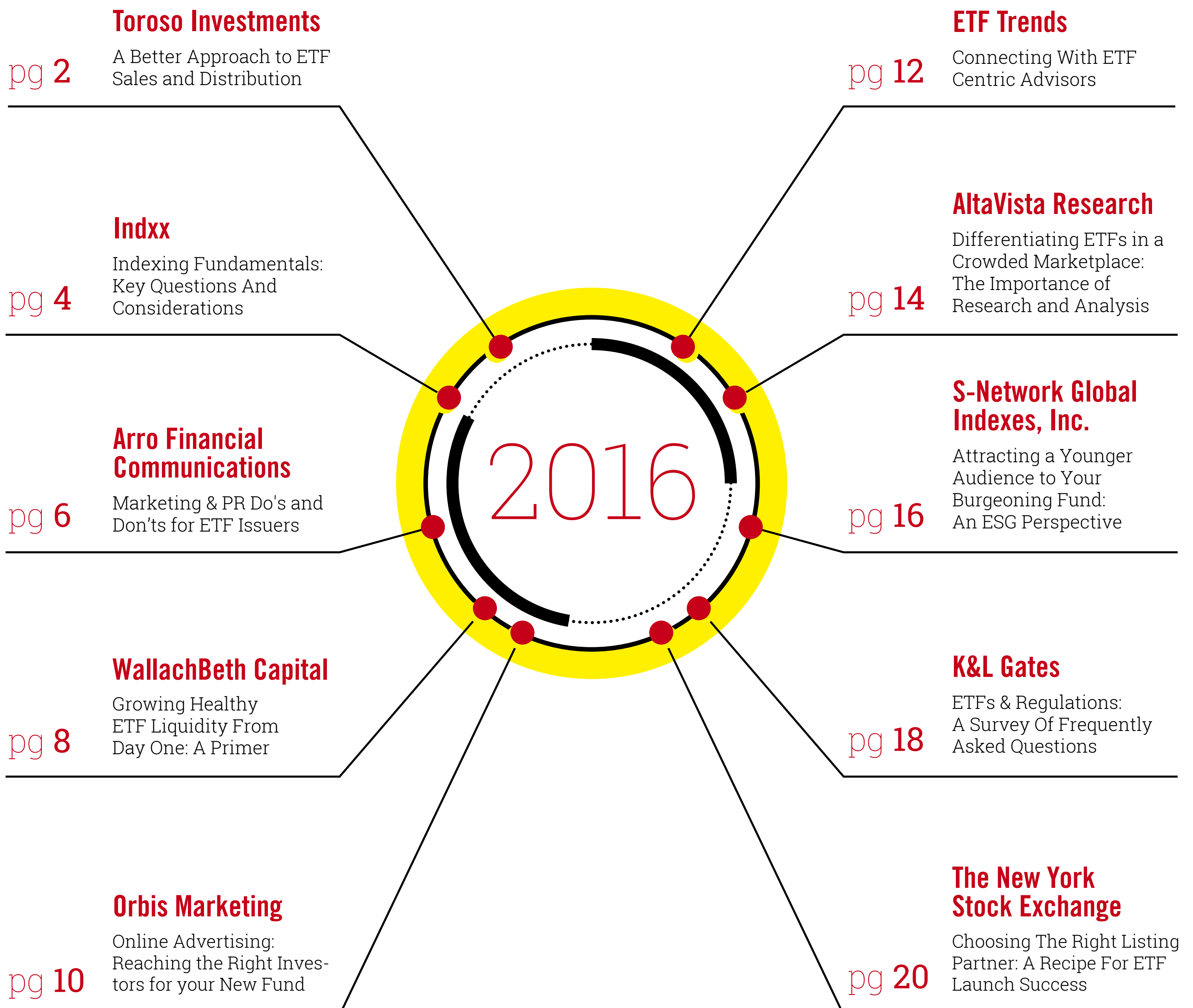
BIG TIPS

FOR NEW ISSUERS

Key Insights from Industry Insiders



pg 2 **Toroso Investments**
A Better Approach to ETF Sales and Distribution

pg 4 **Indxx**
Indexing Fundamentals: Key Questions And Considerations

pg 6 **Arro Financial Communications**
Marketing & PR Do's and Don'ts for ETF Issuers

pg 8 **WallachBeth Capital**
Growing Healthy ETF Liquidity From Day One: A Primer

pg 10 **Orbis Marketing**
Online Advertising: Reaching the Right Investors for your New Fund

pg 12 **ETF Trends**
Connecting With ETF Centric Advisors

pg 14 **AltaVista Research**
Differentiating ETFs in a Crowded Marketplace: The Importance of Research and Analysis

pg 16 **S-Network Global Indexes, Inc.**
Attracting a Younger Audience to Your Burgeoning Fund: An ESG Perspective

pg 18 **K&L Gates**
ETFs & Regulations: A Survey Of Frequently Asked Questions

pg 20 **The New York Stock Exchange**
Choosing The Right Listing Partner: A Recipe For ETF Launch Success

INTRO-DUCTION

It's no secret that the ETF marketplace has grown by leaps and bounds over the last decade. However, as the marketplace has expanded, the competition for AUM has grown ever more intense in an increasingly crowded landscape. In spite of these challenges, there is still ample room for inventive, innovative ETFs to make their mark and gather assets—there is still a path to success for new issuers.

The purpose of this guide, *Big Tips for New Issuers*, is to shine some light on that path, so to speak. In the following pages, experts on indexing, research, marketing and PR, trading, legal, listings, sales, and advertising offer their biggest tips for new issuers, garnered from their years of experience in the worlds of ETFs and finance.

This guide is intended to provide a broad overview of the important items new issuers should be thinking about as they move from concept, to messaging, to launch day, gathering AUM, and beyond. It is our sincere hope that the insights in the next few pages will help spark important conversations as you evaluate your firm's strategies and goals in the coming year.

