MAPLES
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ETFs

A Guide for Asset Managers

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INTRODUCTION TO EXCHANGE TRADED FUNDS

In this Guide, we provide an explanation of what an ETF is, provide an overview of the ecosystem it operates in and explain the key drivers for growth and success of these products on a global, and European, basis.

What is an Exchange Traded Fund?

An exchange traded fund ("ETF") is a form of collective investment scheme. The key factor which differentiates an ETF from other investment fund structures is that it is traded on one or more stock exchanges. ETFs are an investment product which combine the features of an investment fund with those of an exchange-traded security.

European-domiciled ETFs are traditionally structured as corporate vehicles established as undertakings for collective investment in transferable securities ("UCITS").

The key differences between ETFs and unlisted collective investment schemes include the availability of intraday liquidity in the secondary market, the involvement of the authorised participant ("AP") in the primary market and the resultant arbitrage mechanism which is created thereby.

ETFs BACKGROUND AND GROWTH

UCITS are, and continue to be, an appealing product structure for asset managers looking to access both European and international retail and institutional investors and international investors.

ETFs emerged in the early 1990s and symbolised a revolutionary shift in the mutual funds industry. They appeal to a diverse array of investors.

Ireland is the largest European centre for ETFs which are the fastest growing type of investment fund globally.

As at the end of June 2023[1], Ireland surpassed €1trn of assets under management in ETFs, which represents approximately 68% market share in Europe, far ahead of its nearest competitor.

