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Submitted electronically to
fundspolicy@centralbank.ie

Markets Policy Division
New Wapping Street,
North Wall Quay,
Dublin 1.

Re: Exchange Traded Funds Discussion Paper – Response

Dear Sir,

WisdomTree is a global ETF promotor headquartered in New York and with offices in London, Tokyo and Toronto and operates locally-listed ETFs in the U.S, Europe and Canada. At WisdomTree we strongly believe in the merits of the ETF structure as a cost effective, transparent and easy to access vehicle for either retail or institutional investors.

We believe that transparency, as a general principle, is a key component of ETFs and that increased transparency can only be beneficial to investors and the investment management industry. At WisdomTree we make all the holdings of each of our funds available on our website on a daily basis and we also publish the index methodology for each of our funds on our website.

Below we address some of the items raised in the consultation paper.

C. Is the idea of secondary market investors dealing directly with an ETF when the AP arrangements breakdown unworkable in practice or unnecessary? Is there a better way of enabling secondary market investors to dispose of their ETF shares at a price close to the next calculated net asset value when secondary market liquidity is impaired?

We would draw a distinction between impairment of the liquidity of the underlying holdings of an ETF and a liquidity impairment affecting the ETF only.

One of the key advantages of an ETF compared to a traditional mutual fund is the ability for an ETF to have multiple subscriptions and redemptions without impacting the existing investors of the ETF. The mechanism where APs only deal with the ETF is designed to ensure the ETF can always transact in full baskets, thus pushing the execution costs to the AP. Allowing investors to redeem at the NAV with the ETF in retail sizes, because the underlying market was disrupted, would place the cost of executing in these markets on the remaining investors in the ETF and undermine this core principle of ETFs. This fundamental benefit of ETF cannot be separated from the mechanism that delivers the benefit itself.

In principle, there could be a reason to allow secondary market investors redeem directly from the ETF, if there was an impairment specific to the ETF. Short of the all APs withdrawing or the AP going bankrupt we don't see an obvious scenario where this would need to occur. As well as losing the

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efficiency of the ETF structure, we are also concerned that this would raise issues such as who would determine when this mechanism would be triggered and under what circumstances, which could potentially cause great systemic issues.

We feel that it makes most sense to focus on ensuring stability in the stock exchanges, and that the proper functioning of ETFs will follow.

D. Should ETFs warn investors that the ETF may temporarily become a closed-ended fund in certain market conditions? Would requiring an ETF to remain open-ended in a stressed market be disadvantageous to existing investors or have other unintended consequences?

We believe that the rules relating to suspension of redemptions should apply equally to ETFs as they apply to mutual funds, as the rationale behind suspension is the same irrespective of structure i.e. underlying liquidity. Requiring an ETF to remain open during certain stressed market conditions would be detrimental to the other shareholders in the fund.

As discussed in (A) above, ETFs have an advantage over mutual funds in shielding existing investors from execution costs when all creations and redemptions are made in full basket sizes. In stressed market conditions an investor may redeem from an ETF without affecting the remaining shareholders in the ETF, as long as long as the redemption is in whole baskets via the AP. Requiring ETFs to remain open in these stressed market environments will not necessarily compromise the existing investors who wish to remain in the ETF, as long as the redemption process is able to be managed in-line with current practices (such as trueing up redemptions or restricting redemptions to in-kind only). If, however, the ETF is forced to allow cash redemptions (with the ETF essentially back stopping the liquidity) or investors are permitted to redeem directly from the ETF at non-basket sizes at times of stressed market conditions then, it is likely that the most liquid assets of the ETF will need to be sold to meet the redemption requests and those investors that remain in the ETF will be left with the most illiquid holdings.

Currently the prices that market makers are able to provide will be driven by the size of the ETF trade versus the availability of liquidity in the underlying assets (as all costs of execution are passed back to the AP). High spreads, which are driven by mismatches between the size of the ETF trade and the underlying liquidity, should cause investors to reconsider how or whether to execute the trade/redemption.

E. Is it correct to permit share classes to be structured having regard to the operational concerns of APs and the impact this may have on secondary market pricing? Are there factors (other than those noted above) that could be relevant to ETF structuring?

As a general principle, we support considerations of the operational concerns of APs in ETF structuring. Considering the operational requirements of this channel when structuring ETFs will lead to more efficient processes, which is ultimately beneficial to investors.

I. Some academic research suggests that if a synthetic ETF experiences counterparty default, the synthetic ETF is more likely to be able to deliver the performance of its underlying index if the collateral received is correlated to that index. Should collateral received (where a funded model is used) or securities purchased (where an unfunded model is used) be correlated to the index being tracked? Is this practical, particularly for example where the index tracked by an ETF is comprised

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of securities which may be relatively expensive to access? Is collateral quality sufficiently regulated and disclosed?

As a general observation, it would be highly inefficient and run contrary to the purpose of using a synthetic instrument to deliver the physical underlying constituents as collateral. We consider that the rules currently in place regarding collateral are sufficient.

L. Some commentators are concerned that ETFs are tracking indices of underlying stocks which are not sufficiently liquid to match the intra-day liquidity on the secondary market which the ETF offers. This statement is quite simplistic and does not, for example, reflect that there may be much secondary market activity but very little primary market activity. UCITS, including UCITS ETFs, are subject to general liquidity management rules which should ensure that ETFs track indices of underlying stocks that are sufficiently liquid to allow the ETF to meet creation and redemption requests. Is this sufficient? What liquidity practices do ETFs follow? Are there other practices that might be appropriate for ETFs?

In our view, there is no problem with the turnover in the secondary market being in excess of the turnover of the underlying stocks on the primary market. In fact, a key goal of an ETF is to be highly liquid as it is a better experience for investors if there is greater liquidity in the ETF.

O. The Central Bank is primarily interested in risks associated with Irish authorised ETFs and European ETFs more generally yet much of the available academic literature, analysis and data relates to US ETFs. The concern is that any analysis of Irish authorised and European ETFs may be adversely affected by reliance on US centric materials. Is this valid? Are Stakeholders aware of EU ETF specific information that might lead to different conclusions? Will MIFID II resolve these data issues?

We agree that there is a need for more European specific information and research on ETFs generally, and on the mechanics and risks of ETFs. We would anticipate that the increased disclosure requirements under MIFID II will make more information available to conduct this research.

Yours sincerely

WisdomTree Europe Limited