Factsheet
Actively Managed ETFs

What is an Actively Managed ETF?

Typically ETFs are designed to track an underlying index for a range of asset classes such as Equities, Fixed Income, Commodities and many others. They are known as passive ETFs as they are structured to only follow an index and match its performance. They do this by holding all of the stocks underlying the benchmark, with the correct weighting or by entering a swap based contract to guarantee the returns of the index. Either way, there is no ‘active management’ involved.

The principle of an active ETF is much like its passive counterpart. It aims to replicate the performance of an underlying benchmark, where the benchmark is the performance of an actively managed fund. The performance of an active ETF is based on the investments made by the manager of the underlying fund rather than a portfolio allocation strategy. It is referred to as ‘Active’ due to the management style of the underlying. The underlying portfolio will have no predefined sector or asset class allocation but will follow the strategy of the fund manager.

How to list an Actively Managed ETF?

To offer ETF issuers greater flexibility in admitting ETFs to the Main Market, the Exchange offers a choice of routes for both UCITS and non-UCITS Active ETFs:

**UCITS compliant Active ETFs**

- Apply to the UK Listing Authority (UKLA) for an official London listing and to London Stock Exchange for admission to trading on the Main Market.
- Apply to the London Stock Exchange for admission to trading on the Main Market based on an existing European Economic Area (EEA) listing.

**Non-UCITS compliant Active ETFs**

The London Stock Exchange now offers two alternative ways to market for a non-UCITS compliant fund which, after admission, trade on a dedicated non-UCITS trading segment.

- An Active ETF can become an FCA authorised fund
- An Active ETF can become an FCA recognised fund

Further details surrounding FCA authorisation and recognition can be found here: [https://small-firms.fca.org.uk/authorised-and-recognised-funds?field_fcasf_sector=unset&field_fcasf_page_category=unset](https://small-firms.fca.org.uk/authorised-and-recognised-funds?field_fcasf_sector=unset&field_fcasf_page_category=unset)
AIFM permits non-UCITS ETFs to be passported to some other EU states but some extra regulation criteria must be followed. When active ETFs are listed on London Stock Exchange markets, they will trade in their own segments and sectors. To search for currently listed active ETFs you can use our list of ETFs and ETPs and filter by segment ETFS and sectors ETFA, ETMA, EFCA which represent our multi-currency lines. [http://www.lseg.com/areas-expertise/our-markets/london-stock-exchange/fixed-income-markets/listed-products/etfs](http://www.lseg.com/areas-expertise/our-markets/london-stock-exchange/fixed-income-markets/listed-products/etfs)

**Active ETF disclosure requirements**

- Active ETFs must disclose their NAV and number of outstanding shares on a daily basis. EEA passported ETFs must in addition follow any home listing rules.
- Daily portfolio disclosure is not required by London Stock Exchange.
- Details of an individual Active ETF's portfolio disclosure regime can be found in its prospectus.

**Active ETF trade reporting requirements**

Similarly to passive ETFs, under MiFID 1 there are no requirements to trade report executed transactions of ETFs or ETCs (even when admitted to an EU regulated market). However, the rules of the London Stock Exchange impose transparency requirements for ETFs and ETCs:

- **Order book executions** – When trade is executed on-book, a trade report will automatically be generated.
- **Off-book executions** – ETF and ETC trades executed away from the order book are considered ‘on-exchange’ and under the rules of the exchange are required to be reported to the Exchange unless the member firm and its counterparty agree to report the trade to a venue with an equivalent or greater level of post trade transparency. Trades must be reported as soon as possible and not later than 3 minutes after execution (rule 3020). Rule 3012 and 2013 set out rules for agreeing who should report the trade although an agreement can be made between the two parties.

**London Stock Exchange Trading Activity**

- Total on-exchange GBP value traded of Active ETFs for first half of 2015 was £620.75million across 2,051 trades with a traded volume of almost 10.1m units.
- When compared to results from first half of 2014:
  - 73% increase in GBP value traded
  - 142% increase in number of trades
  - 101% increase in volume traded

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