Transfer service (FAST) transfer agent as the distribution point. Refer to **https://www.dtcc.com/asset-services/securities-processing/deposit-withdrawal-at-custodian** for more details.

Areas of Consideration	Relevant Topic
Fractional shares	One of the key differences between mutual funds and ETFs is that ETFs do not trade in fractional shares. The interclass exchange process almost certainly will result in fractional shares remaining in the mutual fund account due to differences in NAVs. The number of fractional shares, at point of submitting instructions to initiate the interclass exchange, is not known. Asset managers should consider clarifying procedures and communicating the handling of these (presumably) small-balance accounts. For instance, they may elect to redeem the fractional shares as part of a separate transaction or allow the shares to remain in the account based on the shareholder's instruction. These details could be clarified as part of the asset manager's overall dual share class exchange policies. The process for handling the fractional shares will vary by asset manager; investors need to be advised that the transactions will be separate from the original exchange request, proceeds will be redeemed (paid out), and redemption proceeds will be taxable and, depending on size, could be reportable to the Internal Revenue Service (IRS).
Late NAVs	The interclass exchange example assumes no delay in delivery of NAVs. NAV delivery can be delayed for a variety of reasons, and asset managers should consult their internal policies and procedures when determining how to address late NAVs. Discussions with the working group determined that the agreed-upon interclass exchange process would not change as the result of late NAVs; however, the process of estimating the transaction (i.e., Step 6 of the Sample Workflow) would need to be repeated until receipt of the final day's NAV. Asset managers, intermediaries, and service providers will need to ensure careful communication and coordination between all parties throughout this process.
Re-processing shareholder transactions and/or incorrect NAVs	The interclass exchange example assumes all processing was done correctly and NAVs for both the mutual fund and the ETF were accurate. Asset managers should consult their internal policies and procedures when determining how and when to address incorrect NAVs and the reprocessing of shareholder transactions.[27] **Re-processing shareholder transactions:** In the event the interclass exchange transaction is processed incorrectly, asset managers may determine it is in the best interest of the shareholder to correct and reprocess the transaction. In doing so, asset managers would need to cancel both sides of the original transaction and reprocess with the corrected information. While the mutual fund transaction could be cancelled "as of" the original trade date, ETFs do not provide for "as of" trading. The revised exchange into the ETF share class would be processed current-day at the official end-of-day NAV for the revised trade date. Asset managers should consult their internal policies and procedures when determining how to ensure investors are not harmed as part of the reprocessing of transactions. **Incorrect / Revised NAVs:** Asset managers should consult their internal policies and procedures when determining how to address incorrect or revised NAVs, as well as when it is necessary to reprocess shareholder transactions. In the event that asset managers determine it is in the best interest of shareholders to reprocess transactions, the process previously described could be implemented. The process to revise NAVs and reprocess shareholder transactions will take careful coordination across asset managers, intermediaries, and service providers.
Fund direct held accounts	The interclass exchange example assumes the account resides on an intermediary platform. Mutual fund shareholders invested directly at the fund and seeking to exchange their shares into the ETF share class will have a unique set of requirements to complete prior to effecting the exchange. Key among these will be to first establish a brokerage account and then transfer their shares to the intermediary. Additional considerations for direct held accounts can be found in Section 3.6, Investor Experience.

[27] Asset managers have developed comprehensive policies and procedures to ensure fair and equitable treatment of all shareholders due to revisions to NAVs and individual shareholder transactions. Such policies and procedures are developed by management and reviewed periodically by fund boards, as required, and may include de minimis considerations if deemed appropriate as well as provisions for management to use various means to ensure both funds and individual shareholders receive fair and equitable treatment.

3.5 Technology and Systems Considerations

With the dual share class structure for mutual funds and ETFs within the same portfolio limited to a single asset manager since 2001, the wider industry of asset managers, intermediaries, and service providers has begun reviewing the systems and technological processes that may require possible enhancement to support the structure.

The ICI technology and systems working group began discussing the various technological areas of consideration, such as how to connect data across different service providers, where the requisite reporting data resides, and how to weave information together for board reporting purposes. Inevitably though, discussions quickly turned onto the more immediate operational consideration of how to automate the interclass exchange privilege.

While the industry delivered a framework described in Section 3.4 that would support interclass exchanges as soon as exemptive relief is granted, it was acknowledged that a manual process like the one described does not offer the scale needed to sustain offering this important product feature. Recognizing the need to leverage DTCC as the industry's utility and a common connection point for both mutual fund and ETF trading was an important step forward in expediting a potential automated solution for the interclass exchange privilege. ICI and DTCC have maintained a longstanding strategic partnership focused on delivering innovative solutions to meet the evolving needs of the mutual fund and larger asset management industry. In alignment with this commitment, DTCC convened and is actively leading a working group composed of ICI staff, asset managers, and intermediaries, as well as both mutual fund and ETF service providers to develop an automated mutual fund to ETF share class exchange industry solution.

