

# Module 3 Buying, holding and selling ETFs

Version 1 – 3 November 2020

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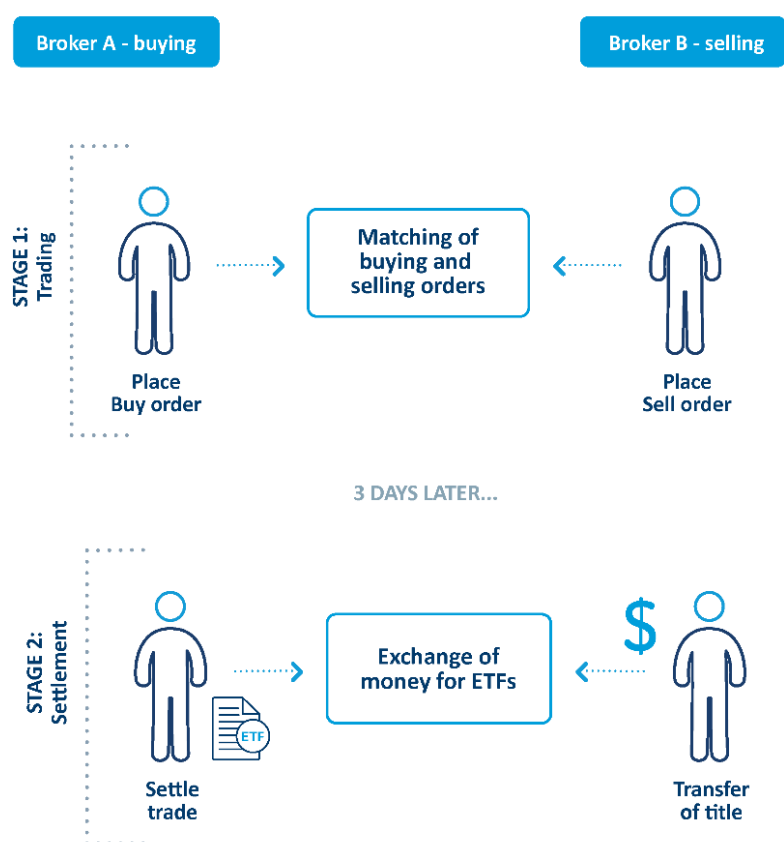
## Topic 1: Buying and selling ETFs

### How trading ETFs is similar to trading shares

The basic process for buying and selling ETFs is the same as trading shares. Orders are entered during ASX trading hours via your broker and brokerage is payable.

Settlement of the trade takes place three business days after the transaction (T+3). For a purchase, legal ownership of the ETF is transferred to you and for a sale, funds will be deposited in your account.

You receive a confirmation note from your broker and a CHESS holding statement, just as you do when you trade shares.

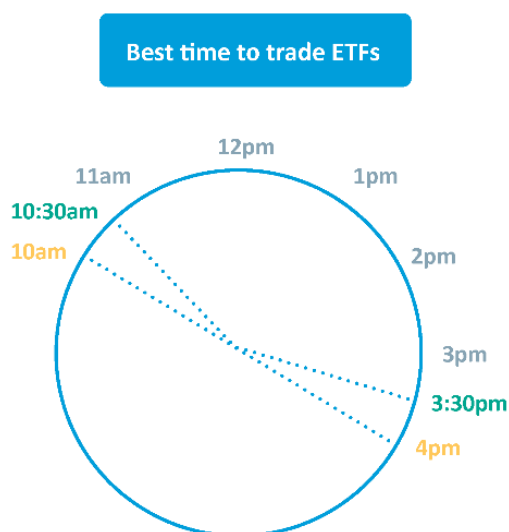


### How trading ETFs is different from trading shares

Despite the similarities in the trading process, there are some additional considerations when you trade ETFs.

These considerations include the role of market makers, and the best time during market hours to trade ETFs.

Although you are able to trade ETFs from market open to market close, it is generally best to trade between 10.30am and 3.30pm Sydney time.



### Why is it best to trade between 10.30am and 3.30pm Sydney time?

At other times, prices quoted by market makers may not always accurately reflect an ETF's NAV. The reasons for this include:

- The opening of trade for stocks on ASX is staggered in alphabetical order. Market makers are generally reluctant to quote ETF prices until trading is underway in all stocks in the index.
- Market makers typically hedge their exposure into the futures market. The hours of the futures market may not always match ASX trading hours.

