US ETF Index and Benchmark Switches

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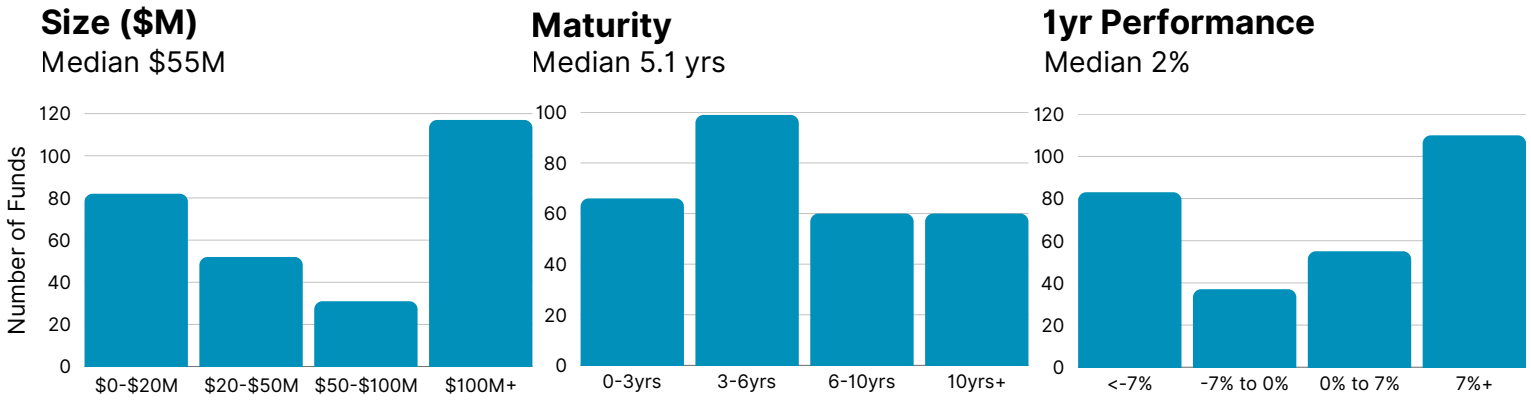
There are several ways for an index provider to grow assets tracking its indexes. The first is to create new indexes for newly launched products to track. The second is to help grow assets in existing products that already track their indexes. The third is to convert products with existing assets under management from competitor indexes to their own indexes.

In the large universe of ETFs, index and benchmark switches are a relatively rare event. There have been around 280 funds switching their target index in the history of ETFs in the US. Generally speaking, products that switch their index tend to be smaller, newer funds that are underperforming their peer group in terms of both organic growth and market performance. These funds often share characteristics with delisted products, and face the danger of being liquidated. Even after switching their target index, nearly 33% of the funds end up being liquidated. Exceptions to this trend include high AUM, low fee, simple quantitative, fixed income, and broad market funds.

ETF Switch Characteristics in the US – All Time



The Cost of Index Switches

Some ETF issuers may be tempted to switch to a new index provider to secure better margin and lower fees. Switching to a different index creates the opportunity to negotiate lower licensing fees, which can benefit investors if the savings are passed along through lower expense ratios. They may also switch for reasons that investors can't easily see. The new index may spread trading activity over several days or quarters instead of once or twice per year with the goal of reducing trading costs. However, to justify the legal and regulatory costs associated with such a switch, they would need a substantial reduction in fees and a significant increase in assets under management (AUM). The cost of refiling a prospectus and reconfiguring an ETF can exceed $100,000 - excluding annual operating expenses, which typically range from $100,000 to $250,000 or more. Since most funds that undergo an index switch are already small and unprofitable, changing providers for a modest 1–3 basis point reduction in index licensing fees, rather than shuttering the fund, can result in further financial strain. Given the already low cost of index licensing, an ETF would need to either be, or grow to, approximately $250 million in AUM to justify switching purely for cost reasons. This estimate does not include the intangible costs of index switches.