With the manual framework as a starting point, DTCC reviewed opportunities for enhancements to existing NSCC Fund/SERV®[28] functionality to come to market with an automated solution. In the current mutual fund environment, Fund/SERV serves as the industry standard for processing buys, sells, and exchanges, and the platform is widely available and used by asset managers, intermediaries, and service providers. Given Fund/SERV's broad familiarity to the industry, automating mutual fund to ETF share class exchanges is an effective extension of the existing ecosystem for the industry.

Following is an overview of the agreed-upon automated process through DTCC for interclass exchange(s) of mutual fund shares into ETF shares. The functionality requires the intermediary (firm) and the asset manager (its mutual fund transfer agent and its ETF share class agent) to be members of Fund/SERV; the narrative assumes this to be true.

DTCC Automated ETF Share Class Exchange Process[29]

- Firm submits Exchange Order record (015) to Fund/SERV. The firm will indicate that this is an exchange from the mutual fund to an ETF share class via a new Transaction Type indicator.

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[28] Fund/SERV® is the U.S. industry standard for processing and settling mutual fund, bank collective fund and other pooled investment product transactions between fund companies and distributors. Refer to **https://www.dtcc.com/wealth-management-services/mutual-fund-services/fund-serv** for more details.

[29] DTCC Concept Paper: Mutual Funds to ETF Share Class Exchange/Conversion through Fund/SERV. For a copy of the concept paper, please contact your DTCC Relationship Manager.

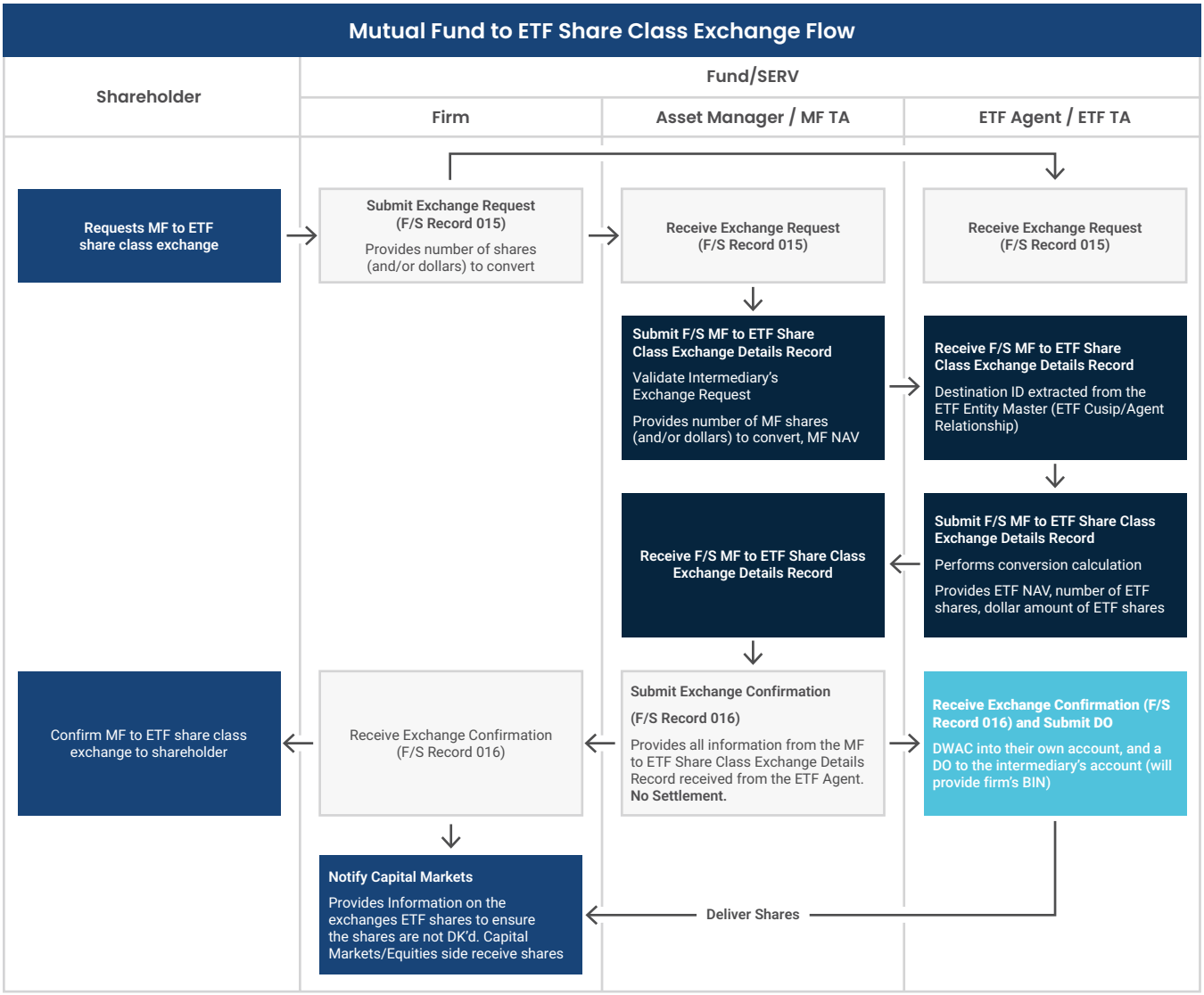
- Fund/SERV passes Exchange Order record (015) to the mutual fund transfer agent and optionally to the ETF agent if the agent subscribes to receive them.
- Mutual fund transfer agent provides Fund/SERV the MF to ETF Share Class Exchange Details record (new); this record will contain only the critical information necessary for the ETF agent to determine the interclass exchange amount[30] and other pertinent information.
- Fund/SERV passes the MF to ETF Share Class Exchange Details record (new) to the ETF agent.
- ETF agent provides Fund/SERV the MF to ETF Share Class Exchange Details record (new), updated with the end-of-day NAV of the ETF and other relevant details.
- Fund/SERV passes (returns) the completed MF to ETF Share Class Exchange Details record (new) to the mutual fund transfer agent.
- Mutual fund transfer agent will update and process the interclass exchange transaction based on the calculations from data provided by the ETF agent on the MF to ETF Share Class Exchange Details Record (new). (This step happens outside of Fund/SERV.)
- Mutual fund transfer agent submits Exchange Confirmation record (016-enhanced) to Fund/SERV.
- Fund/SERV passes Exchange Confirmation record (016-enhanced) to the Firm and optionally to the ETF agent if the agent subscribes to receive them.
- ETF agent can move ETF shares acquired through interclass conversion into the intermediary's custody account. (This step will likely use DTC DWAC/DO process.)
- Intermediaries can reconcile transactions and confirm transaction activity with the shareholder and consider next steps.[31]

