Dimensional Fund Advisors LP
6300 Bee Cave Rd., Building One
Austin, TX 78746

May 21, 2024

Sherry R. Haywood
Assistant Secretary
US Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: Notice of Filing of a Proposed Rule Change to Expand BZX Rule 14.11(l) to Permit the Generic Listing and Trading of Multi-class ETF Shares, File No. SR-CboeBZX-2024-026

Dear Ms. Haywood,

Dimensional Fund Advisors LP ("Dimensional") appreciates the opportunity to comment on the proposed rule change filed with the US Securities and Exchange Commission (the "Commission") by Cboe BZX Exchange, Inc. ("BZX").[1] The proposed rule change would streamline the process for listing an exchange-traded class (an "ETF Class") of a fund that also offers shares that are not exchange-traded (a "Mutual Fund Class") on BZX.

Dimensional is a registered investment adviser and currently manages 123 registered mutual funds and 38 exchange-traded funds ("ETFs") in the US. Together with its global advisory affiliates, Dimensional has approximately $719 billion in assets under management.[2] In July 2023, Dimensional filed an application with the Commission requesting exemptive relief under the Investment Company Act of 1940 (the "1940 Act") to permit mutual funds advised by Dimensional to offer ETF Classes. We applied for this relief because of our firm conviction that investors can benefit from the ETF Class structure. We strongly believe that ETF Classes will provide more choice to investors and that all shareholders in a fund that offers an ETF Class and a Mutual Fund Class will benefit from lower transaction costs, tax efficiencies, and economies of scale, regardless of which share class they choose.

We are supportive of BZX's proposed rule change as it would allow BZX to approve the listing of ETF Classes without unnecessary costs and delays, and we also strongly urge the Commission to approve Dimensional's application for exemptive relief to offer ETF Classes.

I. BZX's proposed rule change will eliminate unnecessary costs and delays.

We support the proposed rule change as it would eliminate unnecessary costs and delays in listing ETF Classes on BZX. Currently, BZX's rulebook provides four ways that an ETF can be approved for listing and trading on BZX. First, an ETF that relies on Rule 6c-11 of the 1940 Act may be eligible to list under Rule 14.11(l) (the "ETF Listing Rule"). Certain ETFs—provided that they meet prescriptive quantitative requirements and can comply with requirements to disseminate the fund's intraday indicative value ("IIV") every 15 seconds, among other requirements—can be

[1] US Securities and Exchange Commission, *Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Notice of Filing of a Proposed Rule Change to Expand BZX Rule 14.11(l) to Permit the Generic Listing and Trading of Multi-class ETF Shares*, Release No. 34-100034 (Apr. 25, 2024), available at https://www.sec.gov/files/rules/sro/cboebzx/2024/34-100034.pdf.

[2] As of March 31, 2024.

listed under Rule 14.11(c) or Rule 14.11(i) (together, the "Index and Managed Fund Listing Rules"). And if an ETF cannot meet the listing standards in the ETF Listing Rule or the Index and Managed Fund Listing Rules, then BZX can submit a rule filing with the Commission under Section 19(b) of the Securities Exchange Act of 1934 to seek approval to list shares of that ETF.

Of these options, the ETF Listing Rule is the most efficient and straightforward way to list on BZX. The ETF Listing Rule was adopted in 2020, following the Commission's adoption of Rule 6c-11 under the 1940 Act, which allows ETFs that meet certain conditions to operate without the expense and delay of obtaining an exemptive order from the Commission. The ETF Listing Rule is similar to the Index and Managed Fund Listing Rules, but with two significant omissions. The ETF Listing Rule—which does not distinguish between funds that track an index and those that do not—includes neither the prescriptive quantitative standards nor the burdensome IIV dissemination requirements that are in the Index and Managed Fund Listing Rules. In the order approving the ETF Listing Rule, the Commission noted that the elimination of the quantitative standards was appropriate because the manipulation concerns that the standards are intended to address were mitigated by BZX's surveillance procedures and its ability to halt or suspend trading. With respect to the exclusion of the IIV dissemination requirements, the Commission noted that Rule 6c-11 also does not require ETFs to publicly calculate and disseminate the IIV.[3] In our experience, the adoption of the ETF Listing Rule has streamlined the process of listing an ETF on BZX, due to the elimination of the quantitative limits and IIV dissemination requirements, and ETF investors remain protected by BZX's robust compliance framework.[4]

BZX now proposes to amend the ETF Listing Rule so that an ETF Class could also benefit from the ability to list under the simplified standards of the ETF Listing Rule. If the Commission grants exemptive relief to offer ETF Classes but does not approve BZX's proposed rule change, ETF Classes would be required to list under the Index and Managed Fund Listing Rules and comply with the prescriptive quantitative limits and burdensome IIV dissemination rules—outdated requirements that the Commission has recognized are no longer necessary to protect ETF investors. If an ETF Class is unable to comply with the quantitative limits or other requirements in the Index and Managed Fund Listing Rules, then BZX would need to submit a rule filing with the Commission under Section 19(b) of the Securities Exchange Act of 1934 to seek approval to list shares of that ETF—a time- and resource-intensive process for the ETF issuer, BZX, and the Commission.

