August 31, 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)

Dear Ms. Countryman:

Charles Schwab & Co., Inc. (CS&Co), along with its affiliate Charles Schwab Investment Management, Inc. (CSIM) (together with CS&Co, Schwab[1]) appreciates the opportunity to respond to the Securities and Exchange Commission's (the "Commission") Request for Comment (the "Request for Comment")[2] on exchange-traded funds ("ETFs") that "invest in innovative asset classes or engage in novel investment strategies" ("Novel ETFs"). Schwab is a leading provider of financial services to individual investors and to the independent investment advisors who serve them. We participate in the exchange-traded product ecosystem as a broker-dealer that makes ETFs and other exchange-traded products ("ETPs") available to our clients, and, through our asset-management affiliate, as an ETF sponsor. We therefore offer our perspective from both vantage points.

Schwab strongly supports responsible innovation in the ETF market and shares the Commission's goal of facilitating innovation while protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation. Our comments are intended to help the Commission distinguish among novel products based on their objective risks, so that any action is targeted, workable, and does not inadvertently burden traditional ETFs or new to market strategies that do not introduce unique risks.

1. Charles Schwab & Co., Inc (CS&Co) and Charles Schwab Investment Management, Inc. (CSIM) are affiliates and are each wholly-owned subsidiaries of The Charles Schwab Corporation (Schwab Corporation). The Charles Schwab Corporation provides a full range of brokerage, banking and financial advisory services through its operating subsidiaries. Its broker-dealer subsidiary, Charles Schwab & Co., Inc. (Member SIPC), offers investment services and products, including Schwab brokerage accounts. Its banking subsidiary, Charles Schwab Bank, SSB (member FDIC and an Equal Housing Lender), provides deposit and lending services and products. Its asset management subsidiary, Charles Schwab Investment Management, Inc. is the investment adviser for Schwab Funds, Schwab ETFs, and separately managed account strategies. Schwab Corporation has $13.04 trillion in total client assets, 39.9 million brokerage accounts, 2.4 million banking accounts (July 31, 2026) and $1.6 trillion in proprietary mutual funds and ETFs (June 30, 2026).
2. Request for Comment on Novel ETFs, Securities and Exchange Commission Release No. 33-11426; 34-105808; IC-36228; File No. S7-2026-24; RIN 3235-AN81

I. The reforms embodied in rule 6c-11 and related measures have produced substantial benefits for investors.

The adoption of rule 6c-11 under the Investment Company Act of 1940 (the "Investment Company Act"), and other rule changes including generic listing standards and the Investment Company Act derivatives rule, materially reduced the expense, delay, and inconsistency that characterized the prior regime of individualized exemptive orders.[3] As the Commission notes in the Request for Comment, the ETF market has grown substantially over recent years.[4] Schwab's clients have been direct beneficiaries of this innovation, which has made low-cost, tax-efficient, and transparent investment products available across a wide range of asset classes. We commend the Commission for seeking to preserve and build upon this framework.

II. Lower launch barriers and rapid product proliferation can create investor protection and operational challenges, particularly for self-directed retail investors.

The same features that have democratized ETF innovation also create new challenges. Because the barriers to launching an ETF are now substantially lower, sponsors are able to bring large numbers of products to market in rapid succession—many of which will never achieve meaningful scale, and some of which employ complexities that the average investor may find difficult to understand.[5] When ETFs first launched, most market participants assumed that their purpose was to provide investors access to diversified portfolios of traditional investments like public equities and bonds. As some issuers continue to test the boundaries of the regulatory structure and of investor appetite for the newest niche product, more traditional ETF launches are "getting harder to find and risk being overshadowed by shiny new trends."[6]

3. Rule 6c-11 under the Investment Company Act of 1940, 17 C.F.R. § 270.6c-11 (adopted 2019); Rule 18f-4 under the Investment Company Act of 1940, 17 C.F.R. § 270.18f-4 (adopted 2020); Generic listing standards - CBOE Rule 14.11(l), Nasdaq Rule 5704 and NYSE Rule 5.2-E(j)(8) (adopted 2020) and Commodity-Based Trust Shares Approval Order, Exchange Act Rel. No. 34-103995 (adopted 2025)
4. Request for Comment, "Between the end of 2019 and end of 2025, total net assets under management have grown from over $4 trillion to over $12 trillion and the number of ETFs from almost 1,900 to over 4,600."
5. Ignites - Leveraged ETF Liquidations Surge Amid Tech Volatility. "Liquidations of leveraged and inverse ETFs have surged this year, driven by high derivative costs, volatility across technology sectors, and a deliberate "launch-and-prune" strategy among some issuers. There have been 75 leveraged and inverse ETF liquidations year to date through July 20, 2026, up from 13 closures during the same period in 2025, according to Morningstar Direct data."
6. The ETF Spaghetti Cannon Reloads, Morningstar, June 11, 2026. https://www.morningstar.com/business/insights/blog/etf-spaghetti-cannon

