

# OPPORTUNITIES AND CHALLENGES OF ETFs IN ASIA PACIFIC: SHOULD WE WORRY ABOUT SYSTEMIC RISKS?

Presenters:

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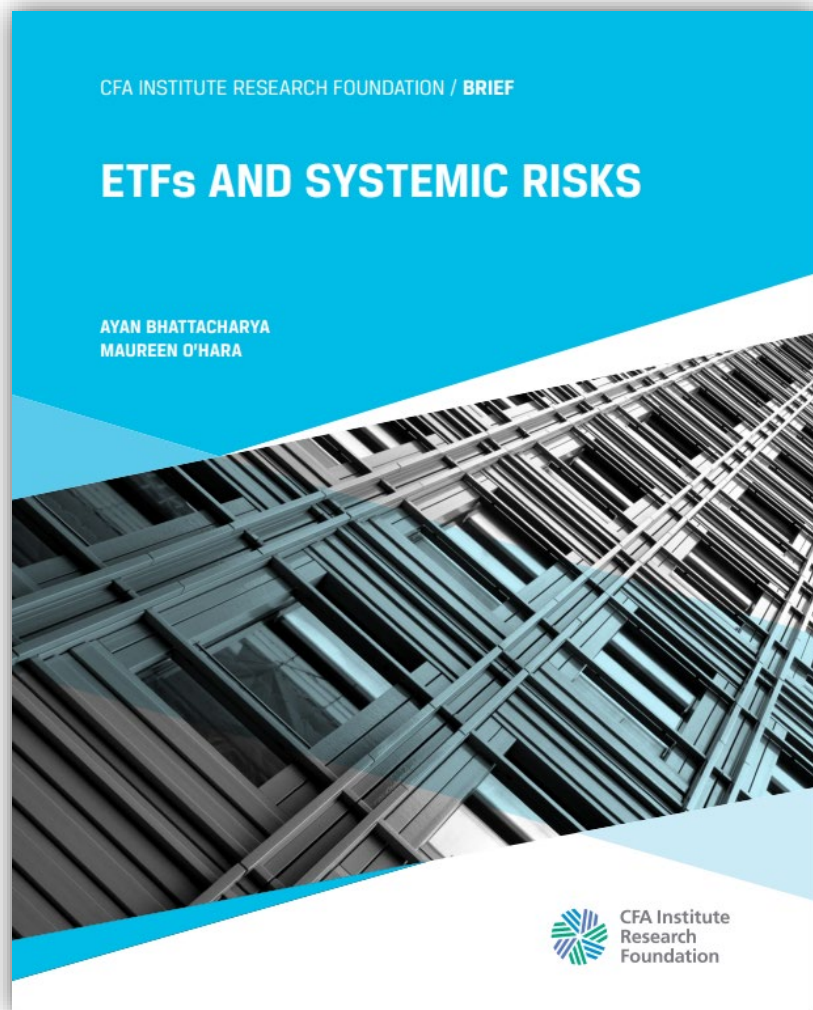
# ETFs AND SYSTEMIC RISKS

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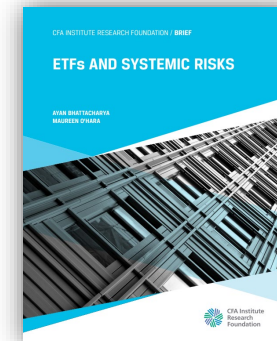


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# ROLE OF ETFs IN TODAY'S MARKETS

- ETFs provide well-diversified, low-cost portfolios
- ETFs eliminate the idiosyncratic factor, leaving only the systematic factor
- ETFs provide efficient access to difficult markets and assets
- Thanks to the variety of ETFs available, they have become building blocks of active portfolios

