



Central Bank consults on ETFs

In light of the continued significant growth of Exchange Traded Funds (“ETFs”) in recent years, the Central Bank of Ireland (“CBI”) has today published a discussion paper on ETFs. In this comprehensive discussion paper the CBI has invited the views of stakeholders to inform the CBI’s participation in a wider regulatory discussion on the future of ETFs and ETF regulation. The paper draws on a considerable amount of academic and industry research as well as an ETF industry survey undertaken by the CBI in October 2016.

The over-arching themes and matters for discussion are set out below.

Over-arching themes

Investor expectation

The CBI notes the increased retail investment in ETFs under the UCITS brand and questions whether retail investor expectations are realistic in the context of how an ETF might perform in difficult market conditions.

Liquidity

The paper discusses liquidity at a primary and secondary market level, as well as the liquidity of the underlying assets.

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Increasing popularity of ETFs

The significance of the recent record inflows into global ETFs and whether the current regulatory framework can cope with such growth is considered throughout the paper. In this context it should be noted that the CBI does not currently anticipate the need for further regulations arising from this discussion paper.

Matters for discussion

ETF Dealing

Specific questions posed by the CBI touch on topics such as public disclosure of the identity of Authorised Participants (“APs”), transparency and the concept of ETF share classes within a Non-ETF investment fund.

Distinctive ETF risk factors

Stakeholders are asked to provide views on Conflicts of Interest rules, the potential impact of multiple counterparty exposures and whether ETF collateral quality is sufficiently regulated and disclosed.

Particular types and features of ETFs

The CBI invites views on how an actively managed ETF should be regulated and whether the transparency of portfolio composition is fundamental to the nature of an ETF.

ETFs and Market Liquidity

The CBI notes the liquidity management rules applicable to UCITS ETFs. The CBI asks what liquidity practices ETFs follow and what other practices might be appropriate. It is also suggested that the increased investment in index-tracking ETFs has resulted in an informational disconnect with the underlying securities and asks what, if anything, ETF providers and regulators can do to mitigate this impact.

Conclusion

Dillon Eustace welcomes the timely publication of this discussion paper and looks forward to engaging with the CBI and the wider ETF and funds industry on the points discussed. The closing date for receipt of responses by the CBI is 11 August 2017.

Should you wish to discuss, or respond to any of, the questions raised in the discussion paper, please contact a member of the Dillon Eustace ETF team.

Further Information

The discussion paper may be viewed at the following link;

[Exchange Traded Funds CBI discussion paper](#)

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