



PRESS RELEASE

17 June 2019

Advisory Scientific Committee publishes report on Exchange-Traded Funds

The Advisory Scientific Committee of the European Systemic Risk Board has today published a report presenting the main channels through which Exchange-Traded Funds (ETFs) have the potential to affect systemic risk. ETFs are hybrid investment vehicles that track an index or a basket of assets (typically referred to as “constituent securities”) and are continuously traded on liquid secondary markets.

ETFs have been one of the most popular financial developments in recent decades and they have grown substantially in size, diversity, scope, complexity and market significance. While ETFs have greatly benefited the investment community by lowering the cost of delegated portfolio management and improving investors’ access to diversification, they also can affect investors’ behaviour, by allowing them to pursue new strategies to seek returns, manage risk and access new asset classes. These changes in investors’ behaviour may in turn impact the functioning of financial markets.

Based on existing empirical evidence, the report discusses the channels through which ETFs can affect systemic risk. While some of these channels are common to other investment vehicles, their presence on primary and secondary markets, together with the rapid development of the ETF sector, warrants further analysis of ETFs.

The report does not discuss specific policy measures, but does call for further empirical research in two key areas: (i) ETF order flows in periods of stress and their impact on the volatility, co-movement and illiquidity of both ETFs and constituent securities; and (ii) the extent to which financial institutions have significant and common exposure to ETFs and/or rely on them to manage liquidity.

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