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A guide to launching and operating exchange-traded funds in Luxembourg

ALFI ETF Brochure

November 2025

Acknowledgment

The ETF market continues to expand, with a growing uptake of active ETFs. As the biggest hub of actively managed funds and the second largest ETF domicile in Europe, Luxembourg has embraced the rise of active ETFs and active ETF share classes. It has introduced a number of measures to make the launch of (active) ETFs and active ETF share classes more attractive.
ALFI would like to thank Deloitte Luxembourg for their valued collaboration, and to the market participants who also contributed to this presentation of the ETF product. Your insights make this publication an essential reference point for the ETF community.

Table of contents

1 What is the aim of this brochure?

This guide is designed to help asset managers navigate the full lifecycle of structuring, launching, and operating an Exchange-Traded Fund in Luxembourg—from idea to listing, and long-term success.

Exchange-traded funds (ETFs) have become one of the fastest-growing investment products globally as well as in Europe. As of July 2025, European ETFs hit a new all-time high with EUR 2.29 trillion[1] in assets under management (AUM). It comes as no surprise that Luxembourg—as one of the European hubs for global asset managers to launch UCITS-compliant ETFs—plays a central role in the growth of ETFs.

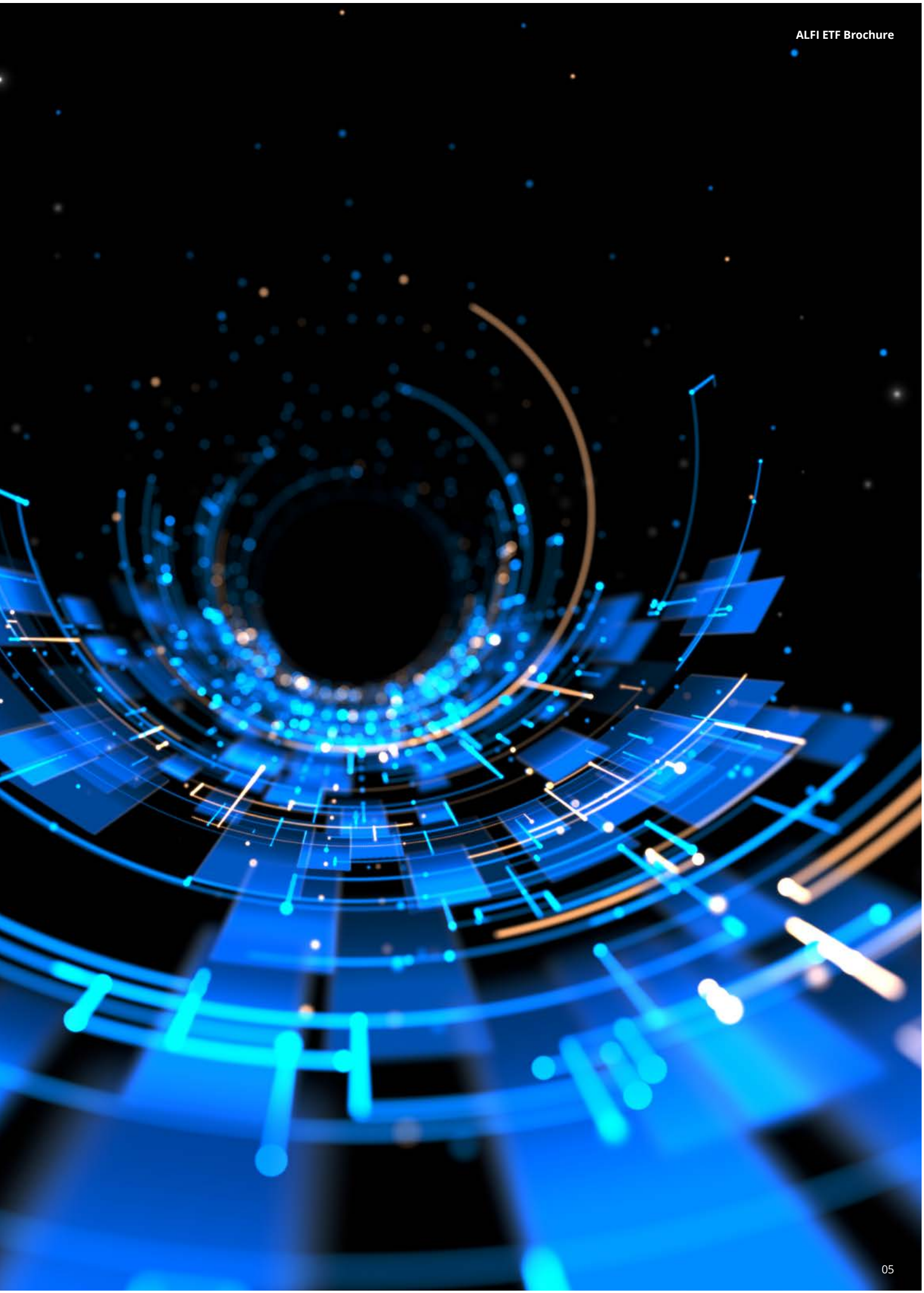
At their core, ETFs are open-ended funds traded on stock exchanges, combining the diversification and regulatory protections of traditional mutual funds with the liquidity and intrinsic transparency of listed instruments. They are offered in passive forms that track an underlying index, while also expanding in active strategies where portfolio managers (PMs) make active investment decisions aimed at generating alpha. Both models are gaining momentum, with active ETFs now accounting for an increasing share of new launches across Europe.