Source: Nasdaq Index Product Intelligence, Morningstar, Factset, Data as of 9/30/25

ETF AUM Needed to Pay for Switch in a Year Based on Fee Cost Saving

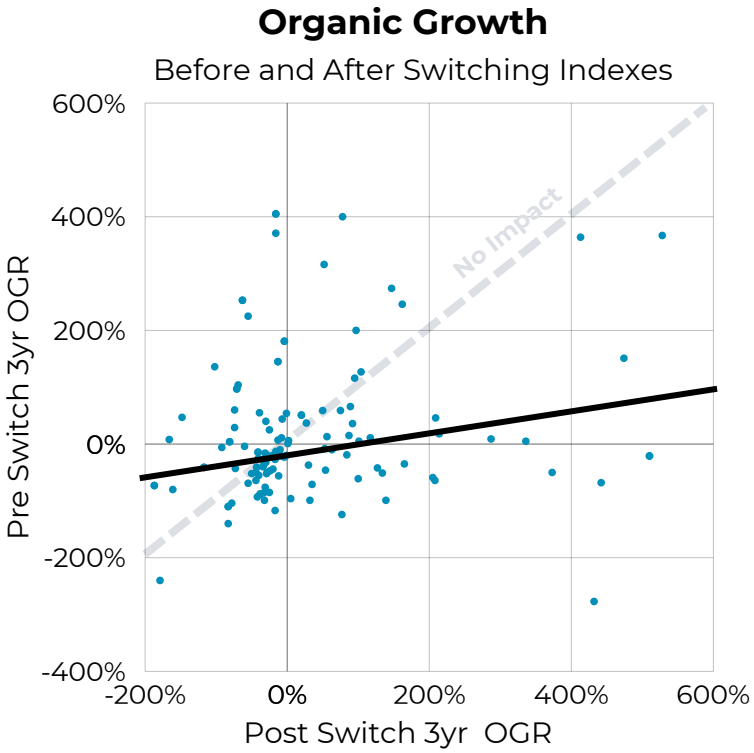
Fee Decrease	0.01	0.02	0.03	0.04	0.05	0.06	0.1	0.12	0.15	0.2
AUM	$1B	$500M	$333M	$250M	$200M	$167M	$100M	$83M	$66M	$50M

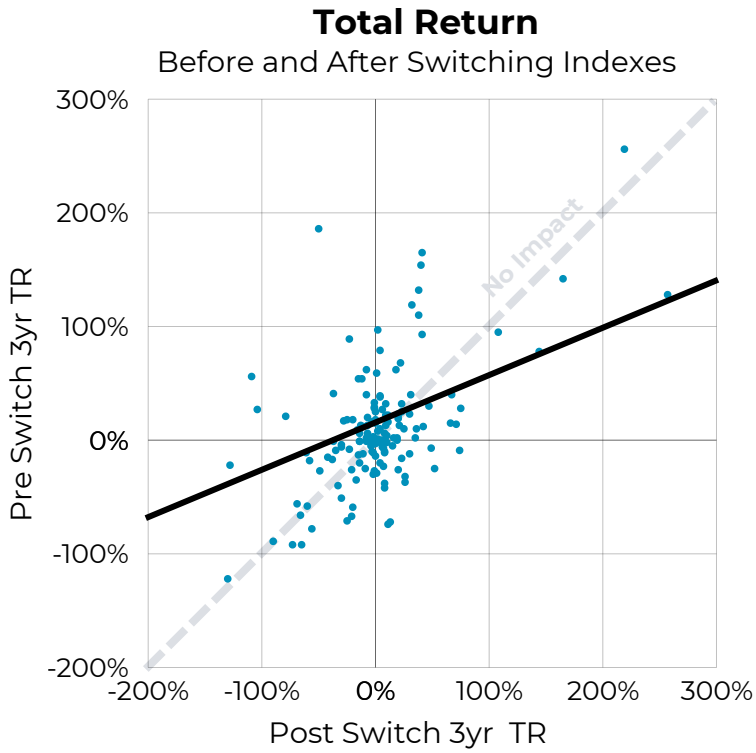
The Intangible Cost of Index Switches

Switching index providers on an existing ETF is far more complex than just covering refiling and legal expenses. Asset managers face a cascade of additional costs, including client-facing marketing material, retraining distribution teams, repapering with data vendors like FactSet and Bloomberg, and IT development to integrate new datasets into existing systems. There are also significant external costs tied to educating advisors, consultants, and clients about the change. For larger firms, these challenges are magnified – not only due to scale, but because the transition demands extensive cross-functional coordination and stakeholder alignment. In many cases, the internal lift and organizational buy-in required can outweigh the financial costs.