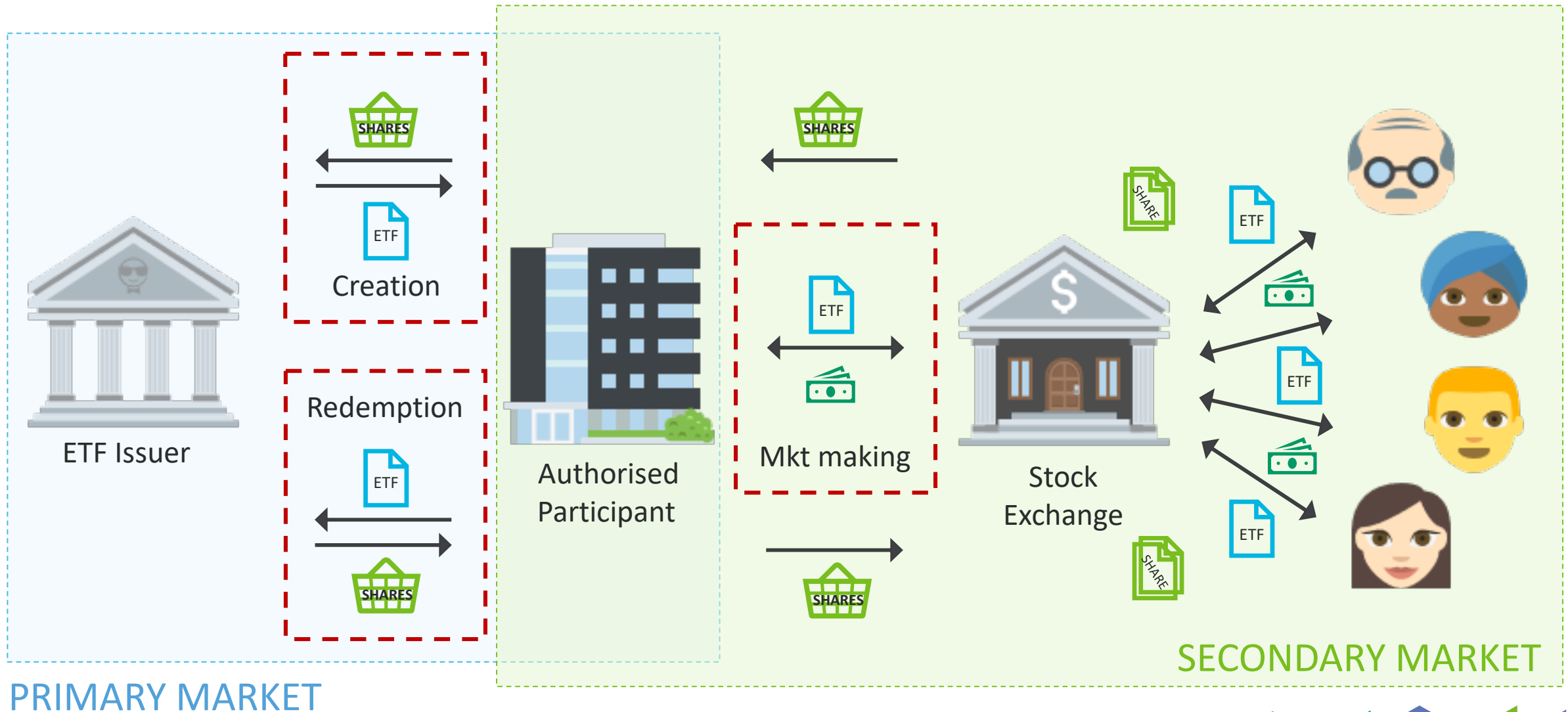


# ETFs IN TODAY'S MARKETS - CONCERNS

- ETFs have grown to hold much power in certain markets (passive funds own more than half of US equities)
- When a panic leads to a flight of capital from an asset, trading in ETFs becomes a significant portion of activity
- High market concentration (2-3 big issuers in each category)
- Ownership concentration (Bank of Japan owns 80% of Japan's ETFs)
- Large short interest, as hedge funds short-sell ETFs as part of "long stock – short industry" strategies



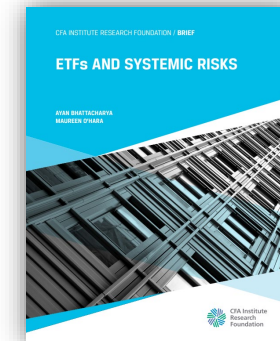
# ETF STRUCTURE – PRIMARY AND SECONDARY MARKETS



# ETFs AMPLIFY MARKET MOVEMENTS

ETFs appear to amplify market movements during periods of stress and uncertainty, reflecting the impact of feedback trading from ETF markets to the underlying markets and vice versa.

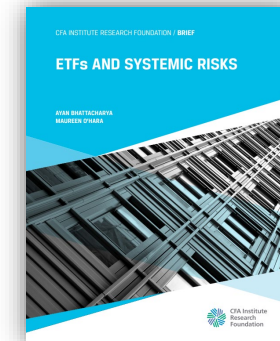
- *In the summer of 2013, during the "taper tantrum", outflows from bond ETFs exacerbated bond yield spreads.*
- *"Market herding" is more likely when the landscape is dominated by passive investments and information transmission is impeded.*



# ETFs EXACERBATE END-OF-DAY VOLATILITY

ETFs appear to exacerbate end-of-day (EOD) volatility during normal times, likely because of the need to rebalance some ETF types and potentially to track error-based trading.

- *As the size of the ETF assets grows, EOD trading volume has been increasing.*
- *EOD trading helps ETF managers minimise their tracking error, especially for leveraged ETFs.*
- *EOD effects are more detrimental to the markets.*





# AUTHORISED PARTICIPANTS MAY "STEP AWAY"

"Step away" risk on the part of authorized participants (APs) is a concern, with some evidence of reduced AP activity in stressful periods. This issue is especially serious in illiquid markets, where APs are often also the dealers in the underlying markets.

- *APs keep the ETF price in line with NAV through arbitrage.*
- *High concentration: usually only a handful of APs are active in an ETF.*
- *APs have no obligation to create or redeem ETF units and are not compensated for it by the issuer.*
- *APs tend to scale back their activity in times of market stress.*



# REBALANCING RISKS

ETFs based on illiquid, nontransparent markets can face rebalancing risks, which can lead to systemic effects on both the ETF and the underlying.

- *On 5 February 2018, "Volatility Tsunami" - a spike in VIX futures. The effect was much higher in short-term VIX ETFs and inverse VIX ETNs, which lost ~90%. It was attributed to rebalancing needs of the ETFs which triggered a feedback loop.*

## ADDITIONAL READING:

*Money Left on the Table: Passive Investing and the Effects of Reconstitution*

Solactive AG

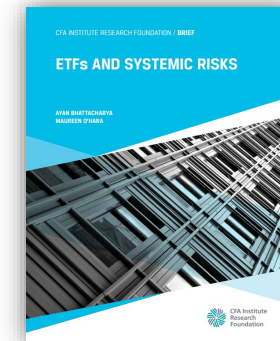
<https://www.arx.cfa/en/research/2020/09/soc070920-money-left-on-the-table>



# EFFECTS SPREAD TO OTHER MARKETS

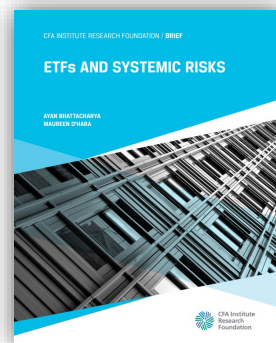
The use of ETFs as cash substitutes by money market funds and other investment products raises the prospect of problems in ETFs spreading to other markets.

- *A manager of a bond portfolio may keep a small allocation to a bond ETF, as a cash management tool. Disruptions in the ETF may affect the portfolio.*



# RECOMMENDATIONS

- Review circuit breakers and trading halts for ETFs.
- Examine market-closing mechanisms and restrictions.
- Closely monitor AP activity, estimate "step away" risk.
- Reconsider the dissemination of intraday NAV.
- Re-evaluate liquidity rule exemptions for ETFs.
- Understanding the extent of ETF use as cash substitutes
- Improve dissemination of information on underlying markets where ETF trading is significant.
- Consider restrictions on creation and redemption of units during periods of uncertainty.



