

OPINION

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Introduction of Listed Share Classes for Public Offering Funds: Prospects and Challenges

Listed share classes of public offering funds will begin trading on October 27, 2025, starting with two funds. The introduction of listed share classes for public offering funds is regarded as a viable alternative that can broaden investment choices for investors who prefer active management in the indirect investment market while preventing the decline of active management. For successful market establishment in the early stages, it is essential to actively encourage existing investors in other share classes to switch to listed share classes and attract new capital from pension funds planning to invest in public offering funds. Going forward, the fundamental issue of declining active management in public offering funds must be addressed by designating additional innovative financial services, primarily targeting active equity fund specialist asset managers. However, listed share classes of public offering funds have significantly lower distribution fees compared to other share classes, which does not align with the incentive structure of fund distributors. Considering the rapidly increasing number of ETFs and assets under management, there is also a shortage of securities firms that can participate as authorized participants (APs) and liquidity providers (LPs). Therefore, for the long-term stable development of listed share classes of public offering funds alongside ETFs, policy consideration is needed on how to establish incentive structures for all participants, including distributors, APs, and LPs.

Listed share classes of public offering funds will launch on October 27, 2025, beginning with the listing and trading of two funds. This represents the first outcome of several processes, including the Financial Services Commission's announcement of the "Plan to Enhance

* All opinions expressed in this paper represent the author's personal views and thus should not be interpreted as Korea Capital Market Institute's official position.

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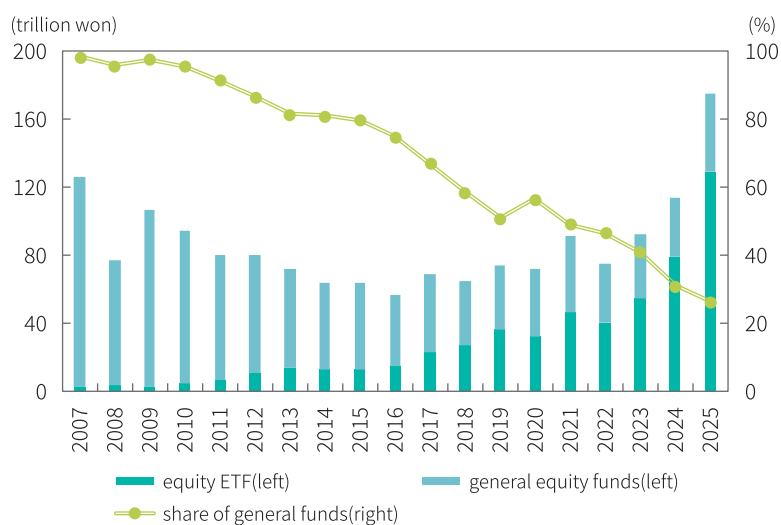
Competitiveness of Public Offering Funds" on January 3, 2024, subsequent designations of innovative financial services (November 13, 2024, and April 16, 2025), and the Korea Exchange's implementation of operating regulations and enforcement rules (May 12, 2025). This article examines the background and expected effects of introducing listed share classes for public offering funds and discusses future policy challenges.

Background and Institutional Framework

The introduction of listed share classes for public offering funds stems from concerns about the sharp decline of actively managed funds, particularly active public equity funds. Since the mid-2010s, the center of Korea's public offering fund market has rapidly shifted from general funds to ETFs. The net asset value of general equity funds, which exceeded KRW 123 trillion at the end of 2007, decreased to KRW 46 trillion as of October 15, 2025. In contrast, equity ETFs increased their net asset value from KRW 2 trillion to KRW 128 trillion during the same period. This indicates that indirect investment demand for equities has moved from active management to passive management. While the shift in investment demand toward ETFs is inevitable due to their decisive advantages of low investment costs and easy trading, the decline of active management can cause various problems. The decline of active management and the expansion of passive funds are evaluated as potentially weakening the foundation of asset managers' competitiveness, such as discovering undervalued companies and creative product design, and causing capital concentration in large-cap companies (Anadu et al., 2020; Blitz, 2014).¹⁾ The view that balanced growth between ETFs and public offering funds is necessary reflects recognition of the positive functions of active management, and the introduction of listing classes is part of that policy effort.²⁾

