Swiss Exchange

The Future of ETFs – 15 Theses

In the year 2000, SIX Swiss Exchange has been one of the first European exchanges to launch a segment for ETFs. Today, it can look back at an unprecedented success story. How the ETF segment might look in 15 years' time is described in 15 theses by SIX Swiss Exchange.

ETFs should be exchange traded.

The name says it all: «exchange-traded». Most of the trading in ETFs is still carried out OTC at present, and is therefore not transparent. The transparency and security offered by SIX Swiss Exchange guarantee fair trading. Bringing together supply and demand leads to the highest liquidity and the lowest spreads, in other words the most attractive conditions. By continuously improving our offer we make it even more attractive for investors to carry out large transactions via the order book.

More private investors are using ETFs.

According to a study carried out by ETF Ambassadors on the topic of «investment behavior of the Swiss population» in July 2015, Switzerland still has a lot of growth potential, particularly as far as the share of assets invested by private investors is concerned. Only 7% of Swiss-German private investors have invested in ETFs – four times as many have invested in individual stocks. This share is likely to increase as ETFs account for around 30% of private investors' assets under management throughout Europe.

More ETF providers from non-EU countries are entering the market.

The Swiss financial center is one of the most attractive in the world. To gain access to the assets managed here, new foreign providers will enhance the ETF offer on SIX Swiss Exchange with their products.

ETFs are the most important building block for Swiss portfolios.

With ETFs investors can cover an entire market and diversify their portfolio with just one transaction. As ETFs increase the coverage of asset classes, they are revealed as offering inexpensive access to all asset classes.

ETFs are even more attractive from the cost point of view.

Several factors are likely to lead to ETFs offering an even more favourable price/performance ratio compared to other products. These include the growing competition among the providers, which is leading to lower trading spreads and management fees.

Synthetic ETFs remain the first choice for markets that are difficult to replicate.

Even though the general trend is moving in the direction of ETFs with physical replication, there are nevertheless asset classes or markets that can only be replicated with synthetic ETFs in future as well – often also for cost reasons.

Currency hedging in the ETF segment is being used on a broader basis.

Investor demand for currency-neutral investments in ETFs is growing steadily as investors hedge their investment against the exchange rate risk and do not want to lower the return on their investment due to currency reasons as a result of potential exchange rate fluctuations. The offer of trading currencies available on SIX Swiss Exchange will increase further.

Active ETFs remain a niche.

Active ETFs have been traded on SIX Swiss Exchange since March 2014. As they meet a very specific need, their share of turnover is likely to remain low in relation to traditional, passive ETFs, both on the Swiss Stock Exchange and the overall market.

Smart-beta ETFs are competing even more strongly with active investment funds.

For investors pursuing an active strategy, smart-beta products are becoming the cleverer solution – also because they are cheaper – compared to active investment funds, for example, as they offer additional income potential with alternative weightings based on rules.

ETFs are benefiting from digitalization.

The trend towards digitalization is changing the ETF universe, and the market for automated asset management, also known as robo-advice, is being created. Some portfolios are already now being put together exclusively with ETFs in automated asset management.

There will still be ETFs in 15 years from today.

The ETF product category started small, but then caught on, has grown rapidly and is regarded as established today. A world without ETFs is neither desirable nor imaginable owing to the many advantages they offer.

ETFs complement futures as a hedging instrument.

Owing to the advantageous combination of low costs and high liquidity, ETFs are becoming more and more an attractive alternative to futures as a hedge. Thanks to the variety of products together with the unlimited term, they offer countless options for a hedge.

Market penetration of ETFs will grow.

The number of product providers is still way below the number of large banks and asset managers today. If they make greater use of ETFs – both for their own purposes and as an offer for their customers – they could create and list new products. A low interest rate environment encourages investors to look for alternatives for their pension funds. Owing to the many advantages they offer, ETFs are particularly suitable for the third pillar. Thanks to the combined efforts of exchange operators such as SIX Swiss Exchange in cooperation with associations, independent advisers, educative initiatives aimed at the investor, media and providers, investors will get to know, understand and use ETFs more so that they will become a firm component in the portfolios of international and private investors.

The stamp tax is a hurdle for ETF trading.

Additional costs of 15bps for ETFs with a domestic fund domicile and 30bps for ETFs with a foreign fund domicile are having a negative impact on the broad use of ETFs. Withholding tax on distributions is levied for ETFs with a fund domicile in Switzerland, but is refunded to investors resident in Switzerland in full, provided they declare the investment correctly for tax purposes.

Kick-backs are an access barrier for ETF investors.

The still common use of kick-backs, despite the ground-breaking judgements given by the Swiss Federal Supreme Court in 2006 and 2011, is hindering the unrestricted sale of ETFs to investors. If such kick-backs, which are received by banks, independent asset managers or providers of third-party financial products, are discontinued, this will encourage the broad use of ETFs.

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