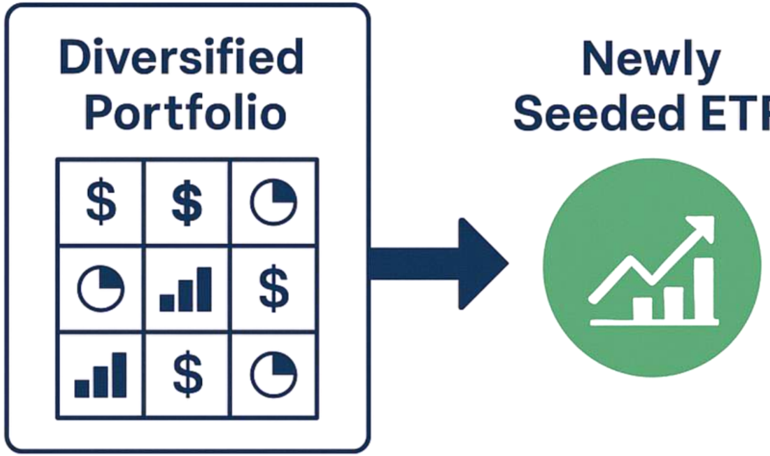
ExchangiFi

The 351 Exchange Marketplace

351 ETF Exchange Overview

A Section 351 Exchange is a like-kind exchange, similar to a 1031 real estate exchange, allows advisors to reposition client portfolios in a tax-efficient manner when traditional rebalancing or liquidation would otherwise trigger significant capital gains.

- Like 1031 Exchange for Stocks
- Swap Stocks for ETF Shares
- Defer Capital Gains Taxes



Legal Context

Section 351 ETF Exchange relies on 3 provisions from the Internal Revenue Code (IRC) and the SEC.

1. IRS Section 351: Non-Recognition of Gain on Contribution

This provision recharacterizes the transaction not as a taxable sale, but as a capital contribution in exchange for stock in a company and the investor's tax liability is deferred. The investor’s original cost basis and holding period remain the same for the new ETF shares.

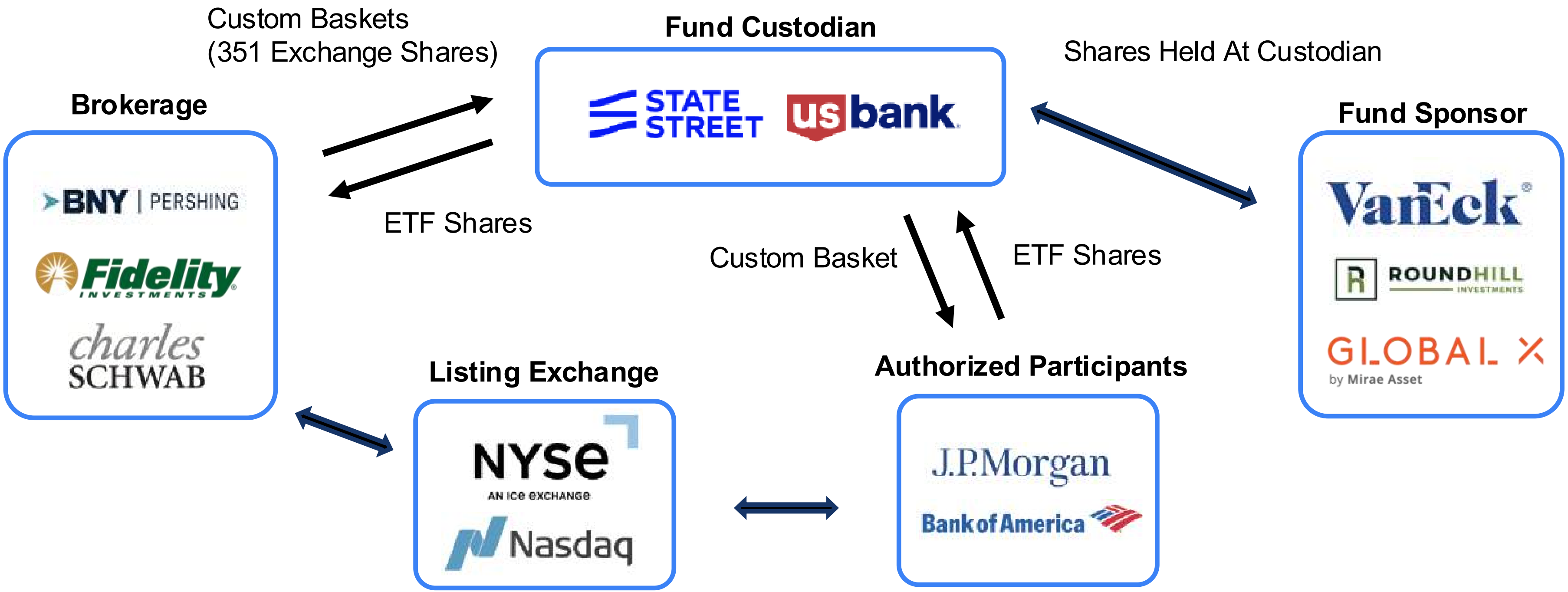
2. SEC Rule 6c-11 (The ETF Rule): Authorization of "Custom Baskets"