— The Team at Arro Financial Communications

A BETTER APPROACH TO ETF SALES AND DISTRIBUTION

Guillermo Trias
Toroso Investments

Unfortunately, the "Field of Dreams" era of ETFs has come to a close. After the initial years of open gate policies for ETFs, the success of these low-cost and transparent vehicles has threatened the business models of many custodians and wire-houses. As a result, over the past few years these main platforms have built gates around the field with some steep entry prices.

So while the old saying, "if you build it, they will come" still holds true, can potential clients actually "come" when you build it? Getting past the gatekeepers and developing initial interest in new ETFs is where sales creativity matters the most.

Understanding the landscape, hurdles, opportunities and required relationships is key to the sales efforts of any new ETF sponsor. Thinking holistically about distribution is even more important.

Target Audiences

There are three main audiences for ETFs, which should be targeted in this order: retail, allocators, and institutional clients. ETFs require both assets and volume to graduate from a retail audience to an allocator audience. The same is true in order to move from allocators to institutional. Within each of the three target groups, it is critical to understand the traits of the ideal buyers for your ETF and come up with the right segmentation, positioning, and targeting strategies for those ideal clients.

3 Institutions

- Open Wire-house Gates
- Sales to CIOs
- Enhanced services
- $1 Bil

2 Allocators

- Open Custodian Gates
- Sales to RIAs & IBDs
- Build sales resources
- $100 Mil & Volume

1 Retail

- National Accounts Open Gates
- Direct Marketing
- Liquidity & Data
- $25 Mil & Volume

Think about distribution holistically

Your sales team should be closely coordinated with the marketing, product development, and investment research teams. Launching new ETFs without the necessary educational content, marketing, and PR support significantly limits the success probabilities of your sales team.

Start your sales efforts with Platforms and National Accounts

Many new issuers incorrectly assume that because they have listed their ETFs on a major exchange, they will immediately be available at the discount brokers. That is why the first salesperson you hire should be focused on platforms.

A national accounts manager should know the landscape, focus on opening as many channels as possible, and understand the various levels of participation. There is a big difference between being available at Charles Schwab and being commission free on their Onesource platform.

During this initial phase the national accounts manager should be acutely aware of both the data and liquidity providers. Preventing a misquote on Yahoo Finance and connecting knowledgeable traders to clients are crucial at the launch of any new ETF. This function will likely move to a capital markets person as success is achieved, but in the beginning the national sales manager should quarterback these efforts to grow the ETF issuer's network.

One simple trick to help with volume is to launch your ETF with a low share price. An ETF with a $10 share price trades five times as much notional volume as one with a $50 share price.

Selling ETFs is all about momentum of volume, which indicates acceptance. The first hurdle is to get AUM over $10 to $25 million and volume over 15,000 shares a day. One simple trick to help with volume is to launch your ETF with a low share price. An ETF with a $10 share price trades five times as much notional volume as one with a $50 share price. The dollar volume may be the same, but investors respond positively to share volume.

Sales Team focus on Allocators and Institutions

Once the initial hurdles are met, your sales effort should redirect its attention to the allocators. Targeting allocators and institutions requires a sales force. One of the reasons ETFs are cheaper than mutual funds is the lack of a transfer agent, which results in a lack of transparency in asset flows sources. This makes it extremely difficult to monitor, compensate, and motivate a sales team. We recommend including a measurable, required activity component in your sales force's compensation. Providing content, practice management, or software resources will also help your sales team build longer-term relationships that should convert into assets.

So if you build it, they will come, as long as your distribution team is coordinated with product development, marketing and research (quality content and education is key to engaging with gatekeepers and target audiences), and your sales team initially focuses primarily on opening platform doors.

INDEXING FUNDAMENTALS

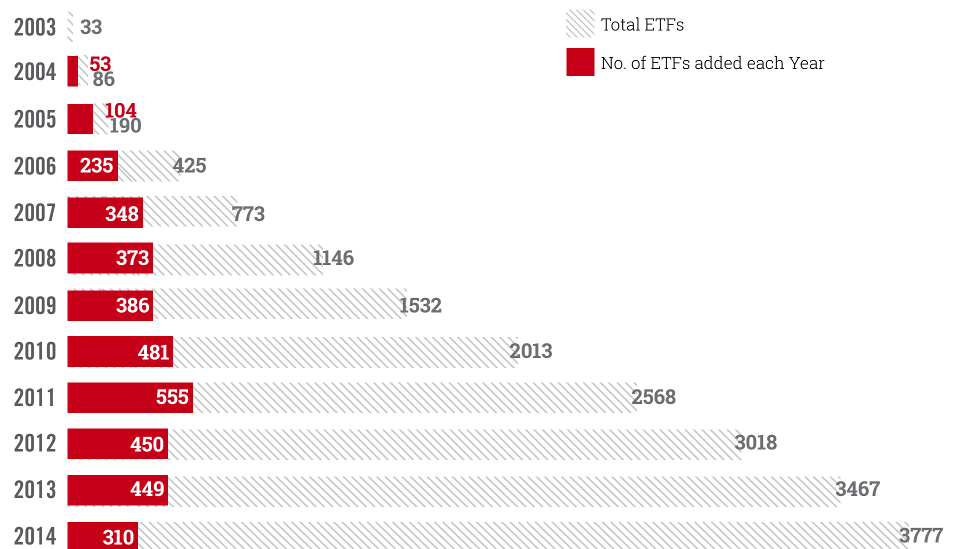
Key Questions and Considerations

Rahul Sen Sharma
Indxx, LLC

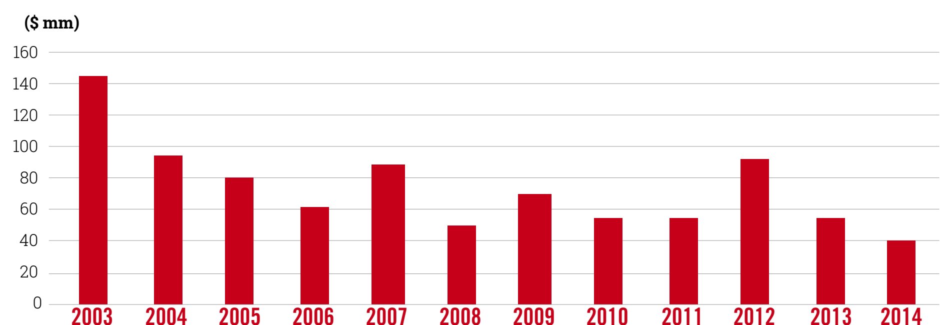
From existing, well-known issuers to firms looking to launch their first fund, the index development process is one of the earliest and most important steps for an ETF issuer to take. With the huge growth in the number of ETFs available and as the average AUM of new fund launches has dropped, it has become more vital than ever for new ETFs to have a unique underlying benchmark and strategy. Only with a unique, compelling strategy and benchmark in place will your new issue have any hope of breaking through and successfully gathering assets. The increased competition in the space can be clearly seen in not only the overall number of new launches and total ETFs, but also the declining average size of new funds (shown below).