The market for the assets underlying the ETF may be closed, making an accurate calculation of NAV difficult

#### Stocks open for trading

A - B	C - F	G - M	N - R	S - Z
-------	-------	-------	-------	-------

Market makers generally willing to quote ETF prices?

Yes

## Topic 2: Market makers

### What are market makers?

Market makers are professional traders who provide bids and offers you can trade with. They may do this by quoting bids and offers in the market. Or where there are no orders present in the market for an ETF, they may respond to orders entered by investors.

Outside of the most popular ETFs, where there are likely to be other investors looking to buy and sell, you are most likely to be trading with a market maker.

An issuer who wants to issue a new ETF must ensure that at least one market maker is making markets in the ETF.

Market makers are also authorised participants which means they have the right to redeem units with the ETF issuer or have units created.

### How does the market making process work?

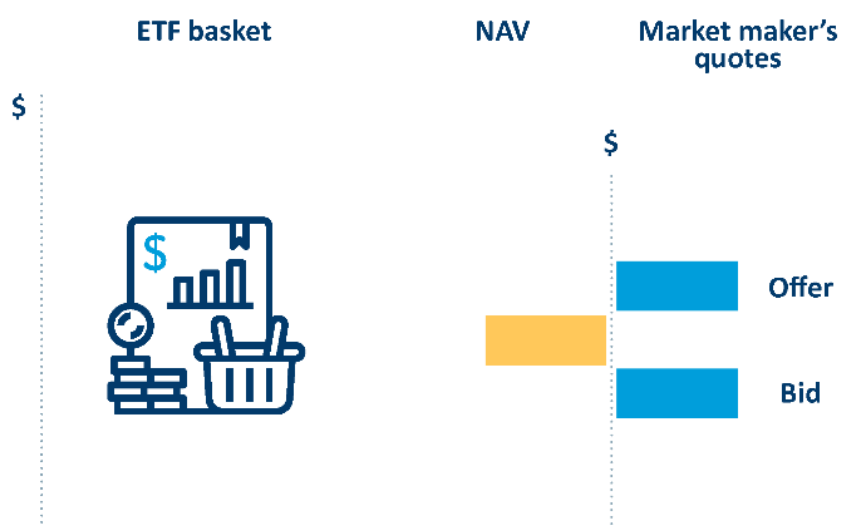
Each day the ETF issuer publishes the composition of the basket of securities underlying the ETF, enabling market makers to calculate the net asset value (NAV) of the ETF throughout the trading day.

This helps market makers to more accurately price the ETFs.

Whether your trade is matched with another investor or a market maker the process is the same.



Market makers refer to the securities underlying the ETF to calculate the NAV. They placed a 'spread' around the NAV. As the prices of the securities, and consequently the NAV change, market makers update their quotes.



They place a 'spread' around the NAV, resulting in:

- a bid price, at which they will buy ETFs, and
- an offer price, at which they will sell ETFs.

They then place these quotes on ASX for investors to trade with.

This spread will vary throughout the trading day.

### The spread

The price at which market makers are prepared to buy (the bid) is lower than the price at which they are prepared to sell (the offer).

The tighter the bid-offer spread, the better for investors.

Market makers have two motivations to keep the spread tight:

- market makers' profits are generally proportional to the volume they trade - tighter spreads encourage more trades, and
- they may receive incentives from ASX in the form of fee rebates if they maintain spreads within specified parameters.

ETF			
Bid		Offer	
Vol	\$	\$	Vol
1000	\$45.00	\$45.05	1000

### Market makers provide liquidity

When you look up an ETF on your broker's website, it's possible you may see just one bid and one offer in the market.

This doesn't necessarily mean your ability to trade is restricted, it just means that you are most likely looking at a quote from a market maker.

If the quote is 'hit', the market maker will typically replace it with another quote. Consequently you can have confidence that there will be an order for you to trade with.

Even if you see no bids or offers, a market maker may respond to an order you place. To work out a price to place your order at, a useful reference point is the ETF's NAV. The next topic explains where to find the NAV.

An ETF market with just one bid and offer is not a cause for concern. You are most likely looking at market maker quotes if a quote is hit it is typically replaced with another quote.

