

ETF Share Class Operations

A White Paper by SIFMA and SIFMA AMG

August 2025

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Executive Summary

This white paper explores the operational aspects of managing Exchange-Traded Fund (ETF) share class structures. It outlines potential processes for individual shareholder share class exchanges, presents a voluntary framework for industry-wide communication, and highlights key operational considerations.

While there are many facets to ETF share class administration and operations, this voluntary operational framework concentrates specifically on share class exchanges, particularly the initial transitions from mutual fund to ETF classes, recognizing that other aspects fall outside its current scope.

As the industry assesses their readiness and approach to potential developments in this evolving space, this white paper serves as a valuable informational resource.

Key Topics

- Considerations related to intermediaries and funds' approach to share handling and timing of transactions.
- Compilation of operational factors to consider for post-transaction processing.
- Description of existing communication methods such as the Mutual Fund Information Exchange (MF Info Xchange) and one template for Letters of Instruction (LOIs).
- Information about possible communication approaches between intermediaries and fund sponsors.
- Discussion of terminology that may facilitate operational clarity.

- Examples of potential workflows for share class handling.

The insights and tools described herein are intended to serve as reference materials only. Each firm should independently evaluate whether and how to utilize any of the suggestions based on their own policies, legal and regulatory obligations, and strategic priorities.

While this white paper outlines potential ways to operationally support ETF share class structures, intermediaries may not be operationally ready or willing to support such features at launch. Intermediaries should review prospectus provisions related to exchange mechanics to fully understand their obligations and risks. Where appropriate, parties may consider discussing potential adjustments to ensure alignment with their own operational policies, procedures, and disclosures. Taking these steps early can help avoid confusion or compliance issues during rollout.

Introduction

Background & Context

The ETF share class structure represents a market development where Mutual Funds (MF) and ETFs may share the same fund structure but with different share classes. Market participants have noted this approach brings operational complexities, tax considerations, and cost implications that differ from traditional structures. SIFMA hosted open discussions among both sell-side and buy-side interested parties including, among others, distributors, service providers, custodians, fund companies, and authorized participants to identify and document the operational challenges and potential options that individual firms may encounter when considering ETF share class implementation. These discussions highlighted the various operational areas that firms may independently need to address if they choose to support these structures and subsequent voluntary exchange privileges. These discussions were exploratory and non-directive in nature. Participation was open and collaborative, with the express understanding that any resulting materials would be informational only, not prescriptive, and that firms would make independent decisions on adoption or implementation.

Purpose of This White Paper

This paper aims to:

- Provide information for intermediaries and fund sponsors to understand potential operational factors related to ETF share class structures.
- Identify operational considerations that individual firms may wish to evaluate.

- Document both potential manual and future workflow approaches.
- Present terminology that may help clarify communication about these operations.
- Share informational resources that firms might find relevant when making their independent assessments.
- Offer practical tools for implementation, including optional templates and checklists.

Nothing in this white paper should be construed as an agreement to standardize processes or as a recommendation that any firm adopt any particular operational approach. Firms are encouraged to consult their legal and compliance teams and make decisions autonomously.

Regulatory Landscape

SEC Exemptive Relief for ETF Share Classes

Market participants interested in implementing ETF share class structures have the option to seek exemptive relief from the Securities and Exchange Commission (SEC) through individual applications. These applications typically outline the proposed structure and address applicable regulatory considerations. The pursuit of such relief is entirely voluntary and firm specific. Each firm evaluates this option based on its own circumstances and strategy. Firms may consider a range of factors, such as:

- Investor treatment across classes within their specific structure.
- Management of potential portfolio conflicts.
- Approaches to disclosure and transparency.
- Operational feasibility and risk management.

The decision to pursue exemptive relief, including its timing and structure, is made independently by each firm. Each firm should consult with its own legal counsel. This section is informational only and should not be construed as guidance, a joint strategy, or a coordinated approach among market participants.

Compliance Considerations

There may be potential compliance factors related to ETF share class structures. The relevance and handling of these considerations will vary from firm to firm. Considerations that firms may independently evaluate, include:

- **Transaction Timing:** Each firm will need to make its own independent assessment regarding how its particular systems handle transactions related to applicable trading time rules based on their unique operational set-up.
- **Client Disclosures:** Individual firms should independently determine what, if any, client documentation might be appropriate for their specific business model and client relationships.
- **Batch vs. Real-Time Processing Considerations:** Each firm may need to independently evaluate potential implications between their batch processing and real-time systems according to their specific technology infrastructure.
- **Regulatory Developments:** Firms may wish to individually monitor developments in regulatory approaches based on their own business needs and compliance programs.

Operational Framework

There are various operational approaches that may be considered for ETF share class exchanges, including manual and automated flows. Reference materials related to these approaches are provided in the appendix listed as Exhibits A and B.

The information below does not advocate for any particular approach or suggest that the industry should adopt uniform standards or timelines. All operational decisions remain solely at the discretion of each firm.