ETFs are gaining popularity among investors due to their flexibility, accessibility, and cost efficiency. A single listing on a major exchange enables investors across multiple countries to access the same ETF. While a dedicated listing on exchanges is not required in each country the ETF is marketed, asset managers would still need to comply with cross-border marketing notification under the UCITS Directive. Investors can trade ETF shares directly on the secondary market, just like stocks. In the primary market, authorized participants (APs) play a crucial role by creating or redeeming ETF shares, ensuring the supply matches demand, and keeping the ETF's trading price aligned with its net asset value (NAV).

Successfully launching an ETF involves much more than simply listing it on an exchange. It demands the appropriate structure, clear regulatory positioning, strong operational support, capital markets expertise, and continuous oversight of risk and compliance—requirements that also apply to traditional mutual funds. Whether you are planning a single ETF or building an entire platform, this guide outlines practical steps and key considerations to design, launch, and manage an ETF in compliance with Luxembourg regulatory standards and global investor expectations.

This brochure is a summarized presentation of the ETF product and its specificities, as a general introduction to new entrants in the ETF market.

[1]Monday Morning Memo: European ETF Industry Review, July 2025 | Lipper Alpha Insight | LSEG



2 How to set up an ETF in Luxembourg?

Launching an ETF means more than ticking regulatory boxes; it is about building a product that is ready to trade, scale, and stand out from day one. From regulatory structuring to market-facing mechanics, every decision lays the foundation for long-term ETF success.

2.1 Setup options

An ETF tracking an index will have a passive strategy. Whereas when an ETF is subject to discretion in the composition of its portfolio, its strategy will be considered active. Active ETFs are currently experiencing a growing uptake.
During the design phase, asset managers looking to enter the ETF space in Luxembourg must carefully evaluate their setup options. There are four options available for launching an ETF. Each option comes with unique regulatory and operational trade-offs that must be weighed against the manager's strategic goals. All options require ETF specific changes such as exchange listing, daily portfolio transparency, and engagement with APs and market makers (MMs), who quote buy and sell prices to provide liquidity to the secondary market, for efficient capital markets operations.
It is important to highlight that ESMA requires that every ETF possesses a "UCITS ETF" identifier in its name, regardless for which option asset managers opt.

Establishing a new SICAV structure
Launching a standalone Société d'Investissement à Capital Variable (SICAV) dedicated to ETFs offers maximum strategic flexibility and full legal independence. This approach enables the promoter to establish an completely new umbrella fund from the ground up, incorporating its own governance framework, prospectus, and a tailored selection of fund service providers. Such a structure enables the creation of a dedicated ETF platform fully aligned with the promoter's branding, compliance standards, and operational strategy. It is particularly well suited for asset managers aiming to establish a broad ETF range or carve out a distinct identity in the marketplace. However, this option involves the most extensive review by the CSSF, along with greater setup complexity, higher costs, and longer approval timelines.

