

CFA® SAMPLE QUESTION - LEVEL I

Alternative Investments

Q: An important benefit of an exchange-traded fund's (ETF) creation and redemption process is that it:

CORRECT ANSWER:

(b) provides capital gain tax relief to existing shareholders

The in-kind process allows for the creation and redemption of shares through the market makers, which operate outside the legal structure of the fund.

In a traditional open-end fund, when shares are redeemed, the manager must sell fund assets to pay off the redemption, thus possibly creating capital gains issues for the remaining fund shareholders.



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