

ETFs Present New Challenges for Equity Trading Desks

January 21, 2020

Executive Summary:



The growth of exchange-traded funds over the last 25 years has been one of the biggest secular trends in investing. Closely tied to the rise of passive investment management, ETFs allow investors to gain exposure to broad market indices such as the S&P 500 or individual sectors. In recent years, the types of products available have expanded in myriad ways, including ETFs with short exposure, leveraged exposure, style exposure, or ETFs that track different asset classes, countries, and regions—and now, actively managed ETFs.

ETFs have become an essential tool for institutional and retail investors alike. Financial advisors are heavy users of ETFs as they allow them to construct bespoke portfolios according to their client preferences and risk profile, or to provide smart beta exposure while the advisor layers on active bets. Institutional investors are also increasing exposure to ETFs, with [allocations among U.S. institutions rising to 24.8%¹](#) of total assets in 2018 and to [15% among European institutions²](#), according to recent Greenwich Associates research.

According to ETFGI, there are over 2,000 ETFs available in the United States and only slightly fewer in Europe. ETFs now represent up to 30% of average daily volume in U.S. equity markets and about 10% in Europe.

These numbers are only set to increase in the U.S. with the new “[ETF rule³](#)” coming into force that seeks to reduce costs and time to market for ETF issuers.

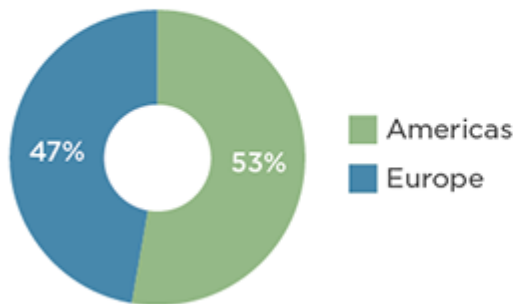
With volumes at such record levels, ETF trading is becoming an important focus for both buy-side and sell-side desks. In this Greenwich Report, we look into the latest ETF execution trends among institutional equity trading desks.

Methodology:

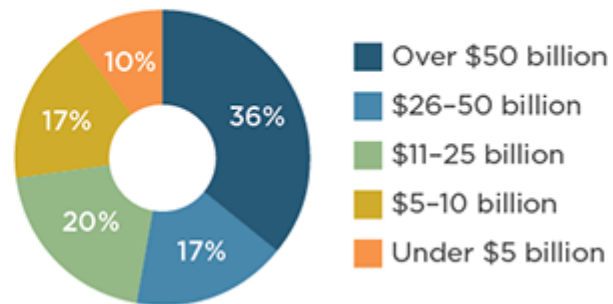
Between July and September 2019, Greenwich Associates interviewed 60 buy-side equity traders in the U.S. and Europe. Respondents were asked a series of questions about their usage and execution preferences for ETFs.

RESPONDENTS

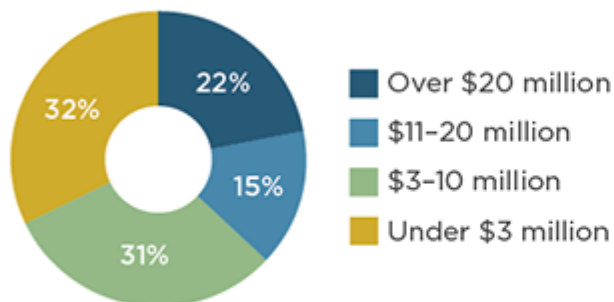
By Region¹



By AUM¹



By Annual Trading Commissions²



Note: ¹Based on 60 responses. ²Based on 59 responses.

Source: Greenwich Associates 2019 Market Structure and Trading Technology Study



www.greenwich.com | ContactUs@greenwich.com

Coalition Greenwich, a division of CRISIL, an S&P Global Company, is a leading global provider of strategic benchmarking, analytics and insights to the financial services industry.

We specialize in providing unique, high-value and actionable information to help our clients improve their business performance.

Our suite of analytics and insights encompass all key performance metrics and drivers: market share, revenue performance, client relationship share and quality, operational excellence, return on equity, behavioral drivers, and industry evolution.

About CRISIL

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. It is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics, and data to the capital and commodity markets worldwide.

CRISIL is India's foremost provider of ratings, data, research, analytics, and solutions with a strong record of

growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights and efficient solutions to over 100,000 customers through businesses that operate from India, the U.S., the U.K., Argentina, Poland, China, Hong Kong, and Singapore.

For more information, visit www.crisil.com

Disclaimer and Copyright

This Document is prepared by Coalition Greenwich, which is a part of CRISIL Ltd, an S&P Global company. All rights reserved. This Document may contain analysis of commercial data relating to revenues, productivity and headcount of financial services organisations (together with any other commercial information set out in the Document). The Document may also include statements, estimates and projections with respect to the anticipated future performance of certain companies and as to the market for those companies' products and services.

The Document does not constitute (or purport to constitute) an accurate or complete representation of past or future activities of the businesses or companies considered in it but rather is designed to only highlight the trends. This Document is not (and does not purport to be) a comprehensive Document on the financial state of any business or company. The Document represents the views of Coalition Greenwich as on the date of the Document and Coalition Greenwich has no obligation to update or change it in the light of new or additional information or changed circumstances after submission of the Document.

This Document is not (and does not purport to be) a credit assessment or investment advice and should not form basis of any lending, investment or credit decision. This Document does not constitute nor form part of an offer or invitation to subscribe for, underwrite or purchase securities in any company. Nor should this Document, or any part of it, form the basis to be relied upon in any way in connection with any contract relating to any securities. The Document is not an investment analysis or research and is not subject to regulatory or legal obligations on the production of, or content of, investment analysis or research.

The data in this Document may reflect the views reported to Coalition Greenwich by the research participants. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Coalition Greenwich compiles the data received, conducts statistical analysis and reviews for presentation purposes to produce the final results.

THE DOCUMENT IS COMPILED FROM SOURCES COALITION GREENWICH BELIEVES TO BE RELIABLE. COALITION GREENWICH DISCLAIMS ALL REPRESENTATIONS OR WARRANTIES, EXPRESSED OR IMPLIED, WITH RESPECT TO THIS DOCUMENT, INCLUDING AS TO THE VALIDITY, ACCURACY, REASONABLENESS OR COMPLETENESS OF THE INFORMATION, STATEMENTS, ASSESSMENTS, ESTIMATES AND PROJECTIONS, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT. COALITION GREENWICH ACCEPTS NO LIABILITY WHATSOEVER FOR ANY DIRECT, INDIRECT OR CONSEQUENTIAL LOSS OR DAMAGE OF ANY KIND ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT.

Coalition Greenwich is a part of CRISIL Ltd, an S&P Global company. ©2024 CRISIL Ltd. All rights reserved.

