

Entering the European ETF Market: Key Considerations and Steps



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Exchange-Traded Funds (ETFs) have emerged as versatile and popular investment vehicles, offering exposure to a wide range of asset classes, including stocks, bonds, and commodities. Their unique structure combines the trading flexibility of stocks with the diversified holdings of mutual funds, making them an attractive option for investors seeking both liquidity and diversification.

[ETFGI reports](#) that Europe holds over US\$2 trillion in ETF assets, making it the world's second-largest ETF market behind the US. Despite this significant asset base, ETFs account for only 10% of the total European fund market, compared to 20% in the US. This disparity highlights the untapped potential of the European ETF market. It also makes Europe an attractive target for ETF providers aiming to expand their global presence and for new entrants looking to avoid the competitive US market.

With the European ETF market presenting substantial growth opportunities, understanding the nuances of market segmentation, product differentiation, and regulatory compliance is crucial. Whether you are expanding your global footprint or venturing into the ETF space for the first time, this guide will provide valuable insights into entering the European ETF landscape.

The Role of Key Regulations in ETF Governance

Launching and managing ETFs in Europe requires adherence to a complex regulatory framework. European ETFs are primarily governed by the Undertakings for Collective Investment in Transferable Securities (UCITS) directive and the Markets in Financial Instruments Directive (MiFID II). Understanding these regulations is crucial for any entity looking to enter the European ETF market:

[Undertakings for Collective Investment in Transferable Securities \(UCITS\)](#)

[UCITS](#) provides a harmonised regulatory framework for investment funds in the EU, which allows them to operate across borders. ETFs that fall under UCITS are subject to strict regulations regarding their structure and operations. These include investment restrictions, liquidity and disclosure requirements.

[Markets in Financial Instruments Directive \(MiFID II\)](#)

[MiFID II](#) is a cornerstone of the EU's regulatory framework, aimed at creating a more transparent and competitive financial market. It regulates investment intermediaries and trading venues, ensuring consistent practices across EU member states. These include transaction reporting and best execution.

[Overseas Fund Regime \(OFR\)](#)

Furthermore, in the UK, the Overseas Fund Regime (OFR) was introduced in 2021 to allow overseas funds that the government deems equivalent to gain access to UK retail investors. The OFR will provide a basis for long-term recognition of more than 600 ETFs currently listed in the UK. The OFR will be live and operational in September 2024 with a rollout period through to 2026.

Considerations on How to Enter the ETF Market

Entering the ETF market requires careful planning and strategy. Here are some key ETF market considerations:

Market Segmentation

Clearly define the target audience for each product, ensuring they cater to different customer segments. Identifying and understanding the specific needs and preferences of different market segments is crucial for the success of any ETF product.

Product Differentiation

Ensure that your new offering is sufficiently different from your existing products. This can help prevent customers from switching between your offerings and address different customer needs or preferences.

Pricing Strategy

Price your new offering in a way that it doesn't significantly impact your existing business. Consider the competitive landscape and the perceived value of your ETF to determine the optimal pricing strategy.

Brand Separation

Create a distinct brand identity for your new offering to make it clear to customers that it is separate from your existing business. This can help build a new customer base and avoid confusion with your existing products.

Channel Differentiation

Utilise different distribution channels or sales strategies for your new offering to avoid direct competition with your existing products. This can include partnering with different brokers, financial advisors, or using digital platforms.

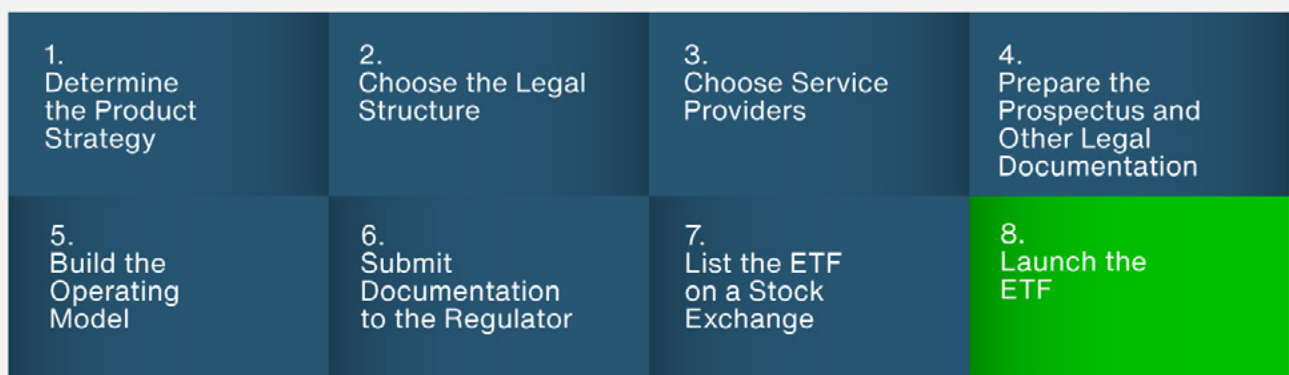
Collaborative Approach

Partner with other businesses or create strategic alliances to enter the ETF market. Collaborations can provide additional resources, expertise, and market reach, enhancing the chances of success.