# LANDSCAPE: FLOWS, TRENDS AND OUTLOOK

**Deborah Fuhr**

Managing Partner and Founder,  
ETFGI,  
London





## ETF Landscape: Flows, Trends and Outlook

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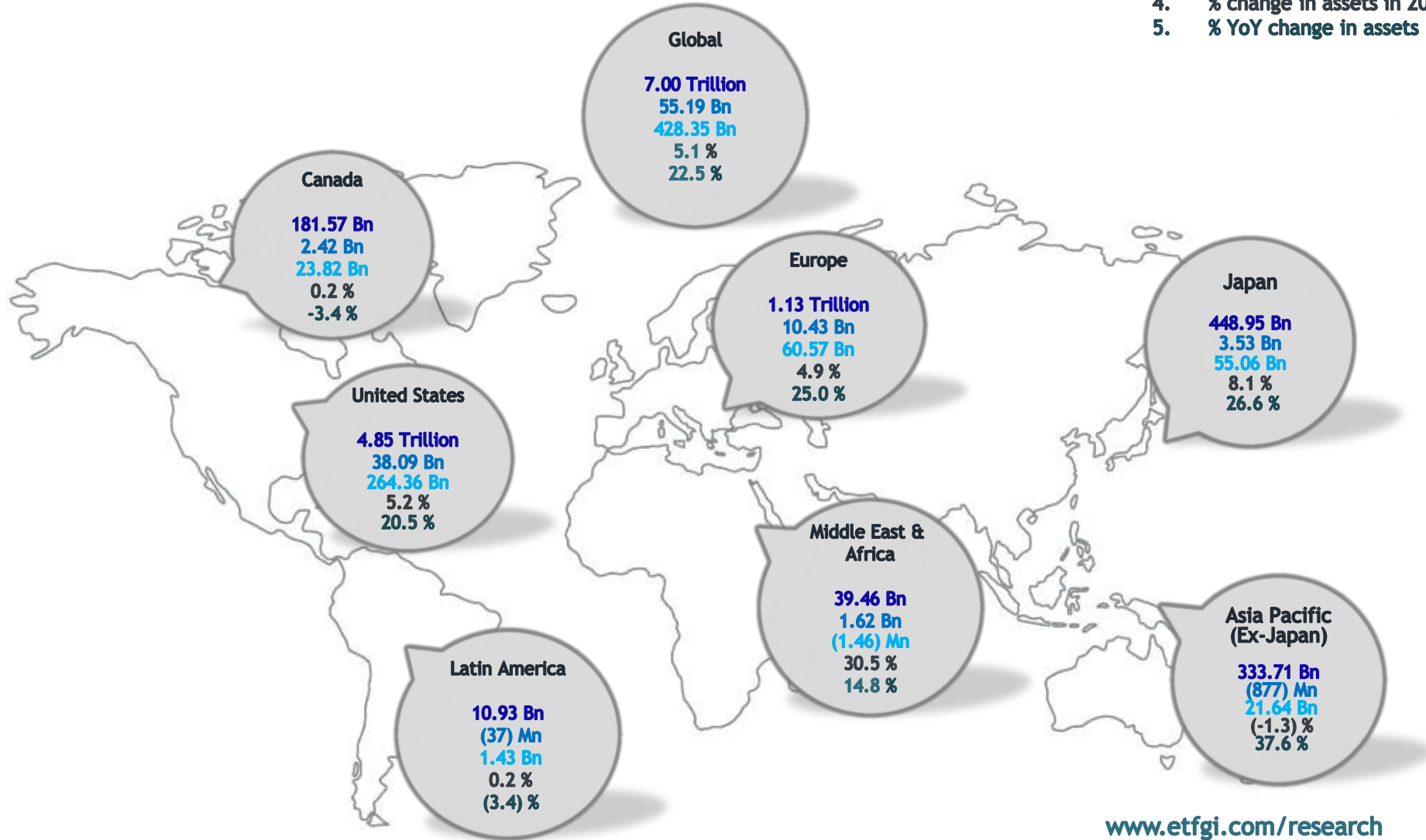
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# Global ETFs/ETPs August 2020

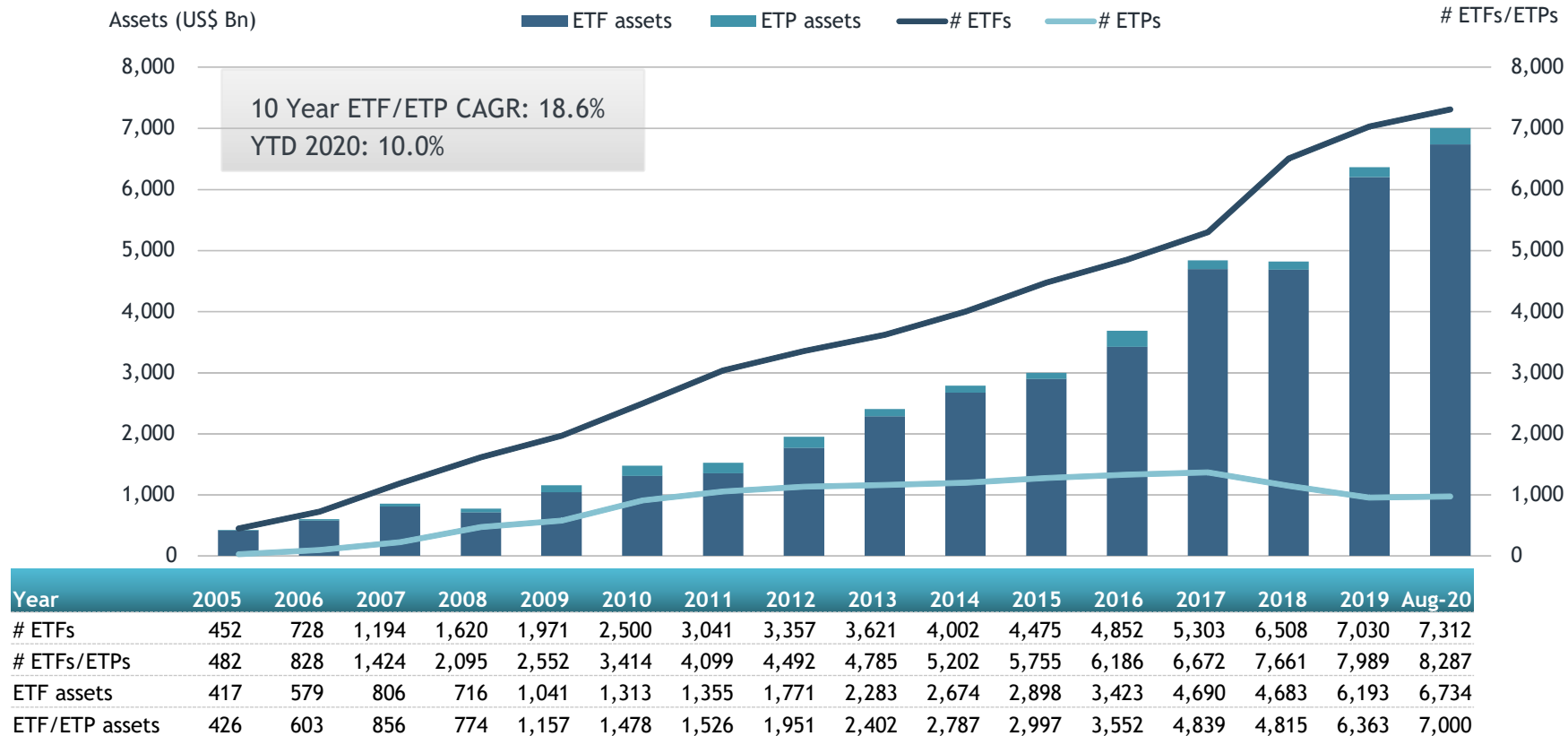
1. AUM in US\$
2. NNA Month in US\$
3. NNA YTD in US\$
4. % change in assets in 2020
5. % YoY change in assets



