

ETF Knowledge



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What is ETF

- An authorised index tracking exchange traded fund (ETF) is a fund authorised by the Securities and Futures Commission (SFC) that is traded on an exchange.
- Its principal objective is to track, replicate or correspond to the performance of an underlying index.
- The index can be on a stock market, a specific segment of a stock market or a group of stock markets in a region or elsewhere in the world. It can also be on bonds or commodities.
- An ETF gives investors an indirect access to a certain market. By investing in an ETF, investors can receive a return that replicates the performance of the index without actually owning the constituents that comprise the index.
- In some cases, an ETF tracks an index of a market that has restricted access (such as, the China A-share market and the Indian market), thus giving investors indirect access to a market that is not accessible by foreign investors not domiciled in that jurisdiction.

Multiple Counter ETF

- Trade the ETF in more than one trading counters in Eligible Currency on the Stock Exchange of Hong Kong (SEHK).
- Eligible Currency as defined in the General Rules of Central Clearing and Settlement System (CCASS) of Hong Kong Securities Clearing Company Limited in effect from time to time, refers to Hong Kong dollar (HKD), Renminbi (RMB) and United States dollar (USD).
- Units traded in the HKD counter will be settled in HKD, likewise, units traded in the USD counter will be settled in USD.
- Units traded in different counters are of the same class with the same unitholder rights.
- The different counters will have different stock codes, different stock short names and different ISIN numbers for identification.

ETF Creation and Redemption process

- Investor can purchase or redeem mutual fund units directly with the fund company or distributor.
- Only participating dealers can interact directly with the ETF manager to create or redeem ETF shares.
- ETF dealer can typically exchange the underlying securities for ETF shares.
- The ETF shares that dealers create are then traded by investors on an exchange.
- ETF on the other hand can adjust the number of supply via the daily creation and redemption process of issuance continuously.
- The will increase the liquidity of ETF.

Advantages of ETF

- Easy to trade – It helps investors gain exposure to a range of investment strategies that can be executed as simply as buying any share.
- Diversification – It is generally designed to track indices, most of which are comprised of dozens or hundreds of or even more securities
- Transparency - Trading information of an ETF is easily accessible on a real-time basis.
- Cost effectiveness – No subscription fees. The transaction costs for trading ETFs at HKEx are the same as those for trading other securities, which include brokerage commission, transaction levy, investor compensation levy (currently suspended), trading fee, trading tariff and stamp duty(currently suspended).
- Market exposure - While some ETFs provide Hong Kong investors access to a basket of Hong Kong securities, others provide the investors access to overseas markets or other asset classes.