Growth of ETFs (2003-2014) Source: Bloomberg

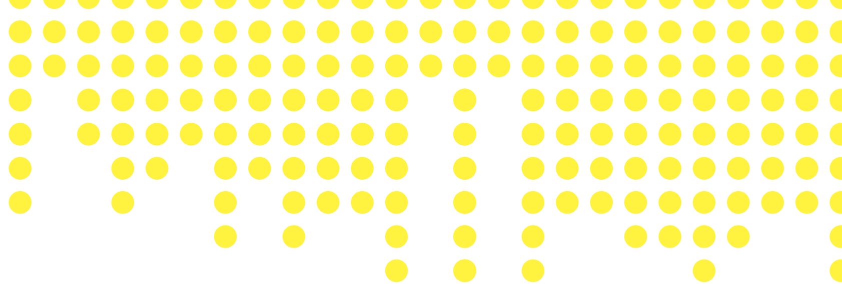
Note: This graph shows ETFs still in existence



Average AUM of New Funds by Launch Year Source: Bloomberg



As the number of ETFs has ballooned into the thousands, the average AUM has declined in an increasingly competitive marketplace.



Below are some key questions that every potential new ETF issuer should ask their index provider:

1 I have an idea. Now how do I make it into an index?

The first step is to reach out to an index provider to see if this idea can be developed into a rules-based index methodology suitable for serving as the underlying benchmark for an ETF. Many index providers have dedicated groups that work with clients in this way.

2 How does this process work?

The first part of the index development process involves understanding your index investment thesis and examining your work thus far. Once that is clearly understood, an index development team should work with you to try and develop an index that is unique, replicable, and appealing to potential investors. It's also important to look at the existing competitive landscape to see not only what else is out there that may compete with your new idea, but also to discover trends (e.g. what is gathering assets and what is losing assets) that can be used for guidance. The goal should be to arrive at a fully-developed index methodology guidebook as well as a backtest that is unique and appealing to potential investors.

> Once the index methodology is complete, you should expect the index provider to be willing to calculate, maintain and disseminate the index values.

3 Once the index is complete, what else should I expect in terms of support from an index provider?

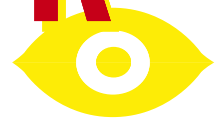
Once the index methodology is complete, you should expect the index provider to be willing to calculate, maintain and disseminate the index values. Some index providers also provide additional support in the form of index fact sheets, ongoing research on the index, and even the development of custom websites focused exclusively on the index.

Finally, some other important questions to consider when working with an index provider include:

- Do they have access to the data I need?
- Do they have experience in this particular area?
- Do they have the personnel and bandwidth required to work on my idea quickly and accurately?
- Are they willing to protect me by signing a Confidentiality/Non-Disclosure Agreement?
- Do they have a track record of success?

By taking these important questions and considerations into account, you and your team will be well on your way to choosing an indexing partner¬—a key ally in your quest to gain traction and AUM.

MARKETING AND PR



Dos & Don’ts for ETF Issuers

Alexandra Levis
Arro Financial Communications

There is no one-size-fits-all when it comes to marketing and PR for ETF issuers, and this holds especially true for new entrants to the space.

Do Have all your ducks in a row on launch day.

Nothing should be left to chance on launch day, and this begins with testing your data feed multiple times beforehand, as a faulty feed can delay an IPO. You and your team should be testing and re-testing your data feed for at least a full week in the run-up to launch.

Gaining AUM traction and momentum should be your firm’s number one priority once you launch. To support this effort, your marketing materials should be written, designed, and compliance-approved well in advance, so your PR campaign and sales team can hit the ground running. In particular, you should have a comprehensive sales plan in place from day one—no one wants to wait around for the phone to ring. You should also alert the insiders by letting Google, Yahoo, and Bloomberg know to add your ticker to their respective databases/terminal. This is critical for gaining momentum with everyday investors.

Finally, you should get to the office early. It’s not ideal to spot a blunder at 9:21am, with nine minutes to go until the market opens. Give yourself ample time on launch day morning to make sure there are no last minute issues.

Don't Expect social media alone to grow AUM

While the potential benefits of a robust social media strategy, can be substantial, there are often more wrinkles to this approach than issuers may first realize.

Social media campaigns are most effective when content is timely and spontaneous. This can prove problematic in the finance world, where most communications must be cleared by a compliance team before being published. A deeper problem is that social media is not the preferred, trusted source of financial information for most investors. It is unlikely that an investor will open or close a position in an ETF because of a friend's Facebook or LinkedIn post.

To get around the spontaneity problem, a certain number of social media posts can be preapproved by compliance ahead of time and then scheduled for posting throughout the week. We recommend focusing on Twitter for daily posts, and LinkedIn for more robust, comprehensive pieces (such as whitepapers, articles, or infographics).

Coupled with a more traditional marketing and PR campaign, social media can be an effective tool to stay "top-of-mind" with your network.

Do Insert yourself into the current media conversation

A public relations campaign is at its best when journalists and other members of the media feel that they can turn to your company for insights into developing stories. This can be accomplished by monitoring the news cycle and positioning your firm as a trustworthy source. For example, becoming a "thought leader" in the biotech space will go far in establishing your firm as experts in that space (and in those sorts of ETFs more specifically), and, just as importantly, in the underlying holdings your fund represents.

