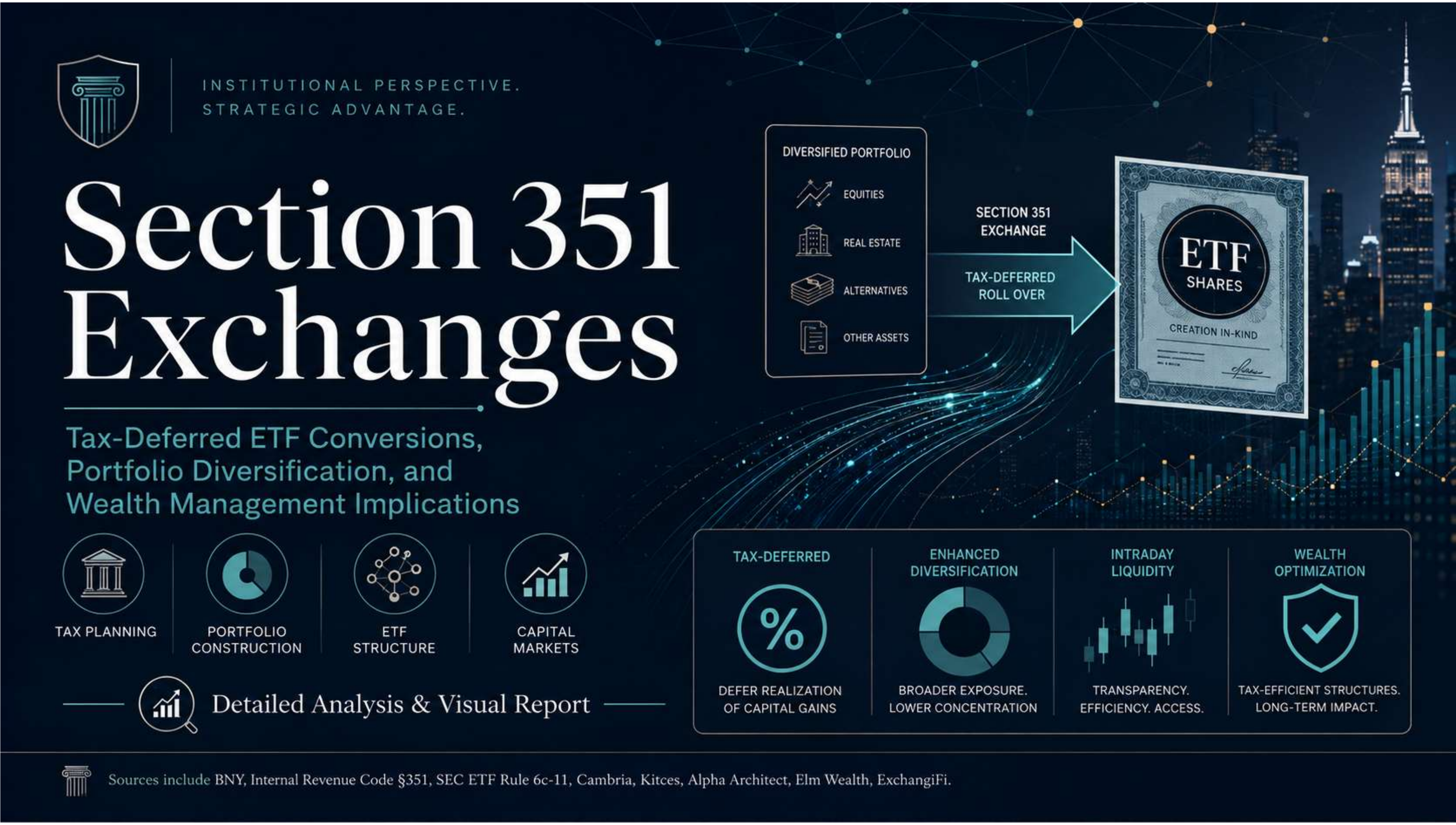
INSTITUTIONAL PERSPECTIVE.
STRATEGIC ADVANTAGE.
Section 351 Exchanges
Tax-Deferred ETF Conversions, Portfolio Diversification, and Wealth Management Implications
TAX PLANNING
PORTFOLIO CONSTRUCTION
ETF STRUCTURE
CAPITAL MARKETS
Detailed Analysis & Visual Report
DIVERSIFIED PORTFOLIO
EQUITIES
REAL ESTATE
ALTERNATIVES
OTHER ASSETS
SECTION 351 EXCHANGE
TAX-DEFERRED ROLL OVER
ETF
SHARES
CREATION IN-KIND
TAX-DEFERRED
DEFER REALIZATION OF CAPITAL GAINS
ENHANCED DIVERSIFICATION
BROADER EXPOSURE. LOWER CONCENTRATION
INTRADAY LIQUIDITY
TRANSPARENCY. EFFICIENCY. ACCESS.
WEALTH OPTIMIZATION
TAX-EFFICIENT STRUCTURES. LONG-TERM IMPACT.
Sources include BNY, Internal Revenue Code §351, SEC ETF Rule 6c-11, Cambria, Kitces, Alpha Architect, Elm Wealth, ExchangiFi.