1) Anadu, K., Kruttli, M., McCabe, P., Osambela, E., Shin, C., 2020, The Shift from Active to Passive Investing: Potential Risks to Financial Stability? *Financial Analysts Journal* 76(4), 23-29; Blitz, D., 2014, Invited Editorial Comment: The Dark Side of Passive Investing, *Journal of Portfolio Management* 41(1), 1-4

2) Although the domestic active ETF market has grown, active ETFs account for only 6% of all equity ETFs (Kim, Jaechil, 2025, "The Rise and Challenges of Active ETFs," KCMI Issue Report 25-15).

<Figure> Trends in Net Asset Value of Public Equity Funds

Note: The share of general funds represents the proportion of general equity funds within total public equity funds (equity ETFs + general equity funds).
Based on year-end figures; 2025 data as of October 15

Source: Korea Financial Investment Association

Listed share classes of public offering funds involve adding a new listed share class (X-class) to existing multi-class public offering funds already launched and under management. The core concept is to incorporate the unique advantages of ETFs into public offering funds by listing specific share classes of multi-class public offering funds on the Korea Exchange. Therefore, the distinctive structure of ETFs—such as the dual pricing system where fund net asset value and exchange trading prices coexist simultaneously, and the roles of authorized participants (APs) and liquidity providers (LPs) to maintain smooth arbitrage mechanisms—applies equally to listed share classes. In other words, listed share classes of public offering funds and ETFs are substantially identical in economic substance. However, since listed share classes fall under multi-class collective investment schemes, it is difficult to directly apply Article 234 of the Capital Markets Act and the Korea Exchange's KOSPI Market Listing Rules, which govern ETFs (listed index collective investment schemes). Accordingly, the Financial Services Commission designated all financial services necessary for operating and managing listed share classes of public offering funds as innovative financial services under the Special Act on Support for Financial Innovation, thereby applying the financial regulatory sandbox. Through this, the Financial Services Commission granted various exemptions to enable listed share classes

within multi-class collective investment schemes to operate like ETFs.³⁾ The Korea Exchange established operating regulations and enforcement rules for the Listed Securities Market for Multi-Class Collective Investment Schemes, thereby establishing detailed regulations related to listing public offering funds. According to these regulations, listed share classes of public offering funds operate and are managed in substantially the same manner as ETFs, though important differences exist. While ETFs are subject to a correlation coefficient maintenance obligation with tracking indexes for both passive and active management, listed share classes are not subject to correlation coefficient maintenance obligations. In other words, this removes an important barrier to adding listed share classes for active funds. While daily disclosure of asset composition is inevitable for facilitating arbitrage, this burden on asset managers has been partially alleviated by requiring disclosure of at least 70% of constituent assets based on asset value.⁴⁾

International Trends

Internationally, movements to add ETF share classes or listed share classes to multi-class funds are gaining momentum and attracting attention as one strategy for asset managers to enter the ETF market. In the global fund market, the idea of adding listed share classes to multi-class funds was initiated by Vanguard, a large U.S. asset manager. In 2001, Vanguard obtained an exemptive order from the U.S. Securities and Exchange Commission (SEC) to add an ETF share class to its flagship index mutual fund, the Vanguard Total Stock Market Index Fund, and even secured U.S. patent rights for this concept.⁵⁾ Vanguard subsequently added ETF share classes to numerous index mutual funds under management. After Vanguard's patent expired in May 2023, over 60 global asset managers, including BlackRock, State Street Global Advisors, and Fidelity, applied to the SEC for exemptive orders to add ETF share classes to multi-class mutual funds established in the United States.⁶⁾ The SEC officially expressed its willingness to

3) Financial Services Commission (FSC), November 13, 2024, Designation of 34 innovative financial services involving exchange-traded services through the introduction of listed share classes for public offering funds, Press Release

4) Under the Capital Markets Act, an exchange-traded collective investment scheme (ETF) must disclose its full portfolio holdings on a daily basis. This disclosure is essential to minimize discrepancies between the fund's net asset value (NAV) and its market trading price.

