September 30, 2018
Mr. Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington D.C. 20549-1090

RE: Comments on Proposed Rule re Exchange-Traded Funds: File No. S7-15-18

Dear Mr. Fields,

The Index Industry Association (IIA) is pleased to respond to the SEC request for comments on Exchange Traded Funds (File S7-15-18). The IIA applauds the SEC's efforts to make regulation of ETFs a more consistent, rules based-approach rather than a series of one off approvals and exemptive relief. The IIA is an independent, not-for-profit organization representing the global index industry whose purpose is to represent the index industry by working with market participants, regulators, and other representative bodies to promote sound practice in the industry that strengthen markets and serves the needs of investors. Many of the leading global index administrators are members of IIA, including Bloomberg Indices, CBOE Holdings, the Center for Research in Security Prices, China Bond Pricing, FTSE Russell Group, Hang Seng Indexes, ICE Data Services, IHS Markit, Morningstar, MSCI Inc., NASDAQ OMX, S&P Dow Jones Indices, STOXX, and Tokyo Stock Exchange. Our members administer approximately 3.288 million indexes which is estimated to be approximately 98% of all indexes globally. All IIA members are independent administrators meaning they neither trade underlying component securities of the benchmark nor do they directly create products for investor use. This model mitigates the real and perceived conflicts of interests by entities that do not separate these key functions.

The IIA has limited its comments to the following three topics:
1. Index-based ETFs and actively managed ETFs
2. Affiliated Index providers
3. Transparency/disclosure of the underlying index

**Index-Based ETFs and Actively Managed ETFs**
(questions from pages 27-28)
Proposal Questions:
1. Should the rule maintain the historical distinction between index-based ETFs and actively managed ETFs?

4. Are there operational differences between index-based and actively managed ETFs that should be addressed in the proposed rule?

The IIA supports creating equal requirements for those index-based ETFs and actively managed ETFs that are substantially similar in terms of methodological rigor and transparency. By creating consistency, investors will have better transparency and understanding regarding how ETFs are regulated. These two types of ETF share operational similarities. Both create and redeem shares in creation units, and trade on national regulated markets which allows investors to trade their shares in the secondary market. It is understandable why restrictions were in place in the early years, but active ETFs and ETPs have grown globally to over $100 billion dollars according to ETFGI. A reason the SEC should feel disparate rules may be needed is if an actively managed ETF is dissimilar when the methodological rigor and transparency to those of well accepted index-based ETF or other actively managed ETFs.

**Affiliated Index Providers**
(question from page 28)
Proposal question:
1. Should the proposed rule include requirements relating to index-based ETFs with an affiliated index provider? If so, what requirements and why? For example, should ETFs with affiliated index providers be required to adopt additional policies and procedures designed to further limit information sharing between portfolio management staff and index management staff? How should we define "index provider" for these purposes?

Independent index administration by its design mitigates the real and perceived conflicts of interest. When the index administrator neither trades the underlying component securities in an index nor creates the products, the index provider has no interest in whether an index increases or declines but represents the underlying market it seeks to represent. Independent index providers who are members of the IIA are held to the highest standards in the industry. They adhere to the *IIA Best Practices, IOSCO Principles*, and most are covered under the *EU Benchmark Regulation* because their benchmarks are used in the EU. IIA believes all index providers should be held to these high standards for the benefit of investors. The treatment for independent index providers and affiliated index providers who self-index need to take into account the previously mentioned differences on how conflicts of interests are mitigated. Without taking the mitigation of these conflicts of interest by self-indexers into consideration that will not lead to equal treatment and the best protection for investors. Many of the safeguards put in place for affiliate managed ETFs by the SEC in 2008 seemed prudent and put them on an equal regulatory path as independent index providers.

**Transparency/Disclosure of Underlying Index**
(questions from pages 80-81**)**
Proposal Questions:
1. Should the rule include other transparency options? For example, should we have different transparency requirements for the index-based ETFs and actively managed ETFs, similar to those proposed in 2008? Would disclosure of the index constituents alone provide detailed enough information to allow market participants to effectively hedge the ETFs portfolio when an index-based ETF uses sampling techniques or holds derivatives or other instruments? Do index providers make information about index constituents easily accessible today? Are there other alternatives we should consider? For example, would disclosure of an ETF basket provide a basis for effective hedging? In setting forth an option, please explain how your proposed level of transparency would allow for effective arbitrage?

2. Are there any circumstances that would prevent an index-based ETF from disclosing its portfolio holdings?
3. Are we correct that all ETFs that could rely on the proposed rule currently provide full transparency as a matter of market practice?

IIA has always been a strong advocate globally for transparency of index methodologies. IIA and its members were strong advocates for transparency of methodology in the European Union's Benchmark Regulation. Investors must understand the underlying benchmarks on which these products are based. Investors have benefitted from the transparency of ETFs and it is one reason the ETF market has become as successful as it has. ETFs may be the most transparent investments investors use especially compared to other open-ended funds. ETFs and ETPs listed in the U.S. assets have reached $3.7 trillion dollars according to ETFGI. IIA agrees index-based ETFs should have a stated methodology and investment objective consistent with the investment objective of obtaining returns that correspond to the returns of the index. Investors have benefited greatly from the competition and innovation in the ETF market. Transparency is always a tradeoff between what investors need to understand the investment objectives and the protection of intellectual property. IIA feels strongly any proposed rules must allow for continued innovations of ETFs while, at the same time, protecting intellectual property rights of index administrators and providers. IIA believes that balance is necessary in the ETF market eco-system which is in the best interests for investors.

If I can clarify or provide any additional information to the staff, please do not hesitate to contact me.

Sincerely,
Richard H. Redding, CEO