QUICK TAKES

From Strategy to Execution

How financial advisors navigate a 351 exchange for their clients

Initial Review & Suitability

Financial advisors first determine whether a 351 exchange supports their client's broader objectives, including:

- Addressing concentrated positions
- Deferring capital gains
- Transitioning into a diversified ETF structure
- Preserving liquidity post-launch

Early coordination among the financial advisor, custodian, tax professional, and ETF sponsor helps ensure the exchange is structured efficiently and in alignment with Section 351 requirements from the outset.

Portfolio Eligibility Assessment

Financial advisors evaluate the portfolio to confirm eligibility under Section 351 diversification requirements:

- No single issuer generally exceeding 25% of contributed assets
- Top five issuers generally limited to 50% in aggregate
- Review of underlying ETF holdings for diversification compliance

This analysis confirms whether appreciated positions may be contributed in-kind while preserving tax deferral.

Execute the Contribution

Once eligibility is confirmed:

- Documentation and transfer materials are coordinated in advance of launch.
- Approved securities are contributed in-kind to the ETF
- ETF shares are received at net asset value (NAV)
- Capital gains are deferred at the time of exchange, if Section 351 requirements are satisfied.

ETF shares trade on the exchange following launch, with tax deferral continuing until sale.

Initial Review & Suitability → **Portfolio Eligibility Assessment** → **Execute the Contribution**

Successful 351 exchanges benefit from experienced coordination across financial advisors, custodians, tax professionals, and ETF sponsors.