5) However, the SEC at that time only permitted adding ETF share classes to index multi-class mutual funds (MorningStar, 2025. 6. 11, Vanguard requests active ETF share classes; K&L Gates, 2025. 9. 30, Is the industry ready for ETF Share class?).

6) Most of these are active funds.

approve Dimensional Fund Advisors' application on September 29, 2025, and is expected to grant the exemptive order soon (K&L Gates, 2025. 9. 30). Since the fund structures of asset managers that submitted applications to the SEC have almost no differences, applications from other asset managers for exemptive orders are also expected to be approved soon. Consequently, numerous active specialist managers are projected to raise the competitive intensity of the U.S. active ETF market through ETF share classes.

Outside the U.S., countries with mature ETF markets also allow ETF share classes or listed share classes within multi-class funds. Australia permits both listed and unlisted classes within the same fund via "Quoted Managed Funds".⁷⁾ In Luxembourg and Ireland, the registration and approval centers for UCITS funds in the EU region, it is confirmed that ETF share classes can be added within UCITS-structured funds.⁸⁾ ETF share classes approved in these two countries can be listed and traded in EU member countries where UCITS funds are accepted.

The fact that major countries with developed fund and ETF markets permit adding ETF share classes or listed share classes to multi-class funds is significant in several respects. First, financial authorities in each country actively engage in regulatory easing if it benefits investor interests. In the global fund market recently, it has become clearly evident that investors prefer ETFs, which have low investment costs, diverse products, and enable active responses to market changes. Accordingly, financial authorities in each country are responding to changes in investor demand by actively incorporating ETF characteristics into existing open-ended general funds under management. Additionally, it can be pointed out that active management will expand further in broadly defined ETF structures, including ETFs and multi-class fund ETF share classes. As seen in U.S. cases, most asset managers seeking to add ETF share classes to multi-class funds intend to introduce them for actively managed funds. This demonstrates one aspect of the expanding trend of active ETFs in the global ETF market. Furthermore, U.S. cases clearly prove that the expansion of the active ETF market significantly contributes to small and medium-sized asset managers securing market share in the ETF market.⁹⁾

7) Australian Securities & Investments Commission, 2024, Exchange traded products: Admission Guidelines, INFO230

8) Commission de Surveillance du Secteur Financier, 2014, Circulaire CSSF 14/592; Central Bank of Ireland, 2025, UCITS Questions and Answers, 42nd Edition

9) Kim, Jaechil, 2025, "The Rise and Challenges of Active ETFs," KCMI Issue Report 25-15

Expected Effects and Prospects of Introducing Domestic Listed Share Classes for Public Offering Funds

The expected effects of introducing listed share classes for public offering funds are as follows. As the center of the fund market shifted to ETFs, the position of traditional active management weakened significantly, but the introduction of listed share classes creates a pathway to add ETF advantages to active funds. Until now, small and medium-sized asset managers found it difficult to enter the ETF market due to intense competition in the passive ETF market and sharp declines in fee rates. These firms can enter the ETF market through active ETFs. However, asset managers find it difficult to apply existing active fund management strategies directly to active ETFs due to the correlation coefficient maintenance obligation (0.7 or higher) with tracking indexes imposed on active ETFs. If asset managers add listed share classes to existing multi-class public offering funds under management, they can manage products with structures identical to ETFs without changing management strategies. This will work as a greater advantage for asset managers who have not entered the ETF market and are relatively smaller in scale compared to asset managers already in the ETF market. Adding listed share classes to active public offering funds with proven management performance can also broaden investment choices for investors who prefer active management.