Don't Put all your marketing dollars in one basket

A marketing and branding initiative is like a four-legged chair consisting of branding, marketing, PR, and social media. Cut away one of the legs and the chair falls over! In other words, marketing and PR campaigns are synergistic affairs. Great marketing materials will fall on deaf ears if the PR campaign is not firing on all cylinders. A fantastic PR campaign will all be for naught if the branding and messaging are not well-thought-out and consistent. All the social media in the world will not grow AUM on its own. When sufficient resources are devoted to each of the "legs" of the strategy, then something beautiful results: an effective marketing and PR campaign.

Your marketing materials should be written, designed, and compliance-approved well in advance, so your PR campaign and sales team can hit the ground running.

GROWING HEALTHY ETF LIQUIDITY FROM DAY ONE

A Primer

Mohit Bajaj
WallachBeth Capital

Given the rate at which the ETF landscape has matured over the past decade, it should come as no surprise that new issuers are clamoring to get in on the action and grab a piece of this growing pie. In a market heavily dominated by a few ETF giants, new issuers have had varying levels of success attracting assets, let alone taking market share from these established incumbents. One of the main hurdles new issuers face out of the gate is in establishing liquidity and tradability in their products soon after launch. Why do some succeed at this while other funds spend months (or even years) with dismal average daily volumes and gratuitously wide spreads? We've identified the factors that can answer that question, and that significantly influence an ETF's liquidity profile. They are uniqueness of concept, timing and distribution.

Why do SPY (SPDR S&P 500 ETF) and EEM (iShares MSCI Emerging Market ETF) trade millions and millions of shares a day? Simple. First mover advantage. These names were first to market for their respective exposures. We cannot tell you how many new ETF providers we've met who attempt to reinvent the wheel and pitch a "new" way to replicate the S&P 500. The odds of "me too" products gathering enough interest from investors are slim-to-none. If the concept isn't unique, the ETF will have a tough time attracting investor interest. Spreads will remain wide and there simply will not be sufficient liquidity in the product.

> If the concept isn't unique, the ETF will have a tough time attracting investor interest.

Secondly, timing is critical. You need to launch the right product at the right time in the right market conditions. It will be nearly impossible to successfully gather interest in a new high yield bond ETF when Carl Icahn is on CNBC telling the world that the junk bond market is going to collapse. On the flipside, look at the success of HACK (PureFunds ISE Cyber Security ETF), which raised over $1b in assets in its first year. As one of the biggest stories of 2015, cyber security presented an extremely compelling investment proposition, with investors aggressively seeking exposure to companies focused on the space. In the right place at the right time, HACK reaped the benefits.

Finally, a well targeted marketing and distribution plan prior to launch plays a huge role in whether there will be liquidity in a new product. New issuers often make the mistake of only directing their pre-launch efforts towards securing seed capital and partnering with those that will serve as lead market makers and authorized participants for their new funds. What's often overlooked is the need to devise a specific strategy for getting investors to trade your fund from inception. A liquidity provider can consistently keep a product at a penny wide spread, but it's pointless if no one is trading the product. If you get it right on the initial execution of the distribution strategy, then momentum builds with the products. Interest from investors means increased liquidity, which drives tighter spreads and better tradability. This should pave the way for continued success.

Most agree that ETFs will continue to remain firmly entrenched as investment vehicles. There is no doubt newcomers will continue to try to jump on the bandwagon and establish their own presence in the space. Remember the basic guidelines outlined above and you'll be a few steps ahead in succeeding in this $2T and growing industry.

ONLINE ADVERTISING

Reaching the Right Investors for Your New Fund

Erin Evans
Orbis Marketing

You've just launched an ETF. You've got a great concept and you know investors will love your idea. There's just one problem: in a crowded marketplace, how is anyone supposed to know your fabulous ETF exists? Online advertising can be a huge help in spreading the news.

What is it?

Online display advertising is the placement of advertising messages on web pages. These advertisements are often referred to as banner ads and feature the advertisement message. If clicked, they deliver the user to the advertiser's desired destination. These advertisements come in a variety of sizes and can be served on desktops, tablets, and smartphones.

Targeting

All advertising campaigns have a target audience in mind. For ETF sponsors, that target audience is usually some combination of advisors and self-directed ETF investors. However, there are several types of advisors and they should not be categorized into a one-size-fits-all descriptor. For example, most wire house firms require an asset threshold before they permit ETFs on their platform. If this is the case you might prefer to target fee only advisors and wait on the wire house advisors. Furthermore, you may wish to target advisors when they are researching ETFs. In any event, we seek to identify the target audience as specifically as possible and have a host of techniques to reach them.

> Contextual targeting coupled with audience selection can be a very powerful method of getting your message into the marketplace.

Targeting & Context

Ideally your advertisement will not just reach the right audience but will reach them at the optimal moment—that moment when they are researching ETFs, ideally your category or even your particular fund. Contextual targeting coupled with audience selection can be a very powerful method of getting your message into the marketplace. By pinpointing your audience, you maximize your ad's effectiveness—the right context can be the difference between a click and being ignored.

Tracking Results & Optimizing

A key feature of online advertising is its ability to track and optimize results. There is no shortage of metrics including basic front-end metrics such as click-through rate and cost-per-click. Important back-end metrics include engagement level and cost-per-engagement, lead generation, cost-per-lead and cost per download, as well as many others. These metrics can be determined for specific ads and placements. Our job is to improve these metrics by continuously monitoring and adjusting to maximize results. The goal here is to improve the advertising ROI while increasing the efficiency of the ad spend.

Other Considerations

There is a lot that goes into a successful ad campaign. Here are a few things we typically recommend to clients:

- **Call to Action:** Your ad should have a strong call to action. "Click For More Information" isn't bad; "Click For Our Free Guide to…." is better.

- **Landing Page:** A landing page is a critical element of your ad campaign. It delivers the payoff for the call to action and provides information meant to move your visitor closer to an investment decision. The landing page should also offer a visitor the ability to complete a form, allowing you to capture a lead or email address. An entire article could be devoted to the topic of landing pages alone, but suffice it to say that the landing page should not be your product page.