Most retail investors access ETPs through their brokerage accounts. As a result, broker-dealers bear substantial responsibility for monitoring the products coming to market, determining whether a given product is appropriate to make available to at least some clients consistent with applicable FINRA rules, and, where a product is offered, providing relevant education and risk disclosure.[7] The surge in Novel ETFs and other ETPs has made this function increasingly demanding. Investors can now obtain, through an ETP wrapper, exposure to complex strategies they might not otherwise be able to access directly; for example, a self-directed client who is not approved for options trading may nonetheless purchase an ETF that provides economically similar managed exposure.

Event-based strategies illustrate these concerns and, as the Commission's own leadership has observed, raise novel questions.[8] Such strategies raise important questions about alignment with the Commission's mission to protect investors, maintain fair, orderly and efficient markets, and facilitate capital formation. The Commission may reasonably consider whether a strategy characterized by an unclear capital-formation purpose, the risk of losing all or substantially all of its value upon a set date, heightened susceptibility to market manipulation and attendant surveillance challenges, and the potential for contested settlement is appropriate for a Commission-regulated product broadly available to retail investors. In addition, incorporating an event-based exposure into a continuously offered, redeemable vehicle (e.g., ETP) presents operational challenges, including managing premium and discount behavior in the days surrounding an event and managing residual assets after the event has resolved.

III. The Commission should consider distinguishing Novel ETFs based on objective risk characteristics and tailoring any action narrowly

A central theme of our commentary in this letter is that "novelty" is not, by itself, a reliable proxy for risk. The category of "Novel ETF" as described in the Request for Comment could encompass products with widely varying risk profiles. Bond-ladder ETFs and money-market ETFs, for instance, were once novel strategies but introduced minimal incremental risk to investors, whereas certain event-contract strategies may introduce materially different challenges that warrant additional scrutiny. What counts as "novel" also evolves over time, as strategies once considered exotic become mainstream. Accordingly, we encourage the Commission to anchor any definition of "Novel ETF" in the objective fundamentals of the investment strategy and its associated risks, rather than in the new to market status of its strategy. A clear, objective definition would ensure that any differentiated regulatory treatment is justified by the risks presented and would allow affected products to be identified and treated consistently across issuers and intermediaries.

7. FINRA Rule 2111 (Suitability); FINRA Rule 3110 (Supervision); FINRA Regulatory Notice 12-03 (Heightened Supervision of Complex Products).
8. Statement of Chairman Paul S. Atkins on Novel Exchange-Traded Funds (ETFs) (May 20, 2026)

We have concerns that certain questions in the Request for Comments, if followed through on through rulemaking, could limit existing processes even for more traditional, non-novel ETFs, and for novel strategies that do not introduce unique risks. For that reason, any rulemaking or guidance addressing Novel ETFs should be narrowly tailored so as not to disrupt product launches that do not raise the concerns motivating this inquiry. Should the Commission determine that enhanced disclosure of particular risks, whether in prospectuses or on sponsor websites, would strengthen investor understanding, a clear definition of "Novel ETF" would again be essential to consistent application. We note, however, that because most investors transact through brokerage accounts, disclosure delivered solely at the issuer level may reach only a portion of the investing public, which reinforces the importance of the intermediary-level education and disclosure discussed below.

IV. Existing broker-dealer obligations are well suited to Novel ETFs; new mandatory requirements are unwarranted

Although the Request for Comment does not focus on broker-dealer sales practices, the Commission should consider the effects of any rulemaking or other action taken in response to this Request for Comment on broker-dealers, given their central role in facilitating ETP transactions for their clients. For recommended transactions, the existing framework—Regulation Best Interest and the applicable FINRA rules—is both rigorous and flexible enough to accommodate recommendations to buy, sell, or hold ETPs, even as the market evolves to include products with complex or unfamiliar characteristics.[9] These obligations already require firms and their associated persons to understand the risks, rewards, and costs of a product in light of the investor's investment profile, and to have a reasonable basis to believe that a recommendation is in the investor's best interest. We do not believe additional recommendation-specific requirements are necessary for Novel ETFs.