Manual Process Approach

One potential approach could involve fund sponsors serving as coordinators between various parties, which might be necessary in environments where full system connectivity or common industry utility is not established. This type of workflow could involve various manual communication steps. This workflow is provided solely as an illustrative example and is not intended to reflect a preferred, recommended, or standardized process.

Potential Steps in a Manual Process:

Step 1. Client/Advisor Initiation (Trade Date)

- The process may begin with a client request for a share class exchange through documentation such as a - manual trade ticket.
- Such documentation may be submitted to the mutual fund sponsor/family via a Letter of Instruction (LOI). To receive the day's Net Asset Value (NAV), In-Kind Only (IGO) requests must be clearly identified and submitted with complete documentation well before the 4:00 PM ET market close, preferably by 2:00 PM ET, to allow time for manual processing, restriction of client shares, and confirmation of eligibility.
- Order requests may need to be received and evaluated according to each intermediary's independent policies (at the individual account level or aggregated).

Step 2. Fund Sponsor Coordination (Trade Date)

- Fund sponsors will receive and confirm documentation receipt with intermediaries.
- Communication will need to occur between the Mutual Fund Transfer Agent (MF/TA) and the ETF Transfer Agent (ETF/TA).
- Instructions will be routed to respective Transfer Agents (TAs).
- Order instructions may be received and ETF share exchange ratios calculated.

Step 3. MF/TA Processing (Trade Date)

- Processing documentation/order instructions may occur.
- Order instructions with MF NAV may be communicated to ETF/TA.
- MF cannot be booked until the day's NAV is finalized and calculated.
- The MF/TA will bring down the equivalent shares and communicate that amount to the intermediary.

Step 4. ETF/TA Processing (T+1)

- ETF shares may be delivered to the Depository Trust & Clearing Corporation (DTCC).
- Include the Free Delivery Order (DO) to the intermediary to ensure shares are positioned for delivery to DTCC.
- Mutual fund residual shares (e.g., from fractional holdings) are expected to be returned to the MF/TA and either held or redeemed, rather than cashed out of the ETF. Order confirmation details may be shared with MF/TA and fund sponsors.

Step 5. Intermediary Back Office Processing (T+1 to T+2)

- Order confirmation details may be reviewed and reconciled to original documentation.
- Notifications with ETF shares and wired funds details may be received.
- Entries to book ETF shares to client accounts may be made (non-taxable).
- Fractional share cash entries may be booked into client accounts (taxable).
- MF positions in client accounts may be adjusted.
- Client accounts may be reviewed to ensure accurate posting.

Example Timeline:

- Day 1: NAV set; instructions received by MF/TA after 4 PM ET.
- Day 2: Processing and accounting booked; ETF shares issued.
- Day 3: Clients may see ETF shares either day one, two or day three and can begin secondary market trading.
Timing of visibility and access may vary by intermediary.

Communication Model Approach

Another potential approach might leverage existing infrastructure while utilizing standardized communication channels such as Fund/SERV. Such an approach could potentially offer efficiency improvements while maintaining the fund sponsor's calculation role. This approach is provided as one of several illustrative options and does not imply an industry standard, preference, or recommendation.

Differences from the Manual Process:

- The intermediary will send investor requests via Fund/SERV instead of direct communication.
- NSCC will facilitate communication between parties.
- More standardized communication flow may reduce errors and delays.

Example Timeline:

- Request Date (before 4PM ET): Investor request submitted.
- Request Date: Intermediary sends request via Fund/SERV with DTCC delivery instructions.
- Request Date + 1 (no later than 11 AM ET on T+1 and as early as 8 PM ET on T): ETF/TA calculates exchange quantity and residual amounts. DTCC plans to enhance their service to solve for residuals. Residual amounts would be returned to the broker-dealer via DTCC settlement with supporting detail to identify customer-level positions for accurate reconciliation.
- Request Date + 1: Intermediary reconciles, ETF shares delivered, accounting entries processed.

Industry Utility Approach

DTCC is actively developing a streamlined solution for converting mutual funds to ETF share classes by leveraging Fund/SERV and creating a new file for standardizing communication flows between funds and ETF agents. DTCC aims to minimize manual intervention, reduce operational risk, and accelerate the conversion timeline. Their approach involves close collaboration with intermediaries, asset managers, ETF agents and service providers, ensuring accuracy in customer-level reconciliation while paving the way for efficient, scalable, and error-resistant share class conversions.

Potential Features:

- Calculation of ETF exchange quantity and residual amounts through a DTCC industry utility system.
- Centralized NAV collection and distribution mechanisms.
- Standardized reporting and instruction communication methods.
- Single connection point options for all participating parties.
- Automated reconciliation and error detection systems.

Example Timeline:

- Request Date (before 4 PM ET): Investor request submitted.
- Request Date (before 6 PM ET): Intermediary sends request via Fund/SERV.
- Request Date (before 8 PM ET): ETF administrator submits end of day (EOD) official NAV to DTCC.
- Request Date + 1: DTCC calculates exchange quantities and communicates to all parties.

