August 31, 2026

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

RE: Request for Comment on Novel ETFs (File Number S7-2026-24)

Dear Commissioners:

We appreciate the opportunity to respond to the Commission's Request for Comment on Novel ETFs. We are two academic researchers studying single-stock leveraged and inverse ETFs. Our comments focus primarily on Question 5, concerning the implications of this novel asset class for fair, orderly, and efficient markets, market surveillance, and structural and operational issues.

We demonstrate how single-stock leveraged and inverse ETFs, through their mechanical daily resets, create predictable buying or selling pressure in the underlying stock near the close, and we test this mechanism empirically. We find that this predictable reset demand pushes the official closing price further in its expected direction, that earlier trading by other market participants partly offsets the effect, and that the remaining impact is temporary and disappears by the following trading day.

Based on this analysis, we propose three regulatory implications for the Commission. First, the Commission should assess the combined reset pressure on each underlying stock rather than evaluate products only one at a time. Second, it should have sufficient daily information to monitor this pressure and incorporate it into market surveillance near the close. Third, any additional regulatory response should be targeted to cases where the expected effect is large, rather than applied uniformly across all single-stock leveraged and inverse ETFs.

1. Mechanism

Consider a 2× single-stock ETF with $100 million in net assets and, correspondingly, $200 million of exposure to the underlying stock at the start of the trading day. If the stock rises by 5% near the market close, the fund's assets increase to $110 million (up by $2\times5\% = 10\%$) and

its existing exposure to $210 million (up by 5%). To restore its 2× target for the next trading day, the fund must raise its exposure to $220 million, requiring a $10 million adjustment. This adjustment is predictable from publicly available information and increases with the ETF's stated leverage multiple. The same logic applies to inverse ETFs. If the stock falls instead, the required adjustment is in the opposite direction.

Such predictable adjustments can directly affect the underlying stock's closing price. To maintain their leverage targets, these ETFs trade derivatives with dealers or on regulated exchanges. In our example, a dealer expects to supply an additional $10 million of exposure. The dealer may offset part of this position elsewhere, but as long as it hedges partly by buying shares near the close, that demand may push the stock's closing return from 5% to, say, 5.5%. The higher price then raises the required adjustment from $10 to $11 million, prompting more hedging and additional upward pressure on the closing price. The dealer's expected trade and the stock's closing price are therefore jointly determined. Consequently, these predictable rebalancing needs can create extra buying near the close for a stock that is already rising and extra selling for one that is already falling.

This effect on the underlying stock can be either reduced or amplified by other traders. Indeed, because the adjustment is predictable from public information, traders may take early positions to profit from expected price moves. If the stock appears likely to close higher and the dealer is expected to buy near the close, traders may buy earlier and sell at the close, seeking to profit from the price increase. The reverse applies when the stock is declining. These early positions have two opposing effects. On the one hand, when traders liquidate their positions at the close, they supply shares just when the dealer needs to buy, thereby reducing the net buying pressure at the close. On the other hand, their earlier buying may have already lifted the price, and part of that increase may persist into the official close. The net effect depends on which force dominates. When sales at the close offset more of the dealer's demand, early trading reduces the price pressure; when earlier purchases leave a stronger lasting effect on the price, it amplifies the initial price move.

Finally, if rebalancing temporarily distorts today's closing price, some of that distortion should disappear after the close, affecting the stock's subsequent price path. In our example, rebalancing pushes today's close above the level implied by fundamentals alone. As this effect fades, the price should move back to its earlier path.

For the Commission, the mechanism therefore raises three practical questions: (i) Do the predictable daily adjustments of leveraged and inverse single-stock ETFs affect the closing

prices of the stocks they track? (ii) Do earlier trades by other market participants strengthen or reduce this effect? (iii) Does the effect fade after the close? The next section presents our empirical evidence on each question.

2. Evidence

Our evidence shows that: (i) Predictable daily adjustments of leveraged and inverse single–stock ETFs push the tracked stock's closing price further in the same direction. (ii) Earlier trades by other market participants tend to reduce this effect. (iii) The effect disappears by the following trading day, indicating it is temporary.

Our sample runs from July 2022 to December 2025, containing 21,302 stock-day observations across 132 stocks. For each stock, we estimate the mechanical exposure adjustments that single-stock leveraged and inverse ETFs would require near the close to maintain their stated daily leverage. These adjustments are measured based on each fund's size and leverage at the previous close, scaled by the normal trading volume of the underlying stock, and combined with the stock's intraday price movement. Positive adjustments therefore imply expected ETF-driven buying pressure; negative adjustments imply selling pressure. Our main empirical exercise examines whether and how this predicted pressure is associated with the stock's return during the final ten minutes of trading (3:50 p.m. to the official close), controlling for other factors that could normally affect late-day returns, including the stock's earlier price moves, volatility, bid-ask spread, liquidity, and market-wide conditions.