Launching a new compartment of an existing SICAV structure
This approach involves launching the ETF as a new compartment (sub-fund) within an existing UCITS umbrella SICAV. It leverages the legal, governance, and operational framework already established by the umbrella SICAV. Although each compartment is designed with its own investment policy, risk parameters, and fee structure, it remains subject to centralized oversight under the umbrella fund. This option offers faster regulatory approval via adding a supplement to the original filing for admission, and operational efficiencies, making it an attractive choice for promoters already managing SICAV umbrellas who wish to expand into ETFs without the effort of creating a separate platform. However, the trade-off includes reduced flexibility in branding and the need to adhere to the umbrella fund's governance model and disclosure requirements. Furthermore, the prospectus may need to be reviewed to include ETF specific disclosures.

Launching an ETF share class within an existing SICAV compartment
Introducing a listed ETF share class within an existing non-ETF SICAV compartment is an active ETF strategy. It provides a fast-to-market solution for asset managers seeking access to the ETF market. By leveraging the established regulatory approvals, this option eliminates the need to build an independent ETF platform from scratch, allowing asset managers to avoid the time-intensive and resource-heavy processes associated with launching a new fund. The ETF share class retains the same portfolio, investment strategy, risk parameters, AUM, and track record as the existing compartment. Simultaneously, asset managers must carefully assess the trade-offs between ETF and non-ETF classes, particularly in terms of liquidity, transaction costs, investor accessibility, and the added operational complexity of managing two distinct creation and redemption processes..

Converting an existing non-ETF SICAV compartment into an ETF
This alternative approach involves reconfiguring an existing non-ETF SICAV compartment to operate under the ETF

wrapper. By retaining the fund's assets under management (AUM), established investor base—albeit with potential attrition risk as some investors may choose to redeem—and its historical performance track record, this strategy offers continuity and credibility while transitioning into the ETF space. However, the process requires significant operational changes, including adopting ETF-specific infrastructure, aligning with new compliance standards, and ensuring liquidity mechanisms. Early coordination with regulators is essential to facilitate approval and adaptation to the ETF framework. Despite the complexity, this option offers a streamlined path for asset managers looking to distribute proven strategies in an ETF format, allowing them to capitalize on existing market confidence and established investor relationships. Furthermore, the prospectus must be amended to include ETF specific disclosures.

Different setup options at a glance

Criteria	Creating a new SICAV	New compartment of existing SICAV	ETF share class within existing SICAV compartment	Converting existing non-ETF SICAV compartment into an ETF
Benefits	Full legal separation: bespoke platform build-out; tailored governance, prospectus, and service providers; scalable for multi-ETF ranges.	Leverages existing governance and service providers; faster CSSF regulatory addendum; operational efficiencies.	Retains AUM and track record; minimal duplication; facilitates a relatively quick* entry to exchange distribution.	Preserves AUM, investor base (though subject to investor attrition) and performance history; direct access to ETF distribution supporting proven strategies.
Challenges	Long setup time; requires full CSSF regulatory review; high costs for infrastructure build-out; extensive end-to-end preparation.	Must align with umbrella policies and governance constraints; narrower branding options.	No strategy differentiation; shared NAV/operations with mutual fund.	Operational transformation; requires investor communication and consents; early regulatory engagement needed. Potential investor attrition may occur.
Time to market	Longest	Faster	Fastest	Moderate
Regulatory complexity	High	Moderate	Low–Medium	Medium–High
Branding flexibility	High	Moderate	Limited	Moderate
Operational complexity	Moderate	Moderate	Moderate	Moderate

*Subject to current PRIIPs KID, prospectus, and operational set-up.

2.2 Key actors in the ETF landscape

Launchig an ETF involves more than portfolio design and obtaining regulatory approval. ETFs function within a dynamic, market-driven landscape that relies on the coordinated efforts of specialized participants.

