

## VIDEO

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# Focus on Funds: ICI Expands Its Work on Exchange-Traded Funds

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## ICI Expands Its Work on Exchange-Traded Funds

In the October 31, 2014, edition of *Focus on Funds*, ICI's top experts on ETFs outline the findings from their first joint research paper, and preview what's next in the series.

### Transcript

**Stephanie Ortballs-Tibbs, ICI Director, Media Relations:** Welcome to *Focus on Funds*, the Investment Company Institute's weekly roundup of industry news, ICI activities, and research findings.

As the role of exchange-traded funds grows within the mutual fund industry, ICI is picking up its research and analysis of this area. Here's some insight on our first research paper.

So this is the Institute's first paper on ETFs, but it's going to begin a series of reports. What's the driver?

**Shelly Antoniewicz, ICI Senior Economist:** Well, as the size and scope of the ETF industry has grown, and the use of ETFs has become more widespread across retail and institutional investors, naturally, interest in ETFs—how they operate, how they're structured, how they interact with the financial markets—has also increased.

**Size and Scope of ETF Industry Have Increased Dramatically  
Billions of dollars**

Note: Data for ETFs that invest primarily in other ETFs are excluded from the totals.

Source: Investment Company Institute

**Stephanie Ortballs-Tibbs:** So, speaking of structure, there's a lot of detail in this report about how ETFs are structured and about regulatory matters affecting ETFs. What do we see there?

**Jane Heinrichs, ICI Senior Associate Counsel:** Yes, so the paper provides a very detailed description of the regulatory process that a fund sponsor would need to follow in

order to launch an ETF. For example, most ETFs are subject to the same regulatory requirements that other registered funds are, under the Investment Company Act. However, unlike other funds, they must receive exemptive relief from certain provisions under the act before they can commence operations.

**Stephanie Ortals-Tibbs:** So you lay this out in great detail. It's a primer?

**Jane Heinrichs:** Oh, yes, definitely. We talk about the process and we also lay out all the exemptions that are needed.

**Stephanie Ortals-Tibbs:** So, the data in this report is interesting. It's really designed as a framing device, both in this report and for the reports going forward. What is the data telling us in this report and what is it designed to do?

**Shelly Antoniewicz:** Well, the question that we wanted to look at in this paper was how do investors access liquidity in ETFs, and what we found was that 90 percent of the activity is being done on the secondary market, where ETF shares are being traded, bought, and sold among investors. Now, the implication of this finding is that there is little to no impact on the underlying securities from these transactions.

#### **Most ETF Activity Occurs in the Secondary Market**

Sources: Investment Company Institute and Bloomberg

**Stephanie Ortals-Tibbs:** So, a lot in this first paper, how does this work going forward. I think you're picking it up globally?

**Jane Heinrichs:** That's correct. So, in a companion piece to our review in this paper of the U.S. ETF market, we are going to be doing a paper that will examine the ETF market in various regions around the world. So, for instance, those funds that originate in Europe, those funds that are in Asia, possibly Latin America and Canada as well.

**Stephanie Ortals-Tibbs:** And, finally, what does the deeper dive into the data look like going forward?

**Shelly Antoniewicz, ICI Senior Economist:** Well, we're going to go...we're investigate further the empirical analysis we did in the first paper. So, we want to look at whether secondary market trading in ETFs amplifies general market volatility, what role that plays, if any role at all. We also are going to look at the ETF arbitrage mechanism and whether there's any link to that to volatility in the underlying securities that the ETF holds.

**Stephanie Ortals-Tibbs:** So, a lot more data to come and people should watch the ICI website for new papers.

**Jane Heinrichs:** That's right.

**Stephanie Ortals-Tibbs:** That's this week in funds. See you next week.

#### **Additional Resources**

- [Release: Most ETF Trading Doesn't Affect Underlying Market](#)
- [Exchange-Traded Funds Resource Center](#)

- [ICI Viewpoints: A Look Inside ETFs and ETF Trading](#)
- [Graphic: Size and Scope of ETF Industry Have Increased Dramatically \(pdf\)](#)
- [Graphic: Most ETF Activity Occurs in the Secondary Market \(pdf\)](#)

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