Dubai: Listing and Trading of Exchange-Traded Funds

A cost-efficient alternative to mutual funds, exchange-traded funds (ETFs) have grown significantly in popularity around the world in recent years.Like mutual funds, ETFs track assets including stocks, commodities, and bonds. However, the latter differ from the former in that they are listed on stock exchanges and charge minimal fees.Negligible 20 years ago, ETFs' assets under management amount currently to some USD 3.7tn (ETFGI 2017), and are predicted to increase to USD 6tn by the end of 2020 (EY 2016). From humble beginnings, their impact on stock trading has now reached considerable proportions. Today, ETFs represent almost one-half of all trading in US stocks. Over the past 12 months, UDS 130.7bn has flowed out of all US mutual funds, while USD 240bn has poured into US ETFs (Morningstar 2017).


Financial market graph

In order to participate in this global trend, the Dubai Financial Market (DFM) has recently finalised a favourable regulatory framework for the listing and trading of ETFs. Regulations for the trading of ETFs had been first approved by the UAE's Securities and Commodities Authority in 2009 but were little used given the depressed state of UAE stocks at the time. Pursuant to the new rules, trading in ETFs on the DFM is confined to market makers, authorised participants and liquidity providers.In June 2016, Afkar Capital, an investment company, introduced the Afkar S&P UAE UCITS ETF, the first liquid, fully fungible, fully tradeable and transparent exchange-traded fund listed in the Middle East under the new regulations. Its ETF has been designed to replicate the S&P UAE BMI Liquid 20/35 Capped Index. This index comprises 10 of the country's largest stocks, spread across the DFM, Nasdaq Dubai and Abu Dhabi Securities Exchange. Etisalat, Emaar Properties, Dubai Islamic Bank and ADCB account for 50 per cent of the fund's weighting.In March 2017, in line with its strategy to further diversify its product offering for both local and global investors, the DFM unveiled an ETF platform that provides integration and on-going support to the expanding ETF industry.In the same month, Afkar Capital added Al Ramz Capital as new authorized participant and Cairo's Beltone Financial as foreign liquidity provider for its Afkar S&P UAE UCITS ETF. This step marked the first time a foreign market maker has been appointed as liquidity provider for a domestically listed fund in the Middle East.According to Seif Fikry, Afkar Capital's CEO, since the its launch last summer, the ETF has benefited from a "strongly positive reception" not just in the Middle East, but also from the United Kingdom and the United States. "We are confident that our new partnership with Al Ramz Capital will further facilitate access to UAETF and expand the fund's reach to local and global investors, fund managers and institutions with appetite for the UAE market," he added.