Actor	Role and responsibilities	Selection considerations
Authorized participant (AP)	Serves as the link between ETF issuers and capital markets, facilitating the creation and redemption of ETF shares by exchanging them for underlying assets or cash. APs enable investor access, manage market supply and demand, and support fair pricing.	Onboard multiple APs across geographies, asset classes, and specializations to avoid over-reliance on any single participant and ensure liquidity. APs must have robust capabilities for handling both in-kind and cash transactions with sufficient settlement infrastructure.
Market maker (MM)	Quotes continuous buy and sell prices on exchanges to ensure the ETF's trading price remains close to its NAV. MMs are crucial for maintaining liquidity, tight bid-ask spreads, and ensuring smooth intraday trading.	Assess MMs based on their quoting performance, technological infrastructure, coverage across trading venues, and expertise in multi-currency or cross-market listings. A competitive panel of MMs enhances trading resilience, market visibility, and investor confidence.
Capital Markets team	Acts as the operational hub for the ETF, managing its daily activities across both primary and secondary markets. The desk coordinates operations with APs, market makers, custodians, and other participants, ensuring smooth functioning, problem resolution, monitoring market quality, and supporting liquidity or product development.	Decide whether to manage the desk in-house or outsource it to third parties. Prioritize operational resilience, rapid responses to disruptions, and adaptability to evolving market standards and technologies.
Listing agent	Supports the ETF issuer in complying with technical and regulatory requirements for listing on certain markets. They assist with ongoing obligations such as corporate actions, documentation updates, and managing relationships with exchange infrastructure providers.	Select listing agents with deep expertise in ETF-related regulatory requirements, strong relationships with target exchanges, and knowledge of post-launch obligations for smooth operations and long-term compliance.

2.3 Role of the capital markets team

The capital markets function is central to maintaining the operational efficiency and market presence of an ETF. This team ensures that the ETF is seamlessly integrated into both the primary and secondary markets.

Market integration and operational coordination

The capital markets team ensures that APs receive accurate and up-to-date information regarding the traded basket, which is either derived from the PCF or negotiated directly between the AP and ETF issuer. Given that the negotiated basket can vary for each AP, it is crucial to maintain seamless communication and ensure timely delivery of updates, especially when substantial portfolio changes occur.

Liquidity oversight and pricing efficiency

Ensuring liquidity and accurate pricing is an ongoing responsibility for capital markets teams. During each trading day, the team evaluates market conditions across various listing venues, analyzing bid-ask spreads, trading volumes, and any persistent deviations from ETF's NAV.

2.4 Choice of replication method

Selecting a replication method is crucial for determining how an ETF tracks its underlying assets. European ETFs primarily use physical or synthetic replication, with hybrid methods also being possible.

Criteria	Full physical	Optimized sampling	Synthetic
Definition	Replication methodology where the ETF holds almost all securities of the target index in the exact proportions as the index itself. It provides direct exposure to the underlying assets.	A strategy where the ETF holds a carefully selected subset of the index's securities to replicate its risk and return profile closely, avoiding less liquid or costly holdings.	Uses derivatives such as swaps to replicate the index's performance without holding the actual underlying securities, providing indirect exposure.
Advantages	Precise exposure to all constituents; highest holdings transparency; straightforward governance; securities lending is an opportunity.	Lower turnover and trading costs; scalable for very broad universes; avoids illiquid securities while keeping profile close to target; securities lending is possible.	Highest tax efficiency (e.g., mitigates U.S. dividend withholding tax); clean access to restricted/ hard-to-reach markets; minimal underlying trading; stable implementation.
Challenges	Heavy trading/rebalance workload; corporate actions/ FX handling; small-cap liquidity frictions; cross-market settlement complexity.	Model/selection risk and potential style bias; requires ongoing calibration and monitoring; alignment between portfolio composition file (PCF) and real portfolio must be maintained.	Counterparty dependence; daily collateral/margining requirements; documentation complexity; need multiple swap counterparties to mitigate concentration risk.
Tracking precision	**High:** Tight alignment with modest slippage or cash drag.	**Medium-High:** Close tracking if well-calibrated; depends heavily on sampling quality.	**High:** Swap contract delivers the target exposure with near precision, net of applicable swap fees.