Notes:

- A new transmission schedule providing more frequent intervals for information exchange will be created for the MF to ETF Share Class Exchange Details record.
- As the portfolio's cash position does not change and the investor's total invested dollars with the portfolio does not change, no settlement will occur.
- Intermediaries may need to develop a process to book receivables of shares to be delivered via DO from ETF agent to prevent DK (don't know) rejects.

[30] The interclass exchange amount is calculated to determine the number of ETF shares that can be acquired due to the exchange and accounts for mutual funds transacting in full and fractional shares, while ETFs transact in full shares only.

[31] This process may involve a combination of manual and automated activities that may include DTCC solutions such as Networking or Fund/SERV.



DTCC anticipates delivery of these enhancements in 2026, with the following considerations for asset managers, intermediaries, ETF agents, and service providers:

- All parties who are not members of NSCC Fund/SERV and would like to take advantage of the automated solution will need to become members of Fund/SERV – including Firms (intermediaries), Funds (mutual funds and transfer agents), and ETF agents.
- Asset managers determine when the ETF share class exchange privilege is offered.
  - If the exchange privilege is not available, (e.g., blackout periods due to distributions, privilege not available on certain products), asset managers should consider developing processes and procedures for communication, as well as technology for rejecting any exchange requests received through NSCC Fund/SERV.
  - If the fund does not support the ETF share class exchange privilege at all, they should prepare to take necessary actions to reject any ETF share class exchange requests received through NSCC Fund/SERV.
- In addition to updating systems and processes to align with ongoing DTCC technology advancements, intermediaries, mutual funds transfer agents, and ETF agents must upgrade their own systems to effectively capitalize on the automation and efficiencies gained through NSCC Fund/SERV updates.

3.6 Investor Experience Considerations

Individual investors are the foundation of the asset management industry and serve as the primary clients for products like mutual funds and ETFs. It is the industry's collective responsibility to ensure their needs are being met by providing sound regulatory compliance frameworks, relevant product offerings, and efficient operational processes. While certain benefits of the ETF structure have been noted within this paper, for many investors, ETFs as a share class may present a novel method of gaining access to this product.

The interclass exchange feature means that investors who are familiar with how a mutual fund functions could invoke a privilege that would alter certain characteristics of their investment vehicles. The interclass exchange feature also could lead to changes in how or where that product is serviced and supported. A more fractured systems and support model could mean a tangibly different—and potentially more complex—engagement for the shareholder and the representative(s) for the asset manager or intermediary that interact(s) with the shareholder.[32]

Given the importance of individual shareholders, ICI formed a working group focused solely on the investor experience. Similar to the other working groups, this forum was composed of asset managers, intermediaries, mutual fund and ETF service providers, and representatives from DTCC. Following robust discussions and a holistic review of how the introduction of an ETF share class may impact shareholders, the working group determined that the potential impacts to investors will likely be addressed through prospectus disclosures and may require updates to internal operating models.

3.6.2 Potential Areas for Mutual Fund Prospectus Disclosures

The following items assume that an existing mutual fund shareholder is exchanging into an ETF share class and were identified by the working group as key for consideration. The specific facts and circumstances of a particular ETF share class product may require additional areas for consideration beyond this list.