Since the rapid growth of the domestic ETF market, fund outflows continued even from public equity funds with excellent management performance.¹⁰⁾ The introduction of listed share classes for public offering funds is expected to partially help alleviate fund outflows from public offering funds. However, due to several constraints, it remains uncertain whether listed share classes can become established quickly. First, it is pointed out that introducing listed share classes is difficult to align with the incentive structure of distributors. It is the role of distributors to transfer investors holding various share classes of existing multi-class funds to listed share classes or attract new investors to listed share classes. Listed share classes for public offering funds pursue investment costs at ETF levels. Therefore, distribution fees will also decrease substantially. If the introduction of listed share classes fails to attract many new investors and merely results in transfers of investors from other share classes, declines in distributors' distribution fee revenue are inevitable. In other words, distributors lack sufficient incentives to

10) It is reported that among domestic active equity funds from 2012 to 2022, funds in the top 50% by excess return recorded an average annual excess return of 4.4%, but their average annual cash flow growth rate was -4.7% (Kim, Jaechil, 2023, "Changes in the publicly offered fund market and AMCs' responses", KCMI Issue Report 23-26).

actively attract investors. If distributors do not actively participate in listed share class business for public offering funds, many asset managers affiliated with distributors will also find it difficult to actively participate in expanding listed share classes.

Second, securing authorized participants (APs) and liquidity providers (LPs)—essential for listing class operation—will be difficult. As of October 15, 2025, 1,029 ETFs are listed domestically,¹¹⁾ yet only a limited number of securities firms possess the scale to operate as APs or LPs. Even in the ETF market, incentives for securities firms are modest; thus, participation in an unproven market for listed share classes could be even more limited.

Third, high requirements for funds eligible for listing in the early launch phase also constitute a constraint. The Korea Exchange restricted the minimum established amount of multi-class public offering funds eligible for listing to KRW 50 billion or more and excluded overseas equity funds from listing eligibility. This makes it difficult for small and medium-sized asset managers specializing in active equity funds to participate in listed share classes, and product diversity is also likely to be insufficient.

The final constraint that can be pointed out is whether individual investors can recognize that listed share classes for public offering funds are substantially identical to ETFs while having superior operational flexibility. Listed share classes follow the names of their parent multi-class funds and are distinguished only by the Class X designation. Existing investors in other share classes will be notified because they will be given the opportunity to convert to listed share classes. However, if distributors do not actively inform investors of the advantages of listed share classes, it appears difficult for new investors to recognize this on their own and invest actively.

Policy Challenges

For successful establishment of listed share classes for public offering funds, several additional tasks are necessary. First, listed share classes of asset managers designated as innovative financial services on November 13, 2024, and April 16, 2025, must be launched sequentially. Only two funds were launched for the first time. Other funds are presumed to require more time for coordination with distributors and trust companies and selection of APs

11) Korea Financial Investment Association

and LPs. While four securities firms have agreed to act as APs and LPs, expanding participation should be considered. Since a full incentive reform is difficult in the short term, regulatory authorities should coordinate closely with securities firms to ensure their participation in the market's formative stage.

Second, before each listed share class of public offering funds begins listing and trading, investors holding other share classes within the fund are given the opportunity to convert to listed share classes. However, this period is relatively short, around one month. This period should be extended, and investors should be notified in an efficient manner so that investors in other share classes can fully recognize that they can convert to listed share classes. Additionally, institutional investors such as pension funds should be encouraged to channel scheduled new public offering fund investments into listed share classes to accelerate asset growth early on—crucial for active AP/LP participation.

Third, while a variety of fund types—bond, short-term rate, and index funds—were selected to launch the program, the long-term expansion of listing classes must focus on active equity funds. The core challenge for public offering funds lies in the decline of active equity funds. Thus, additional active equity managers with strong track records should promptly be designated as innovative financial service providers and enabled to enter the listing-class market. Moreover, the existing fund size threshold (KRW 50 billion) should be lowered, and overseas equity funds should be included to broaden participation. Without these measures, entry barriers for small and mid-sized active equity managers will persist, limiting investor engagement.

Finally, the long-term success of the listing-class structure requires a well calibrated incentive system for all key participants—distributors, APs, and LPs. Particularly, the incentive structure for APs and LPs is critical, as the number of securities firms capable of assuming these roles is already insufficient relative to the surge in ETF count and AUM. As the number of listed share classes grows, this problem may intensify. Policymakers should examine, based on an objective assessment of current AP/LP revenues, costs, and risks in the ETF market, how to design an appropriate and sustainable incentive framework.