Source: ETFGI, Bloomberg, ETF/ETP providers

## Global ETF and ETP asset growth as at end of August 2020

At the end of August 2020, the Global ETF industry had 7,312 ETFs, with 14,964 listings, assets of US\$6,734 Bn, from 447 providers on 72 exchanges in 59 countries. At the end of August 2020, the Global ETF/ETP industry had 8,287 ETFs/ETPs, with 16,495 listings, assets of US\$7,000 Bn, from 474 providers on 73 exchanges in 59 countries.

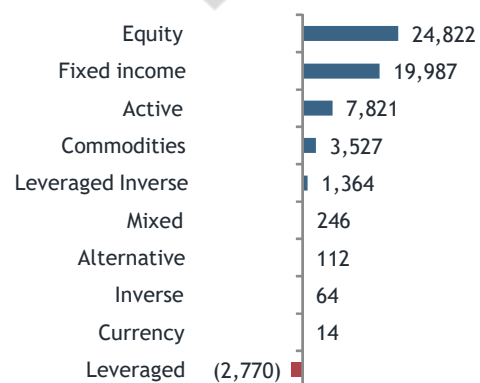


Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources and data generated in-house.  
Note: "ETFs" are typically open-end index funds that provide daily portfolio transparency, are listed and traded on exchanges like stocks on a secondary basis as well as utilising a unique creation and redemption process for primary transactions. "ETPs" refers to other products that have similarities to ETFs in the way they trade and settle but they do not use a mutual fund structure. The use of other structures including grantor trusts, partnerships, notes and depositary receipts by ETPs can create different tax and regulatory implications for investors when compared to ETFs which are funds.



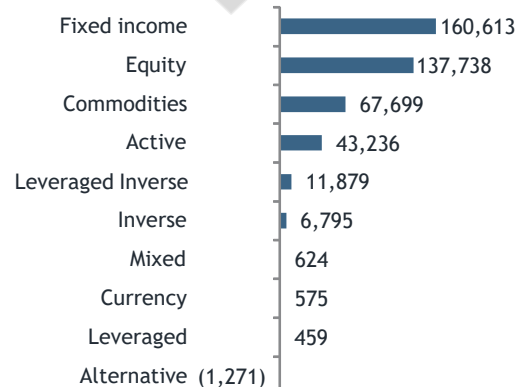
## ETFs/ETPs by asset class: Global

August 2020 ETF/ETP net new assets by type of exposure (US\$ Mn)



Total: 55,186

YTD ETF/ETP net new assets by type of exposure (US\$ Mn)



Total: 428,348

In August 2020, ETFs/ETPs saw net inflows of US\$55,186 Mn.

Equity ETFs/ETPs gathered the largest net inflows with US\$24,822 Mn, followed by fixed income ETFs/ETPs with US\$19,987 Mn, and active ETFs/ETPs with US\$7,821 Mn, while leveraged ETFs/ETPs experienced the largest net outflows with US\$2,770 Mn.

YTD through end of August 2020, ETFs/ETPs have seen net inflows of US\$428,348 Mn.

Fixed income ETFs/ETPs gathered the largest net inflows YTD with US\$160,613 Mn, followed by equity ETFs/ETPs with US\$137,738 Mn, and commodity ETFs/ETPs with US\$67,699 Mn, while alternative ETFs/ETPs experienced the largest net outflows YTD with US\$1,271 Mn.

| Exposure          | # ETFs/ETPs | Assets (US\$ Mn) Aug-20 | % market share | ADV (US\$ Mn) Aug-20 | NNA (US\$ Mn) Aug-20 | NNA (US\$ Mn) YTD 2020 | NNA (US\$ Mn) YTD 2019 | NNA (US\$ Mn) 2019 |
|-------------------|-------------|-------------------------|----------------|----------------------|----------------------|------------------------|------------------------|--------------------|
| Equity            | 4,528       | 5,036,587               | 72.0%          | 70,613               | 24,822               | 137,738                | 87,630                 | 284,377            |
| Fixed income      | 1,299       | 1,351,353               | 19.3%          | 13,350               | 19,987               | 160,613                | 147,992                | 227,789            |
| Commodities       | 488         | 288,411                 | 4.1%           | 7,732                | 3,527                | 67,699                 | 14,294                 | 18,529             |
| Active            | 907         | 206,832                 | 3.0%           | 1,562                | 7,821                | 43,236                 | 24,619                 | 42,103             |
| Alternative       | 32          | 4,193                   | 0.1%           | 132                  | 112                  | (1,271)                | (162)                  | 611                |
| Currency          | 69          | 3,678                   | 0.1%           | 108                  | 14                   | 575                    | (295)                  | (294)              |
| Mixed             | 95          | 15,713                  | 0.2%           | 69                   | 246                  | 624                    | 1,049                  | 2,141              |
| Leveraged         | 444         | 59,245                  | 0.8%           | 11,846               | (2,770)              | 459                    | (9,265)                | (15,774)           |
| Inverse           | 208         | 15,520                  | 0.2%           | 743                  | 64                   | 6,795                  | 1,234                  | 1,645              |
| Leveraged Inverse | 217         | 18,504                  | 0.3%           | 3,734                | 1,364                | 11,879                 | 5,166                  | 10,025             |
| Total             | 8,287       | 7,000,036               | 100.0%         | 109,887              | 55,186               | 428,348                | 272,262                | 571,154            |

Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources and data generated in-house. Note: This report is based on the most recent data available at the time of publication. Asset and flow data may change slightly as additional data becomes available. Israel ETP assets and flows are included in the total figures but are not reflected in the asset class breakdown.