[32] Conversely, asset managers that introduce the dual share class structure but otherwise intend for the ETF share class to operate discretely from an investor perspective may have fewer of these concerns. Each asset manager makes independent business decisions on how it plans to configure and operate its products in the marketplace.

Area of Consideration	Relevant Topic
Interclass exchange	Asset managers deciding to offer the interclass exchange privilege may want to consider including registration statement language that addresses the nuances of this transaction, such as: » A description of the manual process (if supported) and the potential length of time to complete the transaction (*e.g., the full transaction may take several days to complete*) Note: As the automated exchange process was derived from the manual workflow, it is possible that prospectus updates may be minimal when the functionality is available. However, asset managers should consult with their legal counsel for confirmation. » Language informing the shareholder of any limits on their ability to transact in their account during the transaction. » Overview of required pre- or post-exchange documentation, if applicable. Examples of pre-exchange documents could include (1) requiring IRA holders to complete transfer of asset paperwork, (2) either assisting direct held accounts with paperwork to establish (or verify paperwork that they have established) a brokerage account, or (3) completing an interclass exchange request template. Examples of post-exchange documents could include written requests to redeem remaining fractional shares for audit purposes. » Overview of how remaining fractional shares may be addressed (*e.g., redeemed as a separate transaction, either next day or at a scheduled frequency; addressed as part of small balance account reviews; accompanied by an explanation that any redemptions will be separate from the exchange transaction and will be taxable*). » Notice of times when interclass exchanges are not available (*e.g., asset managers may decide not to allow for exchanges during dividend or distribution periods*). » Confirmation that the exchange privilege is one way (*i.e., mutual fund to ETF*). » Rules around account eligibility. Some shareholder accounts may be subject to sales charges, redemption fees, activity freezes, etc. Asset managers should consider whether they will only allow free shares or shares invested for certain time periods to be eligible for exchange. » Additional asset manager specific requirements (*e.g., only full shares will be eligible for exchange; no partial share exchanges; exchange requests supported for dollars, shares, or both*).

Area of Consideration	Relevant Topic
Shareholder privileges	Mutual funds offer many privileges to shareholders that ETFs do not. Asset managers should consider including disclosure information that existing mutual fund account privileges may no longer be available after conversion to an ETF share class. **Areas asset managers may want to consider include:** » **Rights of accumulation (ROAs)**—Rights of accumulation allow investors to combine existing mutual fund holdings with new purchases to qualify for lower sales charges. Often, this privilege also allows an investor to "household" additional accounts for greater reductions (*e.g., spouse accounts, dependent children, 529 plans, etc.*). » **Letters of intent (LOIs)**—Letters of intent allow a shareholder to declare a purchase for a specific dollar amount over a set period of time to qualify for a lower sales charge (*e.g., shareholder agrees to invest $100,000 over 12 months but establishes the account with a lower initial investment*). Asset managers should consider how to address accounts with unfulfilled LOIs that request interclass exchanges. » **Automatic investment/withdrawal plans**—These are programs allowing investors to periodically contribute to or redeem from their accounts. ETFs typically do not offer such programs, and asset managers should ensure these account settings are acknowledged and updated as part of their internal exchange procedures. Automatic investment plans are often used to grow low-balance accounts; asset managers will need to review language regarding whether existing programs will remain in effect unless expressly terminated by the shareholder. » Dividend reinvestment programs—Support for dividend reinvestment programs within an ETF can vary across brokerage platforms, and there may be commissions associated with these transactions. Asset managers may want to consider including disclosure designed to ensure shareholders are broadly aware of these differences.
Shareholder communications	Shareholders should be informed that there may be changes in the timing and frequency of trade confirmations, account statements, and tax documentation, especially for those investors who trade directly with the fund but are exchanging their shares to the ETF class. Additional information regarding shareholder communications is addressed below in Section 3.6.2. Investors will also need to be educated on who will be responsible for producing their ETF shareholder communications, as well as who to contact with questions.
Intermediary policies	The support offered for an ETF share class is likely to vary across intermediary firms. Asset managers should understand those differences and may want to consider including registration statement language informing investors that not all shareholder services or products will be available at all intermediaries. **Areas for consideration may include:** » ETF share class availability » Support for interclass exchange (*e.g., manual vs. automated solution*) » Parameters for interclass exchange (*e.g., only processed during certain times, no partial exchanges, etc.*) » ETF fractional share program availability and details » Dividend reinvestment program availability and details

3.6.2. Potential Impacts to Internal Operating Models

The following items assume that a shareholder who currently holds their mutual fund account directly with the fund's transfer agent wants to exchange into an ETF share class. These topics were identified by the working group as key for consideration. The specific facts and circumstances of a particular ETF share class product may require additional areas for consideration beyond this list.

