FINANCIAL SERVICES INSTITUTE

VOICE OF INDEPENDENT FINANCIAL SERVICES FIRMS AND INDEPENDENT FINANCIAL ADVISORS

VIA ELECTRONIC MAIL

August 31, 2026

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

Request for Comment on Novel ETFs; Release Nos. 33-11426, 34-105808, and IC-36228; File No. S7-2026-24

Dear Ms. Countryman:

On July 2, 2026, the Securities and Exchange Commission (SEC) published its Request for Comment on Novel ETFs in the Federal Register.[1] The Financial Services Institute (FSI) appreciates the opportunity to respond to the Securities and Exchange Commission's request for comment concerning exchange-traded funds that invest in innovative asset classes or pursue novel investment strategies (Novel ETFs).

FSI supports responsible product innovation because it creates a vibrant marketplace of products that financial advisors can use to help their main street clients reach their financial goals. As the SEC looks to facilitate innovation with novel ETFs, supervising the recommendation of these products by financial advisors and firms grows in importance.

Background on FSI Members

FSI was founded in 2004 and is the only organization advocating on behalf of independent financial services firms and their affiliated independent financial advisors. FSI represents 130,000 advisors, through its member firms, across all 50 states, serving Main Street Americans with affordable, competent, and unbiased financial advice. The independent financial services community has been an important and active part of the lives of American investors for more than 50 years. In the US, there are more than 175,000 independent financial advisors, which account for approximately 60 percent of all producing registered representatives.[2] These financial advisors are self-employed independent contractors, rather than employees of the Independent Broker-Dealers (IBD).[3]

FSI's IBD member firms provide business support to independent financial advisors in addition to supervising their business practices and arranging for the execution and clearing of customer transactions. Independent financial advisors are small-business owners and job creators

[1] Securities and Exchange Commission, Request for Comment on Novel ETFs, Federal Register, Vol 91, No. 126.
[2] Tiburon Strategic Advisors, Research on Independent Advisors (Dec. 18, 2024) (citing 152,200 in 2023).
[3] The use of the term "financial advisor" or "advisor" in this letter is a reference to an individual who is a registered representative of a broker-dealer, an investment adviser representative of a registered investment adviser, or a dual registrant.

with strong ties to their communities. These financial advisors provide comprehensive and affordable financial services that help millions of individuals, families, small businesses, associations, organizations, and retirement plans. Their services include financial education, planning, implementation, and investment monitoring. Due to their unique business model, FSI member firms and their affiliated financial advisors are especially well positioned to provide Main Street Americans with the affordable financial advice, products, and services necessary to achieve their investment goals.

FSI members make substantial contributions to our nation's economy. According to Oxford Economics, FSI members nationwide generate $35.7 billion in economic activity. This activity, in turn, supports 408,743 jobs including direct employees, those employed in the FSI supply chain, and those supported in the broader economy. In addition, FSI members contribute nearly $7.2 billion annually to federal, state, and local government taxes.[4]

Discussion

The regulatory system must protect investors, whether they are investing in traditional investments, digital assets, or tokenized securities on the blockchain. Part of protecting investors is fostering responsible product innovation to ensure that investors and financial advisors have the products they need to allow main street Americans to reach their financial goals. Equally important is ensuring that all products that reach retail investors are subject to the same disclosure rules so that investors and financial advisors clearly understand the risks, benefits, and suitability of a potential investment.

I. ETFs Are a Crucial Tool in Delivering High Quality, Cost-Effective Advice to Main Street, but Their Growing Number and Complexity Pose a Supervision Challenge

ETFs provide significant benefits. They can offer diversified exposure at relatively low cost, improve access to asset classes that otherwise may be difficult or costly for investors and financial advisors to reach, and contribute to efficient markets. The success of the ETF as an investment structure has also produced extraordinary breadth: the term 'ETF' now encompasses products with materially different investment objectives, mechanics, risks, and intended uses.

For operational and supervisory purposes, FSI members generally encounter three practical categories:

- Core ETFs – This category includes many broad-market index funds and is generally appropriate for a wide range of investors as part of a diversified portfolio
- Complex ETFs – Complex or alternative ETFs may be appropriate for some investors but require additional due diligence, advisor guidance, training, and supervisory controls.
- Trading ETFs – This category includes leveraged or inverse products as well as products with binary, path-dependent, event-driven, or similarly short-term characteristics and is generally inappropriate for many retail investors, particularly over holding periods inconsistent with their design.

[4] Oxford Economics for the Financial Services Institute, The Economic Impact of FSI's Members (2020).

The relevant distinctions do not arise from the ETF label itself. Firms must understand the product's objective, underlying exposure, use of derivatives or leverage, reset period, path dependency, liquidity, valuation, settlement, counterparties, expected holding period, and performance across normal and stressed conditions. FINRA has long emphasized firms' obligations to vet complex products, understand leveraged and inverse ETFs, train associated persons, and establish appropriate supervisory procedures.[5]

This supervisory work is a necessary counterpart to the benefits of product innovation. When firms and financial advisors can identify a product's material characteristics efficiently, they are better positioned to understand the product, explain it accurately, determine the supervision it requires, and make appropriate recommendations. The wide range of products using the ETF wrapper therefore makes clear and accessible product information increasingly important.

II. The Proliferation of Novel ETFs Will Heighten the Supervision Challenge

The Request for Comment reflects the continuing expansion of ETFs into innovative asset classes and strategies. As the number and variety of these products grow, independent firms must review more products whose risks may not be apparent from the ETF label or product name alone. The challenge is likely to become more pronounced if prediction-market and event-contract ETFs proliferate.