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What Is a Section 351 Exchange?

Definition, ETF Use Case, and Core Economic Logic

1. DEFINITION

IRC §351 generally allows no immediate gain or loss recognition when property is transferred to a corporation solely in exchange for stock and the transferors control the corporation immediately after the exchange.

2. ETF-SPECIFIC TRANSLATION

In the ETF context, investors contribute appreciated securities into a newly launched ETF and receive ETF shares, typically with carryover basis and holding period.

4. KEY POINTS

- Defers, not eliminates, capital gains
- Best suited to already-diversified appreciated portfolios
- Commonly used for legacy SMAs, direct-indexing accounts, and tax-sensitive transitions
- Requires tax, legal, custody, and ETF operational coordination

3. THE SECTION 351 EXCHANGE FLOW

1 APPRECIATED SECURITIES BASKET → 2 CONTRIBUTE IN-KIND → 3 NEW ETF LAUNCH → 4 RECEIVE ETF SHARES → 5 TAXES DEFERRED UNTIL SALE

WHY INVESTORS CARE

- TAX DEFERRAL
- DIVERSIFICATION
- INTRADAY LIQUIDITY
- SIMPLER ONGOING MANAGEMENT

Sources: IRC §351; BNY (June 2026); Cambria; Kitces.

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Why 351 Exchanges Matter

The Tax-Aware Solution to Appreciated Portfolio Lock-In

THE PROBLEM

- Taxable portfolios can become trapped by embedded gains
- Direct indexing and long-lived SMAs often accumulate low-basis positions
- Rebalancing, manager changes, and diversification can trigger meaningful tax costs

ILLUSTRATIVE ECONOMICS

Portfolio Value	$10.0M
Cost Basis	$4.0M
Embedded Gain	$6.0M
Federal LTCG + NIIT Rate Example	23.8%
Estimated Federal Tax If Sold	about $1.43M
351 Exchange Outcome	tax generally deferred if qualified

Taxes are deferred until the ETF shares are later sold.