Performance and Organic Growth

Index Switches





The above charts compare the performance and organic growth of passive ETFs over a three-year period before and after they switched their index, subtracting the weighted average performance and growth of their respective category in order to remove the market effect of its underlying exposure. It is important to note that there may be a slight degree of survivorship bias. Approximately one third of funds that switch indexes end up being delisted, or in some cases, are not old enough to have three years of history. As a result, some are excluded from the charts due to insufficient performance data.

How Does an Index Switch Impact Organic Growth?

Over this period, index switches have shown a slight positive effect on organic growth and performance. If there were no impact, the line of best fit would have a slope of one. However, since the slope is less than one in both charts, the switches appear to have a positive impact. Because

Source: Nasdaq Index Product Intelligence, Morningstar, Factset, Data as of 9/30/25

index switches are disruptive to an ETF's day-to-day operations and often signal that a fund is struggling and in need of a shake-up, it follows that organic growth would be affected in the short term but steady out in the longer term. Furthermore, it may be more challenging to convince a wholesaler to start marketing the fund immediately as the track record is no longer as reliable.

How Does an Index Switch Impact Performance?

Performance is less impacted by index switches but still tends to skew slightly positive. If a switch is made due to poor performance, the new index may solve some underlying issues. By switching to a new index - often one that has outperformed in backtesting or recent history - the ETF provider may be better suited for future performance and changing market condition. The poor performance of the original index will also be baked into the index for the next 1-3 years as the new performance slowly replaces the old performance.

Benchmark Switches

Unfortunately, there are no readily available metrics on benchmark switches. Since active ETFs aim to outperform their benchmark or match it with lower volatility - rather than track it directly -performance is generally not impacted by a benchmark change. Therefore, a successful benchmark switch in an active ETF would likely result from increased organic growth in a smaller fund or reduced costs in a fund with existing assets. Switching from a lower-profile benchmark to a higher-profile one may help boost visibility and drive organic growth, especially with support from the index provider's distribution network. However, switching is costly, and underperformance is unlikely to be resolved by a benchmark change alone. As active funds are less tightly linked to their benchmarks than passive funds, there is typically less incentive for them to switch.

Relationship Management and Healthy Switches

Finding a traditional switch candidate is not difficult. These funds typically share characteristics with those on the path toward delisting. However, because switch candidates resemble delisting candidates, they also carry long-term delisting risk and tend to be unattractive targets for sustained revenue growth. When proactively identifying index switch opportunities, index providers should focus on non-traditional candidates.

A non-traditional switch target is a fund that is large enough to absorb the costs of a switch without significant disruption, has a benchmark that is underperforming its peers, and where the ETF provider is dissatisfied with the current index provider. Of these, the third factor, the status of the relationship between the ETF provider and the indexer, is likely the most influential. Unfortunately, this relationship is not publicly disclosed, and the reason for a switch is not a tracked data point, making it difficult to assess how often relational issues drive index changes.

Conclusion

Ultimately, as the ETF market becomes more saturated, index and benchmark switches may grow in frequency and importance as a revenue driver for index providers. For now, however, they offer limited value to ETF issuers unless the provider is actively seeking a change. The larger the fund, the more manageable the relative cost of switching. In the future, lagging funds or those seeking to reduce index costs - particularly those with over $500 million in AUM - may become viable proactive switch candidates.

Source: Nasdaq Index Product Intelligence, Morningstar, Factset, Data as of 9/30/25