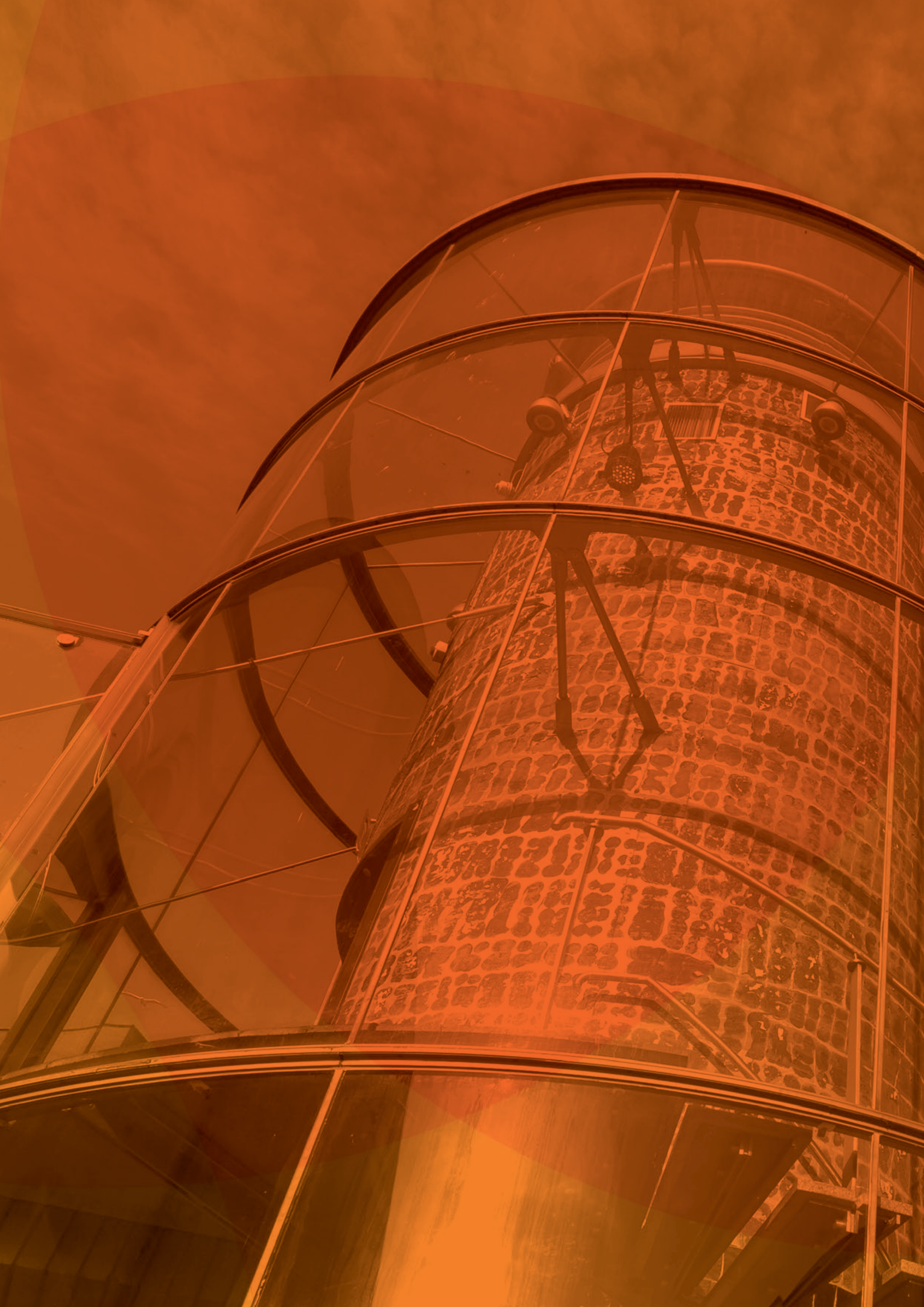
US $10.747 trillion

[2] assets invested in global ETFs

US $1.635 trillion

[3] assets invested in European ETFs

1 Morningstar, 2023 Data as of end June
2 ETFGI, November 2023
3 ETFGI, November 2023



WHY IRELAND FOR ETFs?

Ireland is the number one European domicile for ETF issuers and is at the forefront of the European ETF market.

Ireland has emerged as one of the primary locations for ETFs in Europe, due to a large pool of expertise and experience available, an appealing regulatory framework and supporting infrastructure.

Establishing an ETF as a UCITS means that it benefits from a brand that is recognised and understood throughout the world. The availability of the UCITS passport enables the ETF to be registered for public distribution throughout the EEA.

Irish ETFs can benefit from a well-established and flexible Central Bank of Ireland ("Central Bank") approval process, which enables sponsors to bring innovative and complex index-tracking products to market quickly.

ETFs can establish both listed and unlisted shares classes within a single fund structure (subject to disclosure requirements). Different dealing times for hedged and unhedged share classes within the same ETF may also be permitted.

ADVANTAGES OF ETFs

Flexibility and Timing	ETFs can be traded in real time throughout the day rather than at one fixed point as with traditional mutual funds. This gives investors flexibility and discretion to move in and out of their chosen investment on an ad-hoc basis and avail of market developments.
Diversification	Shares of ETFs are quoted on the stock exchange and offer broad diversification. The range of assets covered by ETFs provide an easy way for issuers to provide the investors with exposure to different markets / sectors / investment strategies.
Liquidity	Owing to the built-in arbitrage mechanism, ETFs typically have higher daily liquidity than mutual fund shares, making them an attractive alternative for investors.
Transparency and Disclosure	In contrast to mutual funds, ETFs are required to reveal their holdings on a daily basis meaning that although indices rarely change, when they do, the information is readily available to investors.
Cost Efficiency	ETFs are an easy and cost effective way for investors to achieve returns. ETFs typically have a lower expense ratio when compared with mutual funds.

TAX HIGHLIGHTS

Tax Efficient	No Irish taxation arises on income or gains at the level of the Irish ETF.
No Withholding Tax	No withholding tax on dividend or redemption applies on payments to non-Irish investors.
Tax Treaty Access	Irish ETFs may be entitled to benefit from the provisions of Ireland's double tax treaties, including the US / Ireland treaty, subject to the provisions of each treaty and the rules in the relevant treaty partner country in each case.
VAT Exemptions	The provision of certain standard services to Irish ETFs (e.g. investment management, administration, transfer agency, depositary, etc.) are treated as VAT exempt in Ireland. To the extent that the Irish ETF incurs Irish VAT on certain services it receives (e.g. audit and legal fees), it may recover a portion of this VAT based on its recovery rate.
Stamp Duty and Subscription Taxes	No stamp duty is payable in Ireland on the issue, transfer, repurchase or redemption of shares in an Irish ETF. No subscription taxes are levied by the Irish tax authorities on the assets of an Irish ETF.
Exchange of Information	Ireland is fully compliant with the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes. Ireland has implemented both the US FATCA regime and the OECD common reporting standard ("CRS"). Irish ETFs are thus capable of complying with international FATCA and CRS requirements. Provided the Irish ETF complies with its FATCA obligations, no FATCA withholding should apply on payments from US sources.