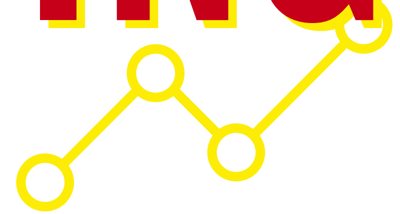
- **Messaging:** Before you create your ads you should settle on the messaging. This seemingly simple stage is often overlooked or skipped altogether.

- **Test & Optimize:** We know we mentioned this above but this point is important. Always be optimizing.

Cost Considerations

First time advertisers are often worried about advertising costs and ROI. One of the advantages of online advertising is that it is scalable and doesn't have to be expensive. Some of our largest clients started small, proved the concept and then scaled up as their assets grew.

CONNECTING
With ETF-Centric Advisors



Tom Lydon
ETF Trends

Financial advisors and institutions now control over $1 trillion in ETF assets. Who are these advisors who have shifted the core of their investment models? That's the question most ETF issuers are asking, especially as more product providers enter the ETF-ecosystem. How do we connect with them?

It helps to answer these questions by looking at the characteristics of the ETF-centric advisor. In addition to being disenthralled with active management, these advisors look to the cost benefits, transparency and tax-efficiency of ETFs. Some other more prominent traits include:

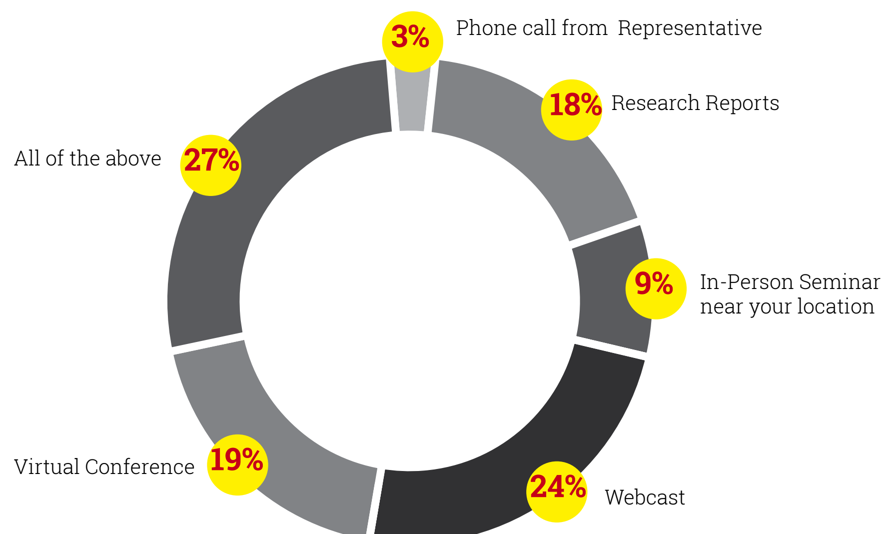
- Entrepreneurial and open to change
- Younger principals or younger research team
- Technologically savvy
- Changing economic models of their practices
- Strong time management and organizational skills

Overall, these practices are healthy and growing, but they aren't the typical advisory firms of ten years ago. With that, the way you successfully connect with them needs to be different. The fact is, fewer and fewer ETF-centric advisors are going to industry conferences. They aren't taking meetings as frequently and few will even speak on the phone.

Innovative ETF issuers understand the benefits of creating "virtual relationships". And, frankly, this new breed of advisors prefers it that way. A short educational story sent via email to thousands of ETF-centric advisors will trump the effectiveness of weeks of personal calls to the same group.

We asked ETF-centric advisors...

How would you like to learn more about how ETF Issuers can help your practice?



For some, especially seasoned asset managers entering the ETF marketplace, this requires a change in mindset. First, most new and emerging ETF issuers have developed ETFs that have moved far beyond the pure beta strategy. So, they require time to describe and illustrate to potential advisor clients. But if these ETF-centric advisors aren't taking calls, meetings or attending conferences, how do you engage with them?

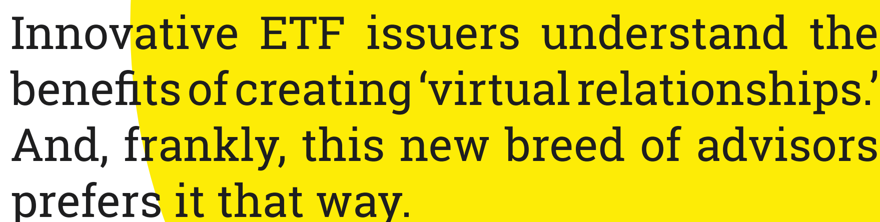
Here's your recipe for success. Create a digital marketing strategy.

1. Put the time and effort into developing your Customer Relationship Management, or "CRM"
2. Develop regular ETF educational content and market strategy content
3. Email advisors periodically with these strategy ideas
4. As traction grows with your targeted advisors, develop a webcast campaign
5. Track data on email effectiveness and webcast interaction

A successful marketing plan tracks the "cost per advisor engagement." If you spend $20,000 sponsoring a conference, how many advisors do you really engage with? How many advisors do you really get to explain the strategy of your ETF model to?

At a typical conference, it might be 20-25 advisors who really give you the time and understand why you're different from the rest of the pack. With a successful webcast, you can engage with 300-500 advisors for the same cost and easily import the data into your CRM.

Competition in the ETF marketplace is only increasing. Your firm wouldn't be in the business if you weren't convinced you have something special to offer. This new breed of advisors is interested, but wants to be communicated with on their terms. The great news is they're happy to have you spend less money doing it.