Area of Consideration	Relevant Topic
Fund direct accounts	Asset managers that support accounts held directly with the fund will likely have unique operational considerations. As previously noted, ETFs are purchased on secondary markets through exchanges and bought through intermediary relationships—typically broker-dealers who most commonly hold the accounts on brokerage platforms. Most asset managers do not have a brokerage platform within their organizations, and the cost and time to build or acquire and integrate one would be significant. Shareholders seeking to invest in an ETF share class will need to do so through an intermediary controlled account. This will require effort from asset managers and intermediaries to ensure shareholders understand the process, as well as any changes to their account structures. **Areas for consideration:** **Intermediary account**—Regardless of whether the shareholder is looking to exchange their shares or place an initial investment, a brokerage account (or similar account structure offered by other intermediaries) will be required. Investors should be educated on product availability but instructed to select a platform of their choice. It is possible they may have already established a brokerage or some other intermediary account type that will allow them to trade and hold ETFs. **Interclass exchange**—The interclass exchange, whether manual or automated, will likely not be able to be processed while the account is held directly with the fund. Shareholders will need to request a mutual fund account transfer to the intermediary. Such requests are typically made through the intermediary, and intermediaries can often use electronic transfer requests like the NSCC's ACATS-PTF functionality to quickly and efficiently complete the transfer request with the fund.[33] Upon settlement of the shares in the new intermediary account, the interclass exchange process can be requested and will follow the models (manual and automated) outlined in the previous sections of this paper. Shareholders should also be well informed on the time needed to move their mutual fund position into their brokerage account. **Notes:** » Asset managers should consider NSCC matrix level 0 accounts[34] with a named financial advisor and how that may impact platform selection and the account transfer process. - Trust-networked accounts must have all requests worked through the named trust company. - The named financial advisor on the non-networked account may provide the shareholder with a starting point for the account transfer. It is possible the type of intermediary or technology platform, or other business reasons, may preclude the named intermediary from holding the mutual fund or ETF account on behalf of the shareholder. » Asset managers may want to consider the breadth of shareholder accounts and/or shares that should transfer into the brokerage arrangement:

[33] The DTCC Automated Customer Account Transfer Service (ACATS) supports the ability for intermediaries to initiate the transfer of mutual fund positions via ACATS-PTF. Refer to **https://www.dtcc.com/clearing-and-settlement-services/equities-clearing-services/acats** for more details. There are other electronic as well as less-efficient manual alternatives to achieve similar results.

[34] Designates non-networked or Trust-networked account, each of which signifies different processing responsibilities to the fund, broker-dealer, or associated trust company.

Area of Consideration	Relevant Topic
Fund direct accounts, *Continued*	» Should account transfers include all account holdings comprising the shareholder's investments with the asset manager, regardless of whether an ETF share class interclass exchange eventually is planned? » As previously discussed, only certain portfolios will offer the dual share class structure. Transferring all positions means some may move unnecessarily, yet if some are retained at the mutual fund transfer agent, there could be a negative impact of a bifurcated direct/intermediary support model on the client experience. » Should shareholders be permitted to exchange a portion (but not all) of their mutual fund to the ETF share class? » As the sample workflow in Section 3.4 indicates, there will almost always be residual (fractional) shares remaining in the mutual fund following the interclass exchange into the ETF, so two accounts exist. However, in the interest of trying to minimize the size of the mutual fund account post-exchange and to reduce the complexity of shareholder support and confusion between the direct and intermediary accounts, asset managers may determine it is in the shareholder's best interest to maximize the exchangeable value and not support partial interclass exchanges to the ETF share class. **Shareholder communications**—Shareholders who have engaged directly with the fund will need to be educated on process changes for confirmations, statements, and tax reporting. For accounts that are fully transferring to a brokerage platform, intermediaries will need to ensure investors understand and have access to required systems, as well as who to contact with questions. For shareholders that elect to have a bifurcated model (*direct held and intermediary held accounts*), the previous brokerage platform communication applies. In addition, the asset manager should consider communicating to investors that transferred account holdings will no longer be found in a single view, and shareholders may receive account information from multiple parties. Shareholders should be informed that the timing of information and methods of delivery may also vary (*e.g., direct held account statements received monthly but intermediary accounts typically received quarterly, intermediaries may not be required to send confirmations, E-Delivery is often a default for intermediaries but an opt-in for funds, etc.*) Investors could receive tax forms from both the mutual fund and intermediary for their accounts in the calendar year the account transfer was processed (*e.g., the tax information while the account was held at the fund and the information after the account transferred to the intermediary*). Investors should be notified by each party as to when they can expect tax form mailings, if applicable to their situation.[35]

[35] There is significant variability around tax reporting requirements based on type of account (taxable vs. retirement), types of transaction activity, whether tax withholding was paid, and dollar amounts of reportable activity. For these reasons, it is not possible to definitively say that tax forms will or will not be produced for an account in any given year.