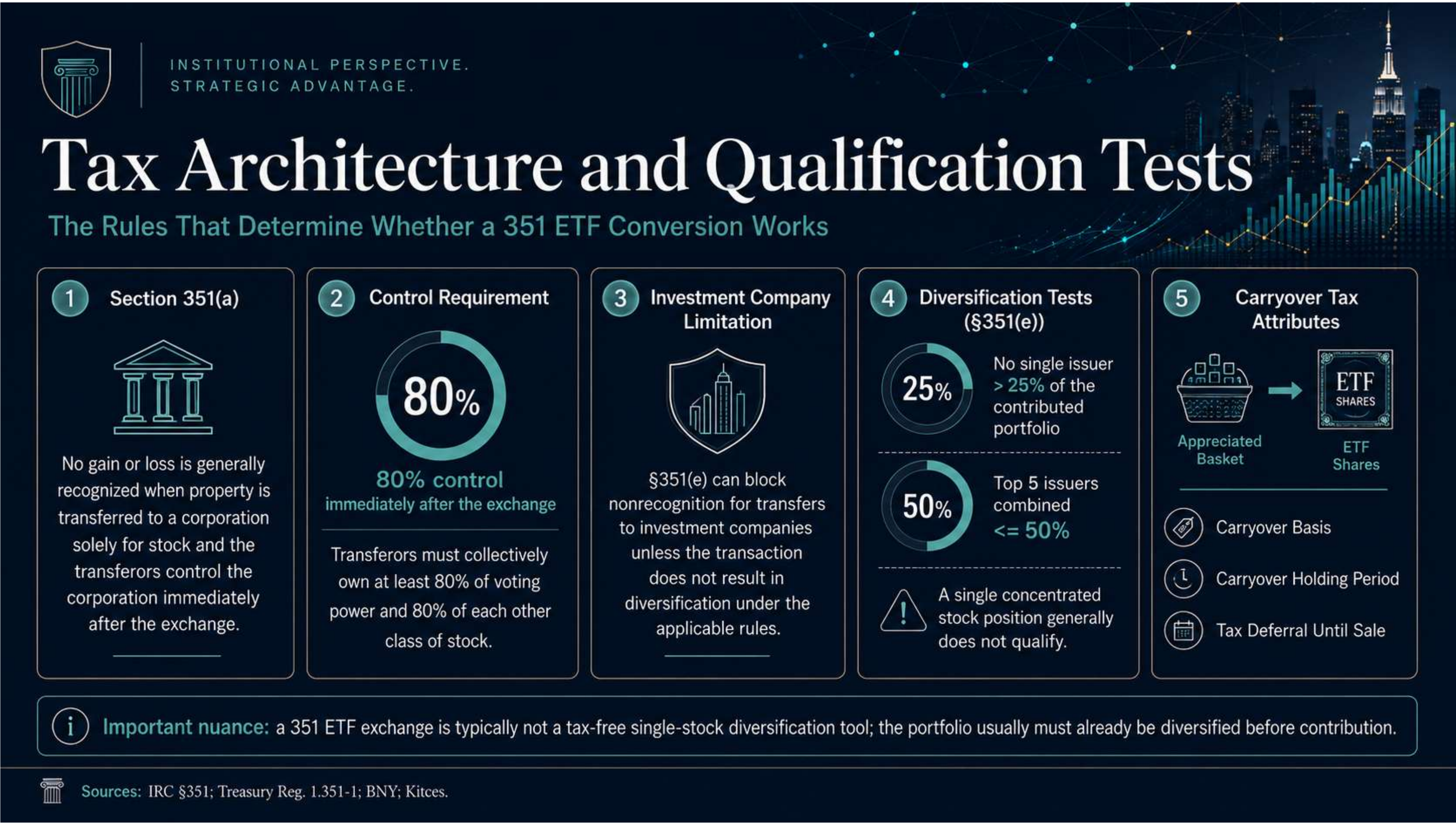
BEST-FIT USE CASES

- Diversified appreciated stock baskets
- Legacy SMA transitions
- Direct-indexing accounts with few remaining losses
- High-net-worth taxable accounts seeking diversification and operational simplification

NOT IDEAL FOR

- Single-stock concentration
- Mutual funds
- Private assets
- Investors needing near-term cash

Sources: BNY; Kitces; Cambria; Elm Wealth.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Tax Architecture and Qualification Tests
The Rules That Determine Whether a 351 ETF Conversion Works
1 Section 351(a)
No gain or loss is generally recognized when property is transferred to a corporation solely for stock and the transferors control the corporation immediately after the exchange.
2 Control Requirement
80%
80% control
immediately after the exchange
Transferors must collectively own at least 80% of voting power and 80% of each other class of stock.
3 Investment Company Limitation
§351(e) can block nonrecognition for transfers to investment companies unless the transaction does not result in diversification under the applicable rules.
4 Diversification Tests (§351(e))
25%
No single issuer > 25% of the contributed portfolio
50%
Top 5 issuers combined <= 50%
A single concentrated stock position generally does not qualify.
5 Carryover Tax Attributes
Appreciated Basket
ETF SHARES
ETF Shares
Carryover Basis
Carryover Holding Period
Tax Deferral Until Sale
Important nuance: a 351 ETF exchange is typically not a tax-free single-stock diversification tool; the portfolio usually must already be diversified before contribution.
Sources: IRC §351; Treasury Reg. 1.351-1; BNY; Kitces.