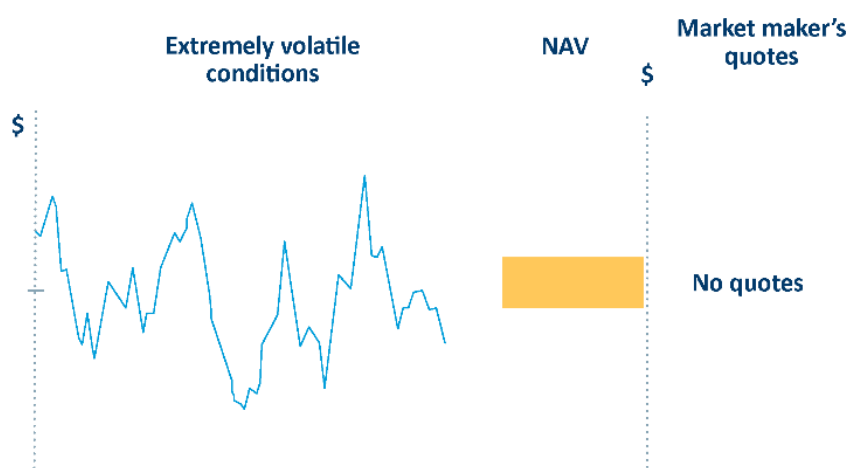
ETF			
Bid		Offer	
Vol	\$	\$	Vol
1500	43.88	43.91	1500

### Will I always be able to sell my ETFs?

In normal market conditions, the presence of market makers means you should have someone to trade with.

However, there are no guarantees. Market makers are not obligated to make markets at all times.

In times of extreme volatility, the ability of market makers to maintain a market may be put under stress. The presence of suitable quotes in the market at such times cannot be assured.





### Topic 3: Price and other information

#### Where can I go for information about my ETF?

The market price of an ETF and its net asset value are the two main sources for information about your ETF are the ASX website and the issuer's website.

The ASX website is a good place to start your broad based research. When you are ready to trade, the issuer's website has valuable ETF- specific details.

The ASX website contains useful information about your ETF, including:

- market prices
- market announcements
- issuer contact details, and
- distributions.

Code	Last	\$+/-	Bid	Offer	Open	High	Low	Volume
STW	44.380	0.040	44.380	44.400	44.480	44.480	44.140	163,382
VAS	60.700	0.120	60.680	60.730	60.790	60.790	60.400	20,669
IOZ	20.090	-0.060	20.150	20.170	20.150	20.150	20.080	10,125

#### \$+/- (Change)

The change in the current value from that of the previous day's close.

#### % Change

The change in the current value from that of the previous day's close expressed as a percentage.

To access this information, you need to know the ETF's ASX code.

#### Where can I find the price of an ETF?

You can get the price of an ETF:

- from your broker, or
- by entering the ETF's ASX code into the ASX website [price search](#) function.

Prices on the ASX website are delayed by at least 20 minutes.

#### Issuer websites

An important source of information about your ETF is the issuer.

### Where can I find the NAV?

In Module 2 we discussed the importance of an ETF's Net Asset Value (NAV). NAV is an important reference point before you enter your buy or sell order.

The NAV of most ETFs is published daily.

The issuer publishes the NAV on their website. An issuer may also publish the NAV via [Market Announcements](#) on the ASX website.

Some ETFs provide an indicative NAV (iNAV) that is continually updated during the trading day.

If an iNAV is available, it can be found on your broker's website, by typing the letter 'Y' in front of the ASX code for the ETF. For example, YSTW will return the iNAV for the ETF with the code STW.

	Code
Market price of ETF	VAS
Indicative NAV of ETF	YVAS

## Topic 4: Distributions and tax

### What income will I receive?

Most (though not all) ETFs pay regular distributions. These are paid either quarterly or half-yearly.

A distribution may include:

- dividends
- franking credits (Australian focused ETFs)
- interest, and
- realised capital gains.

Let's look at these in more detail.



### Dividends and interest

If the fund invests in shares will receive dividends or other income on those shares in the ETF, and at the end of each distribution period will pass through your portion, including any franking credits (only for Australian focused ETFs).

The fund itself does not pay tax on these distributions. They are assessable in your hands.

ETFs that invest in other assets, such as fixed interest, may pass through interest payments or other types of distributions.



Company dividends paid to fund



Issuer

ETF distribution paid to investors



### Realised capital gains

The fund may realise capital gains and losses during the year when it sells the underlying assets.

Any net capital gain is passed on to ETF holders as part of your distributions, and is assessable in your hands.

Capital gains you receive in this form are separate from any capital gain or loss you make when you sell your ETFs.



ETF buys and sells shares...

... realising capital gains + losses.



Issuer

Any net capital gain is distributed to investors.