Each market participant must independently determine whether and how to implement any processes related to ETF share class exchanges based on their own business judgment, operational capabilities, and strategies.

Operational Considerations

Timing and Freeze Periods

Processing Considerations

- Individual firms need to evaluate timing aspects based on their specific operational capabilities.
- Each firm will need to make independent determinations about how their systems might handle mutual fund positions during exchange processes.
- Individual market participants may wish to consider how their particular systems address trading during any exchange period.

Potential Operational Decision Points for Individual Intermediaries:

- Each firm may independently determine process initiation timing that aligns with their specific systems and operational frameworks.
- Individual firms might develop their own approaches to client communications regarding processing periods.
- Each market participant may establish their own internal protocols for handling trade attempts during processing periods based on their unique business needs and system capabilities.

Calculation Responsibility

The question of which entity performs exchange calculations is a factor that individual market participants may need to consider.

Potential Approaches Individual Firms May Evaluate:

1. **Transfer Agent Calculation**
 - TAs may have access to certain records that could facilitate calculations.
 - May create inconsistencies if different TAs use varying methodologies.
 - Coordination between MF/TA and ETF/TA may be necessary.
2. **Fund Sponsor Calculation**
 - Could potentially centralize certain aspects of the process.
 - Such a role might involve additional operational considerations as volumes change.
 - Individual firms may need to assess scalability within their specific business context.
3. **DTCC/Industry Utility Calculation**
 - Could potentially involve standardized calculation approaches.
 - Might address certain operational considerations.

- Removes potential conflicts of interest.
- It would likely require significant infrastructure investment.
- May need to handle price corrections and good order validation processes.

Voluntary Suggestion: Document and communicate with each entity that performs calculations for each fund family relationship and establish checks for accuracy.

Residual Share Handling

Exchanges frequently result in fractional ETF shares that cannot be delivered. Individual firms may wish to consider how their systems would handle such situations.

Potential Approaches Individual Firms May Evaluate for Residual Handling:

1. **Maintain as MF Position**
 - Residual shares remain as mutual fund units.
 - Require maintaining both MF and ETF positions in client accounts.
 - Simplest approach for initial implementation.
2. **Auto-Cash-Out**
 - Fractional shares are automatically sold and cash delivered to the client. The breakout of cash is typically delivered as one bulk wire with accompanying instructions or reports from the fund transfer agent detailing customer-level allocations, enabling intermediaries to match each cash amount to the correct client, even when processed through a streetside account.
 - In manual scenarios, creates numerous wires between fund TAs and intermediaries.
 - Creates potential tax events for taxable accounts.
 - Requires clear client communication/disclosure about tax implications.
3. **Round Up/Down**
 - This will be specific to a broker dealer. Broker dealers may need to carry inventory rounded up to whole ETF shares to support client transactions and properly account for the rounding treatment.
 - ETF shares delivered, whether omnibus or individual, would need to be whole shares.
 - Rounding to the nearest whole ETF share or applying a consistent rounding policy may create slight value discrepancies that require accounting adjustments.
 - These minor differences may need to be subsidized or otherwise managed by the broker dealer. This is a broker dealer specific question.

Voluntary Suggestion: Establish clear, documented policies for residual handling that are applied and clearly communicated to clients prior to exchange requests. Given varying client preferences, intermediaries should establish and communicate clear, documented residual handling policies in advance of exchange requests.

Error Correction Protocols

Despite best efforts, errors in the exchange processes may occur. Having established protocols for identifying and correcting these errors is critical.

Common Error Scenarios:

- Calculation errors leading to incorrect ETF share quantities.
- NAV corrections affecting exchange ratios.
- Trade recording or allocation errors.
- Timing mismatches between mutual fund redemption and ETF creation.

Error Correction Approaches:

1. **Offsetting Transactions**
 - Create offsetting transactions to correct errors.
 - Document impact on client for transparency.
 - Consider the tax implications of correction method.
2. **Reverse and Recreate**
 - In severe cases, reverse entire exchange and recreate correctly.
 - Requires clear communication with clients about the process.
 - May involve temporary out-of-market period.
3. **Book Value Adjustments**
 - Make accounting adjustments to reflect correct valuation.
 - Minimizes client disruption but requires careful documentation.
 - May create reconciliation challenges.

Voluntary Suggestion: Develop tiered error correction protocols based on error severity, with clear documentation requirements and client communication templates for each tier.

Cost Basis

Average cost is a common cost basis method for open-end mutual funds. The conversion from fund to ETF is a locking event so post conversion the ETF lots will all have the same cost basis (the average cost) of the fund. Investors/advisors should consider revoking average cost and selecting a method that identifies specific lots prior to the conversion.

Custodian/Transfer Agent Readiness

The process to receive conversion orders, create shares, and send to DTC for further credit to DTC participants, report generation and distribution, and reconciliation is, at least, partly manual. Asset managers should consider their contracts, service levels, and operational flows with custodians and transfer agents to ensure readiness.

