sigma
FINANCIAL
CORPORATION
Member FINRA/SIPC

August 27, 2026

Vanessa A. Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

RE: Request for Comment on Novel ETFs; File No. S7-2026-24[1]

Dear Ms. Countryman:

Sigma Financial Corporation ("Sigma") respectfully submits this letter in response to the U.S. Securities and Exchange Commission's (the "Commission") Request for Comment on Novel ETFs, File No. S7-2026-24 (the "Release"). Sigma is an introducing broker-dealer and FINRA member firm (CRD No. 14303) that serves primarily retail investors and, like the great majority of introducing firms, relies on its clearing firm to execute, clear, and settle customer transactions and to make securities available for trading on its platform.

Sigma is submitting this comment letter in response to Question 27 of the Release, which asks whether "there [are] additional reforms the Commission should consider to help facilitate innovation, while protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation[.]"[2] In response to this question, Sigma respectfully urges the Commission to create, publish, and maintain a free, publicly available, and continuously updated online list of novel ETFs as they are declared effective by Commission staff and approved for listing and trading on national securities exchanges.

As explained below, the creation and maintenance of such a novel ETF list is consistent with steps the Commission has already taken for other categories of securities. Moreover, such a list would protect investors by significantly enhancing the ability of introducing broker-dealers (like Sigma) to satisfy their existing suitability and due diligence obligations under FINRA rules and SEC Regulation Best Interest.

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[1] U.S. Securities and Exchange Commission, *Request for Comment on Novel ETFs*, Exchange Act Release No. 105808, 91 Fed. Reg. 40647 (July 2, 2026).

[2] *Id*. at 40650.

INTRODUCING BROKER-DEALERS HAVE AN INDEPENDENT OBLIGATION TO EVALUATE NOVEL ETFS BEFORE THEY CAN BE RECOMMENDED TO CUSTOMERS

Under FINRA Rule 2111[3] and the Care Obligation of Regulation Best Interest,[4] a broker-dealer may not offer or recommend a security, or permit its registered representatives to offer or recommend a security, without first having a reasonable basis to believe, based on reasonable diligence, that the security is suitable for at least *some* investors. This reasonable-basis suitability determination is a threshold requirement that must be satisfied before any customer-specific recommendation is made.

FINRA has reinforced this obligation repeatedly in the context of new, complex, or non-traditional securities, including registered funds. For example:

- NASD Notice to Members 03-71 reminds member firms offering "non-conventional investments" that they must "(1) conduct adequate due diligence to understand the features of the product; (2) perform a reasonable-basis suitability analysis; (3) perform customer-specific suitability analysis in connection with any recommended transactions; (4) provide a balanced disclosure of both the risks and rewards associated with the particular product, especially when selling to retail investors; (5) implement appropriate internal controls; and (6) train registered persons regarding the features, risks, and suitability of these products."[5]

- FINRA Regulatory Notice 12-03 identifies leveraged and inverse ETFs, along with other novel or complex securities, as investments warranting heightened supervisory and compliance procedures. The FINRA guidance also directs member firms to implement written procedures ensuring that no complex product is recommended to a retail investor before it has been "thoroughly vetted."[6]

- FINRA Regulatory Notice 22-11 addresses alternative mutual funds—which are registered investments—and suggests that member firms should require a

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[3] FINRA Rule 2111.05(a) ("The reasonable-basis obligation requires a member or associated person to have a reasonable basis to believe, based on reasonable diligence, that the recommendation is suitable for at least *some* investors.").

[4] 17 C.F.R. § 240.15*l*-1(a)(2)(ii)(A) ("Understand the potential risks, rewards, and costs associated with the recommendation, and have a reasonable basis to believe that the recommendation could be in the best interest of at least some retail customers").

[5] NASD Notice to Members 03-71, p. 765 (Nov. 2003).

[6] FINRA Regulatory Notice 12-03, p. 6 (Jan. 2012) ("Firms should have formal written procedures to ensure that their registered representatives do not recommend a complex product to a retail investor before it has been thoroughly vetted. Those procedures should ensure that the right questions are answered before a complex product is recommended to retail investors.").