### Annual tax statement

At the end of the financial year, the ETF issuer, through its registry, will send you a statement including details of the composition of the taxable income you received during the year. You can use this in preparing your tax return.

The taxation treatment of income, and of gains or losses on sale, can vary according to an investor's circumstances. You should consult your taxation adviser for advice that takes into account your own financial circumstances.

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**SPDRs**  
STATE STREET GLOBAL ADVISORS  
**SPDR S&P/ASX 200 Fund**

030

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ASX Code: STW  
Security Code: STW  
Email: registrars@linkmarketservices.com.au  
Website: www.linkmarketservices.com.au

Statement date: 30 June 2013  
Reference no.: [REDACTED]

**Annual Taxation Statement for the year ended 30 June 2013**

Distribution components	Distribution Paid 4 January 2013	Distribution Paid 4 July 2013	Total	Item
<b>Australian Income</b>				
Interest	\$5.79	\$11.76	\$17.55	
Net dividend - franked	\$252.59	\$190.75	\$443.34	
Dividend - unfranked	\$23.81	\$0.00	\$23.81	
Conduit Foreign Income	\$0.00	\$17.47	\$17.47	
Rental Income	\$0.31	\$0.00	\$0.31	
Other Income	\$13.68	\$41.94	\$55.62	
<b>Total Australian Income</b>			\$556.10	A
<b>Foreign Income</b>				
Interest	\$0.70	\$1.07	\$1.77	
Modified passive income (inc. foreign divs)	\$5.26	\$18.01	\$22.27	
Other assessable foreign income	\$0.00	\$0.00	\$0.00	
<b>Total Foreign Income</b>			\$24.04	C
<b>Capital Gains – Connected with Australia</b>				
Capital gains – Indexation method	\$0.00	\$0.00	\$0.00	E
Capital gains – other method	\$0.00	\$0.00	\$0.00	E

### Distribution information

You can get information about the amount and timing of distributions from either the ETF issuer or the [ASX website](#).

Enter the ETF's ASX code into the Search function (on the ASX website) to find out information about past and upcoming distributions including:

- payment amount
- ex-distribution date
- payment date, and
- franking level.

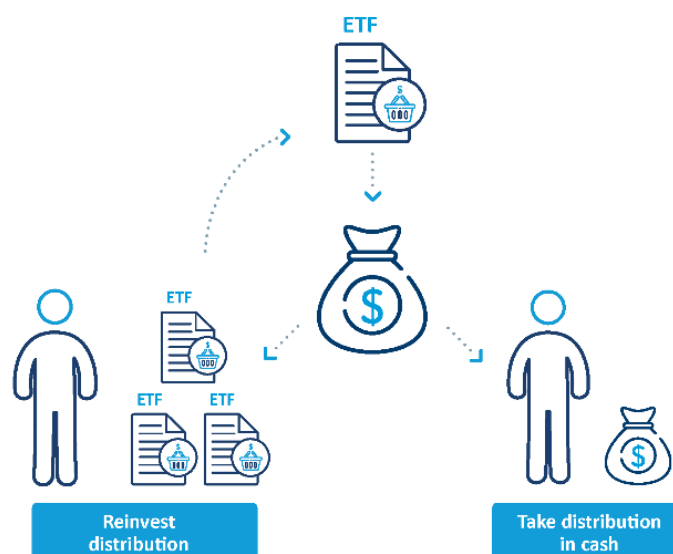
ETF holders can log in to their account on the ETF registry's website for a record of distributions received.

### Distribution reinvestment plans

Many ETFs have a distribution reinvestment plan (DRP).

If you choose to participate in the DRP, you will be issued with more units in the fund instead of being paid in cash.

Your distributions are taxable, whether you choose to take them in cash or reinvest them.

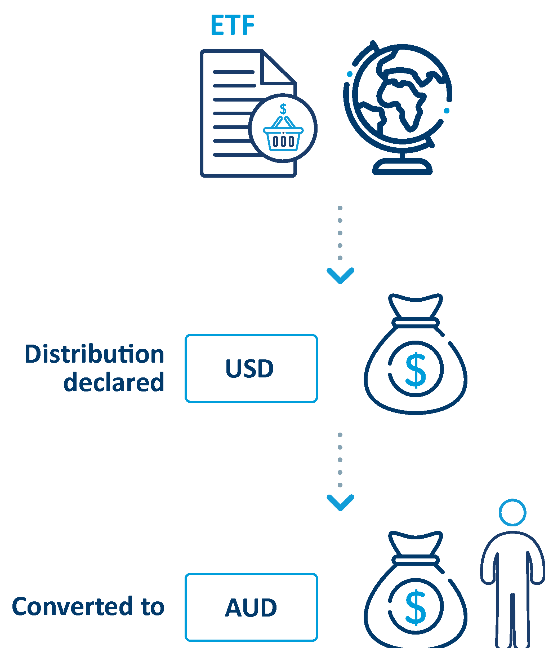


## International ETFs

Because the issuer is US-based, distributions on international ETFs are declared in US dollars. They are then converted into Australian dollars before being paid to you.