Eight Key Steps to Launching an ETF in Europe

Launching an ETF in Europe requires careful navigation through a complex array of regulatory requirements, market dynamics, and strategic considerations.

To help you through this intricate process, we have outlined eight essential steps that will guide you from the initial planning stages to the final launch of your ETF in Europe and how Waystone can support you throughout this process.



Step 1: Determine the Product Strategy

The first step is to determine the investment strategy of the ETF, such as whether the ETF is active or passively managed and, if required, what index provider to partner with. Pricing point evaluation is also an important consideration at this early stage.

Waystone's Role: Waystone assists clients in replicating their strategy within an ETF structure and ensures compliance with ETF wrapper rules. We also provide competitor analysis to inform decision-making, including evaluating the Total Expense Ratio (TER).

Step 2: Choose the Legal Structure

The next step is to choose the legal structure of the ETF, typically a UCITS (Undertakings for Collective Investment in Transferable Securities) structure in Ireland or Luxembourg. UCITS is a regulated investment fund structure that is widely recognised in the European Union and other regions, including Latin America and Asia.

Waystone's Role: Waystone offers an established UCITS ETF umbrella for clients to launch their ETF in a white-label format. We also support launching non-UCITS ETFs, such as commodity ETCs, and guide clients through the best regulatory wrappers and product structuring processes.

Step 3: Choose Service Providers

Selecting key service providers is essential for the operation of the ETF. These include a management company, directors, fund administrator, custodian, and liquidity providers (APs/Market Makers).

Waystone's Role: Waystone collaborates with blue-chip ETF service partners with significant ETF knowledge and technology. This partnership supports product development and operational efficiency, ensuring clients benefit from Waystone's capital markets expertise and a deep network of liquidity providers.

Step 4: Prepare the Prospectus and Other Legal Documentation

The prospectus and other necessary legal documents must be prepared for the registration of the UCITS ETF.

Waystone's Role: Waystone works with service partners and clients to complete this process promptly, including interactions with fund lawyers and regulators.

Step 5: Build the Operating Model

The operating model for a UCITS ETF must ensure the fund is well-managed, transparent, and provides all the necessary investor protections.

Waystone's Role: Waystone manages the operational build of the ETF, liaising with key service partners throughout the value chain to ensure regulatory compliance and efficient functioning.

Step 6: Submit Documentation to the Regulator

Submit the legal documentation to the relevant regulatory authority overseeing UCITS authorisation such as the Central Bank of Ireland in Ireland, or the Commission de Surveillance du Secteur Financier (CSSF) in Luxembourg. The regulatory authority reviews the documentation and issues authorisation if satisfied.

Waystone's Role: Waystone assists clients throughout the regulatory process, managing interactions and responding to regulatory feedback. Non-complex products are typically authorised within 90 days.

Step 7: List the ETF on a Stock Exchange

After obtaining regulatory approval, the ETF can be listed on one or more stock exchanges. The ETF must comply with the listing requirements of each exchange.

Waystone's Role: Waystone helps define a tailored listing strategy correlated to distribution, considering country exchanges and currency requirements for international ETFs.

Step 8: Launch the ETF

Once listed, the ETF is officially launched, allowing investors to buy and sell shares on the stock exchange.

Waystone's Role: Waystone supports clients through the final launch phase, culminating in the ceremonial ringing of the bell at the stock exchange to mark the ETF's debut.

About Waystone's ETF Solutions

Waystone is an institutional ETF platform operator. We offer a comprehensive suite of ETF fund hosting capabilities and solutions, backed by our dedicated team of ETF professionals across Europe, the Americas and Asia Pacific. Our experts have specialised ETF expertise, including access to digital channels and strong relationships with the global investment community.

Waystone ETFs collaborates with leading financial institutions to develop superior investment products using open architecture solutions. This approach allows us to tailor our offerings to meet the specific needs of our clients, leveraging our extensive market knowledge and proven track record to take an ETF from inception to success.

If you have any questions or would like to sign-up to receive our communications, please contact your usual Waystone representative or us via the below.

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