THE ETF ECOSYSTEM

Primary Market

ETFs do not typically sell individual shares directly to, or redeem directly from, investors. Instead, transactions go through third party intermediaries, called Authorised Participants.

The AP subscribes for and redeems ETF shares directly with the ETF in creation units, which are large blocks of tens of thousands of ETF shares. The interaction between the ETF and its AP is known as the primary market. The AP will subscribe for shares directly with the ETF either in cash or in specie / in-kind, i.e. by providing a creation basket referencing the underlying securities of the reference index or strategy in exchange for creation units.

Secondary Market

ETF shares will be listed on an exchange and are available for purchase by investors from the AP on these exchanges. These markets are referred to as the secondary market in the ETF context.

The settlement of the ETF shares is facilitated through recognised clearing and settlement systems i.e. Clearstream and Euroclear. This settlement system permits ETF shares to be bought from and / or sold to an AP on an intra-day basis without incurring subscription or redemption charges.

The AP will be the only directly participating shareholders in the ETF with all other investors holding an interest in those shares via the secondary market.

Secondary market investors must have a right to sell shares directly back to the UCITS ETF in certain circumstances, for example where the stock exchange value of the shares significantly varies from its net asset value ("NAV") (e.g. in cases of market disruption such as the absence of a market maker). The process and potential costs involved in such a redemption must be disclosed by the UCITS ETF in its prospectus.

TYPES OF ETFs

Passive ETFs	Passive ETFs seek to provide their investors with a return closely aligned to the return of the relevant index and their purpose is to match the performance of the index. Passive managers try to track / replicate the performance of a given market or index and do not necessarily try to outperform their corresponding financial index / portfolio.
Active ETFs	An actively managed ETF is where the investment manager frequently trades assets in an effort to outperform the index / market and retains discretion over the portfolio composition rather than tracking an index. Actively managed ETFs seek to implement their own investment strategy and have discretion over the composition of its portfolio subject to the investment objective and policy of the fund in an effort to outperform the relevant index / market.
Physically Replicating ETFs	A physically replicating ETF is a passive ETF which invests directly in the underlying assets that comprise the index in the same weightings and concentrations as the financial index / underlying portfolio (subject to compliance with the diversification limits applicable to UCITS). The main advantage to the physically replicating ETF model is that there is no counterparty risk in respect of direct investment.
Synthetically Replicating ETFs	A synthetically replicating ETF is a passive ETF which gains exposure to an index through a derivative (usually a swap) with a counterparty. A synthetically replicating ETF invests in financial derivatives where a counterparty pays the exact return of the relevant underlying asset. Such products may be more cost effective compared to a physically replicating ETF but they do entail counterparty risk and are subject to the UCITS limits on counterparty exposures.

DISCLOSURE REQUIREMENTS FOR ETFs

Naming	UCITS ETFs are currently required to use the identifier "UCITS ETF" in the name of the relevant sub-fund in order to identify it as an exchange-traded fund – this should be reflected in its constitutional document, the prospectus, the key investor information document (the "KIID") and marketing communications.
Transparency	A UCITS ETF shall, in (a) the prospectus; (b) the KIIDs; and (c) the marketing communications of the UCITS ETF disclose the policy of the UCITS ETF regarding portfolio transparency and where information on the portfolio may be obtained, including where the indicative NAV ("iNAV"), if applicable, is published.
Redemption	UCITS ETFs are required to make clear that shares purchased on the secondary market are generally not redeemable from the fund. Additionally, the prospectus is required to disclose the exceptional circumstances whereby a secondary market investor may redeem directly from the fund, and the process to be followed in that case.
Use of indices	There are additional disclosure requirements in respect of the use of indices by investment funds, where a UCITS ETF intends to track/replicate an index.

"They are outstanding on international aspects...

Commercially minded, aware of new developments and very proactive...

They have great strength in handling country registrations and all aspects of maintaining all regulatory filings...

CHAMBERS GLOBAL

Maples is a global titan in the investment funds arena...

...regarded by some as being 'the best in Dublin'...

Exceptional knowledge of the investment funds industry sector...