## Product Trends

### Market Cap (Equity)

|                            | # ETFs/<br>ETPs | Assets<br>(US\$ Mn)<br>Aug-20 | NNA<br>(US\$ Mn)<br>Aug-20 | NNA<br>(US\$ Mn)<br>YTD 2020 | NNA<br>(US\$ Mn)<br>YTD 2019 | NNA<br>(US\$ Mn)<br>2019 |
|----------------------------|-----------------|-------------------------------|----------------------------|------------------------------|------------------------------|--------------------------|
| Global                     | 3,413           | 4,018,661                     | 19,759                     | 133,626                      | 23,125                       | 183,181                  |
| US                         | 762             | 2,792,206                     | 12,807                     | 53,773                       | -8,988                       | 77,864                   |
| Europe                     | 1,066           | 625,002                       | 5,319                      | 16,745                       | -3,511                       | 41,126                   |
| Canada                     | 151             | 75,432                        | 707                        | 10,148                       | 2,043                        | 5,405                    |
| Asia Pacific<br>(ex-Japan) | 896             | 208,647                       | -2,638                     | 6,355                        | 1,319                        | 18,062                   |
| Japan                      | 126             | 289,189                       | 3,605                      | 46,236                       | 30,439                       | 39,591                   |

*\*excludes actively managed products*

### Thematic

|                            | # ETFs/<br>ETPs | Assets<br>(US\$ Mn)<br>Aug-20 | NNA<br>(US\$ Mn)<br>Aug-20 | NNA<br>(US\$ Mn)<br>YTD 2020 | NNA<br>(US\$ Mn)<br>YTD 2019 | NNA<br>(US\$ Mn)<br>2019 |
|----------------------------|-----------------|-------------------------------|----------------------------|------------------------------|------------------------------|--------------------------|
| Global                     | 931             | 293,884                       | 10,226                     | 69,550                       | 14,122                       | 32,874                   |
| US                         | 323             | 177,439                       | 6,129                      | 35,414                       | 1,666                        | 6,483                    |
| Europe                     | 280             | 79,113                        | 3,223                      | 26,599                       | 9,960                        | 18,705                   |
| Canada                     | 87              | 4,914                         | 350                        | 1,548                        | 39                           | 297                      |
| Asia Pacific<br>(ex-Japan) | 189             | 30,301                        | 355                        | 6,556                        | 2,573                        | 7,491                    |
| Japan                      | 14              | 1,218                         | 0                          | -721                         | -89                          | -51                      |

### Smart Beta (Equity)

| # ETFs/<br>ETPs | Assets<br>(US\$ Mn)<br>Aug-20 | NNA<br>(US\$ Mn)<br>Aug-20 | NNA<br>(US\$ Mn)<br>YTD 2020 | NNA<br>(US\$ Mn)<br>YTD 2019 | NNA<br>(US\$ Mn)<br>2019 |
|-----------------|-------------------------------|----------------------------|------------------------------|------------------------------|--------------------------|
| 1,344           | 865,915                       | 3,254                      | 13,610                       | 56,052                       | 91,375                   |
| 610             | 766,987                       | 3,347                      | 17,412                       | 46,586                       | 78,421                   |
| 243             | 60,865                        | -463                       | -6,305                       | 7,098                        | 10,926                   |
| 170             | 16,812                        | 481                        | 1,502                        | 790                          | 747                      |
| 221             | 16,669                        | -315                       | 833                          | 1,528                        | 663                      |
| 26              | 3,408                         | 28                         | 159                          | -97                          | 394                      |









### ESG

| # ETFs/<br>ETPs | Assets<br>(US\$ Mn)<br>Aug-20 | NNA<br>(US\$ Mn)<br>Aug-20 | NNA<br>(US\$ Mn)<br>YTD 2020 | NNA<br>(US\$ Mn)<br>YTD 2019 | NNA<br>(US\$ Mn)<br>2019 |
|-----------------|-------------------------------|----------------------------|------------------------------|------------------------------|--------------------------|
| 399             | 112,699                       | 5,590                      | 44,564                       | 14,933                       | 26,762                   |
| 108             | 45,382                        | 2,020                      | 18,809                       | 4,981                        | 8,290                    |
| 191             | 58,347                        | 2,959                      | 22,002                       | 9,039                        | 17,043                   |
| 39              | 1,640                         | 358                        | 1,015                        | 70                           | 155                      |
| 43              | 5,881                         | 104                        | 3,280                        | 944                          | 1,379                    |
| 10              | 1,134                         | 0                          | -701                         | -88                          | -93                      |

Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources and data generated in-house. Note: This report is based on the most recent data available at the time of publication. Asset and flow data may change slightly as additional data becomes available. Israel ETP assets and flows are included in the total figures but are not reflected in the asset class breakdown.

