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ETFs and associated risks: the AMF provides clarification on the French market in exchange-traded funds

In recent years, the market in exchange-traded funds (ETFs) has grown rapidly, both in Europe and globally. In a study of the French ETF market, the AMF analyses this growth's consequences on market liquidity and stability.

Under the influence of investors searching for yield and low-cost products, the ETF market has grown significantly, with global assets invested in these products increasing yearly by 20% over the past four years. ETFs now account for more than €2,850 billion in assets under management, or 7% of all collective investment assets globally. The scale of this market, as well as events such as the United States' 'flash crash' in the summer of 2015, where American ETFs suffered severe disconnects, raise questions as to the associated risks to market liquidity and stability.

Alongside work undertaken at the international level, the AMF was keen to shed light on these questions by focusing its study on the French market (ETFs listed on Euronext Paris). The market in ETFs listed on Euronext Paris consists of 477 funds with total assets under management of €103 billion at end 2016 (up 66% versus 2014). Following an assessment of the current state of the market and a description of the associated risks, the AMF's analysis looked at ETFs' impact on their underlying assets as well as on the underlying markets themselves.

The study shows that:

- circuit breakers in force on the Euronext Paris market make it possible to contain the risk of significant divergences between the traded price of an ETF and the immediate net asset value of the underlying basket;
- the total take-up rate of ETFs in the Paris market , on its own, appears insufficient to have a significant impact on underlying markets in the event of units being redeemed;
- subscriptions and redemptions of ETF units appear counter-cyclical, thus serving to dampen major price movements rather than to amplify them.

However the AMF is of the opinion that if investors continue to be drawn to ETFs, sustained vigilance will be required during periods of market stress. During such periods, ETF units are liable to trade at a significant discount, and correlation effects can amplify volatility on underlying markets.

For reference:

An exchange-traded fund is a fund that seeks to replicate the performance of a benchmark index (by buying the securities that make up that index or through synthetic replication using derivatives). ETFs can be traded on the stock exchange just like shares. ETFs are now available on all asset classes (equities, bonds, commodities and foreign exchange).

About the AMF

The AMF is an independent public authority responsible for ensuring that savings invested in financial products are protected, providing investors with adequate information and supervising the orderly operation of markets. Visit our website www.amf-france.org.

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