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How a 351 ETF Conversion Works
Operational Workflow from Portfolio Screening to ETF Share Delivery
1
Identify Target ETF Launch
Sponsor develops or prepares a new ETF.
2
Pre-Screen Portfolios
Review holdings, tax lots, liquidity, eligibility, and strategy fit.
3
Run 25/50 Analysis
Test individual and aggregate diversification.
4
Look-Through & Consolidation
Analyze ETF holdings, issuer exposures, and share classes where needed.
5
Documentation Package
Client reps, tax review, legal documents, custody instructions, board materials.
6
In-Kind Transfer
Eligible securities move from client custody to ETF custody,
7
ETF
ETF Shares Delivered
Investors receive ETF shares based on contribution value, with carryover basis and holding period.
8
Ongoing ETF Management
Manager uses ETF infrastructure, including in-kind creation/redemption mechanics.
CRITICAL PARTICIPANTS
Investor/Advisor
ETF Sponsor
Tax Counsel
ETF Counsel
Custodian
Authorized Participant
Execution Desk
Fund Accountant/ Administrator
Execution is a competitive differentiator:
custody, tax-lot files, basket processing, and reporting accuracy are essential.
Sources: BNY; Cambria; Stradley Ronon; SEC Rule 6c-11.

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Market Snapshot and Ecosystem

How 351 ETF Conversions Are Scaling

77
U.S. ETFs launched with approximately
$16.6B
in seed assets from individual investors as of May 2026

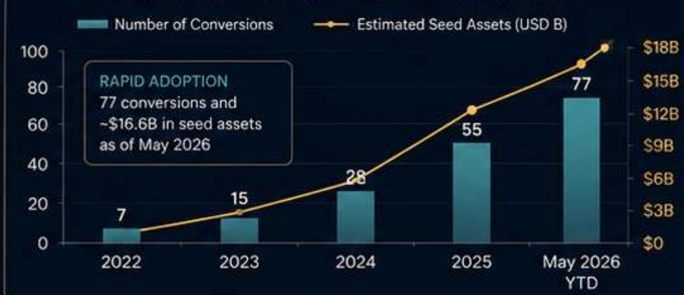
BNY

59
ETFs, $12.8B of launch AUM, and
$7.1B
of aggregate cost basis in March 2026 snapshot

351.tax data cited by BNY

BNY execution services supported approximately
$4B
in Section 351 conversion activity over the past two years

SEC 351 ETF CONVERSIONS: GROWING MOMENTUM



THE ADOPTION CURVE: FROM NICHE TO INSTITUTIONAL SCALE

2018–2020 FOUNDATION	2021–2022 EARLY ADOPTION	2023–2024 MARKET BUILDING	2025 ACCELERATION	2026+ INSTITUTIONALIZATION
Early education and legal framework development	Pioneering advisors and RIAs begin exploring 351 conversions	Increased sponsor participation; infrastructure and workflows scale	Incrcsed conversions, growing seed assets, and broader advisor adoption	Mainstream institutional ETF seeding channel with scalable, repeatable execution

Niche Tax Planning Strategy → Institutional ETF Seeding Channel

KEY MARKET INDICATORS (AS OF MAY 2026)

77	$16.6B	$215M	+127%	40+	1,000+
Total Conversions YTD May 2026	Estimated Seed Assets (USD)	Average Seed Assets per Conversion	YoY Growth in Conversions (2024–YTD 2026)	Sponsors Active in 351 Space	Advisors Engaged via Platforms

THE 351 ECOSYSTEM

PLATFORM SPOTLIGHT

ExchangiFi

A 351 exchange marketplace and workflow platform offering advisor access, portfolio optimization, documentation support, and issuer connectivity.

WHY SPONSORS CARE

- Launch AUM
- Differentiated distribution
- Tax-aware transition solution
- Stronger advisor engagement

Sources: BNY (June 2026); ExchangiFi; 351.tax.