Dividend Blackout Period

To the extent the record dates of the funds and corresponding ETFs don't align investors may be able to receive the dividend in the fund and again in the ETF. Asset managers should consider implementing a blackout period to prevent this from occurring. Brokers/intermediaries will also have to implement controls.

Cash Drag

It is common for open-end funds to reinvest their dividends on the ex-date at NAV so investors are not out of the market. ETFs, on the other hand, have days/weeks between record and pay dates and reinvestments are done in the open market, not NAV, creating a cash drag for ETF Investors converting

Pricing – NAV vs. Trading Price

Conversions are performed at the NAV of both the fund and the ETF though the pricing of the ETF post conversion is done at the trading price. To the extent the NAV of the ETF and the trading price differ there can be the changes in account value which is most apparent in conversion requests received in dollars. Asset managers and brokers should consider web and statement disclosures.

Conversion Arbitrage

Also related to the NAV/trading price difference, this can create an arbitrage opportunity to the extent the trading price is consistently above the NAV. Asset managers should consider having policies in place (e.g., frequent trader policies) to provide recourse should abuse be detected. Asset managers and brokers should have controls in place to detect and, if necessary, remediate.

Standardization Tools as Options

Common Vocabulary Questionnaire

To facilitate clear communication between intermediaries and fund sponsors, a standardized vocabulary questionnaire addressing key operational aspects may be beneficial. The following is a tool intended solely to help parties better understand the terminology currently used across the industry. It is not prescriptive and does not promote any particular model, nor is it intended to suggest uniformity of approach or collective adoption.

Standardized Vocabulary:

Exchange Privilege Process Terminology

- Clearly defined terms for each step in the exchange privilege process.
- Standardized naming conventions for transaction types.
- Consistent terminology for timing references.

Calculation Methodology

- Standardized formulas for exchange privilege calculations.
- Common terminology for describing NAV.
- Consistent approach to rounding and residuals.

Transaction Types

- Clear distinction between exchanges and transfers.
- Standardized coding for system identification, with “conversion” added as a distinct type for bulk IBD client events involving movement from mutual fund to ETF share class.
- Standardized coding for system identification.
- Consistent terminology across platforms.

Communication Protocols

- Standardized format for exchange privilege requests.
- Common terminology for status updates.
- Clear vocabulary for error scenarios.

Sample Vocabulary Standardization Questions:

- What terminology does your firm use for the exchange privilege process?
- How do you refer to residual shares that cannot be converted?
- What is your organization's definition of freeze period?
- What term does your firm use for the calculation of exchange privilege ratios?

MF Info Xchange Template

DTCC could expand MF Info Xchange to create a standardized MF Info Xchange template for LOIs, which may improve communication efficiency between intermediaries and fund sponsors. This hypothetical template is provided for illustrative purposes only and is not intended to establish or imply a mandatory industry standard. Adoption of any communication method remains at the sole discretion of each party.

Proposed MF Info Xchange Template Elements:

Header Information

- Intermediary identification.
- Fund sponsor identification.
- Date and time of submission.
- Urgency classification.

Order Details

- Account information (omnibus level).
- MF CUSIP/symbol.
- Target ETF CUSIP/symbol.
- Order type (full or partial exchange).
- Quantity (shares or dollar amount).

Delivery Instructions

- DTCC participant number.
- Settlement instructions.
- Special handling codes.
- Residual handling preference.

Contact Information

- Primary contact for questions.
- Escalation contact.
- Confirmation receipt contact.

Tracking Elements

- Unique transaction identifier.
- Related transaction references.
- Audit trail information.

This template may streamline communication, reduce errors, and create consistency across the industry, particularly during manual processing.

Policy Development Guide

Platform Readiness Assessment

Not all funds or share classes will offer ETF exchange capabilities, as participation is optional and subject to fund-specific policies. Eligibility validation will be handled by the mutual fund transfer agent (MF/TA) based on the parameters set by each fund.

Before implementing ETF share class exchange capabilities, firms may conduct a readiness assessment covering key operational areas. The following assessment is designed to help firms independently evaluate their internal capabilities. Intermediaries may, at their sole discretion, choose to analyze existing systems to evaluate readiness.

Assessment Components:

System Capabilities

- Account structure ability to hold both MF and ETF positions.
- Transaction processing compatibility with exchange operations.
- Batch processing considerations and timing.
- Real-time vs. end-of-day processing implications.
- Determining scope and cost of automated solution through DTCC/NSCC once available.

Policy Decisions

- Will the platform support dual share classes or force exchange?
- What residual handling approach will be implemented?
- How will fractional shares be addressed?
- What will be the client communication process?
- Will an ETF paying a 12b-1 be allowed on a platform? It is still to be determined whether ETFs paying a 12b-1 fee will be allowed on a platform, and this will likely depend on a variety of factors that will vary by market participant, including firm policies, platform agreements, and regulatory considerations, among others.
- What is the approach to handle request on funds that have daily accrual calculations?
- Will there be a minimum request amount; partial account request allowed or only full?
- Will clients be charged a transaction fee?

