ISSUER-DRIVEN Exchange Traded Fund Program

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Lead Securities Markets Specialist
ETFs: Unexploited synergies and the World Bank role

WB and Government Agenda: Market development
- Challenges
  × Benchmarking
  × Transparency
  × Liquidity
  × Diversification

WB Comparative Advantage: Global convening power to meet development objectives

ISSUER-DRIVEN-ETF

ETF Industry: Growing Benefits
- Improved Transparency
- Greater Liquidity
- Intraday Pricing
- Lower Cost

Unexploited synergies
Preconditions to Develop EM Bond ETFs

- **Minimum size** of ETF to break even

- **Minimum liquidity** in underlying instruments

- Appropriate **legal, tax, and regulatory framework**
What is the Issuer – Driven ETF project?

A World Bank Group initiative to support the development of local currency bond markets via an innovative Government Bond ETF structure.

**Key Innovation**: Direct involvement of the issuer in the ETF structure which:

- facilitates efficient tracking and rebalancing,
- enhances business viability
- allows government to design ETFs that are aligned to development goals
Issuer – Driven Exchange Traded Fund Program

Four roles of the Supporting Entity

- Supporting the ETF launch
- Supporting market making
- Selecting the reference index
- Selecting Fund Manager

Index Manager

Fund Manager

Authorized Participants

Exchange

Investors

Supporting Entity

Financial and Private Sector Development
What role for the World Bank?

- Honest broker in dialogue across market participants and governments
- Feasibility analysis and assessment of anticipated development impact
- Branding “I-D ETF”
- Setting minimum standards for brand: quality label that enhances credibility of the product
- Convening power – global replication
- Technical assistance to solve bottlenecks and help countries meet minimum standards.
<table>
<thead>
<tr>
<th>Key Pillars of I-D ETF Concept</th>
<th>Minimum Standards</th>
<th>Objective</th>
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</thead>
<tbody>
<tr>
<td><strong>1. Primary Market Support</strong></td>
<td>Guaranteed minimum volume of underlying securities</td>
<td>Enhanced economic viability and quality of the product.</td>
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<td><strong>2. Secondary Market Support</strong></td>
<td>Incentives and measures to enhance liquidity</td>
<td>Higher liquidity, lower transaction costs and fees to investors</td>
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<td><strong>3. Adherence between Index and Development Objective</strong></td>
<td>Proved link between ETF index and development objectives</td>
<td>Ensure focus on development impact</td>
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<td><strong>4. Transparent Selection of Qualified Fund Manager</strong></td>
<td>Transparent, merit based selection process with robust criteria</td>
<td>Mitigate reputational risks and likelihood of success</td>
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The World Bank Group’s comparative advantage

- Global convening power to reach all potential candidates
- Globally recognized brand to build global initiative
- Government and WBG objectives aligned
- Enhanced credibility of the ID-ETF as a market development tool
- Solid network of policymakers
- Consolidated reputation in local currency bond market development
Replication: The whole is greater than the sum of the parts

<table>
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<tr>
<th>Benefits</th>
<th>Traditional ETF</th>
<th>Issuer-Driven ETF</th>
<th>Global Issuer-Driven ETF</th>
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<tbody>
<tr>
<td>Further cost reduction from exploiting synergies</td>
<td></td>
<td></td>
<td>✓</td>
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<td>Robust expansion with global expertise and experience</td>
<td></td>
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<td>✓</td>
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<tr>
<td>Increased investor demand from enhanced credibility and brand</td>
<td></td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Lower cost for investors with reduced inefficiencies</td>
<td></td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Larger size at launch – reduced time to profitability – enhanced viability</td>
<td></td>
<td>✓</td>
<td>✓</td>
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<td>Advanced public sector market development objectives</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Greater price transparency</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Broader investment opportunities</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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Replication and Consolidation of I-D ETF Brand

LAC Regional ETF

ECA, MENA and AFR Regional ETF

SA & EAP Regional ETF

Emerging Markets ETF

Mexico, Colombia, Peru, Brazil, Chile, Uruguay
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