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Where 351 Exchanges Fit in the Tax-Aware Toolkit

Comparison vs. Exchange Funds, 1031 Exchanges, and Traditional Portfolio Sales

	351 ETF Exchange	Exchange Fund / 721 Fund	1031 Exchange	Sell and Reinvest
Primary Asset Type	diversified appreciated securities	concentrated stock or contributed securities	real estate	any assets
Vehicle	ETF	private partnership	replacement real estate	none
Tax Outcome	tax deferral if qualified	tax deferral if qualified	tax deferral if qualified	immediate gain realization
Liquidity	intraday liquidity after launch	limited liquidity, often lockups	illiquid	immediate liquidity
Best Use Case	best for diversified appreciated taxable portfolios	best for diversifying concentrated stock	best for real estate owners	simple reallocation
Main Constraint	must already satisfy diversification tests	illiquidity and investor eligibility	like-kind requirements	tax cost
Typical Investor Profile	tax-sensitive HNW and RIA clients	accredited or qualified investors	property investors	any investor

What 351 Is Best At

- Tax-sensitive reallocation
- ETF migration
- Operational simplification
- Preserving market exposure

Sources: Cambria; Kitces; IRC §351; general wealth-management analysis.

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Risks, Limitations, and Due Diligence

Why 351 ETF Conversions Are Powerful but Fragile

1. TAX QUALIFICATION RISK
Failure can trigger immediate gain recognition.

2. IRS SCRUTINY
Documentation, intent, and structure matter.

3. STUFFING RISK
Contributing assets that do not truly fit the ETF strategy.

4. SEQUENTIAL SEEDING RISK
Repeated tax-motivated launches may raise concerns.

5. PREARRANGED DISPOSITION RISK
A planned quick sale of contributed assets can undermine treatment.

6. CUSTODIAN REPORTING RISK
Basis and 1099 errors can create mismatches.

7. STRATEGY MISMATCH RISK
Investors must actually want to own the ETF long term.

8. ASSET ELIGIBILITY RISK
Not all securities or account types can be contributed.

TYPICAL INELIGIBLE OR DIFFICULT ASSETS
- Mutual funds
- Private investments
- Crypto
- Options
- Restricted stock
- Illiquid positions
- and in some sponsor workflows closed-end funds

ADVISOR DUE DILIGENCE
- Qualification review
- Suitability
- ETF strategy fit
- Economics vs alternatives
- Costs
- Liquidity needs
- Documentation completeness
- Post-launch reporting accuracy

Sources: BNY; Cambria; Elm Wealth; Kitces.

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Strategic Implications and Bottom Line

What 351 Exchanges Mean for Advisors, Custodians, ETF Issuers, and Investors

1 For Advisors

- transition tool for appreciated portfolios
- potential solution for legacy SMAs and direct indexing
- requires fiduciary and tax-sensitive client education

2 For Custodians

- must support tax-lot data, in-kind transfers, basis carryover
- clean reporting and operational coordination

3 For ETF Issuers

- launch AUM opportunity
- stronger advisor channel relevance
- but requires real strategy integrity and robust governance

4 For Wealth Platforms

- can become part of a broader transition toolkit alongside tax-loss harvesting, charitable gifting, exchange funds, and overlay management

Bottom Line

A 351 exchange can defer capital gains while converting an already-diversified appreciated portfolio into ETF shares—but only if tax qualification, control, strategy fit, documentation, and execution are all handled correctly.

Decision Framework

1. Is the portfolio already diversified?
2. Is the tax cost of selling material?
3. Is the ETF worth owning long term?

Sources: BNY; IRC §351; Kitces; Cambria; ExchangiFi.


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ExchangiFi
Detailed Strategic Analysis of the Section 351 Exchange Marketplace
Product Architecture, Market Opportunity, Competitive Positioning, and Strategic Outlook
APPRECIATED SECURITIES or DIVERSIFIED PORTFOLIO
AAPL
MSFT
NVDA
AMZN
GOOGL
META
LLY
JPM
JPM
+ MORE POSITIONS
COST BASIS ≪ FAIR MARKET VALUE
SECTION 351 EXCHANGE
Tax-Deferred Exchange Under IRC Section 351
COMPLIANT
SECURE | AUDITABLE
ETF SHARES RECEIVED
DIVERSIFIED ETF SHARES
BROAD MARKETS. TAX EFFICIENT. BUILT FOR GROWTH.
351 MARKETPLACE
Institutional marketplace for Section 351 exchanges.
TAX-LOT OPTIMIZATION
Advanced analytics to maximize tax outcomes and after-tax wealth.
ETF SEEDING
Create diversified, liquid ETFs with tax efficiency.
ADVISOR WORKFLOW
Streamlined end-to-end workflow for advisors.
Sources include ExchangiFi website and info sheet (May 2026), ExchangiFi newsroom (Oct 2025), and BNY (June 2026).