For self-directed investors, and consistent with the positions we have expressed in prior comment letters, we would not support new mandatory point-of-sale disclosures, account-approval or pre-approval requirements, mandatory investor testing, or one-size-fits-all broker-dealer education mandates for self-directed purchases of Novel ETFs.[10] In our experience, such requirements can prove impractical and burdensome, and may lead firms to withdraw access to products altogether—an outcome that would disadvantage self-directed investors without a commensurate protection benefit. We believe that Schwab's current approach of effective education, research, clear risk disclosure, and other controls tailored to the relevant product risks are well suited to the self-directed segment.

9. Regulation Best Interest, 17 C.F.R. § 240.15l-1; FINRA Rule 2111 (Suitability); FINRA Rule 3110 (Supervision); FINRA Regulatory Notice 12-03 (Heightened Supervision of Complex Products); SEC Staff Bulletin: Standards of Conduct for Broker-Dealers and Investment Advisers Care Obligations

10. See Charles Schwab & Co., Inc. (with CSIM), Comment Letter on Request for Comment on Exchange-Traded Products (File No. S7-11-15) (Aug. 17, 2015); Charles Schwab & Co., Inc. and TD Ameritrade, Inc., Comment Letter on FINRA Regulatory Notice 22-08 (Complex Products and Options) (May 9, 2022).

V. Schwab does not support a fully confidential filing process.

We recognize the appeal, from an issuer's perspective, of confidential treatment that preserves "first-mover" advantages, and we appreciate the Commission's interest in mechanisms for early engagement that would allow staff and sponsors to work through issues before a public filing. To the extent such early-engagement mechanisms are adopted, we support the Commission's suggestion that it publicly report on the process—such as the number of consultations, their duration, and how many result in public filings—to provide accountability. Nonetheless, Schwab does not support a fully confidential filing process. Public filings provide essential transparency into product launch timelines and enable broker-dealers and other market participants to review new products in advance and to prepare tailored education, operational controls, risk disclosures, and surveillance or mitigation measures. Reducing that transparency would impair the ability of intermediaries to continue to play their role in protecting investors.

As a policy recommendation, and not as a description of existing law, Schwab recommends that if the Commission staff engages with a sponsor on a confidential basis with respect to a new, innovative product, the associated filing should become public for at least 75 days before the product becomes effective, so that broker-dealers and other market participants have adequate time to review the product and to develop appropriate educational and risk materials.

VI. Schwab supports requiring issuers to make clearer distinctions between ETFs and other ETPs.

Schwab supports requiring clearer distinctions between ETFs registered as open-end investment companies or unit investment trusts under the Investment Company Act and other exchange-traded products. As the Commission's Investor Advisory Committee has observed, "[t]he lack of a clearer naming convention around Exchange Traded Products, which include Single Stock ETFs, Leveraged ETFs, and other ETNs, has led to investor confusion and unnecessary loss of capital from self-directed investors failing to understand the payouts and risks, due in part to their close association with more standard, diversified products.[11] While we think it's unlikely that most investors carefully differentiate among ETP structures, we think it's likely that many assume all such products carry the investor protections inherent in a registered fund.

We therefore encourage the Commission to support a more robust, objective ETP classification framework that differentiates traditional ETFs registered under the Investment Company Act from other potentially higher complexity and higher risk exchange-traded products that are not subject to that framework. Novel products could be categorized and communicated to investors more effectively within a risk and complexity-based taxonomy. Importantly, because rule 6c-11 is available only to open-end funds, a clearer classification framework would also help establish which products are, and are not, eligible to rely on the rule.

11. See Investor Advisory Committee, Securities and Exchange Commission, "Recommendation of the Advisory Committee on Single Stock ETFs and Leveraged ETFs," (June 22, 2023), *available at* https://www.sec.gov/files/spotlight/iac/20230622-recommendation-single-stock-etfs-and-leveraged-etfs.pdf

Conclusion

Schwab appreciates the Commission's commitment to facilitating innovation while protecting investors and preserving fair, orderly, and efficient markets. We support responsible innovation in the ETF market and appreciate the opportunity to comment on the Request. We would welcome the opportunity to discuss our comments with the Commission and its staff. If you have any questions regarding this letter, please contact the undersigned.

Respectfully submitted,

/s/ Andrew D'Anna
Managing Director
Investment Platforms, Solutions & Strategy
Charles Schwab & Co., Inc.

/s/ Omar Aguilar
Managing Director
CEO & CIO of Schwab Asset Management
Charles Schwab Investment Management, Inc.

Cc: Paul S. Atkins, Chairman, Securities and Exchange Commission
Hester M. Peirce, Commissioner, Securities and Exchange Commission
Mark T. Uyeda, Commissioner, Securities and Exchange Commission
Brian Daly, Director, Division of Investment Management