ETF Share Classes and the Drive for Automation in Servicing

The Exchange Traded Fund (ETF) landscape is experiencing unprecedented growth, with global Assets Under Management (AUM) rapidly approaching $20 trillion[1]. This significant AUM expansion, coupled with the long-anticipated introduction of ETF Share Classes in the U.S. acts as a powerful catalyst for managers to re-evaluate existing servicing models and, critically, embrace enhanced automation across the entire ETF servicing ecosystem.

Automation is particularly important for continued scalability and growth within ETF Servicing as complexities arise from the integration of share classes. This will require addressing several key operational and technical considerations:

FIX Connectivity for Streamlined Order Placement: The widespread adoption of Financial Information Exchange (FIX) connectivity is essential for automating creation and redemption order placements. As the volume of creation/redemption orders continues to escalate, relying on Authorized Participants (APs) to manually input orders through portals becomes unsustainable. Implementing FIX connectivity significantly reduces manual intervention and unifies disparate processes across various order portals for efficiency and accuracy.

APIs for Automated Order Approvals: To further optimize operations and minimize dependencies on manual portal interactions, managers should leverage APIs for order approvals. This enables fully automated approval workflows, eradicating the need for ETF managers to login to provider web portals. An API-first strategy is crucial for managing the increased transaction volume and complexity introduced by multiple share classes.

Automated Web Hosting and Data Disclosure: Historically, managers have predominantly used websites as marketing tools with periodic updates. ETFs will necessitate daily web disclosures of portfolio holdings and other vital information. Consequently, the automation and accuracy of data publication to these websites is paramount if managers are to meet regulatory requirements and investor demands.

Real Time Order Details: With increasing transaction volumes, managers will need automated, standardized formatting mechanisms or APIs from their ETF providers for their ETF order details on a real-time basis. This automation will ensure consistency and reduce errors in high-volume trading scenarios. Managers can no longer wait until the end of the day to receive their orders, they need information in as close to real time as possible.

Conclusion: The Digital Evolution of the ETF Industry

The ETF industry is swiftly moving towards a digital-first operating model, characterized by extensively automated workflows. In this evolving landscape, traditional web portals are being relegated to a backup role, primarily for business continuity. The electronic exchange of data via APIs is rapidly becoming the standard, effectively replacing manual processes and substantially reducing the need for human intervention. This fundamental shift underscores the critical importance for fund managers to proactively adopt technology, prioritize robust API integration, and develop resilient digital infrastructures.

These strategic investments are essential not only for managing their existing ETF suites but also, and most importantly, for successfully adapting to the evolving demands and opportunities presented by ETF Share Classes.

1 ETFGI: Global ETF Assets Reach Record High of US$18.81 Trillion at end of September according to new research from ETFGI

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