EXCHANGIFI

SMARTER 351 EXCHANGES

What ExchangiFi Is

Positioning, Core Role, and Why It Matters

1 Executive Summary

- ExchangiFi is an early-stage wealthtech / ETF infrastructure platform focused on **Section 351 ETF exchanges.**
- It positions itself as the **'351 Exchange Marketplace'** connecting advisors with ETF issuers.
- Its objective is to help investors with appreciated taxable securities contribute eligible securities into newly launched ETFs in exchange for ETF shares, generally seeking **tax deferral** if qualified.
- The broader strategic value is not just tax deferral, but also **diversification, ETF seeding, and scalable advisor workflow.**

2 Core Platform Functions

351 ETF marketplace
Curated access to eligible Section 351 exchanges and ETF opportunities.

Portfolio eligibility screening
Identify securities that may qualify for tax-deferred Section 351 contributions.

Tax-lot optimization
Advanced analytics to maximize tax outcomes and after-tax wealth.

Client/account dashboard
Real-time portfolio status, pipeline visibility, and exchange tracking.

Issuer connectivity / seed tracking
Integrated connectivity with ETF issuers and visibility into seed progress.

3 Why the Market Cares

77 U.S. ETFs launched with approx. **$16.6B** in seed assets from individual investors as of May 2026 (BNY).

59 ETFs, **$12.8B** of launch AUM, and **$7.1B** of aggregate cost basis in March 2026 snapshot.

BNY execution services supported approx. **$4B** in Section 351 conversion activity over the past two years.

Strategic Takeaway

ExchangiFi is trying to become the workflow and marketplace layer for a fast-forming tax-aware ETF seeding channel.

Sources: ExchangiFi website & info sheet (May 2026); ExchangiFi newsroom (Oct 2025); BNY (June 2026).

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Product Architecture and Workflow

How ExchangiFi Converts 351 Complexity into Advisor Workflow

Platform Architecture

1. Marketplace layer
open or upcoming syndicated 351 ETF opportunities.

2. Screening layer
client holdings, liquidity, tax lots, and diversification testing.

3. Optimization layer
identify the exact mix of shares / tax lots to contribute while maximizing deferred gains and preserving compliance.

4. Workflow layer
documentation, commitment tracking, and account-level exchange management.

5. Connectivity layer
ETF issuers, custodians, APs, and fund operations.

From Portfolio to ETF Shares: The ExchangiFi Workflow

1. Advisor / Client Portfolio →
2. 25/50 and eligibility analysis →
3. Tax-lot optimization →
4. ETF launch matching →
5. Documentation and commitment ↓
6. In-kind contribution →
7. ETF shares received

Why the Optimization Engine Matters

Live market prices
Real-time pricing and liquidity data across markets and venues.

Tax-lot specificity
Lot-level cost basis, holding period, and wash-sale considerations.

ETF look-through analysis
Understand underlying holdings, concentration, and diversification impact.

Share-class consolidation
Aggregate share classes to maximize efficiency and minimize friction.

Execution-ready output
Actionable files and instructions for issuers / custodians / APs.

Key Product Differentiator

ExchangiFi's strongest defensibility is turning tax rules into operational instructions.

Sources: ExchangiFi website; ExchangiFi newsroom (Oct 2025); BNY (June 2026).

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Market Need and Best-Fit Use Cases

The Problem ExchangiFi Solves in Taxable Wealth Management

The Core Problem

Taxable portfolios become trapped by embedded gains.
Highly appreciated positions create tax drag and limit flexibility.

Direct indexing and long-lived SMAs accumulate low-basis positions.
Over time, portfolios concentrate gains and reduce future tax efficiency.

Rebalancing or manager changes can trigger tax costs.
Realizing gains to adjust portfolios or switch managers is often inefficient.

ETF sponsors need better launch-AUM pathways.
Securing meaningful seed capital without taxable realization is difficult.

Market Snapshot

77
U.S. ETFs launched with approx. **$16.6B** in seed assets from individual investors as of May 2026

59
ETFs, **$12.8B** of launch AUM, and **$7.1B** of aggregate cost basis in March 2026 snapshot

$4B BNY execution services supported approx. **$4B** in Section 351 conversion activity over the past two years.

