

# HOW IS TECHNOLOGY CHALLENGING THE ETF INDUSTRY?

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Technology has always been challenging for the ETF industry. Most recently, we have heard of things like artificial intelligence, machine learning, big data, all really cool and really important to understand, but let's take a look at the challenges that an issuer perhaps faces from a technology perspective today.

You've got to think about your distribution channel, and by distribution channel we're not talking about sales and marketing here, we're talking about how market-makers or authorized participants look at your products and price them in the secondary market.

So, first, let's talk about the distribution channel. Authorized participants and market-makers consume your daily basket file into their systems and their systems analyze those baskets and say, OK, you can commit capital to the secondary market with this type of book. If there are issues with it, like a missed corporate action or something like that, they're going to widen out a little bit because they are unsure.

The second technology challenge that we face as issuers is the health of your products and maintaining the health of your products in the secondary market, and by that I mean if a market-maker is going to quote in the secondary market, they want to quote with tight spreads, they want to have confidence in your product. If your products are trading a little bit wider and don't look as good to an investor looking to get into that particular space, you might not win that RfQ quote. So if they have confidence that they can manage their inventory and be flat at the end of the day, i.e. they don't have to hedge that overnight and therefore price the cost of that hedge into what they're pricing that particular client, then you could potentially win.

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