A Section 351 contribution is, by definition, a "custom basket.” Prior to Rule 6c-11, accepting such a basket required costly, individual exemptive relief orders. Rule 6c-11 provides the standing regulatory authority for the ETF to compliantly accept these specific assets.

3. IRS Section 852(b)(6) - Non-Recognition of Corporate-Level Gain on Distribution

Once the low-basis assets are inside the ETF, the fund manager can dispose of them by delivering them in-kind to an Authorized Participant (AP) to satisfy a redemption request. Because this is a distribution of property rather than a cash sale, the built-in capital gain is eliminated at the fund level, preventing a taxable capital gains distribution to the shareholders.

Process


Custom Baskets
(351 Exchange Shares)
Fund Custodian
STATE STREET
us bank
Shares Held At Custodian
Brokerage
BNY | PERSHING
Fidelity INVESTMENTS
charles SCHWAB
ETF Shares
Fund Sponsor
VanEck
ROUNDHILL INVESTMENTS
GLOBAL X by Mirae Asset
Custom Basket
ETF Shares
Listing Exchange
Authorized Participants
NYSE AN ICE EXCHANGE
Nasdaq
J.P.Morgan
Bank of America

Timeline

3-4 Months Prior To Launch Day	1-3 Months Prior To Launch Day	1-2 Weeks Prior To Launch Day	ETF Launch Day	0-1 Days After Launch Day	0-14 Days After Launch Day
Effective Funds Market To Investors	Participation Agreements Signed & Portfolios Created	Shares Transferred from Brokerage Accounts to ETF Custodian	AP Creates ETF Shares and Begin Trading	ETF Shares Transferred Back to Brokerage Accounts	Tax Lot Information Reflected In Account

Participating Investor Requirements

To qualify for tax-deferred treatment, each individual taxpayer has to meet these requirements.

1) **The 25/50 Diversification Requirement**: Top Position Cannot Exceed 25% of Market Value of Contributed Portfolio, and Top 5 Cannot Exceed 50%.
2) **The "Control" Rule (80%):** Does not matter, it’s a new ETF so automatically everyone owns 100%.
3) **ETF Look Through:** The individual holdings inside an ETF are considered for diversification, not the ETF.

Fund Sponsor Requirements

The ETF itself must maintain "Regulated Investment Company" (RIC) status to avoid corporate taxation.

1) **The 5/50 Diversification Requirement**: All securities over 5% of aggregate portfolio cannot exceed 50%.
2) **Strategy Alignment**: 80% of accepted securities in exchange should align with approved strategy and name of fund.
3) **Accepted Securities**: Generally limited to accepting liquid securities, traded intra-day.