<table>
<tr><th>Area of Consideration</th><th>Relevant Topic</th></tr>
<tr><td>Fund direct accounts, Continued</td><td>For taxable (non-retirement) accounts, the following table is designed to provide an overview of the potential tax impact of moving from a direct held account into an intermediated position and ultimately into the ETF share class, with related information reporting impact.
Individual tax situations may vary, and tax laws may change over time. Please consult a tax professional.
<table>
<tr><th></th><th>Taxable[36]</th><th>Tax Reported</th><th>Cost Basis[37]</th></tr>
<tr><td>Transfer mutual fund from direct held to intermediary held</td><td>No</td><td>No</td><td>Fund transfers basis to intermediary per industry practice.</td></tr>
<tr><td>Interclass exchange mutual fund to ETF
(all at intermediary)</td><td>No</td><td>No</td><td>Intermediary moves basis, less fractional shares after exchange, to ETF.</td></tr>
</table></td></tr>
<tr><td>Shareholder servicing model</td><td>Asset managers may need to review their shareholder servicing models with the introduction of an ETF share class.
In many cases, support for mutual funds and ETFs is provided by different teams. Asset managers may want to consider whether these teams should be brought together. Factors such as product features, system incompatibility, and staff licensing requirements (see below) may suggest continued separation. If the interclass exchange privilege will not be offered, less interoperability will be required between the share classes.
If the servicing teams for mutual funds and ETFs remain separate, asset managers should consider what additional training, if any, may be required for each group. Investor experience should also be considered, including how different support models might be experienced by shareholders (e.g., whether investors will want to call separate numbers based on product type or want a single point of contact; whether there is technology to support different support models that may present a unified look to investors, such as one phone number that branches to multiple teams).
The conduct of certain activities associated with ETFs requires different FINRA licensure (Series 7) than mutual funds (Series 6), and asset managers may want to consider who in their organizations may be required to obtain new securities licenses.</td></tr>
<tr><td>Investor Education</td><td>ETFs may be a new investment vehicle for certain shareholders, especially those choosing to exchange from a mutual fund. Asset managers may want to consider where and how best to provide product education to their clients.
Asset managers may want to consider updates to websites outlining the product differences between mutual funds and ETFs, as well as highlighting impacts to mutual fund shareholder privileges, some of which were noted in Section 3.6.1.
Marketing teams may want to consider developing new content for dual share class launch campaigns, as well as ongoing investor education support.
Product and sales teams may be called upon to provide training to intermediaries, who in many cases are engaging directly with the end investor.
Asset managers may also want to consider engaging with their internal talent and development teams for internal training on the new product structure, as education of staff on the operational nuances of an ETF share class may be required.</td></tr>
</table>

[36] Each transaction must be analyzed individually to assess its tax implications.

[37] DTCC's Cost Basis Reporting Service (CBRS) is an automated system that gives financial firms like asset managers and intermediaries the ability to transfer customer cost basis information from one firm to another on any asset transfer. Refer to **https://www.dtcc.com/clearing-and-settlement-services/equities-clearing-services/cbrs** for more details.

Additional Considerations

As ICI convened participants in the various working groups, certain considerations were raised across all forums that were not unique to a certain workstream.

State Blue Sky Requirements

Most states require mutual funds to file a notice filing and pay a registration fee ("blue sky fee") to the state's securities administrator prior to selling the fund's shares in that state. The amount and structure of these blue sky fees varies by state. Some states' fees are assessed at the fund level, and some are assessed at the class level, where each class of a fund pays a separate fee to the state. Additionally, some blue sky fees are a flat annual amount, whereas some states base their fees on how many shares of a fund are sold in the state on an annual basis. All states exempt certain security types from the requirement to pay blue sky fees. One such exemption in most states is for securities listed and traded on a national securities exchange. As such, ETFs typically are not subject to blue sky fees.

The introduction of an ETF share class raises the question of whether, in states that assess blue sky fees at the class level and that charge a flat fee, an ETF share class would incur blue sky fees or be exempted from blue sky fees under state blue sky statutes. As of the publication of this paper, ICI is not aware of any state regulator having weighed in on this question. Asset managers are encouraged to be mindful of this potential additional cost and to engage with their legal counsel and service providers to better understand how states will implement any changes to their registration requirements due to the dual share class structure.

ETF Reporting Requirements

ETFs relying on Rule 6c-11 have different portfolio holdings disclosure requirements than mutual funds. One question raised during ICI's working group discussions was around the impact of the daily reporting of portfolio holdings required by Rule 6c-11 on combined mutual fund/ETF portfolios.

In response, ICI convened a group of ETF issuers, administrators, and legal representatives to review the matter in detail.

The pending exemptive applications generally include a condition that any ETF class operated pursuant to the relief will do so "in compliance with the requirements of Rule 6c-11" with certain specific exceptions.[38] Rule

[38] *See, e.g.*, Third Amended and Restated Application of DFA Investment Dimensions Group Inc., et al., File No. 812-15484 (Sept. 26, 2025).