2.5 Designing risk and compliance frameworks for ETFs

While ETFs in Luxembourg typically fall under the UCITS regime, their capital markets-facing nature introduces unique risks that must be properly captured across internal controls, disclosures, and regulatory interactions.

Risk management process
The risk management process (RMP) must be tailored to the ETF's operational structure. Unlike traditional mutual funds, ETFs trade continuously on exchanges and depend on external capital markets infrastructure. This operational design exposes them to specific risks, including:

1. **Market liquidity events:** Instances where abnormal market conditions may impair the ETF's ability to trade or align its pricing with underlying assets.

2. **Primary market dislocations:** Disruptions in the creation/redemption processes that can impact liquidity and pricing in both primary and secondary markets.

3. **Pricing deviations:** Situations where the secondary market trading price of the ETF diverges significantly from its official NAV, potentially creating challenges for investors relying on fair valuation.

Addressing these unique risks requires a well-designed RMP that incorporates active monitoring, coordination with critical stakeholders (e.g., APs, MMs), and mitigation strategies to address potential market disruptions.

Delegated/outsourced functions
ETFs introduce operational and governance complexities that go beyond those of traditional mutual funds, owing to their dual primary and secondary market structure. In Luxembourg, management companies (ManCos) authorized under the UCITS framework—and operating within the governance standards of CSSF Circular 18/698—retain full responsibility for the ETF's management and oversight, even where operational or investment functions are delegated.

The ETF ecosystem involves a broader network of specialized service providers, notably authorized participants, market makers, and index providers, whose coordinated actions are essential to maintain efficient pricing and liquidity. The ManCo must ensure that the operational interdependencies between these parties are clearly understood, contractually defined, and subject to effective ongoing monitoring. This includes supervision of the creation and redemption processes, the accuracy and timely dissemination of Portfolio Composition Files and market-relevant data (e.g., venue reference price context, trading notices); where applicable, optional iNAV feeds, and the proper functioning of market-making arrangements designed to keep secondary market prices aligned with the fund's net asset value.

ManCos are also responsible for the continuous oversight of tracking error and tracking difference, ensuring that the ETF replicates its reference index within prescribed limits. Any material deviations must be promptly investigated, explained, and, where necessary, corrected through appropriate portfolio adjustments or risk management actions. This performance oversight is an integral part of the ManCo's valuation, risk, and governance framework. Third-party ManCos offering white label services present a viable option, backed by a proven track record.

Although many governance principles mirror those applicable to traditional UCITS, ETFs require heightened vigilance over real-time pricing, liquidity management, and arbitrage efficiency. The ManCo's conducting officers must retain demonstrable control over all delegated entities, supported by sufficient substance and technical expertise in Luxembourg. In practice, the management company remains the central point of accountability, ensuring that delegation enhances operational effectiveness without compromising market integrity, investor protection, or regulatory compliance.

Stock exchange requirements and venue rules
ETF promoters must comply not only with UCITS and CSSF regulatory standards, but also with the rulebooks of each stock exchange on which their ETFs are listed. These venue-specific frameworks introduce an additional layer of regulatory and operational oversight, ensuring orderly trading, transparent price formation, and investor protection.

While requirements vary across exchanges such as the Luxembourg Stock Exchange, Euronext, Deutsche Börse Xetra, or the London Stock Exchange, they generally cover admission criteria, listing documentation, and ongoing obligations. Exchanges typically require submission of the fund's constitutional and offering documents, confirmation of UCITS status, and appointment of a designated market maker or liquidity provider to support continuous trading and fair bid–ask spreads.

Beyond the initial listing, post-listing obligations include regular disclosure of NAVs, prompt publication of portfolio changes where relevant, and immediate notification of any material events affecting the ETF's operation or underlying index. Many exchanges also impose minimum liquidity and trading-volume thresholds, as well as reporting and monitoring duties for market makers and issuers.

