

Exchange Traded Funds (“ETF”) have become one of the most popular investment vehicles as they enable exposure to a variety of global industries, asset classes and exchanges.

The European ETF industry has grown significantly, with record volumes and assets under custody and accelerated growth anticipated as a result of lower returns across several other asset classes .

While the European ETF market is deemed inferior to that in the US, it has been fast expanding in recent years.

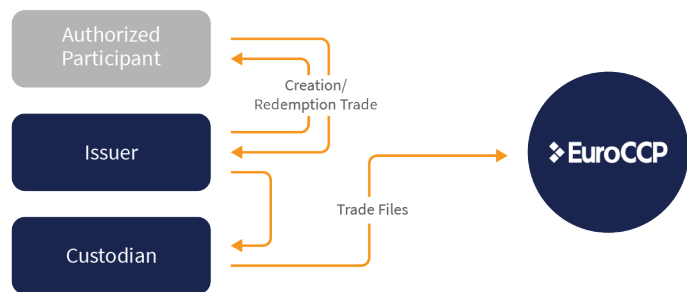
Importantly, the ETF post trade infrastructure in the US differs from that in Europe, impacted by dual listings across multiple exchanges, one CCP vs. many CCPs and one CSD vs. many CSDs.

Seventy percent of ETF trading in Europe is OTC, which is not cleared and therefore introduces credit risk, high settlement costs and risk of failure.

EuroCCP is expanding its ETF clearing business and will offer solutions to mitigate against the European post trade challenges, all of which will further assist in the growth of European ETFs

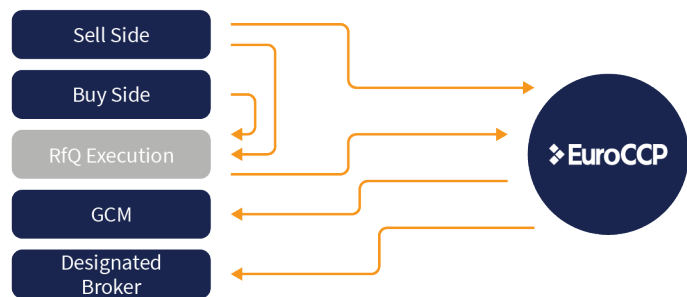
1. Clearing the Primary Market

EuroCCP is working jointly with ETF issuers, Authorised Participants & Custodians to advocate the creation and redemption of European ETFs via EuroCCP, including the settlement of underlying securities, which can net with existing obligations.



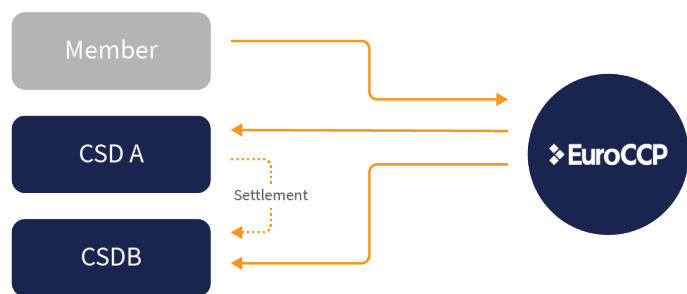
2. Clearing the Secondary Market

EuroCCP is connecting to ETF RfQ platforms in order to introduce CCP clearing to the bilateral OTC market. Operating models include having the buy side access EuroCCP through clearing relationships or designated broker solutions.



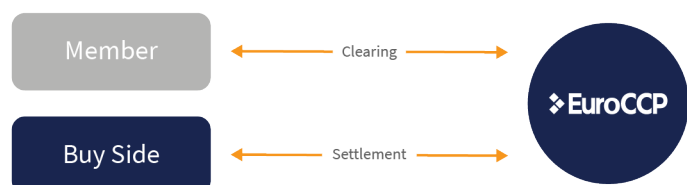
3. Cross CSD Settlement

EuroCCP is building a service to assist with the fragmented settlement of dual listed ETFs. In 2018, there were over 2000 ETF/ETPs, with over 7000 listings across 27 exchanges in 21 countries. With the unique direct access to 15 CSDs and 2 ICSDs, EuroCCP can facilitate the movement of ETFs across CSDs with a streamlined and automated solution.



4. Settlement Allocation Service

EuroCCP will offer its members a service to allocate settlement positions to the end clients, allowing for EuroCCP to settle directly with them, reducing settlement volume, cost and operational risk. The service is designed specifically for ETF RfQ activity cleared via Designated Brokers, but is adaptable for wider trading solutions such as DMA and Sponsored Access.



Product Features & Benefits

All products will introduce Clearing benefits to existing clearing members and new types of participants (issuers, custodians & buy side), including:

- reducing settlement positions through netting, minimising counterparty risk
- improving counterparty risk by facing a qualified CCP vs. multiple OTC counterparties
- reducing regulatory capital requirements
- introducing streamlined and efficient operations in a cleared environment.

With netting and CCP settlements, the services mitigate against the risks and increased costs associated to CSDR settlement penalties and buy-ins coming into force in 2021.

European ETFs with underliers settling in 15 major CSDs & Euroclear Bank and Clearstream Banking Luxembourg included in the service.

To find out more about these ETF initiatives, contact us

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