6c-11 under the Investment Company Act of 1940 requires ETFs to disclose certain information on a daily basis, including the portfolio holdings[39] that will form the basis for the next calculation of NAV.[40]

The nature of mutual fund share class activity—including any potential exchange capabilities from mutual fund to ETF shares, the contractual arrangements that support transaction processing models for omnibus intermediaries, and fund errors and omission policies could create certain complexities with the publication of portfolio holdings published on any given day.

Individual Interclass Exchanges

There may be situations in which an ETF servicer does not have access to complete information about individual interclass exchange transaction details leading up to ETF basket and holdings dissemination on a nightly basis. While industry participants are developing an automated solution for processing these transactions (See Section 3.4), the practical realities of disparate systems, involvement of multiple parties completing multiple steps, and the associated completion time of each step may from time to time operate to preclude the impact of these transactions from being reflected in reporting of the end of day ETF basket and holdings.

Mutual Fund Flows from Omnibus Intermediaries and "As Of" Transactions

Because open-end mutual funds do not trade on an exchange as ETFs do, some of the purchase and redemption activity originated by intermediaries in mutual funds by contractual arrangement may not be finalized until the next day, or in the case of "as of" trades, until several days later. As such, this related mutual fund flow information would generally not be available in sufficient time for ETF servicers to meet same-day basket and holdings reporting.

As the group reviewed this matter in detail, a potential framework for portfolio holdings reporting by combined mutual fund/ETF portfolios was identified. This framework included the following elements for consideration:

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[39] Rule 6c-11 requires ETFs to disclose the following information for each portfolio holding on a daily basis: (1) ticker symbol; (2) CUSIP or other identifier; (3) description of holding; (4) quantity of each security or other asset held; and (5) percentage weight of the holding in the portfolio. The term "portfolio holdings" means an ETF's securities, assets, or other positions. As a result, ETFs relying on Rule 6c-11 are required to disclose securities, their cash holdings, as well as holdings that are not securities or assets, including short positions or written options. To indicate the quantity of a security or other asset held, the ETF generally should use the measure typically associated with quantifying that class of security such as number of shares for equity securities, par value for debt securities, number of units for securities, such as UITs, that are measured in units, and dollar value for cash. See Rule 6c-11 Adopting Release.

[40] In the discussions, the applicability of Regulation FD was raised. Reg FD prohibits public companies or persons acting on their behalf from selectively disclosing material, nonpublic information to certain persons outside the company, including holders of company securities. Regulation FD does not apply to investment companies, other than closed-end funds. The releases proposing and adopting Regulation FD do not specifically discuss ETFs. See Selective Disclosure and Insider Trading, Investment Company Act Release No. 24209 (Dec. 20, 1999) [64 FR 72590 (Dec. 28, 1999)]. In the Rule 6c-11 Proposing Release, the SEC requested comment on whether they should amend Regulation FD to apply to ETFs. The SEC declined to propose any amendments to Regulation FD. See Exchange-Traded Funds, Release Nos. 33–10515; IC–33140; File No. S7–15–18 (June 28, 2018), available at: https://www.govinfo.gov/content/pkg/FR-2018-07-31/pdf/2018-14370.pdf.

Note: Each asset manager and/or its agent will make independent judgments, in consultation with legal counsel, on how best to comply with legal and regulatory requirements under any exemptive relief granted to offer mutual fund and ETF share classes of the same fund portfolio.

Daily, in addition to fund-level holdings, ETF share class issuers may want to consider publishing the following clearly labeled information on its website:

1. ETF share class pricing basket: The projection of the proportional allocation of fund holdings to the ETF share class, as of the next start of day. The pricing basket may be used as a transparency tool for market making.
2. ETF share class trading basket: The portfolio of securities to be used for the creation and redemption processes.

ETF issuers may want to consider including registration statement or website disclosure regarding the content and timing of daily portfolio holdings disclosures. Such decisions will be independently made by each fund sponsor based on consultation with counsel.