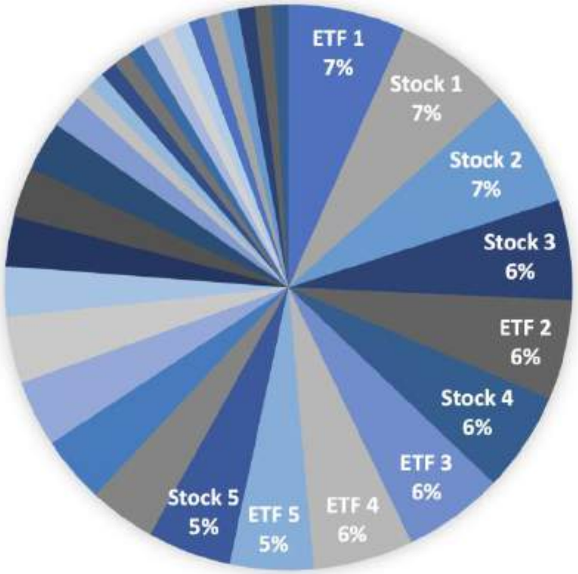
Use Cases

Concentration Risk Is the #1 Avoidable Portfolio Risk & Taxes Are the #1 Controllable Cost

Scenario	Why use a 351 Exchange?
Reduce Concentration Risk	Clients often accumulate outsized positions through long-term appreciation or winners, or years of participation in an employee stock purchase plan.
Consolidate SMAs	Transitioning from multiple SMAs into a single ETF can meaningfully reduce administrative complexity and management fees, while preserving tax deferral on embedded gains.
Avoid Forced Capital Gains	When a stock is being acquired for cash or an ETF is scheduled for liquidation, investors may face unavoidable capital gains.
Re-Index After Years of Tax-Loss Harvesting	In mature portfolios where tax-loss harvesting has exhausted sellable positions, a 351 exchange offers a path to re-index or modernize the portfolio without realizing gains.
Rebalance or Change Investment Strategy	As portfolios drift or client objectives evolve, such as a shift from growth to income approaching retirement, a 351 exchange allows strategic realignment without triggering large capital gains.

Example #1: 351 Exchange – Complicated SMAs

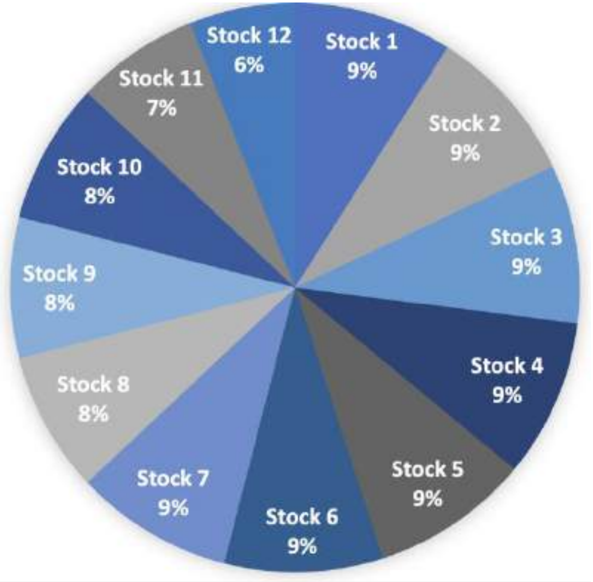
Overly diverse SMA of stocks, ETFs
and other legacy positions