"heightened level of diligence and supervisory review" before an alternative fund is added to the firm's platform.[7]

In short, FINRA has made clear that a broker-dealer's obligation to evaluate a complex new product—such as a novel ETF—arises *before* that product is recommended or offered to retail investors, not after.

THE CLEARING RELATIONSHIP CREATES A COSTLY STRUCTURAL GAP THAT UNDERMINES THIS OBLIGATION

For introducing firms like Sigma, this obligation collides with an operational reality of the clearing relationship. Ordinarily, whenever the Commission's staff declares a security's registration statement effective and the security is listed for trading, the security simply becomes available on the clearing firm's trading platform. In other words, introducing firms receive no prior notice from the clearing firm, the exchange on which the security is listed, or the Commission that the security is now available for trading.

Moreover, the security just "shows up" on the platform with an ordinary-looking ticker symbol that in no way indicates whether it is a "complex" or "novel" product. The new security is simply there, available for purchase by any representative or customer from the moment trading begins, with no fanfare or prior warning of the new security's existence.

As explained above, this presents supervisory challenges, as member firms are expected to evaluate complex new products *before* any customer purchases them. Consequently, this quiet rollout of investment products, some of which may be novel or complex, leaves introducing firms in a cat-and-mouse situation of perpetually (and hurriedly) trying to identify and evaluate new products *after* they have already become available for trading.

In the case of novel or complex securities, member firms (like Sigma) attempt to solve this problem by detecting such securities using third-party vendors, websites,[8] and other resources. Although necessary, such a solution that cobbles together data from different public sources of various quality is haphazard, manual, time-consuming, and prone to human error.

Additionally, this inefficient process—to which no real alternative exists—must be relied upon to detect novel or complex securities as quickly as possible so that trading can be restricted or monitored while due diligence is conducted and *before* the security is

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[7] FINRA, Regulatory Notice 22-11, p. 5 (Apr. 19, 2022).

[8] For example, there are free websites that purport to list "all Equity ETFs traded in the USA which are currently tagged by ETF Database" (*see* https://etfdb.com/etfs/leveraged/equity/). However, there is no guarantee that such lists are accurate, comprehensive, timely updated, or will be available indefinitely.

noticed on the trading platform and purchased by retail investors.[9] However, such an approach is neither ideal nor perfect, as a delay in detection could result in customers purchasing the security before due diligence is complete.

Sigma's introducing broker-dealer model is not unique or unusual in this regard. In fact, a substantial share of the retail brokerage industry operates based on this same clearing arrangement in which introducing firms rely on clearing firms to execute, clear, and settle customer transactions. Consequently, this is a structural gap shared across a significant portion of the retail broker-dealer environment, resulting in complex securities becoming quietly available at precisely the moment when FINRA guidance requires enhanced due diligence to already be underway.

With regard to novel ETFs, the current framework would force introducing firms to choose between two unfavorable approaches, namely that of restricting trading in all newly listed ETFs by default until the member firm can identify and evaluate them—which is necessarily a manual, reactive, and imprecise process—or risk that a novel ETF trades in customer accounts before the firm has performed the reasonable-basis suitability analysis that FINRA Rule 2111 and Regulation Best Interest require. Neither outcome would serve retail investors, enhance the capital markets, or facilitate capital formation.

In evaluating this comment letter, Sigma encourages the Commission staff to take this structural gap into account and include in its economic analysis the *additional* labor and financial resources that member firms would need to devote to identifying and evaluating novel ETFs, which qualify as complex products given their "exposure to innovative asset classes [and] novel investment strategies."[10] These costs would be necessitated by the complete absence of a timely, authoritative, and centralized signal that a novel ETF now exists for trading.

A List of Novel ETFs Maintained by the Commission Is the Appropriate and Practical Solution

As noted above, member firms (including Sigma) currently utilize third-party data providers (e.g., Morningstar) and websites to classify and flag complex ETFs and mutual funds. Reliance on a third-party vendor, however, is an imperfect substitute for a Commission-maintained list.