Operational Readiness

- Staff training requirements.

- Documentation and procedure development.
- Error handling protocols.
- Reconciliation processes.

Client Experience

- Intermediaries allowing requests before industry automation.
- Client-facing communication templates.
- Education materials about the exchange process.
- Transparency regarding timing of accepting requests and out-of-market periods.
- Tax implications disclosure.
- Disclosure of transaction fees to process requests, if applicable.

Voluntary Suggestion: Conduct an analysis comparing current capabilities against requirements for each operational model to develop a phased implementation plan.

Share vs. Dollar-Based Exchange Decision

One critical decision is whether to process exchanges based on share quantities or dollar amounts. Below are potential operational implications of different exchange methods. It is intended only to illustrate factors that individual firms may consider. No preference or uniform outcome is implied, and firms should independently determine what is appropriate for their own use case.

Share-Based Exchange Considerations:

- Simplifies calculation (direct exchange).
- May result in residual quantities.

Dollar-Based Exchange Considerations:

- Allows for clean money movement.
- May result in more complex calculations.
- Creates potential NAV timing challenges.
- More complex for tax lot tracking.

Framework:

1. Assess system capabilities for each approach.
2. Evaluate operational complexity trade-offs.

3. Consider client experience implications.
4. Document chosen approach with clear reasoning.
5. Ensure consistency in application across fund families.

Voluntary Implementation Timeline

Some firms may choose to follow a phased internal approach as they explore operational readiness. The following is not an industry mandate or best practice but an example of what one firm might consider. Any implementation efforts must be determined independently by each market participant and should reflect the unique circumstances of that firm.

Phase 1: Preparation

- Establish policies and procedures for manual processing.
- Develop standardized communication protocols.
- Train operations staff in manual processes.
- Create client and advisor education materials, disclosures.
- Participate in industry working groups.
- Evaluate system needs for an automated implementation.
- Assess DTCC connectivity requirements.
- Develop technical specifications for automation.
- Begin system enhancement projects.

Phase 5: Full Implementation

- Transition to an automated approach when available.
- Continue industry collaboration toward utility model.
- Monitor regulatory developments.
- Continuously refine processes based on volume and experience.

Phase 2: Manual Process Implementation

- Begin accepting exchange privilege requests via manual process.
- Document operational challenges and lessons learned.
- Refine procedures based on initial experiences.
- Establish consistent communication with fund sponsors.

Phase 3: Communication Standardization

- Establish common vocabulary with fund partners.
- Refine error correction protocols based on experience.
- Begin planning for system enhancements.

Phase 4: Automation Preparation

Appendix

Operational Checklist for Intermediaries

This checklist provides a comprehensive overview of considerations for intermediaries implementing ETF share class exchange capabilities.

This checklist is intended to assist firms in considering operational requirements related to ETF share class exchanges. Use of this checklist is optional and should be adapted to the needs of each firm. No assumption is made that all items will apply in every context.

Pre-Implementation

- ✓ Designate operational owners for ETF share class exchange process.
- ✓ Establish policies for residual handling.
- ✓ Determine share vs. dollar-based exchange.
- ✓ Create client communication templates.
- ✓ Develop staff training materials.
- ✓ Document reconciliation procedures.
- ✓ Establish error correction protocols.
- ✓ Identify fund sponsor contacts for each relationship.

Transaction Processing

- ✓ Verify client eligibility for exchange.
- ✓ Confirm receipt of proper documentation.
- ✓ Validate exchange instructions (quantity, share class, timing).
- ✓ Document communication with fund sponsor.
- ✓ Freeze mutual fund position during exchange.
- ✓ Reconcile received ETF shares against expected quantity.
- ✓ Reconcile MF positions against position at the fund company.
- ✓ Process residual handling according to policy.
- ✓ Update client records and confirm booking accuracy.
- ✓ Provide confirmation to client.

Post-Transaction Review

- ✓ Verify tax lot information accuracy.
- ✓ Confirm handling of residuals.
- ✓ Document any exceptions or special handling.
- ✓ Update trade blotter with appropriate coding.
- ✓ Maintain audit trail of exchange process.
- ✓ Review for potential operational improvements.

Sample Communication Templates

Below are illustrative templates provided solely for reference. Firms should develop their own communication processes independently, consistent with their regulatory obligations and operational models. The below communication templates are examples only and are not intended to establish uniform practices across firms.