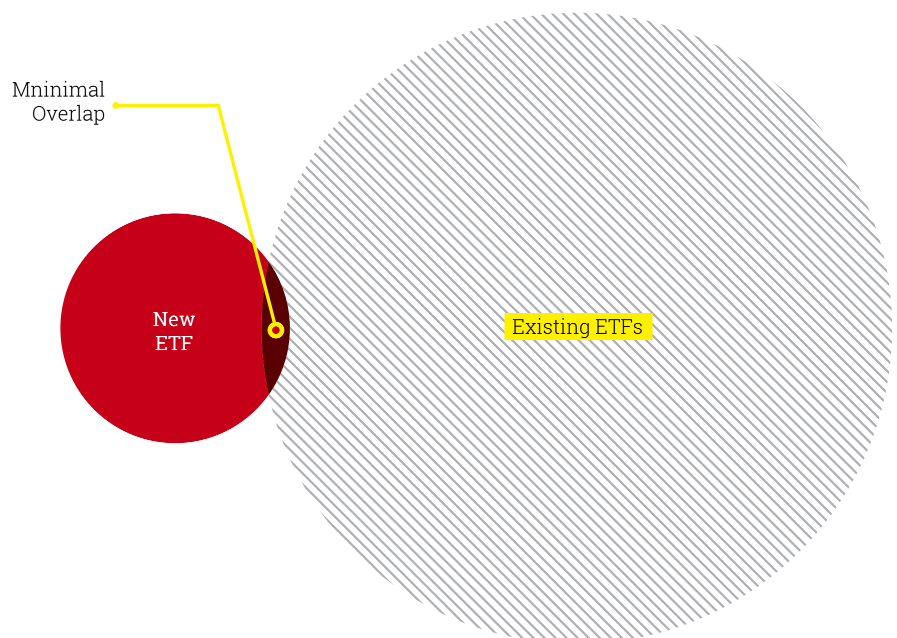


Differentiating ETFs in a Crowded Marketplace

THE IMPORTANCE OF RESEARCH AND ANALYSIS

Michael Krause
AltaVista Research

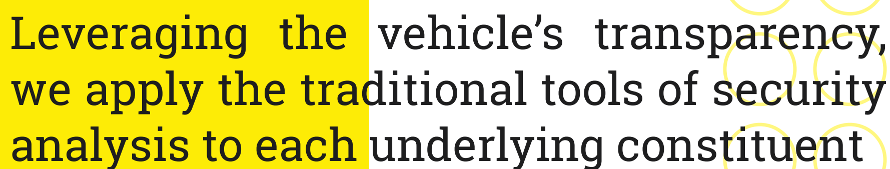
"What's the difference between Fund A and Fund B?" Some version of that question is among the most frequent we receive. In an increasingly crowded marketplace, many investors and advisors have trouble distinguishing between the 1,500-plus ETFs available. This is particularly the case for the many "smart beta" funds, where competing claims about index methodologies can leave investors confused and unable to evaluate them objectively.



In-depth research and analysis can help overcome many of these difficulties. One of the first questions an ETF researcher should ask is: Is it any different than funds already available? Because an ETF's holdings are transparent, it is easy to see how much overlap there is between a fund's underlying constituents and those of other ETFs.

If the newcomer has upwards of 90% overlap with an established fund or funds, the issuer will often compete on cost. However, many new funds do offer something substantially different than seemingly similar ETFs, whether that difference is due to constituent selection, weighting, or some combination thereof.

Naturally, it is straightforward to describe a given fund's index methodology, sector allocation, geographic allocation, et cetera, as well as how these may differ from a competing fund, but that still leaves many investors wondering, "Is that good or bad?" When available, back tests have a place in research as well, but investors take those with more than a few grains of salt.



Here is where an investment analysis of an ETF's underlying constituents can really help investors understand and evaluate a new fund. Leveraging the vehicle's transparency, ETF researches apply traditional tools of security analysis to each underlying constituent and then roll that data up to the fund level, allowing investors to view and value an ETF in a familiar yet disciplined way.

For equity funds, that means calculating everything an investor would care about when looking at a single stock: sales, earnings, dividends—both historical and forecasted—as well as trends in estimate revisions, what's happening on the balance sheet, and a variety of valuation metrics. For fixed income ETFs, that means not only information such as current yield, yield to maturity, and duration, but also modeling price-sensitivity to changes in interest rates and an analysis of likely losses due to defaults. The benefit of this analytical approach is that it is forward-looking.

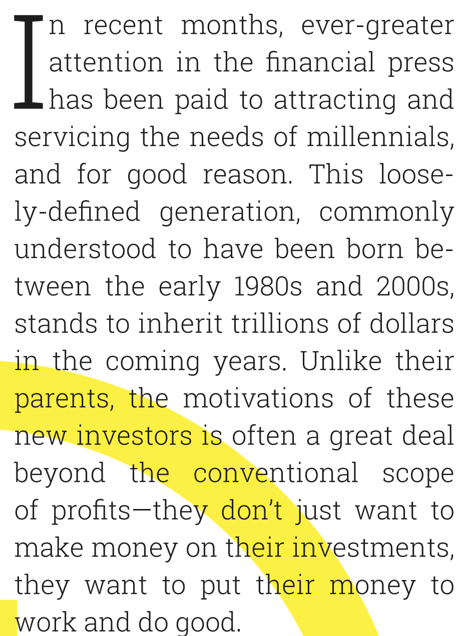
Putting numbers in front of investors helps them quickly understand differences between funds, and regular updates increases their comfort level by keeping them on top of changing markets. They can determine, for example, how much earnings growth the stocks in an ETF are generating, and what sort of multiples they trade at. Investors can then compare the figures to those for a competing ETF, clarifying any differences in metrics that investors care about.

Fund issuers are limited by compliance in terms of the information they can use in their marketing materials, making product differentiation all the more difficult. Analyzing an index instead of the product affords more latitude, and most investors understand this to be a good proxy for understanding the investment fundamentals of the securities in which an ETF invests. Providing this information—especially when it's otherwise lacking—helps investors both understand new products as well as facilitate their use in portfolios. And that makes all the difference.

ATTRACTING A YOUNGER AUDIENCE TO YOUR BURGEONING FUND

An ESG Perspective

Gregg Sgambati
S-Network Global Indexes, Inc.