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[9] For example, a security's ticker symbol will not identify it as a complex product requiring enhanced due diligence—it will look indistinguishable from more basic, non-complex, or "vanilla" securities. As a result, registered representatives who see a security available for trading on the platform are likely to assume that it may be recommended to customers, as their broker-dealer—which has not yet discovered the security—has not informed them otherwise of the security's complex nature or restricted trading.

[10] Exchange Act Release No. 105808, 91 Fed. Reg. at 40648.

Third-party classifications are proprietary in nature, and therefore they may be available only with a paid subscription.[11] Additionally, such classifications are not necessarily comprehensive, nor are they guaranteed to be timely, as they reflect each vendor's own classification methodology rather than the Commission's determination that a fund's registration statement has become effective.

In short, because it is the Commission's own staff that reviews novel ETF filings and determines when a registration statement becomes effective, the Commission's staff are uniquely positioned to know exactly which ETFs are "novel" as well as the date on which a novel ETF is approved for listing and trading. No third party can provide such information with the same authority or timeliness as the Commission's staff.

Maintaining and publishing a list of novel ETFs also would not be a unique undertaking for the Commission. The Commission already compiles, publishes, and maintains several free, publicly accessible lists that serve comparable market transparency and investor protection functions, including the official list of Section 13(f) securities,[12] the list of entities and individuals maintained under the PAUSE Program,[13] and the list of administrative proceedings maintained by the Division of Enforcement.[14] A list of novel ETFs, updated as the Commission's staff declares each novel ETF effective for listing and trading, would extend this same well-established practice to an area where timely notice has a direct and immediate bearing on retail investor protection and member firm compliance with the federal securities laws.

CONCLUSION

Introducing firms take seriously their obligation to perform due diligence under Regulation Best Interest and FINRA rules and guidance. While they want to do the right thing, such firms already face the burden of identifying and keeping track of a bewildering array of new securities, from leveraged and inverse ETFs to alternative mutual funds to even more

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[11] In past sweep exams, the Commission's examination staff have utilized Morningstar categories to identify so-called alternative mutual funds. However, Morningstar is not free and charges for a subscription. Additionally, Morningstar classifications can undergo revision, making them more difficult to track over longer periods of time. *See, e.g.*, Morningstar, *Introducing the New Alternative Morningstar Categories: We've Split, Retired, and Merged the Old Alternative Categories into New and Existing Categories* (Apr. 29, 2021), available at https://www.morningstar.com/funds/introducing-new-alternative-morningstar-categories.

[12] U.S. Securities and Exchange Commission, *Official List of Section 13(f) Securities*, available at https://www.sec.gov/rules-regulations/staff-guidance/official-list-section-13f-securities.

[13] U.S. Securities and Exchange Commission, *Public Alert: Unregistered Soliciting Entities ("PAUSE")*, available at https://www.sec.gov/enforcement-litigation/public-alerts-unregistered-soliciting-entities.

[14] U.S. Securities and Exchange Commission, *Administrative Proceedings*, available at https://www.sec.gov/enforcement-litigation/administrative-proceedings.

exotic investments. Adding novel ETFs to the mix threatens to significantly complicate an already challenging situation that consumes vital due diligence resources.

However, the Commission is well-positioned to help. A free, authoritative, and routinely updated Commission list of novel ETFs would greatly assist introducing broker-dealers with accurately and quickly identifying newly available ETFs as soon as they are approved, triggering the reasonable-basis suitability review that FINRA rules and Regulation Best Interest already require before any recommendation is made. This would directly further the Release's stated goals of facilitating innovation in the ETF space while protecting investors and maintaining fair, orderly, and efficient markets. Furthermore, such a list can presumably be maintained and timely updated at minimal incremental cost to the Commission—and at far less cost than introducing firms would incur on their own—given the infrastructure the Commission has already built for comparable lists.

Sigma appreciates the opportunity to comment on the Release and respectfully urges the Commission to adopt a free, publicly available, and continuously updated online list of novel ETFs as part of any action it takes in response to this Request for Comment. Sigma would be pleased to provide any additional information that would assist the Commission's consideration of this issue.

Respectfully submitted,

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