## ETFs/ETPs listed by region/country: Asia Pacific

At end of July 2020

| Market       |   | #<br>ETFs/ETPs | # listings   | Assets<br>(US\$ Mn)<br>Jul-20 | % Total       | ADV<br>(US\$ Mn)<br>Jul-20 | NNA<br>(US\$ Mn)<br>Jul-20 | YTD 2020<br>NNA<br>(US\$ Mn) | # Providers | # Exchanges |
|--------------|---|----------------|--------------|-------------------------------|---------------|----------------------------|----------------------------|------------------------------|-------------|-------------|
| Australia    |    | 209            | 228          | 47,070                        | 6.2%          | 219                        | 863                        | 7,588                        | 27          | 2           |
| China        |    | 294            | 295          | 103,414                       | 13.7%         | 7,910                      | 297                        | 7,955                        | 49          | 2           |
| Hong Kong    |    | 125            | 217          | 42,833                        | 5.7%          | 974                        | 673                        | 878                          | 24          | 1           |
| India        |    | 89             | 89           | 28,158                        | 3.7%          | 39                         | 6,852                      | 4,234                        | 19          | 2           |
| Indonesia    |    | 45             | 45           | 1,054                         | 0.1%          | 0                          | 39                         | 85                           | 22          | 1           |
| Kazakhstan   |    | 0              | 3            | 0                             | 0.0%          | 0                          | -                          | -                            | 2           | 1           |
| Malaysia     |    | 19             | 20           | 544                           | 0.1%          | 0                          | 3                          | 3                            | 5           | 1           |
| New Zealand  |    | 35             | 35           | 2,328                         | 0.3%          | 6                          | 443                        | 1,096                        | 1           | 1           |
| Philippines  |    | 1              | 1            | 31                            | 0.0%          | 0                          | 0                          | 5                            | 1           | 1           |
| Singapore    |    | 17             | 57           | 4,356                         | 0.6%          | 15                         | 51                         | 254                          | 10          | 1           |
| South Korea  |    | 650            | 650          | 43,024                        | 5.7%          | 2,478                      | (153)                      | (3,934)                      | 23          | 1           |
| Taiwan       |    | 230            | 237          | 64,413                        | 8.6%          | 507                        | 3,373                      | 3,843                        | 19          | 1           |
| Thailand     |    | 16             | 16           | 508                           | 0.1%          | 1                          | (1)                        | 470                          | 5           | 1           |
| Vietnam      |   | 5              | 5            | 283                           | 0.0%          | 0                          | 4                          | 38                           | 3           | 2           |
| Pakistan     |  | 2              | 2            | 0                             | 0.0%          | 0                          | 0                          | 0                            | 2           | 1           |
| <b>Total</b> |   | <b>1,737</b>   | <b>1,900</b> | <b>338,017</b>                | <b>44.9%</b>  | <b>12,150</b>              | <b>12,446</b>              | <b>22,514</b>                | <b>187</b>  | <b>19</b>   |
| Japan        |  | 210            | 244          | 415,333                       | 55.1%         | 2,116                      | 6,581                      | 51,535                       | 19          | 2           |
| <b>Total</b> |   | <b>1,947</b>   | <b>2,144</b> | <b>753,349</b>                | <b>100.0%</b> | <b>14,267</b>              | <b>19,027</b>              | <b>74,049</b>                | <b>199</b>  | <b>21</b>   |

Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources, and data generated by our in-house team.

## ETFGI Global ETFs Insights SUMMIT

The **ETFGI Global ETFs Insights Summits** are designed to facilitate substantive and in-depth discussions around the impact that market structure and regulations have on ETF product development, due diligence, suitability, the use and trading, and technological developments have on ETFs and mutual funds in the respective jurisdictions.

Attendees will have the opportunity to see and hear speakers via live video and audio of the keynote and panel discussions with audience Q&A, visit virtual event booths where you can meet and speak with our sponsors, attend virtual happy hours, virtual networking sessions and receive physical promotional items from our sponsors for qualified buy side investors.

Free registration and CPD educational credits are offered to buy side institutional investors and financial advisors.



**ETFGI Global ETFs Insights Summits 2020** schedule: <https://etfgi-events.eventcreate.com/>

**Latin America** - October 19th

**Asia Pacific** - October 28-29<sup>th</sup>

**Europe** - November 17-18<sup>th</sup>

**Canada** - November 30<sup>th</sup>, December 1<sup>st</sup>

**Active/ ESG**

**USA** virtual event - July 28, 29, 30<sup>th</sup> from 2- 5:30pm edt <https://bit.ly/3idMPlr>

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# **Simon Brailey**

Executive Director,  
MSCI,  
Hong Kong



## ETFs/ETPs listed by region/country: Asia Pacific

At end of July 2020

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# ETF IN INDIA MARKET LANDSCAPE

**Anil Ghelani, CFA**

Head of Passive Investments & Products,  
DSP Investment Managers,  
Vice Chairman, CFA Society India