Shareholder Exchange Request Template

MUTUAL FUND TO ETF SHARE CLASS EXCHANGE REQUEST

Account Number: [ACCOUNT NUMBER]

Date of Request: [DATE]

I/We hereby request the exchange of the following mutual fund shares to their corresponding ETF share class:

- Fund Name: [FUND NAME]
- Fund Symbol/CUSIP: [SYMBOL/CUSIP]
- Quantity to Convert: [☐ All Shares ☐ Specific Quantity: _____]
- Target ETF Share Class: [ETF SHARE CLASS NAME]
- ETF Symbol/CUSIP: [ETF SYMBOL/CUSIP]
- Residual Share Handling Preference: [☐ Maintain as shares ☐ Liquidate as cash]

I/We understand that:

1. This exchange may take 2-3 business days to complete
2. During the exchange process, these shares cannot be traded or transferred
3. Any fractional shares will be handled according to my selection above
4. This exchange is generally non-taxable but residual share liquidation may be taxable

Signature(s): _____ Date: _____

Fund Sponsor Letter of Instruction

ETF SHARE CLASS EXCHANGE NOTIFICATION

From: [INTERMEDIARY NAME]

To: [FUND SPONSOR NAME]

Date: [DATE]

Reference ID: [UNIQUE IDENTIFIER]

EXCHANGE DETAILS:

- Intermediary Account (Broker Identification Number (BIN)): [BIN NUMBER]
- Fund Name: [FUND NAME]
- Fund Symbol/CUSIP: [SYMBOL/CUSIP]
- Quantity: [QUANTITY]
- Exchange Type: [FULL/PARTIAL]
- Target ETF Share Class: [ETF SHARE CLASS]
- ETF Symbol/CUSIP: [ETF SYMBOL/CUSIP]

DELIVERY INSTRUCTIONS:

- DTCC Participant Number: [NUMBER]
- Account Name: [ACCOUNT NAME]
- Special Instructions: [SPECIAL INSTRUCTIONS IF ANY]

RESIDUAL HANDLING:

- [RESIDUAL HANDLING PREFERENCE]

CONTACTS:

- Primary Contact: [NAME, PHONE, EMAIL]
- Escalation Contact: [NAME, PHONE, EMAIL]

Please acknowledge receipt and provide estimated processing timeline.

Client Exchange Confirmation Template

ETF SHARE CLASS EXCHANGE CONFIRMATION

Account Number: [ACCOUNT NUMBER]

Date of Confirmation: [DATE]

[CLIENT NAME],

We are pleased to confirm the completion of your requested exchange from mutual fund shares to ETF share class:

- Transaction Date: [TRANSACTION DATE]
- Settlement Date: [SETTLEMENT DATE]

MUTUAL FUND DETAILS (CONVERTED FROM):

- Fund Name: [FUND NAME]
- Fund Symbol/CUSIP: [SYMBOL/CUSIP]
- Shares Converted: [QUANTITY]
- NAV on Exchange Date: \$[NAV]
- Total Value: \$[TOTAL VALUE]

ETF DETAILS (CONVERTED TO):

- ETF Name: [ETF NAME]
- ETF Symbol/CUSIP: [ETF SYMBOL/CUSIP]
- Shares Received: [QUANTITY]
- ETF Price at Exchange: \$[PRICE]
- Total Value: \$[TOTAL VALUE]

RESIDUAL HANDLING:

- [RESIDUAL HANDLING DETAILS]

Your ETF shares are now available for trading. ETFs trade differently than mutual funds, with continuous pricing throughout the trading day rather than end-of-day pricing. If you have any questions about this exchange or your new ETF shares, please contact your financial advisor or our service team at [CONTACT INFORMATION].

Sincerely,

[FIRM NAME]

Glossary of Terms

This glossary reflects how certain terms are used in various contexts. It is not exhaustive and does not imply standardized usage across firms.

ETF Share Class: A share class of a mutual fund that trades as an ETF while maintaining the same underlying portfolio as the mutual fund.

Letter of Instruction (LOI): Formal written request from a client to convert mutual fund shares to ETF share class.

Net Asset Value (NAV): The value of a fund, calculated by dividing the total value of all assets, minus liabilities, by the number of shares outstanding.

Transfer Agent (TA): The entity responsible for maintaining shareholder records and processing transactions.

Residual Shares: Fractional shares remaining after an exchange that cannot be delivered as ETF shares.

Freeze Period: Time during which a mutual fund position cannot be traded due to pending exchange.

Depository Trust & Clearing Corporation (DTCC): Provides clearing and settlement services for financial markets.

National Securities Clearing Corporation (NSCC): A subsidiary of DTCC that provides clearing, settlement, risk management, and central counterparty services.

Fund/SERV: A division of DTCC that provides automated communication services for mutual fund transactions.

Mutual Fund Information Exchange (MFI):

Communication protocol for fund-related information.

Large Order Notification (LON): Advance notice provided to fund companies for large transactions.

Omnibus Account: An account structure where an intermediary holds assets on behalf of multiple clients in a single account with the fund.

Exchange Privilege: The ability to exchange mutual funds shares for ETF shares, in a nontaxable transaction as both shares are part of the same registered investment company.

Exhibit A: Manual Flow

Exhibit A. Annexed.

Exhibit B: Automated Flow

Exhibit B. Annexed.

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In addition to the SIFMA staff noted above, this work benefited from the active participation, insights, and feedback of numerous SIFMA member industry professionals and subject matter experts from a variety of organizations. Their time, expertise, and collaboration were instrumental in shaping the discussions and recommendations reflected in this document.

