Greater Flexibility for Investors via Multiple Fund Share Classes

Allow Funds to Offer Both Mutual Fund and Exchange-Traded Share Classes

Exchange-traded funds (ETFs) are an increasingly popular investment option with combined ETF assets in the U.S. reaching $10.69 trillion in February 2025. The SEC should adopt commonsense reforms such as ETF share class relief that will help regulated funds expand ETF offerings while maintaining strong investor protections. Such a move would increase options for retail savers and retirement investors and would save them money.

Background

Among asset managers, there is widespread demand for **ETF share class relief**—the ability to offer funds with both mutual fund and ETF share classes. As of March 2025, more than 50 fund sponsors had filed ETF share class relief applications with the SEC to be able to offer ETFs as a share class of a new or existing mutual fund, within a multiple share class structure. These applications seek to address SEC staff concerns that shareholders in either class could be disadvantaged by the activities of the other class.

In the absence of regulatory relief, fund sponsors are required to operate two separate funds—a mutual fund and an ETF—even where the assets are managed in the same strategy, an approach that is both inefficient and costly.

The Benefits of ETF Share Class Relief

Permitting a fund to offer both mutual fund and ETF share classes would promote efficiency and economies of scale, foster a more competitive marketplace, expand investor choice, and deliver potential investor benefits across both classes. For example:

- In-kind creations and redemptions through the ETF class could save overall portfolio transaction costs—benefiting the mutual fund share class.
- Cash inflows through the mutual fund class could save overall portfolio transaction costs that an active manager might have incurred if otherwise forced to liquidate holdings to reposition the portfolio—benefiting the ETF share class.
- Redemption activity through both classes could provide tax advantages, such as reducing unrealized capital gains and generating tax offsets for capital gains for the overall portfolio—benefiting both the mutual fund and ETF share classes.

The SEC granted ETF share class exemptive relief to an applicant once before twenty-five years ago: In 2000, the Commission allowed Vanguard to offer certain index-based open-end funds with mutual fund classes and exchange-traded classes; under the multi-class structure, one fund could offer both mutual fund shares and exchange-traded shares. Patent protection for the structure expired in 2023.

Widespread use of the multi-class structure among fund sponsors would give investors more flexibility, allowing them to choose how they want to hold interests in a fund based on the share class characteristics that are most important to them.

Why It Matters

Right now, fund sponsors must request regulatory relief individually through the SEC's exemptive application process so that the SEC can assess all relevant policy considerations and analyze each applicant's particular circumstances. But the SEC's painstaking approach to reviewing each pending application has created a logjam, leaving applicants in limbo, while retail investor demand for ETFs continues to spike.

Our Recommendations

We urge Congress to hold the SEC to its commitment to prioritize the review of ETF share class relief applications:

- **Clear the application backlog:** The SEC needs to act upon the pending ETF share class relief applications swiftly and with a solution that broadly works for the industry as a whole. SEC approval of these applications will allow fund sponsors to offer investors more tax-efficient and more cost-efficient investment opportunities.

The Bottom Line

Amid rising retail investor demand for ETFs, regulated funds are determining how best to satisfy investor preferences from an operational standpoint—but they need regulatory guidance.

That's why Congress should urge the SEC to hold to its commitment to make ETF share class relief a priority.

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