



**Response: IOSCO ETF Consultation**

**July 8<sup>th</sup>, 2022.**

# Introduction

We are grateful for the opportunity to respond to IOSCO's consultation regarding good practices relating to ETFs.

The World Federation of Exchanges (WFE) is the global trade association for regulated exchanges and clearing houses. We represent the operators over 250 pieces market infrastructures, spread across the Asia-Pacific region (37%), EMEA (43%) and the Americas (20%), with everything from local entities in emerging markets to groups based in major financial centres. Collectively, member exchanges trade some \$100 trillion a year; while the 50 distinct CCP clearing services that we represent (both vertically integrated and stand-alone) ensure that traders in aggregate put up \$1 trillion of resources to back their risk positions.

With extensive experience of developing and enforcing high standards of conduct, WFE members support an orderly, secure, fair and transparent environment for all sorts of investors and companies wishing to invest, raise capital and manage financial risk.

Founded in 1961, we seek outcomes that maximise financial stability, consumer confidence and economic growth. We also engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play an internationally integrated financial system.

If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

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# Response

The WFE supports the efforts of IOSCO to promote good practices in relation to ETFs, which are an important mechanism for gaining targeted exposure to specified underlying assets and variables.

We have focused our comments on certain key areas that are of general relevance.

We welcome the opportunity to comment on the proposal and remain at your disposal should you have any questions.

## **Question 5 - What additional means or disclosure have been put in place to address issues relating to iNAV?**

The WFE views the iNAV as an additional resource, over and above the price formation contained in the ETF itself. While it is possible that the iNAV is the truest indicator of value at a given point in time, this is not necessarily always the case. The appeal of a given ETF may well be its relevance to a broad range of investors, making it a more effective indicator of price than prices in the underlying, particularly if the latter consists of individual assets that only trade episodically.

In calculating an iNAV, it may therefore be important to take account of and flag as and when necessary any inefficiencies – including, as highlighted in the consultation paper, operational inefficiencies – in the underlying market.

## **Question 17 - Please describe how ETFs' trading or market making activity is monitored by regulators and trading venues. Does monitoring enhance the secondary market liquidity of ETFs? What are the key metrics that should be monitored and what are the appropriate follow-up actions?**

Monitoring is a key part of a trading venue's armoury and provides investors with confidence to trade and does therefore positively influence liquidity. The exact metrics will vary but will typically focus on bid-offer spread and timeliness (taking into account the asset class in question). In order to be effective, the monitoring may need to be backed up by the possibility of sanctions focused on market makers / liquidity providers (eg, loss of status) and the sponsors who select them (eg, suspension of their ability to list).

## **Question 19 - What are the key parameters that regulators and/or trading venues should take into account in calibrating the format of VCMs and the relevant thresholds applicable to different types of ETFs?**

As with all VCMs, the key parameter is the specific characteristics of each security, where an exchange's judgment is the best way to achieve a mechanism that is calibrated to maintain a fair and orderly market. This may entail periodic recalibration and the possibility of extraordinary recalibrations, as judged necessary by the exchange.