In recent months, ever-greater attention in the financial press has been paid to attracting and servicing the needs of millennials, and for good reason. This loosely-defined generation, commonly understood to have been born between the early 1980s and 2000s, stands to inherit trillions of dollars in the coming years. Unlike their parents, the motivations of these new investors is often a great deal beyond the conventional scope of profits—they don't just want to make money on their investments, they want to put their money to work and do good.

With this in mind, new issuers can make strides towards attracting millennial money by creating funds that demonstrate sensitivity regarding such issues as global warming, food and water scarcity, poverty, and social justice. If such funds can demonstrate lower risk profiles along with returns that rival market benchmarks, they can prove very compelling to so-called impact investors, particularly millennials.

While early ESG (Environmental, Social, and Governance) investing strategies have been traditionally focused on negative or exclusionary screens (removing fossil fuel companies from indexes, for example), the new generation of ESG funds utilize positive screens (isolating companies with high ESG scores) to highlight specific characteristics, for example good corporate governance, renewable energy, or human rights.

In this way, the next generation of high net worth individuals shouldn't have to face making the difficult choice between their values and good returns.

BOOT CAMP

SEPT 29-30, 2016

The Conrad Hotel

102 North End Ave, New York, NY 10282

A 2-day conference addressing the ins-and-outs of launching ETFs, featuring expert panels, prime networking opportunities, and more.

ETF TRENDS
Setting the pace

ETFs & REGULATIONS

A Survey of Frequently Asked Questions

Stacy L. Fuller
Timothy A. Bekkers
Aaron E. Ellias
K&L Gates

Despite the growing popularity of ETFs, even the most seasoned investment managers do not always know where to begin when considering whether and how to launch an ETF. Here are a few of the questions we are often asked by new ETF sponsors:

We are a quantitative manager, so our strategy could work as either an index-based or actively-managed ETF. What are the pros and cons of each approach?

This depends in part on your need for investment flexibility within the strategy and your desire for a streamlined regulatory process. In short, packaging the strategy as actively managed would provide you with more investment flexibility than you would have if you reduced the quantitative strategy to an algorithm or formula that could function as an index. However, actively managed ETFs typically take longer to bring to market than index-based ETFs and are currently subject to more burdensome regulatory requirements.

In particular, whereas listing exchanges have "generic" listing standards with which most index-based ETFs can comply and, therefore, launch without specific SEC approval, no such "generic" listing standards exist for actively managed ETFs. Accordingly, they need to obtain SEC approval for listing standards specific to them, which can take months, as their strategy is subjected to additional SEC scrutiny.

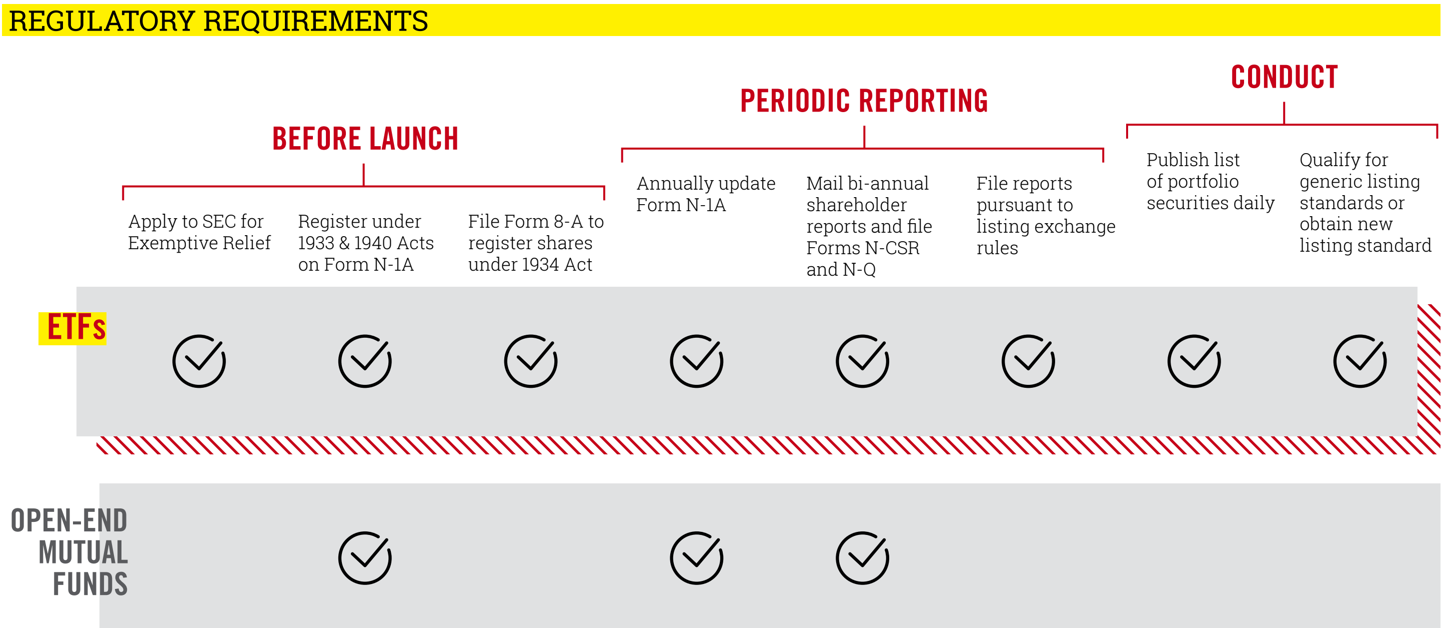
We currently advise mutual funds and are familiar with the laws in that area. Is it safe to assume that the laws applicable to ETFs are the same as those for mutual funds?

Although there is significant overlap, ETFs are exempted from some requirements that apply to mutual funds and are subject to other requirements that don't apply to mutual funds. So there is not complete parity between the mutual fund and ETF regulatory regimes.

Indeed, even with the exemptions that ETFs get, ETFs face more expansive regulatory requirements than mutual funds because their shares are listed and trade on a securities exchange. As a result, like other exchange-traded securities (such as GOOG) and unlike mutual funds, they are subject to an entire additional set of securities laws and regulations, as well as those of a listing exchange and its self-regulatory organization. For these reasons, the regulatory requirements applicable to ETFs are somewhat more complex than those applicable to mutual funds and require some additional legal knowledge and expertise to navigate.