EXHIBIT A
Manual Flow

Share class Exchange Privilege - Manual

Request Date < 4PM ET

1. Investor request submitted

Request Date < XX PM ET

2. BD sends investor request (\$ or shares) to Fund Sponsor, includes DTCC delivery instructions for ETF and election on resultant residuals

Request Date + 1 < 12 PM ET

3. Fund Sponsor calculates the ETF exchange quantity and residual amount based on EOD Request date NAVs. Communicates results back to BD

4. BD reconciles the results

5. Fund Sponsor instructs MF exchange redeem leg to MF TA

6. Fund Sponsor instructs ETF exchange create leg to ETF TA

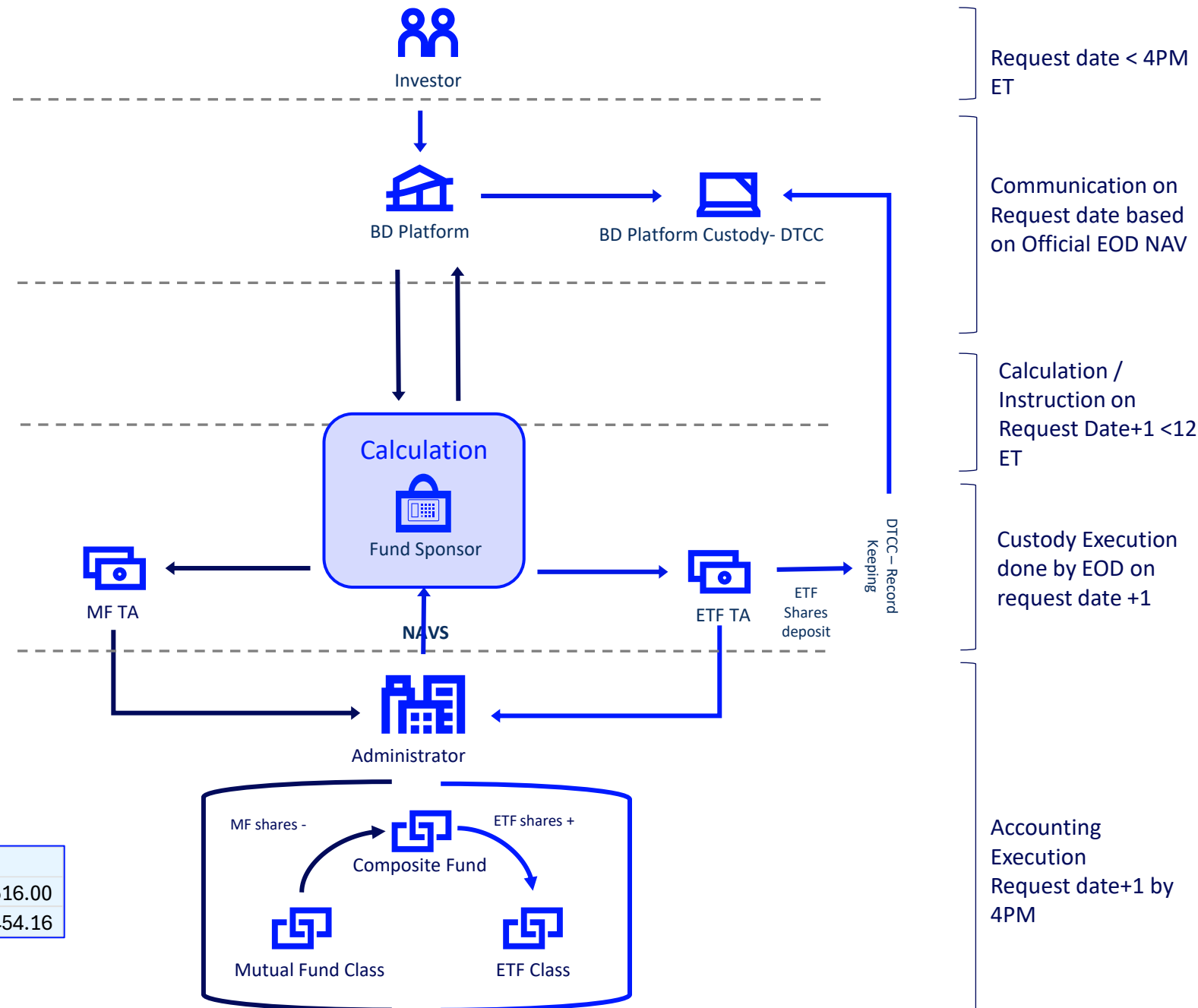
7. ETF TA DWAC ETF shares for delivery to BD DTCC box

8. MF TA instructs capital stock of MF redeem leg to Administrator

9. ETF TA instructs capital stock of ETF create leg to Administrator

	MF Class	ETF Class
NAV	524.58	520.26
Position	512.345	0
Position Value	268,765.94	0
Conversion	100%	100%
Shares	0.59	516.00
Conversion Value	311.78	268,454.16

	RD	CR
Shares	511.75	516.00
Value	268,454.16	268,454.16



MF to ETF Share Class Conversion Process (Manual)