# ETFs in India

## *Market Landscape*

Anil Ghelani, CFA

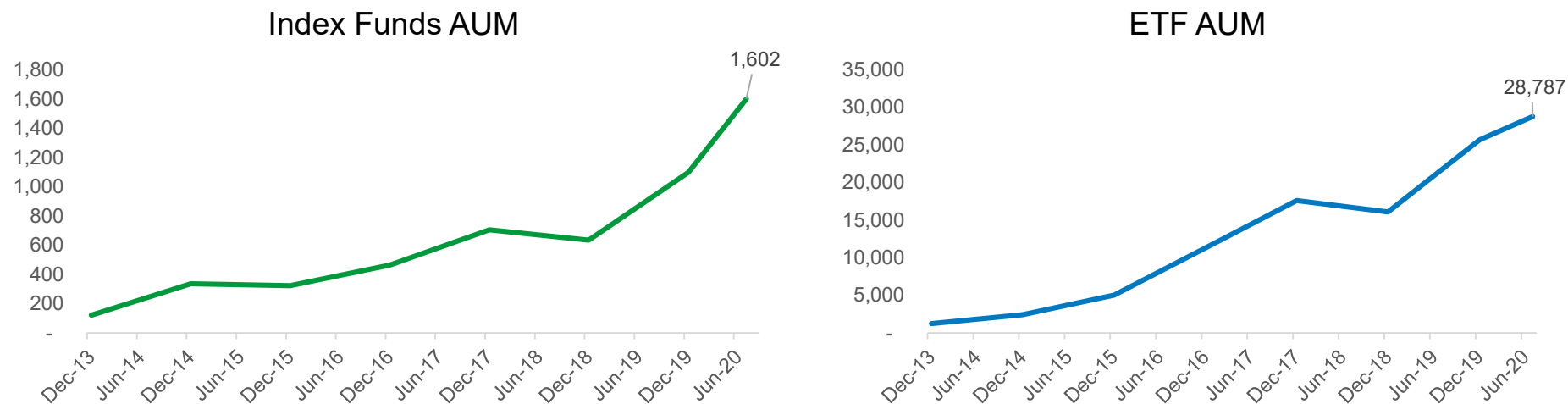
Sept 15, 2020

**Read last slide for important notes and disclaimers.**

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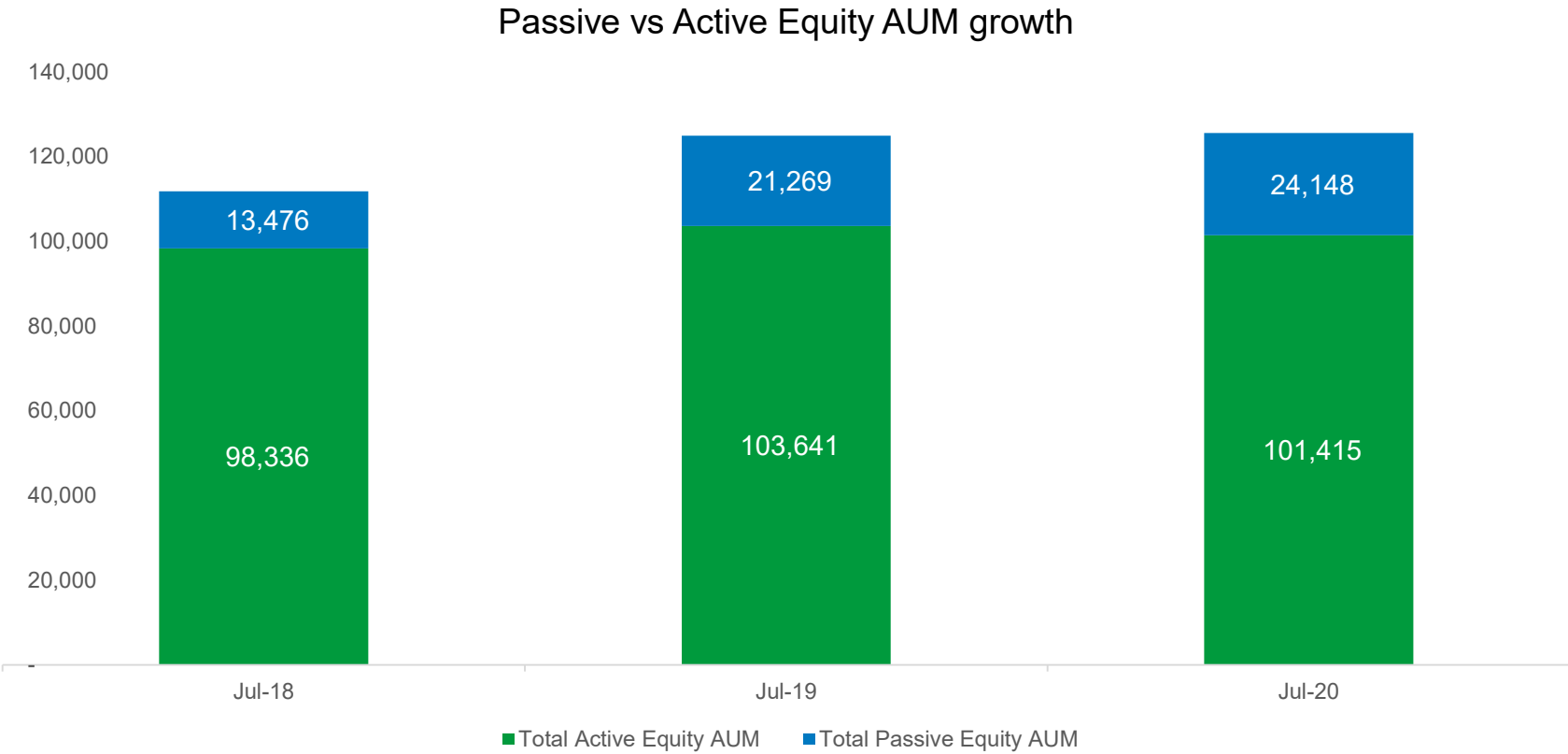
# Growth of Passive Funds in India



| ETF Category          | July-20 | Dec-19 | Dec-18 | Dec-17 | Dec-16 | Dec-15 | Dec-14 | Dec-13 |
|-----------------------|---------|--------|--------|--------|--------|--------|--------|--------|
| Nifty & Sensex        | 18,548  | 16,681 | 10,617 | 7,672  | 2,978  | 957    | 163    | 70     |
| Banking               | 1,929   | 3,042  | 1,578  | 1,171  | 609    | 272    | 230    | 8      |
| Government Equity ETF | 2,106   | 2,605  | 2,662  | 2,150  | 336    | 315    | 393    | -      |
| Government Debt ETF   | 3,384   | 1,735  | -      | -      | -      | -      | -      | -      |
| Gold                  | 1,757   | 808    | 675    | 784    | 813    | 685    | 884    | 1,061  |
| Others                | 319     | 174    | 232    | 139    | 82     | 57     | 70     | 43     |
| Fixed Income          | 434     | 351    | 342    | 279    | 249    | 140    | 138    | 115    |
| Total ETFs            | 28,476  | 25,396 | 16,106 | 12,195 | 5,067  | 2,424  | 1,879  | 1,296  |
| Index Funds           | 1,602   | 1,099  | 675    | 475    | 300    | 303    | 262    | 109    |

