

boston: ETFs

Exchange-Traded Funds See Explosive Growth

Exchange-traded fund (ETF) assets under management now total more than \$433 billion in the United States alone, reflecting strong growth of 33% per year since the launch of the S&P SPDR in 1993.

The surge of interest in ETFs means sponsors need to address critical fund servicing needs. ETFs are more complex than ever before in their product structure, underlying indexes and investment areas. For an ETF to trade smoothly and successfully on the secondary market, it must have comprehensive fund servicing in place, including global custody, fund accounting and administration, transfer agency and basket clearing/settlement services.

With the product structure expansion of ETFs over the past 13 years, the fund servicing component has become significantly more complex. Sophisticated new fund structures have helped fuel tremendous growth in the ETF industry and have also expanded the importance of custodians and administrators.

JPMorgan works with asset managers to assist them in launching new and innovative fund structures. The firm brings together resources from the entire global franchise to serve in a consultative process, which helps make product launches a success. To date, JPMorgan has assisted asset managers in developing and introducing:

- ▶ The first “class of share” ETF
- ▶ The first enhanced index, inverse index and enhanced inverse index ETFs
- ▶ A series of foreign currency-based ETFs

To address the key challenges facing ETFs, JPMorgan has created several solutions, including:

- ▶ A more sophisticated intraday indicative valuation process that allows brokers to price a funds creation basket throughout each trading day
- ▶ Enhanced tax services, including equalization and wash sale analysis, in an effort to assist fund managers in managing tax efficiency
- ▶ Generation, review and dissemination of detailed securities trade information associated with ETF creation and redemption activity
- ▶ Initiation of a securities lending program or the support of a cash collateral process to facilitate the timely creation of ETF units for funds that invest in less-liquid markets
- ▶ Coordination of a fair valuation securities pricing process for funds that invest in markets that close before U.S. markets
- ▶ Development of a flexible creation and redemption process that allows brokers to transact on a cash or in-kind basis

JPMorgan is a full-service provider for ETFs, serving as Index Receipt Agents as defined by the NSCC. Services offered include: Index Receipt Agent, Custody & Securities Processing, Fund Accounting, Fund Administration and Transfer Agent services. For more information on JPMorgan’s ETF services, go to jpmorgan.com/visit/ETF.