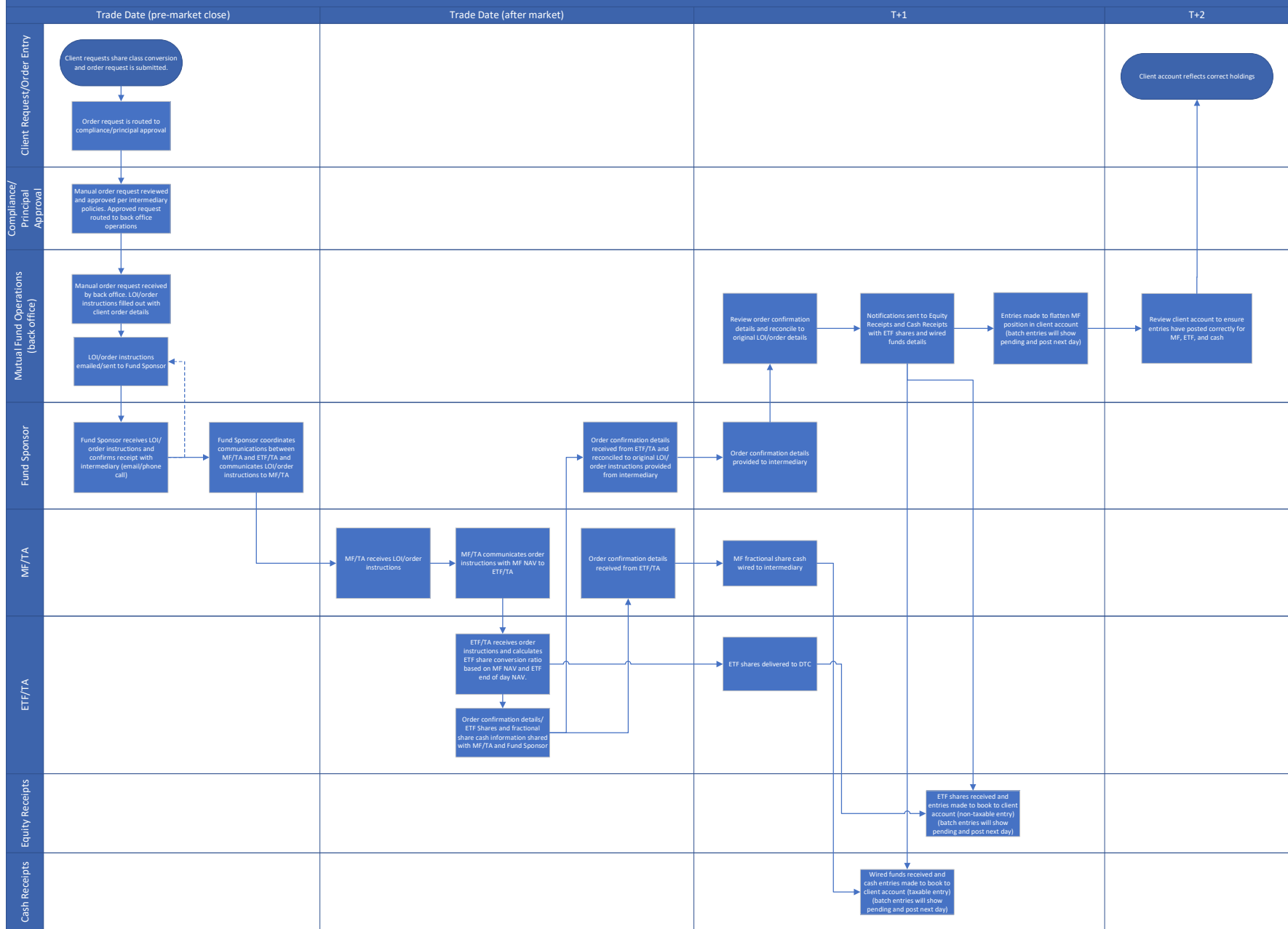


EXHIBIT B
Automated Flow

Share class Exchange Privilege – Day 2

Request Date < 4PM ET

1. Investor request submitted

Request Date < XX PM ET

2. BD sends investor request (\$ or shares) via Fund Serv, includes DTCC delivery instructions for ETF and election on resultant residuals

Request Date + 1 < 12 PM ET

3. ETF TA calculates the ETF exchange quantity and residual amount based on EOD Request date NAVs. Communicates results back thru Fund Serv

4. BD reconciles the results

5. Fund Serv instructs MF exchange redeem leg to MF TA

6. ETF TA DWAC ETF shares for delivery to BD DTCC box

7. MF TA instructs capital stock of MF redeem leg to Administrator

8. ETF TA instructs capital stock of ETF create leg to Administrator

	MF Class	ETF Class
NAV	524.58	520.26
Position	512.345	0
Position Value	268,765.94	0
Conversion	100%	100%
Shares	0.59	516.00
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	RD	CR
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Value	268,454.16	268,454.16