Client communication platform

Engaging in ETF activity requires asset managers to maintain a robust communication strategy, including a dedicated website, to clearly and transparently present the features of their ETFs.

EU regulatory framework applicable to ETFs and its adoption in Luxembourg

ETFs operating or being issued in the EU are subject to a network of regulatory frameworks. While there is no single ETF regulation, ETF issuers must comply with multiple overlapping regimes. The following table gives an overview of the most important European legislations that might have an impact on ETFs or ETF issuers and shows how they were adopted in Luxembourg (non-exhaustive).

Lifecycle stage	Primary EU rules	Luxembourg-specific rules and guidance	Practical takeaways of ETF issuers (non-exhaustive)
1. Fund design and authorization	• UCITS Directive (2009/65/EC) • SMA Guidelines on ETFs and other • UCITS issues	• Law of 17 Dec 2010 (UCITS) • FAQ Law of 17 December 2010 • CSSF Circular 18/698 • CSSF Circular 14/592	• ETFs structured as UCITS must obtain CSSF authorization before launch. • ETF portfolios must comply with UCITS diversification and eligible asset rules. • Prospectuses must include the "UCITS ETF" label and state whether the ETF is actively or passively managed • ETF management companies must maintain adequate local substance and oversight (e.g., conducting officers, compliance, risk functions in Luxembourg).
2. Index and benchmarking considerations	• Benchmark Regulation (BMR – EU 2016/1011)	Direct application	• Verify that every benchmark is listed on the ESMA register. Maintain written fallback plans for benchmark cessation. • Ensure PRIIPs KID and marketing materials accurately reflect benchmark status. • Prospectuses must disclose the used benchmark and its administrator.
3. Trading and market conduct	• Market Abuse Regulation (MAR – EU 596/2014 • MiFID II/MiFIR (Directive 2014/65/EU; Regulation 600/2014)	Direct application (MAR; MiFIR); Law of 30 May 2018 on markets in financial instruments ("MiFID II Law")	• Maintain effective insider-list procedures and disclosure controls. • Public disclosure of inside information must be prompt and published on the issuer's website. Detect and report suspicious transactions or orders to the competent authority. • Comply with pre- and post-trade transparency, best execution, and product governance obligations.
4. Post-trade and settlement	Central Securities Depositories Regulation (CSDR – EU 909/2014).	Direct application	• Settlement failures may trigger penalties; APs might absorb costs or pass them on via wider spreads. • The transition to T+1 settlement may heighten operational challenges for European ETFs, as faster settlement cycles increase the importance of efficient cross-border coordination and timely processing of global holdings.
5. Derivatives/ Replication and clearing	EMIR (EU 648/2012)	Direct application	• Synthetic ETFs using derivatives must report derivative transactions to authorized repositories. • ETFs must exchange collateral and comply with EMIR's risk-mitigation obligations (e.g., timely confirmation, portfolio reconciliation, dispute resolution).

Lifecycle stage	Primary EU rules	Luxembourg-specific rules and guidance	Practical takeaways of ETF issuers (non-exhaustive)
6. Investor disclosure and retail documents	PRIIPs Regulation (EU 1286/2014	Direct application	• ETF management company is the "PRIIP manufacturer" and must ensure the accuracy and regular review of the Key Information Document (KID). • Distributors (e.g., brokers, platforms) must provide the KID to investors before any transaction. • The KID must include synthetic risk indicator (SRI), performance scenarios, and cost disclosure, capturing derivative exposure where relevant. • While a separate KID is required for each share class, a single KID may cover multiple classes if it continues to satisfy all applicable PRIIPs requirements.

2.6 ETF tax considerations in Luxembourg

As of 1 January 2025, all Luxembourg-domiciled ETFs, whether actively or passively managed, are fully exempt from the annual subscription tax ("taxe d'abonnement"), which is traditionally levied at 0.05% of the NAV for other investment funds. This exemption significantly reduces ongoing costs, enabling ETFs to offer lower fees and potentially deliver improved net returns to investors.