LEGAL 500

Partners and associates are technically excellent and can be relied on for practical and sound business advice...

The team at Maples is outstanding...

Leading Irish firm advising on funds & investment management, often being the first to implement new products...

IFLR"

The Maples Group is independently ranked first amongst Irish law firms in Ireland in terms of total number of funds advised (based on the latest Monterey Ireland Fund Report, as at 30 June 2022).

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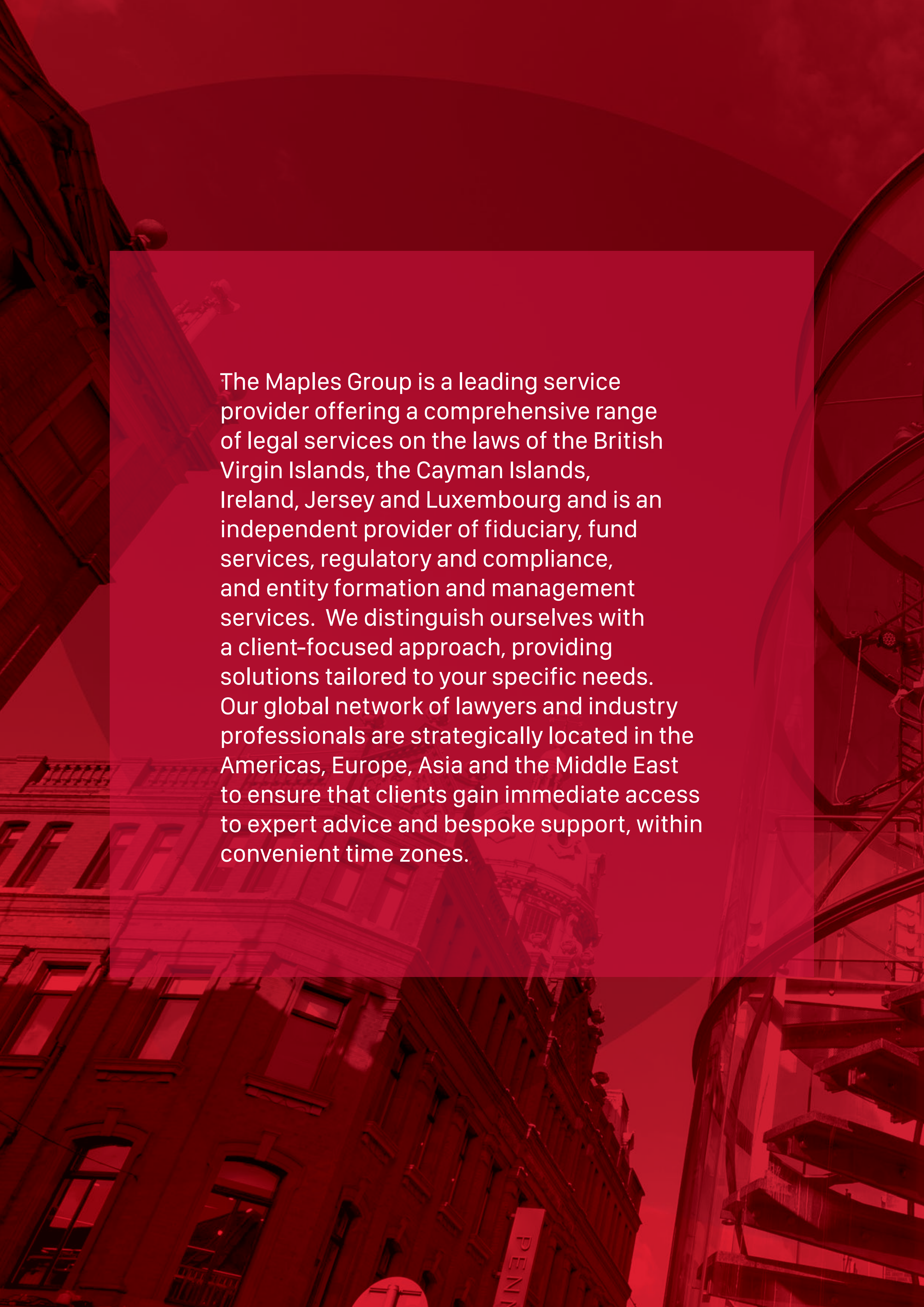

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