Simple, low-cost, tax-efficient ETF

Example #2: 351 Exchange– Tax Loss Harvesting

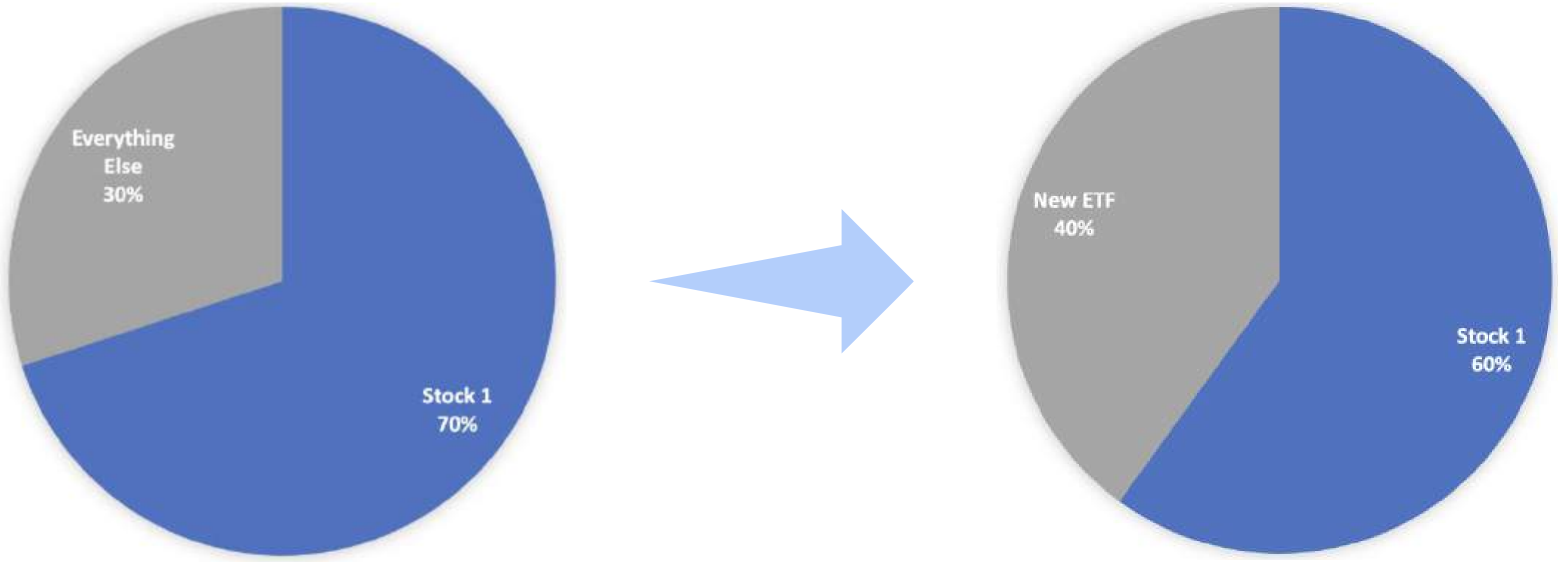
Years or decades of tax loss harvesting
can lead to a few concentrated positions



More diverse and can rebalance tax-free

Example #3: 351 Exchange – Concentrated Portfolio

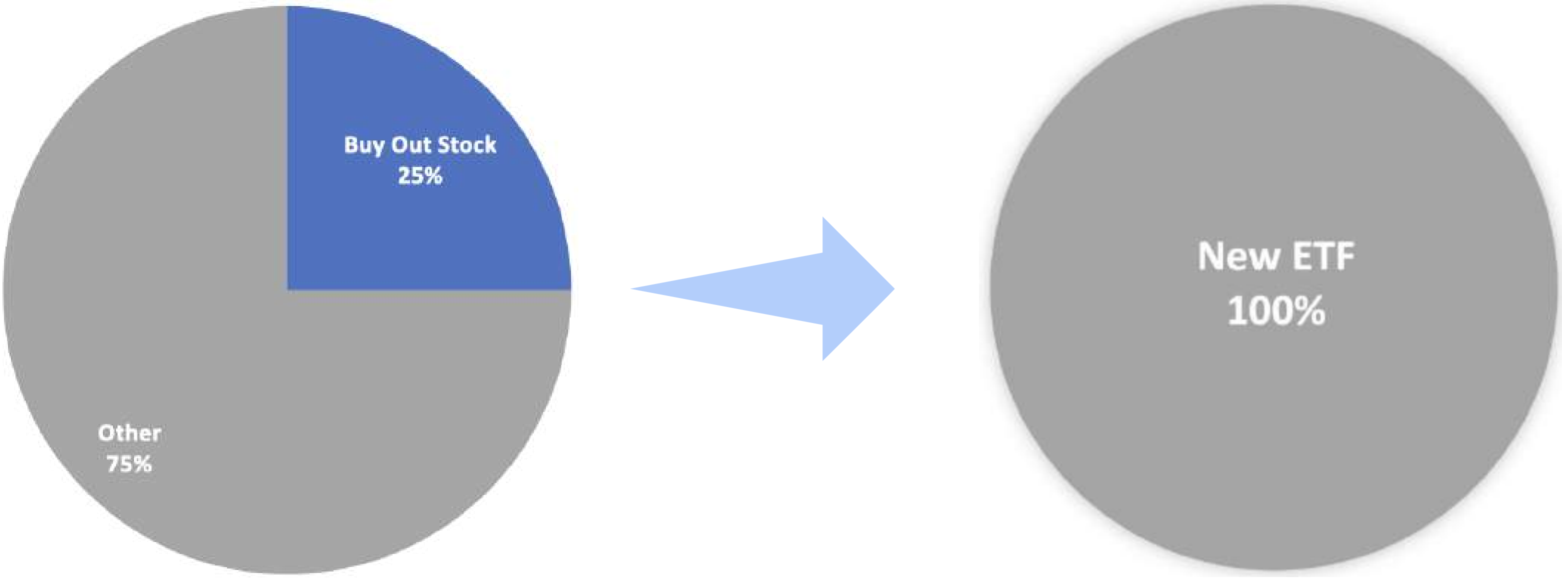
Overly concentrated position, employee stock purchases, outsized returns, etc.