Best-Fit Use Cases

Diversified appreciated stock baskets.
Broadly diversified positions with embedded gains are ideal for ETF seeding.

Legacy SMA transitions.
Move existing separately managed accounts into ETFs without realizing gains.

Mature direct-indexing accounts with few remaining losses.
Maximize tax efficiency by contributing appreciated positions.

High-net-worth taxable portfolios needing simplification.
Streamline portfolios while avoiding unnecessary tax costs.

ETF issuers seeking seed capital.
Access long-term, tax-efficient seed assets to support ETF launches.

Not Ideal For

Single-stock concentration. Lack of diversification increases idiosyncratic risk.

Private / illiquid assets. Illiquid holdings may be ineligible or difficult to contribute.

Mutual funds in many workflows. Fund structures and tax rules can create operational complexity.

Investors needing near-term cash. Section 351 contributions are long-term and not suited for liquidity needs.

Sources: ExchangiFi info sheet (May 2026); BNY (June 2026); general 351 exchange analysis.

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Business Model and Stakeholder Value

Where ExchangiFi Creates Economic and Strategic Value

Potential Revenue Streams

1	Advisor SaaS Subscription	Recurring subscription for advisor platform access, tools, and portfolio workflow.
2	Issuer Listing Fees	Upfront and annual fees for ETF issuers to list and showcase 351 ETF products.
3	Asset-Based / Success Fee Potential	Share of assets raised or performance-based fees tied to successful placements.
4	Enterprise Licensing	Licensing platform infrastructure and APIs to custodians, RIAs, and fintech partners.
5	Data / Analytics	Monetize aggregated insights, market data, and anonymized workflow analytics.
6	White-Label Infrastructure	Power third-party tools and marketplaces with white-label 351 infrastructure.

Strategic Value by Stakeholder

RIAs / Advisors
- Streamlines 351 workflow end-to-end
- Delivers tax-efficiency and client outcomes
- Differentiates practice and retains assets

ETF Issuers
- Direct access to qualified advisor base
- Lower cost, faster path to market
- Data-driven insights for product fit and positioning

Custodians & APs
- Integrated connectivity and automation
- More efficient creations and redemptions
- Expanded asset flow and scale

End Investors
- Tax-aware ETF solutions for 351 assets
- Greater choice and better outcomes
- Transparency and alignment of interests

Advisor Benefits

Tax-Alpha Service
Deliver meaningful tax deferral and wealth compounding benefits to clients.

Improved Client Retention
Deepen relationships with differentiated, outcome-driven solutions.

Reduced Spreadsheet Work
Automated workflows reduce manual effort and operational risk.

Preserved AUM
Keep appreciated assets in-client and on-platform longer.

Scalable Workflow
Standardized, repeatable process scales across advisors and teams.

Issuer Benefits

Launch AUM Momentum
Seed capital and qualified flows early in product life cycle.

Access to Advisor Distribution
Tap engaged advisor networks focused on 351 opportunities.

Stronger Pre-Launch Visibility
Pipeline analytics and signals inform product and go-to-market.

Differentiated Distribution
Compelling, tax-aware platform drivers sustainable flows.

Seed Tracking & Accountability
Transparent tracking of seed sources and advisor influence.

The highest-value path is likely **B2B infrastructure plus issuer-side distribution economics,** not just a standalone advisor calculator.

Sources: ExchangiFi website & info sheet; BNY (June 2026); strategic analysis.

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Competitive Positioning and Ecosystem

Where ExchangiFi Sits in the Emerging 351 Infrastructure Stack

1 Competitive Set

351-specific marketplaces / registries	• 351.tax • Section351ETF sites • Emerging niche portals
Issuer-led internal workflows	• ETF issuers' proprietary tools • Internal legal & tax ops workflows
Custody / ETF administration providers	• BNY • State Street • Northern Trust
Direct indexing and tax-aware transition platforms	• Direct indexing platforms • Tax-managed transition providers

ExchangiFi's advantage: singular focus on Section 351 exchanges and end-to-end workflow specificity.

2 The 351 Ecosystem

3 Current Competitive Edge

First-mover category association
Strong brand and awareness as the category definition evolves.