An ETF whose return depends materially on the occurrence or non-occurrence of a discrete event may present risks unfamiliar to investors who associate the ETF label with diversified, long-term investment exposure. Depending on the structure, those risks may include binary or discontinuous outcomes, valuation challenges, limited liquidity, reliance on a designated outcome source, settlement disputes, market interruptions, legal uncertainty, and heightened sensitivity to timing.

For operational-review purposes, a product substantially dependent on event-based outcomes may appropriately be treated as trading-oriented unless its structure contains features that materially reduce those risks. Its name and concise risk disclosure should plainly describe the event-based exposure and intended holding period. The disclosure should identify the outcome source, settlement mechanics, and consequences of cancellation, postponement, ambiguity, or dispute. The SEC Investor Advisory Committee has similarly recommended clearer naming and risk communication for exchange-traded products whose features materially differ from traditional diversified ETFs.[6]

The supervision challenge is heightened for independent financial services firms, many of whom are introducing broker-dealers, since the availability of the product is generally controlled by the clearing firm. A firm reviewing a Novel ETF may need to analyze offering documents and sponsor materials, understand the product's mechanics and risks, place it in an internal supervisory category, develop advisor guidance, provide training, and implement appropriate controls. The

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[5] See FINRA Regulatory Notice 12-03, Heightened Supervision of Complex Products (Jan. 17, 2012), https://www.finra.org/rules-guidance/notices/12-03; FINRA Regulatory Notice 09-31, Sales Practice Obligations Relating to Leveraged and Inverse Exchange-Traded Funds (June 11, 2009), https://www.finra.org/rules-guidance/notices/09-31.

[6] SEC Investor Advisory Committee, Recommendation on Single-Stock ETFs and Leveraged ETFs (June 22, 2023), https://www.sec.gov/files/spotlight/iac/20230622-recommendation-single-stock-etfs-and-leveraged-etfs.pdf.

availability of the product on the introducing firm's platform means that these processes are occurring while the ETF is available for financial advisors to recommend.

A single, readily usable source highlighting the characteristics most relevant to risk-based supervision would make that process more efficient.

III. The Commission Should Publish a Rolling List of Approved ETFs With Certain Standardized Information Readily Available

The Commission should publish a centralized, rolling list of ETFs, supplemented by a consolidated monthly digest. The resource should identify products that have filed, become effective, or announced an expected launch date. It should be available in both a clear human-readable format and a standardized, machine-readable format, and it should be updated promptly when a filing is materially amended, effectiveness is delayed, an expected launch date changes, or an investment strategy changes materially.

At a minimum, the resource should identify the fund name, ticker, sponsor, registrant, CIK, listing exchange, and relevant filing links; the filing, effectiveness, and expected launch dates, together with material changes to those dates or the investment strategy; the investment objective, principal exposure, and intended holding period; and objective product-feature indicators relevant to an operational review.

Relevant indicators could include leverage or inverse exposure, single-stock or issuer concentration, material derivatives exposure, crypto assets, commodities, private assets, event contracts, daily resets, path-dependent returns, limited liquidity, or reliance on novel custody, valuation, settlement, or operational arrangements. For an event-based product, the resource should identify the outcome source and basic settlement mechanism or link directly to a concise disclosure containing that information.

The resource should be expressly informational. Inclusion on the list would not constitute Commission approval, a determination of suitability, or a recommendation. The value of the resource is that it would allow firms to quickly identify the availability of new products and to quickly analyze whether the new ETF is a standard index ETF that is widely suitable, whether it is a complex or alternative ETF that requires additional supervisory controls and training, or whether it is a trading product unsuitable for retail investors that should be locked down on the firm's platform.

Firms would remain responsible for applying their own policies, customer base, business model, and regulatory obligations. The Commission list would simply make the firm's initial categorization quicker and more efficient

In proposing this, we are reminded of Chairman Atkins' call for the "minimum effective dose of regulation." The proposed resource reflects this minimum effective dose of regulation principle because it would neither prevent an ETF from coming to market nor prescribe a firm's product classification, training, restrictions, recommendation process, or other supervisory outcome. Instead, it would streamline the exercise of existing supervisory responsibilities by making authoritative, decision-useful information easier and quicker to access and understand.

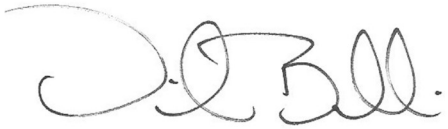
Conclusion

FSI appreciates the Commission's decision to seek public input on Novel ETFs. The breadth of products sold through the ETF wrapper already makes product understanding and risk-based supervision demanding, and the proliferation of novel strategies – particularly prediction-market and event-contract ETFs – will heighten that challenge.

FSI respectfully recommends that the Commission help independent and other firms advance the Commission's mission by publishing a centralized, rolling Novel ETF list and monthly digest containing objective, decision-useful risk information. This modest, minimum-effective-dose disclosure reform would facilitate investor and advisor understanding and effective supervision without delaying innovation, impairing efficient markets, or restricting capital formation.

FSI is committed to constructive engagement in the regulatory process and welcomes the opportunity to work with the Commission on this and other important regulatory efforts. Thank you for considering FSI's comments. Should you have any questions, please contact me at 202-803-6061.

Respectfully submitted,



David T. Bellaire
Executive Vice President & General Counsel