Source: Internal; MFIE ; All values in USD Millions

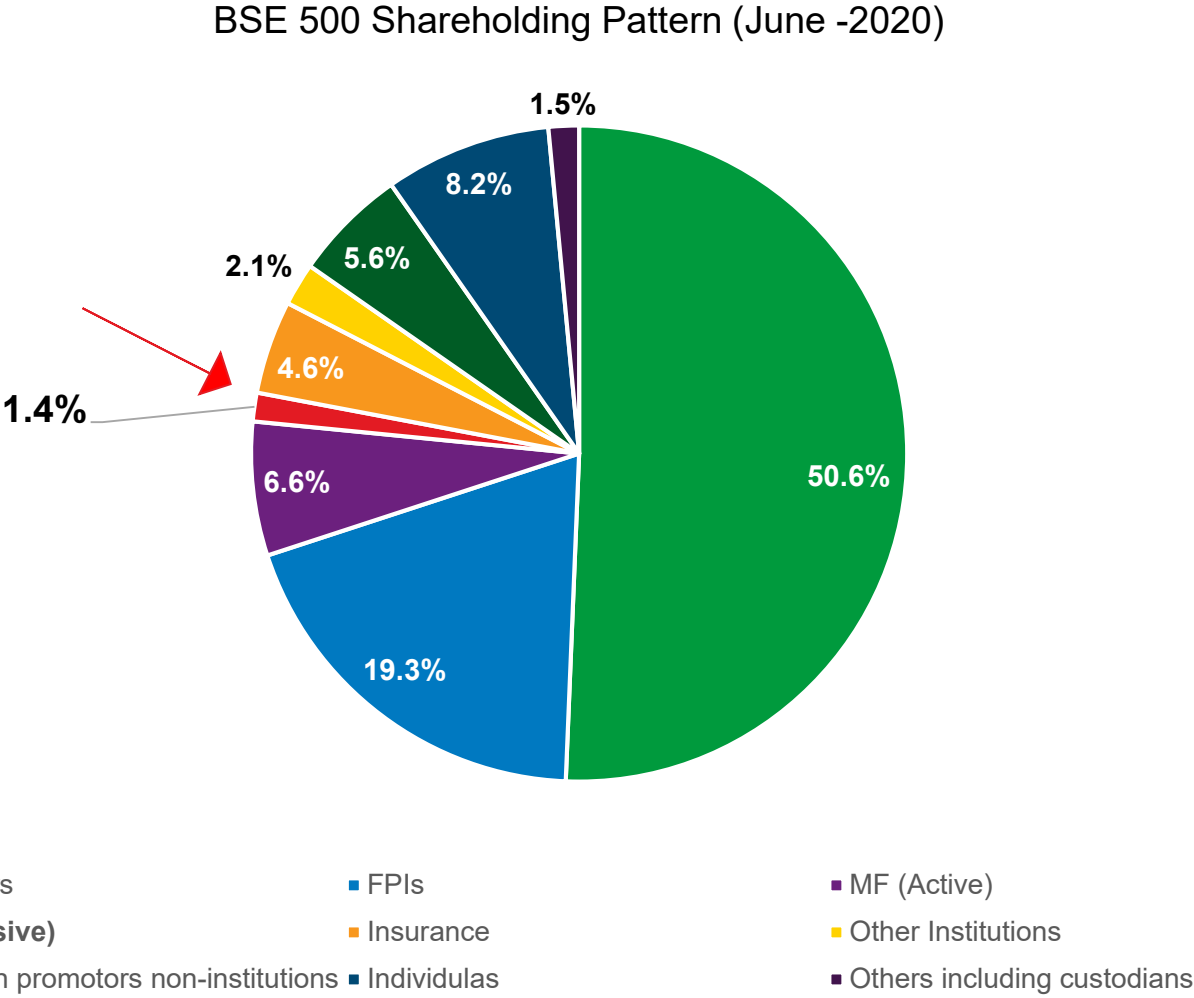
# Growth of Passive vs Active Equity AUM



- ▶ Passive equity AUM has witnessed higher growth compared to active in the last 3 years
- ▶ 12% in July 2018 grew to 19% in July 2020

Source: Internal; MFIE ; All values in USD Millions

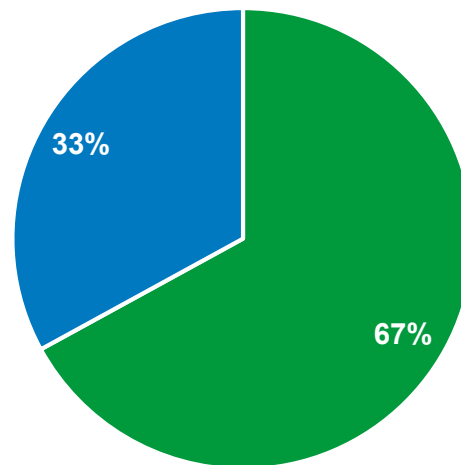
# Who owns the market?



Source: Internal, CLSA

# Trading volumes

30 day average market turnover



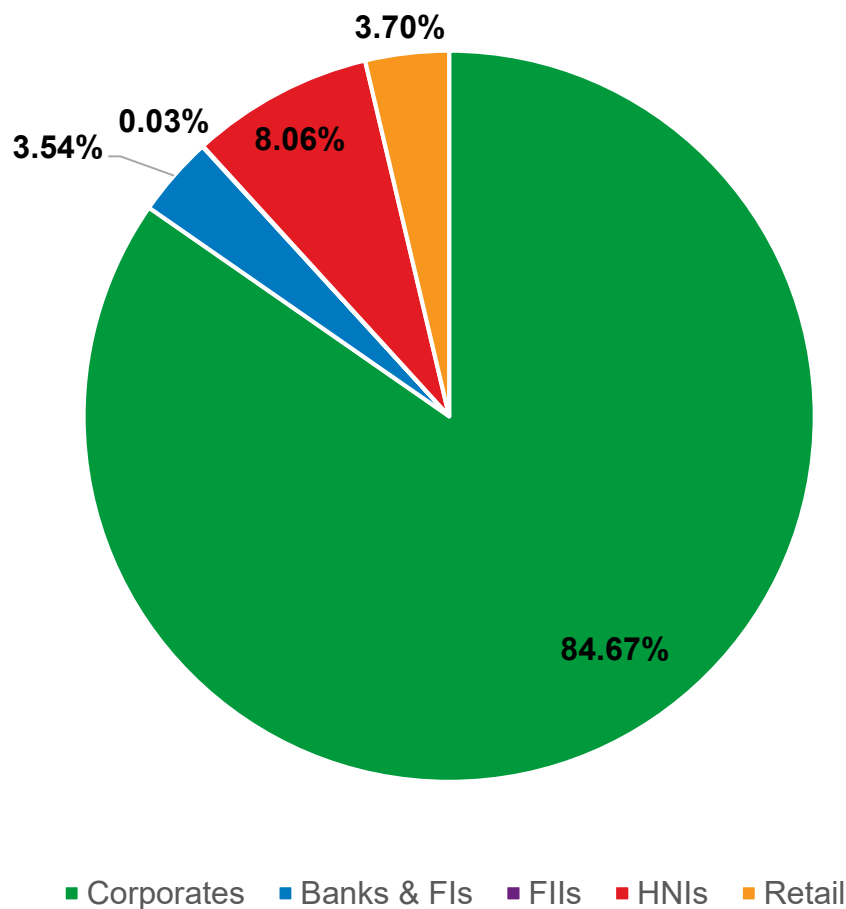
- Average daily t/o of top 100 companies as a % of total average market turnover
- Average daily t/o of other companies as a % of total average market turnover

- **Daily Trade Volumes on Indian Stock Exchange (NSE) ~ USD 9 bn**
- **Volumes of top 100 companies by market capitalization (Nifty 100) ~ 67% or ~ USD 5.9 bn**  
- *Volumes of Nifty/Sensex ETFs ~ USD 5.2 mn or 0.1%*

Source: Internal; Bloomberg

# Who is buying into passive funds?

Investor-wise AUM in Passive Funds as on June 2020



Source: AMFI

# Questions??

For more information and market updates:



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# PANEL DISCUSSION



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**THANK YOU**

