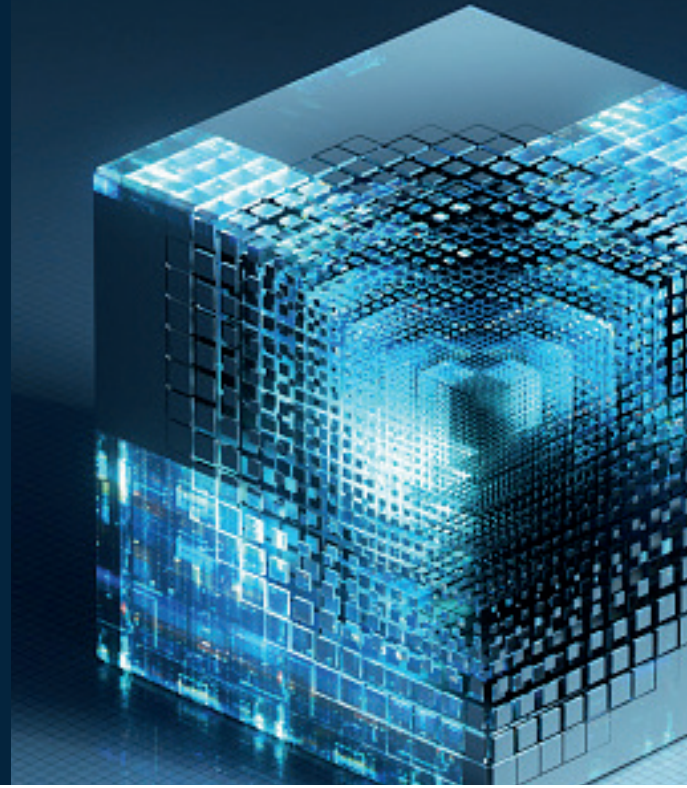




UNDERSTANDING ETF SHARE CLASSES: A GUIDE FOR ASSET MANAGERS

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The recent launch of the U.S. industry's first actively managed ETF share class from an existing mutual fund, marks an important step in the evolution of fund structures. More than a product milestone, it signals that ETF share classes are becoming a more tangible consideration for asset managers looking to broaden investor access, modernize distribution and rethink how they bring strategies to market.

That potential is what makes the structure so compelling. Rather than launching separate vehicles for different audiences, managers may be able to offer the same underlying strategy through both mutual fund and ETF access points — creating greater flexibility while maintaining a single portfolio. But moving from concept to execution requires more than market interest. Firms also need to assess governance, operational readiness, platform support and the broader servicing model required to sustain the structure effectively.



ETF share classes represent a meaningful next step in the evolution of fund structures. They provide asset managers a new strategic option to package investment strategies for multiple investor channels without creating separate portfolios.

- **Ben Slavin**
Global ETF Industry Lead at BNY

Below, we answer some of the key questions asset managers may have as they evaluate the ETF share class model.

UNDERSTANDING ETF SHARE CLASSES

What is an ETF share class

An ETF share class is a fund structure in which a traditional mutual fund offers an additional class that trades on a stock exchange, similar to other ETFs. Both the mutual fund and the ETF class represent ownership in the same underlying portfolio, meaning investors can select the access point that suits their needs—unlisted mutual fund or listed ETF—without changing the investment strategy itself. In practice, the dual-share class approach breaks down historical barriers between mutual funds and ETFs, combining mutual fund familiarity and distribution with ETF features like intraday liquidity, real-time price discovery, and the potential for tax efficiency through in-kind creation and redemption.

Why the recent launch is significant

For many years, the ETF-as-a-share-class structure was the exclusive, patented domain of Vanguard. That patent expired in 2023, opening the door for the rest of the industry to explore dual-share class products. In November 2025, the SEC granted the first approval to Dimensional Fund Advisors (DFA) to add an actively managed ETF share class to an existing mutual fund. DFA's subsequent launch in March 2026 marked a pivotal moment: the first actively managed ETF share class originating from a mutual fund, and the first actively managed exchange-traded class of any kind and the first introduced by a manager other than Vanguard in over two decades. This milestone is widely viewed as the beginning of a broader acceleration of the structural shift that is reshaping the ETF and mutual fund landscape.

Who can launch an ETF share class

Any asset manager currently offering U.S.-registered mutual funds could be eligible to add an ETF share class, subject to SEC regulatory approval. As of May 2026, approximately 100 managers have filed with the SEC to offer the dual-share class model, and the most have already received their approval. Approval is only the first step. Managers typically must secure fund board approval, update the fund's prospectus and shareholder communications, and prepare operational processes to support the new class—often working closely with their servicing partners to establish and test the operating model.



Innovation in fund structures only works when the servicing model evolves alongside it. For ETF share classes, operational readiness across the ecosystem, from fund accounting and basket support to platform connectivity and reporting, will be critical to successful adoption.

- **Bob Humbert**
Head of ETF Product at BNY

KEY CONSIDERATIONS FOR MANAGERS

What should managers consider before offering a dual-share class?

Each fund manager should carefully consider a number of critical items before moving forward with offering dual share classes.

- 1 Board Governance:** Boards must approve that the multi-share class structure is in the best interest of all shareholders, and issuers must provide updated reporting and data to support decision-making.
- 2 Operational Readiness:** Firms must prepare for the operational differences of ETFs, including intraday liquidity, daily transparency of holdings, and in-kind creation/redemption processes.
- 3 Tax Impact:** While ETFs often offer superior tax efficiency through in-kind transactions, adding an ETF share class to a traditional mutual fund requires careful planning to ensure tax benefits are realized without hurting existing mutual fund holders.
- 4 Investment Capacity and Strategy:** Investment strategy must fit the ETF structure, considering capacity constraints and the potential for “cash drag” if the mutual fund holds high cash balances for redemptions.
- 5 Distribution Considerations:** Sales teams need to be educated on the new class, and it will be necessary to have distribution platforms ready to add the share class and process share class exchanges.
- 6 Regulatory Compliance:** Launching requires specific approval regarding Rule 12b-1 plans, exchange listing rules, and compliance with SEC requirements for shared portfolio management.

BNY's readiness to support ETF share classes

BNY has been preparing to support clients across the bank to support the share class structure. With our broad reach across multiple parts of the bank, BNY offers a unique capability set that few market participants can match. Our asset servicing ETF capabilities are ready for the issuance of ETF share classes.

- **Asset Servicing:** Enriched share class data has been integrated into the ETF basket creation process for dual share class products as well as the ability to enter a share class exchange into our proprietary order taking system. Asset servicing has been an active participant working with various industry organizations, including the DTC which is working on the standardization of the share class exchange feature
- **Pershing:** Pershing is working on necessary infrastructure updates to support managers and shareholders to support share class exchanges between classes. Like all the other distribution platforms, some of the critical Pershing is contingent on the completion of the DTCC work to standardize across the industry.

GETTING STARTED

For asset managers evaluating ETF share classes, the journey begins with governance and design: assessing shareholder interests, clarifying tax and operational implications, and aligning distribution and platform readiness. We can support you at every stage.

To explore the topic in more depth, read our recent thought leadership piece [ETF Share Classes Uncovered](#) or browse our [ETF Corner hub](#) for ETF market insights.



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