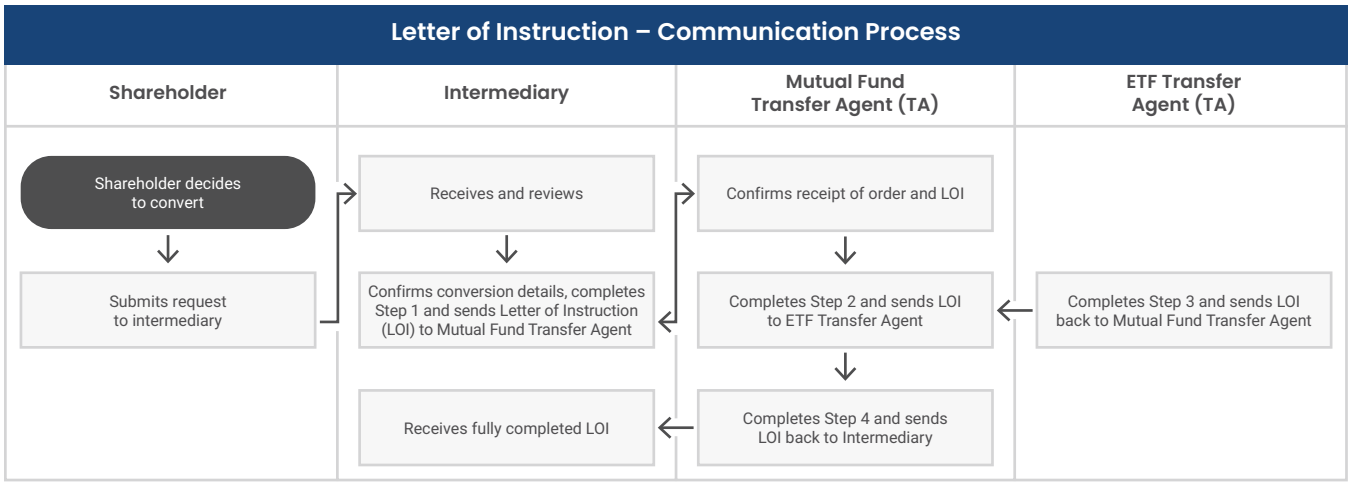
Appendix

Manual Interclass Exchange Communication Process and Sample Template

The manual interclass exchange process will require thoughtful communication and collaboration across asset managers, intermediaries, and service providers.

To facilitate the process, ICI's working group on the interclass conversion mechanics developed a template letter of instruction (LOI) that is designed to standardize the data elements exchanged between intermediary, mutual fund TA, and ETF TA as the manual interclass exchange is completed. At each step, the LOI template is passed from party to party, with submitters providing key data to recipients to support execution of the next step, as well as providing details about any steps they may have completed for their own part of the process. The goal is to provide a comprehensive yet transparent document that, ultimately, the intermediary can retain with the shareholder's original request to assist with questions or future research inquiries. These steps will be replaced by the automated DTCC solution planned for 2026. As described in Section 3.4, asset managers may take any number of actions regarding letters of instruction. The roles described in both the LOI template and the communication workflow are for illustrative purposes. Ultimate responsibility for each step is for asset managers and their service providers to determine.

The following workflow outlines the communication process across appliable parties:



Step	Description of Activity	Responsible Party/Parties
1 and 2	Shareholder decides to convert their mutual fund shares to the ETF share class and submits request to their intermediary.	Shareholder
3 and 4	Intermediary reviews request, and assuming the request is deemed to be in good order, completes step 1 of the letter of instruction (LOI) template. Intermediary sends the template to the mutual fund transfer agent via agreed upon method (e.g., email, fax, etc.).	Intermediary
5 and 6	Mutual fund transfer agent (TA) confirms receipt of the exchange request and the LOI. Assuming everything is in good order, mutual fund TA completes step 2 of the LOI and sends the template to the ETF TA via agreed upon method (e.g., email, fax, etc.).	Mutual fund TA
6	ETF TA completes step 3 of the LOI and sends it back to the mutual fund TA.	ETF TA
7	Mutual fund TA completes step 4 of the LOI and sends it back to the intermediary.	Mutual fund TA
8	Intermediary receives fully completed LOI.	

Sample Letter of Instruction Template

Step 1 – Intermediary Completes	
Fund Family Name	
Account Identifier	BIN
	Fund Account Number
Request Type (Dollars or Shares)	Full or Partial (required)
	Share Amount (for partial requests only)
	Dollar Amount (for partial requests only)
Open End Mutual Fund Identifier *(only one identifier is required)*	Cusip
	Ticker
	Fund Number
DTC Delivery Number	
Broker Name *(Intermediary behind the DTC Deliver Number)*	
Account Number	
Delivery Instructions 1 Firm Name	
Delivery Instructions 2 DTC#	
Delivery Instructions 3 Delivery Code	
Delivery Instructions 4 FFC Account	
Delivery Instructions 5 FFC Information	
Step 2 – Mutual Fund Transfer Agent Completes	
Fund Family Operations Contact Information	
Account Type	
Date of transaction, NAVs, etc.	
Open End Mutual Fund Closing NAV	
Open End Mutual Fund Closing Account Value	
Open End Mutual Fund Closing Shares	
ETF Identifier *(only one identifier is required)*	Cusip
	Ticker
	Fund Number
Step 3 – ETF Transfer Agent Completes	
ETF Transfer Agent Contact Information	
Date of transaction, NAVs, etc.	
ETF Closing Day NAV	
ETF Whole Shares Available for Conversion/Purchase	
ETF Account Identifier	Fund Account Number
	BIN
Step 4 –Mutual Fund Transfer Agent Completes	
Open End Mutual Fund Remaining Fractional Shares	

About ICI

The Investment Company Institute (ICI) is the leading association representing the global asset management industry in service of individual investors. ICI members are located in North America, Europe, and Asia and manage fund assets of US$50 trillion, including mutual funds, exchange-traded funds (ETFs), UCITS, closed-end funds, unit investment trusts (UITs) and similar funds in these different jurisdictions. ICI has offices in Washington DC, Brussels, and London.