In our view, an ETF Class that, had it been a standalone ETF, would have been eligible for listing under the ETF Listing Rule should also be permitted to rely on BZX's streamlined listing standards. The proposed rule change would give ETF Classes this ability, avoiding the potential costs associated with complying with the standards under the Index and Managed Fund Listing Rules or with applying to the Commission for relief under Section 19(b). Giving ETF Classes the

3 U.S. Securities and Exchange Commission, *Self-Regulatory Organizations; Cboe BZX Exchange, Inc.; Notice of Filing of Amendment No. 2 and Order Granting Accelerated Approval of a Proposed Rule Change, as Modified by Amendment No. 2, to Adopt BZX Rule 14.11(l) Governing the Listing and Trading of Exchange-Traded Fund Shares*, Release No. 34-88566 (Apr. 6, 2020), available at https://www.sec.gov/files/rules/sro/cboebzx/2020/34-88566.pdf.

4 Dimensional currently has four ETFs that have listed on BZX under the ETF Listing Rule.

ability to list under the ETF Listing Rule would eliminate further delays in bringing ETF Classes to the market, and for these reasons, we urge the Commission to approve the proposed rule change.

II. <u>ETF Classes would benefit investors.</u>

In addition to streamlining the listing requirements for ETF Classes, we believe the Commission should also promptly address the underlying regulatory issue that prevents funds from offering ETF Classes. We urge the Commission to grant Dimensional's application for exemptive relief to offer ETF Classes, as we strongly believe that investors would benefit from the ETF Class structure.

a. ETF Classes would provide investors with more choice.

First, the ability to offer funds with both ETF Classes and Mutual Fund Classes would give investors more choice. An investor could choose whether to access the same strategy by investing in shares of the ETF Class, the Mutual Fund Class, or both. Investors are increasingly choosing to invest in ETFs, but they may also prefer to continue to hold mutual funds for various reasons. For example, an investor may wish to hold an ETF in their brokerage account and a mutual fund pursuing the same strategy in their 401(k) account, as 401(k) plans do not typically offer ETFs as investment options. ETF Classes enable investors to hold not just the same strategy but the same fund across different types of investment accounts; this can reduce the burdens associated with investing in two different funds pursuing the same investment strategy and can help investors better align their investment plans with their financial goals.

Furthermore, Dimensional's understanding is that some mutual fund investors—many of whom may have begun investing decades ago—may now prefer to hold some or all of their investments in ETFs. If these investors sell their shares in a mutual fund to buy shares of an ETF that pursues the same strategy, they will incur transaction fees and potentially negative tax consequences in the form of realized capital gains. ETF Classes would solve these issues for these investors by allowing them to exchange from a Mutual Fund Class to an ETF Class of the same fund without incurring transaction fees or realizing gains.

Finally, if an investor would like the ability to invest in a strategy that offers both Mutual Fund Classes and ETF Classes, their ability to do so is currently limited to one fund group. The Commission has permitted one fund group to offer ETF Classes, and this structure has been very popular with investors, with over $2.5 trillion in assets currently invested in this fund group's ETF Classes in the US.[5] Granting exemptive relief to permit Dimensional to offer ETF Classes would give investors additional investment approaches and strategies to choose from, and greater competition in the market would benefit investors by incentivizing funds to operate efficiently and keep fees and expenses low.

b. The ETF Class structure would provide benefits to all investors in the fund.

Investors would also benefit from the operational efficiencies of a single fund with an ETF Class and a Mutual Fund Class. The fund as a whole would be larger, as adding an ETF Class to an existing mutual fund would represent an additional distribution channel for the fund that could

[5] Source: Morningstar as of March 31, 2024.

lead to additional asset growth and economies of scale. And investors in a new ETF Class of an existing mutual fund would immediately benefit from the economies of scale already achieved by the mutual fund.

The ETF Class structure also creates additional portfolio management flexibility for the fund as a whole. The portfolio managers of a fund with both an ETF Class and a Mutual Fund Class would have access to both the tools available to ETFs and those available to mutual funds: in-kind transactions through the ETF Class could contribute to lower transaction fees and greater tax efficiencies, while cash flows through the Mutual Fund Class could be used for efficient portfolio rebalancing. The ETF Class structure would give portfolio managers more flexibility in determining how best to implement the fund's investment strategy in a way that minimizes transaction costs and tax consequences for all investors in the fund.

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Advances in fund regulation over the past several decades have transformed the investment opportunities available to US investors, resulting in lower costs and increased choice for investors. The Commission now has an opportunity to build on these positive developments by expanding the universe of funds that are permitted to offer ETF Classes. We urge the Commission to increase the investment opportunities available to investors by granting our application for exemptive relief to offer ETF Classes.

If we can be of further assistance, please do not hesitate to contact Stephanie Hui, Lead Counsel, Public Policy, and Vice President. We would welcome the opportunity to expand on our discussion of these issues.

Sincerely,

Gerard O Reilly

Gerard O'Reilly
Co-Chief Executive Officer and Co-Chief Investment Officer