



Guiding light

As European ETFs face an intersection of challenges and opportunities, Northern Trust's Fiona Moore reviews these and explains how asset servicing providers can help drive the industry forward.

HedgeNordic: What are the key issues facing European ETFs today?

Fiona Moore: European ETF industry participants are currently dealing with potential wide-ranging changes around everything from market structure, transparency to regulation. While putting the granular details into action will be challenging, the outcome should remove many barriers to growth and help the industry realise its potential.

HedgeNordic: What is the size of the European ETF market?

Fiona Moore: Over the past decade the European ETF market has grown from US \$35 billion to around US \$450* billion representing more than 2000 exchange-traded products. While this growth can be described as meteoric, our industry is still over-shadowed by the US industry which has more than US \$1,860 billion exchange-traded product assets.*

HedgeNordic: Will the new issuance model help?

Fiona Moore: The advent of a new issuance model using International Central Securities Depositories (ICSDs) will potentially help address some of the structural issues impeding growth. As 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. This has resulted in a fragmented market, with issuers having to move their inventory from numerous different settlement systems throughout Europe and issue multiple settlement instructions. The ability to

issue and settle through a single ICSD that covers all EU markets centralises the process. Industry take-up, however, has been sluggish with only newly launched products and no existing conversions as yet.

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HedgeNordic: Could the introduction of Target2 Securities in 2015 be a factor?

Fiona Moore: It is probable that many providers are following developments to Target2-Securities (T2S), the European Central Bank's platform for settling securities as it is aiming to produce similar settlement benefits in terms of reduced settlement time and risk. Northern Trust recently announced a solution for supporting the new centralized delivery-versus-payment settlement in central bank funds across European securities markets, on behalf of our clients. However as the UK, Sweden and a number

of other countries are not included in T2S, an ETF trade moving from Crest to a T2S market will remain cross-border so Northern Trust's ETP Direct solution continues to offer advantages for settlement of such transactions. As Northern Trust acts as the central clearer for our clients' ETF units, ETP Direct allows Northern Trust to mark up the shares in one settlement system and down in another, thereby seamlessly moving stock between CSDs without using the cross-border links.

HedgeNordic: How is the ETF industry impacted by the Markets in Financial Instruments Directive?

Fiona Moore: The forthcoming Markets in Financial Instruments Directive (MiFID II) proposes significant change for ETF trade reporting. Under revisions proposed to take effect from January 2017, the pre and post-trade transparency regime for shares would be extended to cover ETFs. It also envisages that there should be a consolidated tape of trade reports for ETFs. At the same time, a consolidated tape for European ETFs also has been raised by the European Securities Market Authority, receiving a positive response.

HedgeNordic: What will the benefits be?

Fiona Moore: Added insights into market liquidity will be welcomed by investors while 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 to do that.

HedgeNordic: Will this be easy to implement?

Fiona Moore: This is by no means a 'plug and play' change. A lot of work will be involved in how the trades will be reported and how that reporting data will be interpreted.

HedgeNordic: What are your views on the use of ETFs for securities lending?

Fiona Moore: The use of ETFs for securities lending could also enhance liquidity within the European market. There are, however, many issues that need to be reviewed by the industry such as ETF classification, lending guidelines and collateral eligibility.

HedgeNordic: How are ETF asset servicing providers supporting these developments?

Fiona Moore: We approach the evolving regulatory and market structure changes at both an industry and client-facing level. Through our regular contact with regulators and other industry stakeholders, we contribute to industry consultations and debate where appropriate. This helps to ensure a service provider's perspective is taken into consideration. As an organisation we are committed to enhancing and

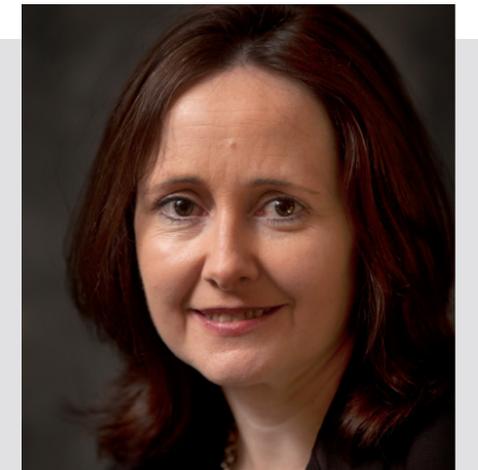
developing our operating infrastructure to give ETF providers a solid foundation from which to grow. For example, our ETF technology solution integrates core processing systems within Northern Trust and monitors the entire ETF deal lifecycle.

HedgeNordic: How would you sum up the future for European ETFs?

Fiona Moore: While the European ETF industry faces challenges to adapt to the latest round of regulatory and market developments, these will ultimately lead to a greater inflow of assets.

*As reported in Blackrock ETP Landscape Report, October 2014.

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Northern Trust is a highly experienced provider of asset servicing solutions for ETFs in Europe. Its ETF operations are part of its Global Fund Services business which has over 30 years' experience administering the full spectrum of investment strategies across traditional and alternative asset classes including hedge, private equity, real estate and tax-transparent funds.