

# THE PATH TO SUCCESS

**As the ETF market in Europe grapples with the challenges of market structure, transparency and regulation, Fiona Moore at Northern Trust explains the role that service providers can play in advising clients of the latest developments and their impact.**

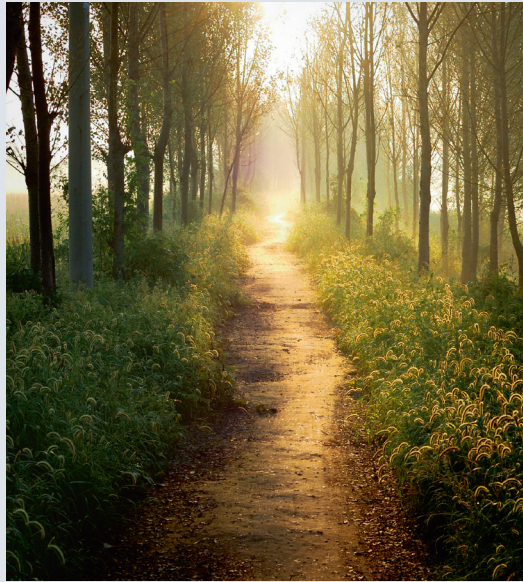
**THE EUROPEAN ETF** industry is in the midst of considerable change as it addresses some of the market structural issues restricting growth. The first is a new issuance model using International Central Securities Depositories (ICSDs). Because ETFs are issued and settled on the same basis as individual stocks, this creates extra cost for issuers when they have to list on multiple exchanges to reach a pan-European audience.

By issuing and thereby settling through a single ICSD that covers all EU markets, this process should be streamlined. “The fragmentation of the ETF market has been an issue for some time with issuers having to move their inventory from numerous different settlement systems throughout Europe and to issue multiple settlement instructions.

The ICSD model has the potential to remove some of these barriers,” says Fiona Moore, head of ETF fund administration for Northern Trust in Europe.

However the model is not yet widely used and features newly launched products with modest assets under management. Many are waiting to see how Target2 Securities, the European Central Bank’s platform for settling securities, evolves given that it is aiming to produce similar settlement benefits in terms of reduced settlement time and risk.

Another prominent topic in the European ETF market is trade reporting. It is estimated that as much as 60% of ETF trading is done over-the-counter and is currently not subject to any reporting obligation making it



hard to get a complete industry picture of liquidity or volume.

The forthcoming Markets in Financial Instruments Directive (MiFID II) proposes significant change for ETF trading because it will be part of the current pre- and post-trade transparency regime for shares.

It envisages there should be a consolidated tape of trade reports for ETFs. Also the possibility of a consolidated tape for European ETFs was raised by the European Securities Market Authority, which received a positive response from market participants.

## TRUE PICTURE

Added transparency should benefit everyone in the market says Moore. “Investors should see a true picture of liquidity and issuers should be able to target their products more accurately. In our role as asset servicer we can work with clients to devise a distribution strategy and more trade reporting will help that.”

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**PAVING THE WAY:**  
Moore says asset servicers have a key role to play in the ETF market.

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However, says Moore, it is one thing to talk about the benefits of the concept and quite another to understand exactly how it will be done. “There will be a lot of work involved in how the trades will be reported and how that reporting data will then be interpreted but it is definitely a move forward in the right direction.”

The use of ETFs for securities lending is another development that could have a positive effect on increasing liquidity within the European market but another where many of the finer details need to be worked through, comments Moore.

“Issues such as ETF classification, lending guidelines and collateral eligibility are among topics that need to be reviewed by the industry.”

With so many important issues under development, Moore believes asset servicers have a key role to play in the ETF market.

Moore says: “We are actively involved in these discussions and in regular dialogue with regulators and other industry players. This helps us to give a service provider’s perspective to any proposed changes as well as to ensure our clients are fully aware of any impact to their operating model that may result from new regulation or market developments. While the changes are challenging, they are steering the industry to greater opportunities which will help see a larger flow of assets into the European ETF marketplace.”

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