**SEC Adopts New ETF Rule to Modernize Regulation**

By Brenton Garen on September 26, 2019

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The SEC announced Thursday it had adopted a New ETF Rule designed to modernize regulation and facilitate greater competition and innovation in the ETF industry. It will be implemented by the end of 2019.

The Securities and Exchange Commission vote forms amendments that are designed to modernize the regulation of exchange-traded funds (ETFs), by establishing a clear and consistent framework for the vast majority of ETFs operating today.

It will allow ETFs to come to market more quickly without the time or expense of applying for individual exemptive relief. In addition, the Commission voted to issue an exemptive order that further harmonizes related relief for broker-dealers.

SEC Chairman Jay Clayton said since ETFs were first developed over 27 years ago, they have provided investors with a number of benefits, including access to a wide array of investment strategies, in many cases at a low cost.

“As the ETF industry continues to grow in size and importance, particularly to Main Street investors, it is important to have a consistent, transparent, and efficient regulatory framework that eliminates regulatory hurdles while maintaining appropriate investor protections,” Clayton said.

**New ETF Rules for ETFs a Win for Investors**

CFRA Research sees the move as significant and will further support growth of an industry that has grown to $4 trillion in assets and doubling in recent years. The new regulations are largely consistent with the proposed rules shared with the investment community in mid-2018.

Todd Rosenbluth, Head of ETF & Mutual Fund Research at CFRA, said the newly-released ETF rule is a huge win for advisors and investors who have grown comfortable in using ETFs.

“The rules will provide greater transparency about the trading costs investors should expect with individual ETFs, should allow asset managers to work more closely with institutional investors to support liquidity of these ETFs and provide guidelines for asset managers seeking to launch new products in a timely manner, which should drive price competition,” Rosenbluth said. “By treating ETFs as an investment product different from mutual funds, the SEC has taken steps to improve ETF investor education and make it easier for asset managers to run and launch products. Whether there is demand for such offerings will be made by investors.”

**The Evolution of the ETF Industry**

ETFs are hybrid investment products not originally allowed under the U.S. securities laws. Their shares trade on an exchange like a stock or closed-end fund, but they also allow identified large institutions to transact directly with the fund. Since 1992, the Commission has issued more than 300 exemptive orders allowing ETFs to operate under the Investment Company Act. ETFs have grown substantially in that period, and today there are approximately 2,000 ETFs with over $3.3 trillion in total net assets. Investors use ETFs for a variety of purposes, including core components of long-term investment portfolios, investment of temporary cash holdings, and for hedging portfolios.

ETFs relying on the rule and related exemptive order will have to comply with certain conditions designed to protect investors, including conditions regarding transparency and disclosure. To help create a consistent ETF regulatory framework, one year after the effective date of the rule, the Commission is rescinding exemptive relief previously granted to certain ETFs, including those that will be permitted to operate in reliance on the rule. The rule and form amendments will be effective 60 days after publication in the Federal Register, but there will be a one-year transition period for compliance with the form amendments.