Furthermore, Luxembourg ETFs can utilize synthetic replication to gain exposure to underlying securities without holding them directly. This structure can be particularly advantageous for equities which would otherwise trigger withholding tax (WHT). Unlike physical replication ETFs, which directly hold equities and are subject to withholding tax (WHT), synthetic ETFs gain equity exposure through derivative instruments such as swaps. Because synthetic ETFs do not receive dividends directly, they may not incur WHT—subject to conditions and careful selection of derivatives and counterparties—potentially preserving total returns for investors and offering a tax-efficient alternative to physical replication strategies. Coupled with Luxembourg's robust regulatory environment and its adherence to international transparency standards, these features reinforce its position as a leading hub for investment fund domiciliation in Europe.

2.7 CSSF approval and local oversight

Launching an ETF in Luxembourg begins with securing regulatory approval from the Commission de Surveillance du Secteur Financier (CSSF). The application process begins with the submission of a detailed filing that includes the fund's constitutional documents, prospectus, risk management framework, and operational setup. In addition to standard checks similar to those applied for traditional mutual funds, the CSSF pays close attention to the design of the primary market mechanisms, particularly the roles and responsibilities of APs and MMs. For synthetic ETFs, the CSSF conducts a more detailed review, focusing on the swap structure and valuation, counterparty selection and risk, and collateralization policies. The CSSF ensures that disclosure practices provide investors with a clear understanding of the fund's strategy and holdings, in compliance with both UCITS rules and local standards, while providing protection to the intellectual property of the asset manager.

The CSSF has put in place an online access where the asset manager can follow its approval timeline. Files can be submitted in English, French, German

3 How to run an ETF?

Launching an ETF is only the beginning; successful management requires daily oversight across markets, portfolios, and regulatory frameworks to ensure efficiency and compliance.

Operating an ETF in Luxembourg requires careful coordination across investment management, market access, investor transparency, and regulatory compliance. After the fund is launched and listed, day-to-day activities must ensure the ETF trades smoothly, stays aligned with its investment objectives, and meets UCITS, CSSF, and capital markets regulatory requirements.

3.1 Portfolio monitoring

Ongoing monitoring of the ETF portfolio is essential to ensuring that the fund remains aligned with its stated objective while operating within clearly defined risk limits.

Tracking performance
For index-tracking ETFs, tracking error and tracking difference are key metrics that assess how effectively the portfolio mirrors its benchmark. These metrics are influenced by factors such as transaction costs, tax treatment, rebalancing frequency, and sampling methods.
These tracking metrics are not limited to passive strategies. In the case of active ETF's targeting customized exposures, they reflect the ETF's deviation from its stated investment objectives, style, or risk profile.

Counterparty risk and collateral frameworks
Where ETFs use synthetic replication, typically through total return swaps, they rely on derivatives rather than physical securities to achieve their exposure. This model offers efficiency and cost benefits but also introduces specific risks—most notably counterparty risk—that must be managed through a robust collateral framework. Collateral posted by the swap counterparty serves as protection in the event of default and must meet strict UCITS standards in terms of quality, liquidity, and diversification.
It is worth noting that securities lending transactions associated with physical replication are also subject to collateralization.

3.2 Ongoing risk management and compliance considerations

Running an ETF successfully requires continuous and proactive risk management tailored to the unique dynamics of the product.

ETF-specific risk monitoring
Managing risk within ETFs requires an enhanced framework that goes beyond traditional UCITS risk management. This means real-time monitoring of market price fluctuations, liquidity constraints, and potential operational risks linked to counterparties and APs.
For synthetic ETFs, counterparty exposure via total return swaps adds another layer of complexity that requires robust collateral management policies to mitigate default risk.

Regulatory and disclosure obligations
ETFs operating under Luxembourg's UCITS framework must comply with general regulatory standards while also meeting requirements unique to the ETF model. This involves strict adherence to the CSSF's guidance on portfolio transparency, timely and accurate publication of the holdings and ongoing disclosure of tracking error, portfolio turnover, and other performance metrics.