US withholding tax is generally deducted from your distributions, however you are usually able to claim this amount as an offset against your Australian tax.

Distributions and tax on international ETFs are covered in detail in Module 5.



## Topic 5: Transaction costs

### Brokerage

You pay brokerage on the purchase or sale of ETFs, just as you do for ordinary shares.

Brokerage may be charged as a percentage of the transaction value, or as a fixed cost.

If you already have a broker you can place your ETF trades through them. (For help in looking for a broker, refer to [Find a broker.](#))

### Management expenses

The ETF manager charges a fee to manage the fund. The fee is calculated as a percentage of the fund's net asset value (NAV), and is often referred to as the Management Expense Ratio (MER).

The MER for some domestic ETFs is below 0.3% per annum, while for some international ETFs the MER is as low as 0.1%

You do not have to make a separate payment to the issuer. This is because the management fee is factored into the NAV, so is reflected in the ETF's price.

$$\begin{array}{c} \$ \\ \text{Fund NAV} \end{array} \times \begin{array}{c} \% \\ \text{MER} \end{array} = \begin{array}{c} \$ \\ \text{Management expenses} \end{array}$$

### Bid/offer spread

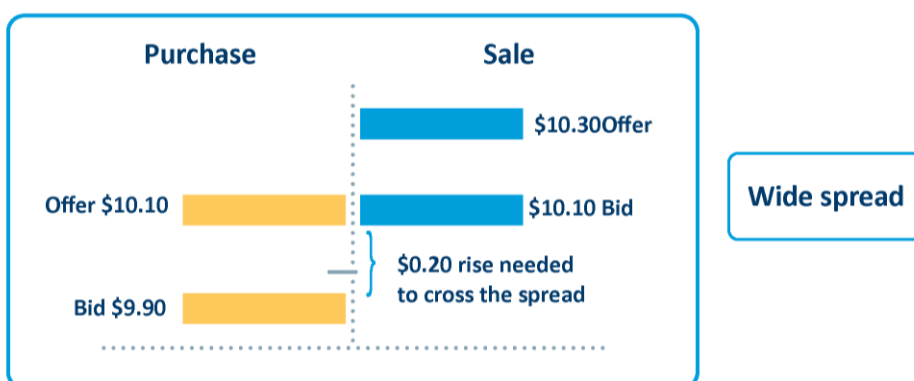
The spread is the difference between the highest price a buyer is willing to pay (the 'bid') and the lowest price a seller is prepared to sell for (the 'offer', or 'ask').

You generally pay a little more to buy ETFs than you would receive for selling ETFs at any given time.

	Bid		Offer		
	Vol	\$	\$	Vol	
ETF 1	1200	32.30	32.34	867	Bid/offer spread \$0.04
	621	32.28	32.35	1121	
ETF 2	1800	46.11	46.13	2325	Bid/offer spread \$0.02
	953	46.10	46.15	567	
ETF 3	1562	51.80	51.96	320	Bid/offer spread \$0.16
	631	51.77	51.98	1010	

The width of the spread can vary between different ETFs. For some heavily traded ETFs the offer may be only a couple of cents higher than the bid, while for less liquid ETFs the spread may be wider.

The spread is not usually an important consideration for long-term investors in an ETF, but it may be of significance for short-term traders.



## Summary

- You can buy and sell ETFs on market during ASX trading hours through your stockbroker. The ideal trading time for most ETFs is between 10:30am and 3:30pm Sydney time.
- Useful sources of information about your ETF include:
  - the ASX website
  - the ETF issuer's website,
  - their registry website, and
  - your broker.
- Market makers are professional traders who provide bids and offers you can trade with.
- These orders are based on the ETF's net asset value.
- Most ETFs pay regular distributions.
- A distribution may include:
  - dividends
  - franking credits
  - interest, and
  - capital gains realised by the fund.
- Distributions are generally taxable in the investor's hands.
- Management fees for ETFs are generally low. No separate payment is required.