> Even with the exemptions that ETFs get, ETFs face more expansive regulatory requirements than mutual funds

The following table provides a sample of differences in regulations that apply to ETFs and open-end mutual funds:



REGULATORY REQUIREMENTS

	BEFORE LAUNCH			PERIODIC REPORTING			CONDUCT	
	Apply to SEC for Exemptive Relief	Register under 1933 & 1940 Acts on Form N-1A	File Form 8-A to register shares under 1934 Act	Annually update Form N-1A	Mail bi-annual shareholder reports and file Forms N-CSR and N-Q	File reports pursuant to listing exchange rules	Publish list of portfolio securities daily	Qualify for generic listing standards or obtain new listing standard
ETFs	✓	✓	✓	✓	✓	✓	✓	✓
OPEN-END MUTUAL FUNDS		✓		✓	✓			

How much does it cost to launch an ETF?

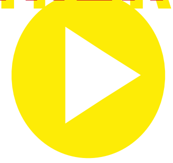
As noted above, ETFs obtain exemptions from the SEC to operate as ETFs (and avoid certain regulatory requirements that apply to mutual funds). Assuming that the SEC continues to order such exemptions as a routine matter, obtaining them should be relatively inexpensive. In fact, the total legal fees can run less than $150,000, depending on, among other things, whether the ETFs will be actively managed or index-based and whether the ETF sponsor currently runs other funds or separate accounts pursuant to such strategies.

When should we contact counsel to work with us on our ETF aspirations?

As a potential sponsor of new ETFs, you will make decisions that impact your new ETFs almost immediately. Experienced counsel can help direct you to other service providers who may help you develop your strategy and evaluate the ETF marketplace. They can also help you initiate discussions with the listing exchanges. Therefore, it typically helps to talk to counsel earlier—rather than later—in the process.

CHOOSING THE RIGHT LISTING PARTNER

A Recipe for ETF Launch Success



Douglas M. Yones
The New York Stock Exchange

As a new ETF issuer, you know how critical it is to choose the right listing partner to position yourself for success, and this is one of the first key decisions you will have to make. Listing your fund(s) with a trusted partner will help ensure overall success by allowing you to concentrate on what's really important: product development, sales and distribution. It's well worth the time investment to perform research upfront because this decision can make or break your listing.

Here are four compelling considerations to bear in mind when choosing where you list your fund:

- Market structure
- Industry expertise & guidance
- Issuer services
- Marketing and visibility

Market Structure

One of the first questions to ask is how a given market will support the trading of your ETFs. In terms of market structure, you'll want to consider overall market quality including volume, access to liquidity, and breadth of products. If you choose a marketplace with exceptional overall market quality, you'll be positioning your listing with the best growth opportunities.

You should make sure your ETF has easy access to high quality investors and liquidity providers. This has the largest impact on driving sales and liquidity for your ETF. Also consider a lead market maker (LMM) program to incentivize market makers to take on your new products, or a program that rewards market makers for having a large number of allocations, even though the ETF may be just starting out and thinly traded. Exchanges with a higher number of liquidity providers can offer narrower bid/ask spreads.

Industry Expertise and Guidance

A key factor in making your decision should be whether the exchange in question acts in a consultative capacity for its issuers. More specifically, ask if they can offer guidance through the complete listings process, including expert consultations and legal support.

This kind of guidance should include expert consultations and round-the-clock expert legal and regulatory support, particularly with SEC Rule 19b-4 filings. You should also consider an exchange's experience and long term relationship with the industry's primary regulators: the SEC and FINRA. The level of access to expertise and best-in-class customer service from experienced ETF professionals can significantly speed up your time to market and help you avoid undue delays in the 19b-4 filing and approval process.

A key factor in making your decision should be whether the exchange in question acts in a consultative capacity for its issuers.

Issuer Services

As an ETF issuer, you know that gathering the intelligence on the trading activity of your products is essential to driving tighter spreads and greater liquidity. Sales and distribution efforts depend on access to the most up-to-date information and analysis. Sample services to consider include market intelligence, trade monitoring and sales and distribution support.

Some of the available intelligence for ETF issuers includes monthly reports on the performance of your products, reports on the performance of the broader ETP Industry so that issuers can identify trends and adjust sales strategies, and the daily performance of your LMM as well as other liquidity providers.

Marketing and Visibility

ETF issuers should be looking to get more out of their relationship with their exchange beyond just its transactional capability. The launch of a new trading product also provides a firm brand strengthening opportunity. It is also important to compare each exchange's respective visibility platform from both a client reach and a sales targeting perspective.

By investing the time upfront to evaluate all of your options, you will be in a much better position to provide your new ETF with the greatest possibility for success.

CONTRIBUTORS

Guillermo Trias
Managing Partner
Toroso Investments
gtrias@torosoinv.com
torosoinv.com

Rahul Sen Sharma
Partner
Indxx, LLC
rsensharma@indxx.com
indxx.com

Alexandra Levis
CEO
Arro Financial
Communications
alevis@arrocomm.com
arrocomm.com

Mohit Bajaj
Director
ETF Trading Solutions
WallachBeth Capital
mbajaj@wallachbeth.com
wallachbeth.com

Erin Evans
Managing Director
Orbis Marketing
erin@orbismarketing.com
orbismarketing.com

Tom Lydon
Publisher and Editor
ETF Trends
tlydon@etftrends.com
ETFtrends.com

Michael Krause
President
AltaVista Research
info@altavista-research.com
www.etfresearchcenter.com

Gregg Sgambati
Managing Director
Head of ESG Solutions
S-Network Global
Indexes, Inc.
gsgambati@snetworkinc.com
www.tresgindexes.com

Stacy Fuller
Partner
K&L Gates
Stacy.Fuller@klgates.com
klgates.com

Douglas Yones
Head of Exchange
Traded Products
New York Stock Exchange
etf@nyse.com
NYSE.com

©2016. Produced by Arro Financial Communications, in Association with ETF Trends