

351 Exchanges

A strategic path to tax-efficient growth & scale

Section 351 of the Internal Revenue Code enables individuals and groups to transfer securities – including stocks, ETFs, and other eligible securities – into a corporate structure, such as a newly launched ETF, in exchange for shares without triggering an immediate taxable event, provided certain requirements are met. As asset managers and investors seek to modernize portfolios, improve scalability, and enhance tax efficiency, the shift from separately managed accounts to ETFs is accelerating. Central to this transition is the Section 351 Exchange, which allows investors to contribute securities into an ETF structure while deferring capital gains.

How it Qualifies – Regulatory Framework

1

ETF Shares for Assets

Contributors must receive ETF shares in exchange for transferred assets.

2

80% Ownership

The contributing group must collectively own at least 80% of the ETF immediately after the exchange.

3

Eligible & Diversified

The contributed assets must meet eligibility and diversification requirements.

Failure to meet these conditions may result in taxable treatment – careful structuring upfront is essential.

Why it Matters

Section 351 Exchanges offer a unique opportunity to transform legacy portfolios into scalable investment vehicles without disrupting tax positioning. Beyond this, they create opportunities to utilize ETF structures for broader distribution, simplify operations by consolidating multiple accounts into a single vehicle, and support a more cost-effective solution.

For Investors

For investors with embedded gains, this structure enables a transition into an ETF wrapper while maintaining market exposure and deferring tax liabilities.

For Asset Managers

At the same time, asset managers can expand distribution, streamline operations, and bring strategies to a broader investor base.

Considerations

While the structure enables deferral of capital gains, with cost basis holding periods carrying over to ETF shares, improper structuring or failure to meet requirements can trigger unintended tax consequences. As a one-time ETF seeding event, success depends on accurate tax lot tracking, carryover basis reporting, and alignment across legal, tax, and operational teams. Further, the U.S. Treasury's increased focus on these transactions, and the potential for certain structures to be considered transactions of interest, reinforces the importance of thoughtful structuring upfront.

How Parallel helps Parallel provides comprehensive fund administration, accounting and operational support for ETF launches, including Section 351 launches, within established series trusts or stand-alone fund structures. We partner closely with investment advisors and their clients to manage the intricate mechanics of an SMA-to-ETF conversion, ensuring the process is executed with confidence, clarity, and full compliance.