Our first and main finding is that predictable ETF reset demand moves the official closing price. The estimated coefficient is 0.0285 and is statistically significant; in economics terms, a one-standard-deviation increase in predicted reset demand corresponds to a 2.99 basis-point price movement in the same direction during the final ten minutes of trading. In other words, stocks with stronger predicted ETF-driven buying pressure tend to rise more between 3:50 p.m. and the close, while those with greater predicted selling pressure fall more. This pattern persists even after accounting for each stock's earlier returns and its normal tendency to drift in the same direction, which helps separate the effect from momentum effects in stock returns. Three basis points may appear small relative to a full day's return, but the movement occurs entirely within a ten-minute window and feeds directly into the official closing price. The evidence therefore shows that predictable trading from the daily reset of leveraged and inverse ETFs can measurably affect the closing price of the underlying stock.

Our second finding is that earlier trading by other market participants tend to reduce the

closing-price effect as documented above. Minute-by-minute estimates from 3:50 p.m. to the close show an uneven price response to predicted ETF reset demand: the effect is positive and statistically significant in the first several minutes, then weak or absent, and briefly reverses around 3:55 p.m. This pattern is consistent with other traders anticipating the predictable ETF demand and trading in ways that partially absorb or offset its price impact before the market closes. The offset is incomplete, however. The effect becomes statistically significant again in the final minute of trading, with an estimated coefficient of 0.0086 from 3:59 p.m. to 4:00 p.m., when the official closing price is determined. Overall, the evidence suggests that other traders mitigate some of the price pressure generated by mechanical ETF resets, but do not eliminate it completely before the close.

Our third finding is that the price effect is temporary and ultimately disappears. The impact remains visible shortly after the close, but by the next afternoon, the estimated price response is -0.0107 and statistically insignificant, and it stays economically small and statistically insignificant over the following five trading days. The closing-price move therefore does not persist as a lasting change in the stock's fundamental value. Instead, it is concentrated around the close and then disappears, consistent with temporary price pressure from the ETFs' predictable reset trading.

Taken together, the three findings show a consistent pattern: predictable ETF reset demand moves prices near the close, other market participants partially offset that pressure, and the remaining effect disappears by the following trading day.

3. Regulatory Implications

Based on our analysis, we identify three regulatory implications that we believe are most important for the Commission to consider when evaluating single-stock leveraged and inverse ETFs. The central principle is that regulatory attention should extend beyond the ETF itself to the predictable trading pressure that its daily reset can impose on the underlying stock near the close. Accordingly, we recommend that the Commission assess the combined reset pressure on each underlying stock, incorporate that pressure into its daily monitoring and market surveillance, and apply additional scrutiny where the potential effect on the underlying market is large.

Our first regulatory implication is that the Commission should **assess the combined reset pressure on each underlying stock**, rather than evaluating leveraged and inverse ETFs one product at a time. Multiple ETFs can track the same stock, and their daily reset needs may reinforce one another even when some are leveraged-long and others are inverse. The

key question is how much collective buying or selling these products may require near the close relative to the stock's normal trading activity. When reviewing a new product, the Commission should also consider the reset pressure already created by existing products tracking the same stock. This approach focuses regulatory attention on stocks where ETF-related reset trading is most likely to meaningfully affect the official close.

Our second regulatory implication is that the Commission should have **sufficient daily information to monitor this predictable reset pressure and incorporate it into market surveillance** near the close. As the trading day progresses, the direction and approximate size of the reset become increasingly predictable, allowing the Commission to compare expected ETF-driven buying or selling with actual trading in the ETF, the underlying stock, and related derivatives. This comparison is especially useful because our evidence suggests that other traders act ahead of the expected reset, and such trading may simply reflect responses to public information rather than manipulation. Accordingly, the expected reset can serve as a benchmark for distinguishing normal anticipatory trading from unusual orders, cancellations, or other activity that may warrant further review.

Our third regulatory implication is that any **regulatory response should be targeted and proportionate to the size of the expected effect, not imposed uniformly** across all single-stock leveraged and inverse ETFs. Our findings show that reset trading can move the official closing price, but they also show that other traders mitigate part of the pressure and that the remaining price effect later disappears. The evidence therefore supports closer monitoring and, when combined reset pressure is unusually large relative to normal closing activity, additional regulatory scrutiny. It does not, by itself, justify a hard leverage cap, a broad restriction on these products, or a redesign of closing-market procedures. A targeted approach would let the Commission focus on cases where predictable reset trading poses the greatest concern while avoiding restrictions unsupported by the observed market effect.

Sincerely,





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