Significant Reduction in Concentrated Position

Example #3: 351 Exchange – Buyout/Take-Private

A stock is getting taken private or acquired for a portion or all cash.



Exchange Shares Before Deal Closes Avoids Forces Capital Gains

Benefits To Each Participant

Investors

- ✓ Diversify Portfolios Tax-Deferred
- ✓ Get Assets Into Tax-Efficient and Liquid ETF Structure
- ✓ Continue Compounding Assets From Higher Base

Advisors

- ✓ Provide Clients with High Value Service
- ✓ Tax Alpha Strategy Increases AUM under Advisement
- ✓ Assets Remain Liquid in Custody Account

ETF Issuers/Asset Managers

- ✓ Cover Costs of ETF from Inception
- ✓ Easily Meet AUM Requirements for Wirehouse Platforms
- ✓ Expand Pre-Launch Reach and Brand Awareness

Syndicated 351 Exchange History

New Alpha Architect ETF AAUS Launches With $445M Assets

- The Alpha Architect U.S. Equity ETF (AAUS) debuts with $445 million via a syndicated 351 exchange.
- The fund seeks core U.S. equity exposure while avoiding certain dividend stocks at times.
- The new ETF charges a 0.15% expense ratio, below the category median.

A $500 Million ETF Will Be Next Big Launch in Tax-Busting Trend

Hill Investment Group is planning a February debut for the Longview Advantage ETF (ticker EBI), which will start trading with an estimated $500 million of assets.

ETF STRATEGIST

How wealthy investors use ETFs to skirt capital gains taxes. The strategy is 'like magic,' advisor says

PUBLISHED THU, AUG 21 2025-2:22 PM EDT | UPDATED THU, AUG 21 2025-5:06 PM EDT

businesswire

NPF Investment Advisors to Launch the NPF Core Equity ETF (Exchange-Traded Fund) Using Innovative Section 351 Conversion Strategy