Two-sided marketplace design
Aligned incentives across advisors, issuers, and service providers driving liquidity and scale.

Specialized tax-lot optimization
Purpose-built analytics for 351 tax efficiency, realized loss harvesting, and cost basis outcomes.

Market education
Leadership in educating advisors, issuers, and investors on 351 opportunities and mechanics.

Workflow orchestration
End-to-end orchestration across data, legal, tax, and operations for a seamless experience.

Core Vulnerability | If Section 351 becomes mainstream, larger custodians, ETF administrators, and wealth platforms may internalize similar capabilities.

Sources: ExchangiFi website; ExchangiFi newsroom; BNY (June 2026); strategic analysis.

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SWOT Analysis

ExchangiFi's Strategic Position at a Glance

S — STRENGTHS

- Category focus
- Two-sided marketplace
- Tax-lot optimization
- Strong category tailwinds
- Issuer-side utility
- Advisor value proposition
- Operational relevance

W — WEAKNESSES

- Early-stage market
- Complex compliance perimeter
- Reliance on external parties
- Episodic transaction frequency
- Education burden
- Data integrity burden
- Risk of being viewed as a niche tool

O — OPPORTUNITIES

- RIA adoption
- Enterprise custody partnerships
- ETF issuer distribution
- Direct-indexing transition layer
- TAMP / UMA integration
- White-label infrastructure
- Expansion into broader tax-aware transition planning

T — THREATS

- IRS scrutiny
- Large-incumbent replication
- Issuer internalization
- Failed transaction risk
- Commodity calculator risk
- Suitability concerns
- Market cyclicality

BOTTOM LINE FROM SWOT

ExchangiFi's upside is meaningful if it becomes embedded infrastructure; its risk is that the market matures into a function owned by larger incumbents.

Sources: ExchangiFi website; BNY (June 2026); strategic analysis.

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Risks, Strategic Outlook, and Bottom Line

What ExchangiFi Must Prove to Become Durable Infrastructure

Key Risks

Advice-boundary risk
Must avoid crossing into personalized tax or investment advice; stay within informational guardrails.

Bad-ETF / suitability risk
Poor-performing or ill-suited ETFs could create reputational and liability exposure.

Single-stock misunderstanding risk
Investors may underestimate basis, holding period, and liquidity complexities.

IRS scrutiny risk
Regulatory attention could increase if 351 processes are perceived as aggressive or non-compliant.

Incumbent platform risk
Custodians, wealth platforms, and ETF issuers could replicate or internalize the workflow.

Execution / data integrity risk
Errors in tax lots, cost basis, or documentation could derail exchanges and damage trust.

What ExchangiFi Must Prove

1. **Attract enough advisors**
   Build trust with RIAs, hybrid advisors, and tax specialists who control the 351 workflow.
2. **Attract enough quality ETF issuers**
   Recruit ETF sponsors willing to launch or seed differentiated, tax-efficient 351 ETF solutions.
3. **Reduce execution risk**
   Deliver accurate tax-lot optimization, compliance-ready documentation, and operational reliability.
4. **Stay inside the right regulatory lane**
   Operate transparently, document the informational nature of the platform, and monitor IRS guidance.
5. **Become embedded, not optional**
   Integrate into advisor, custodian, and issuer workflows to become the default infrastructure.

Strategic Outlook

Base Case – respected niche platform for syndicated 351 ETF launches
ExchangiFi becomes the go-to independent platform for advisor-led 351 ETF exchanges and selective issuer partnerships in a multi-platform ecosystem.

Upside Case – dominant independent 351 exchange infrastructure layer
Exchanges, data, and compliance infrastructure become indispensable. Network effects create strong moats and pricing power.

Downside Case – incumbents internalize the workflow
Custodians, platforms, or issuers build native solutions, commoditizing the workflow and leaving ExchangiFi as more of a lead-gen marketplace.

Bottom Line

ExchangiFi is strategically interesting because it is trying to become the operating layer for a new tax-aware ETF conversion market. Its success will depend on whether it becomes trusted workflow infrastructure rather than just a calculator.

- Is the market large enough?
- Can ExchangiFi embed into advisor/custody workflows?
- Can it stay ahead of incumbents?

Sources: ExchangiFi website; BNY (June 2026); strategic analysis.