

The trusted guide

As ETF providers face a maze of operating challenges in the European market, **Fiona Moore** of Northern Trust tells Funds Europe how asset servicers can help steer them to their goals

THE EUROPEAN ETF market is a demanding environment for its participants, most notably its fragmented market structure and evolving regulatory demands. The obligation to list in multiple national markets rather than one pan-European order book creates extra cost for ETF providers. It also makes it more difficult to build effective distribution networks and generate sufficient liquidity.

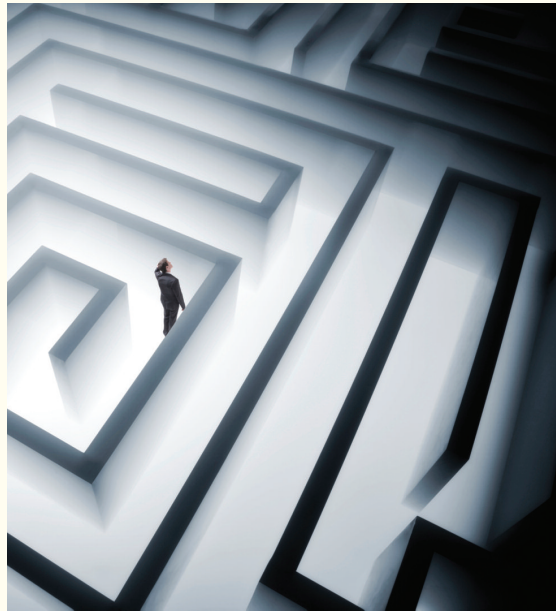
Consequently, it is vital that ETF providers are able to demonstrate to investors and in particular Authorised Participants (APs) that they have an efficient, scalable operating infrastructure, says Fiona Moore, head of ETF fund administration for Northern Trust in EMEA.

“Asset servicers have a key role in building this confidence through the infrastructure they deploy, supporting ETFs to manage the overall workflow and in particular the dealing and settlement process.”

On the processing side, it is crucial that clients’ internal platforms are well integrated with those of its asset servicer, says Moore.

“Having a single operating platform that can service all European markets is a pre-requisite. But that platform also needs to cater for the different legal, tax, regulatory and settlement requirements in each market and deliver the same standard of services.”

Moreover, streamlining the complex and potentially costly



cross-border settlement process is key, she says.

“At Northern Trust, we recognised this early on and developed a solution that enables the ETF to be treated like an equity trade and settled on a delivery versus payment basis in multiple jurisdictions across Europe.”

While the dominance of three to four ETF issuers does create challenges for new entrants in the market looking to launch new ETF products, an experienced asset servicer can be an important ally, Moore comments.

“Experience in building and running different ETF structures, a proven track record in launching and growing ETF platforms; and a thorough understanding of the level of support which is required to make the model work

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successfully are all areas where the asset servicers can add value.”

Looking forward, innovation will also be important for both new and existing ETF issuers, Moore concludes.

“At this point in the evolution of the European market, product choice and innovation are key – from the choice of replication methodology and investment strategy to choosing an index provider.

“As an asset servicer it is about investing time to get that operating infrastructure right so that ETF providers have a solid foundation from which to grow and to deal with any changes in the market be that innovation, market structure or new regulations. It is then about overlaying that infrastructure with a dedicated service team to develop an effective distribution network with the AP community in order to attract liquidity and investor demand.” fe

Quest: multiple listings and obstacles to liquidity make the European ETF landscape difficult to navigate alone