IM Information Update

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EXCHANGE-TRADED FUNDS USING AFFILIATED INDEX PROVIDERS

Since 2006, the Commission has issued a number of exemptive orders that permit applicants to operate exchange-traded funds ("ETFs") that track indexes created and maintained by their affiliates. These orders are subject to conditions designed to address potential conflicts of interest that arise in an affiliated relationship. For example, these ETFs are required to make the composition of the index available to the public, provide advance notice of changes to the index methodology and use a third party to calculate the index.

On July 10, 2013, the Commission issued three exemptive orders for ETFs that use affiliated index providers using an alternative approach to address potential conflicts of interest. In place of the conditions described above, these orders require, among other things, that the ETF publish the full contents of its portfolio daily. This approach to conflicts of interest has been utilized in orders for actively-managed ETFs since 2008. The ETF sponsors who sought the alternative approach argued that the potential conflicts are similar to those faced by actively-managed ETFs.

The Division will continue to consider applications based on both the older approach, as well as the alternative approach. Precedent for either approach may be found on the Commission's website at the following link: http://www.sec.gov/rules/icreleases.shtml.

The Investment Management Division works to:

- protect investors
- promote informed investment decisions and
- facilitate appropriate innovation in investment products and services

through regulating the asset management industry.

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