Syndicated 351 ETF Exchange Stats

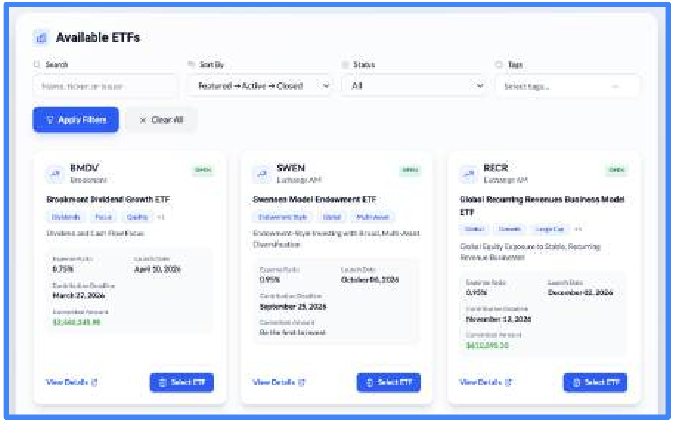
- ✓ 24+ ETFs Launched Via Section 351
- ✓ 14+ ETF Issuers
- ✓ $8+ Billion In Securities Exchanged
- ✓ $1+ Billion in Capital Gains Taxes Deferred

Non-Syndicated 351 ETF Exchange Stats

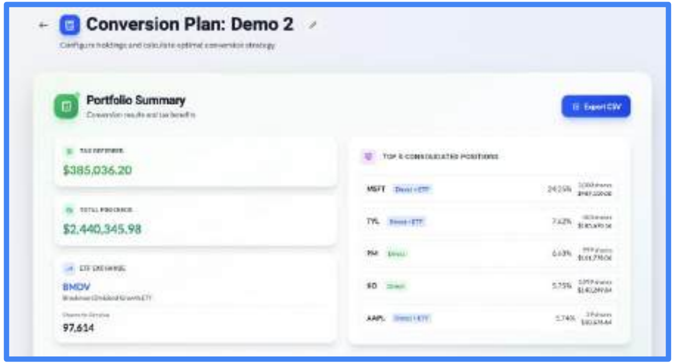
- ✓ 150+ ETFs Launched Via Section 351
- ✓ 30+ ETF Issuers
- ✓ $50+ Billion In Securities Exchanged
- ✓ $8+ Billion in Capital Gains Taxes Deferred

For Investment Advisors & Their Clients

Screen Live Opportunities for 351 Exchange, Review Strategies

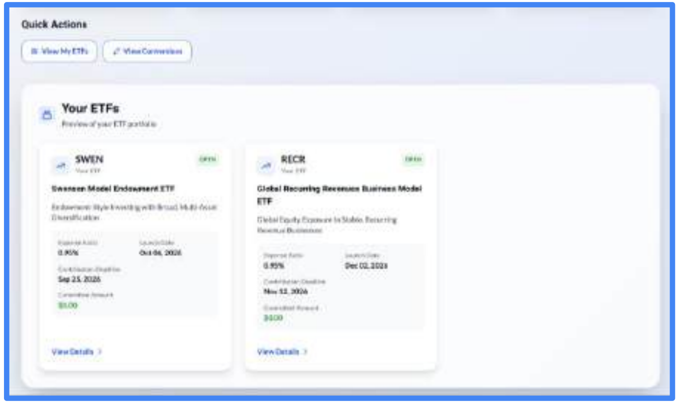


Use Exchange Calculation Software to Create 351 Exchange Compliant Portfolios for Multiple Clients

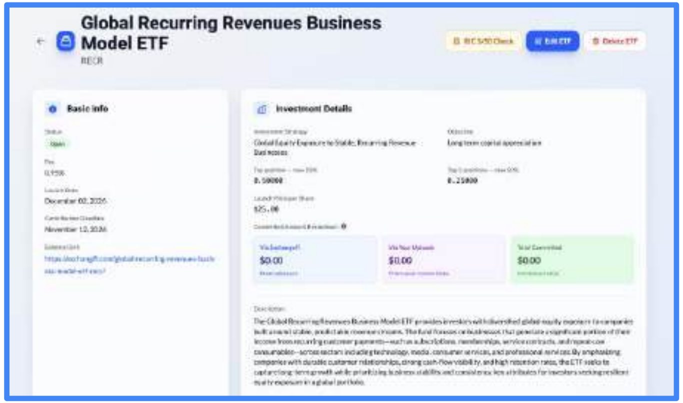


Tools For Fund Sponsors

Create ETF Listing To Appear on Dashboard, Manage Rules



Track Commitments, Use Software To Check RIC Rule Compliance



For More Information

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