Portfolio transparency
The portfolio composition file (PCF) is a vital operational document that details the basket of securities and cash required for daily creations and redemptions.
For passive ETFs, the PCF mirrors the underlying index, while active ETFs may use a representative or optimized basket reflecting current portfolio positioning.
In Luxembourg, the PCF is made available daily to APs and market makers to support hedging and primary-market operations, while actively managed UCITS ETFs disclose full portfolio holdings to the public at least monthly with a maximum one-month lag to protect intellectual property.

Governance and oversight coordination
Effective governance is essential throughout an ETF's post-launch lifecycle, particularly given the multi-stakeholder nature of operations. Risk, compliance, capital markets, and portfolio management teams must work seamlessly together, supported by clearly defined roles and responsibilities documented within governance frameworks.

3.3 Trading and liquidity management

Effective trading and liquidity management are vital to ensure that ETFs remain accessible and efficiently priced in both primary and secondary markets.

Primary and secondary market interactions
Effective liquidity management relies on the interaction between the primary and secondary markets. In the primary market, APs oversee the creation and redemption of ETF shares in large units, making it possible for the supply of shares to adjust based on investor demand. On the secondary market, investors trade ETF shares on exchanges, with MMs offering consistent buy and sell prices to support trading.

ETFs can also be traded outside of regulated exchanges, either over the counter (OTC) or through multilateral trading facilities (MTFs). These options give institutional investors more flexibility, especially for larger or customized transactions. Despite the varying trading venues, transparency and price accuracy are upheld through APs and reporting requirements after trades.

Market making and price efficiency
MMs play a critical role in ensuring an ETF's liquidity and price stability. They depend on timely, accurate information, particularly the PCF, which serves as a key input for their fair value models. ETF sponsors typically engage multiple MMs to operate across relevant exchanges, ensuring competitive bid-ask spreads and continuous liquidity provision.

Creation/redemption methods for ETFs
In the primary market, APs create and redeem ETF shares either in-kind or in cash, depending on the asset class and operating model.
Under the in-kind method, the AP exchanges a predefined basket of securities that mirrors the ETF's portfolio against newly issued or redeemed shares. This reduces trading costs and preserves portfolio alignment but requires precise coordination between the issuer and the AP.
The cash method involves settling transactions in money rather than securities. The ETF issuer subsequently executes the necessary trades to maintain portfolio exposure. While operationally simpler, this approach may reduce performance.

3.4 NAV timing across share classes

Where Luxembourg ETFs operate within multi-share class UCITS structures (e.g., a mutual and an ETF share class), a precise coordination of valuation timing across all share classes is required to ensure consistent pricing and fair treatment of investors.
In this structure the fund applies a single valuation point and valuation basis across the entire sub-fund, so both ETF and mutual share classes are priced "as-of" the same market close. If the manager chooses not to apply post-close fair-value adjustments for the ETF—avoiding wider bid/ask spreads in the secondary market—that same valuation basis must be used for all share classes within the sub-fund. Otherwise, the classes must be separated into distinct portfolios. Close operational coordination between the fund administrator and the capital markets team is therefore essential to ensure a consistent NAV as-of date, accurate NAV calculation, and equal treatment of investors across share classes.

4 How does it all come together?

ETFs are here to stay, and choosing the right environment to support their long-term growth is just as important as launching them. Luxembourg offers a stable, forward-looking platform where operational excellence, regulatory clarity, and market connectivity come together to help ETF sponsors succeed over the long haul.

Luxembourg offers an end-to-end environment for launching and managing ETFs, combining regulatory expertise with a mature fund ecosystem that supports both traditional and innovative models. Beyond compliance, it enables sponsors to build investor trust, ensure consistent performance, and access global markets through a transparent and efficient landscape where ETFs can thrive long after launch.

4.1 Key takeaways

Luxembourg is a leading jurisdiction for launching and managing ETFs in Europe, combining regulatory clarity, structural flexibility, and operational expertise. Its mature fund ecosystem supports passive, active, and ESG-focused strategies, meeting the evolving needs of modern ETF platforms.
Every stage of an ETF's lifecycle, from setup to operations, is supported by Luxembourg's framework. Issuers benefit from UCITS structures, multilingual service providers, and efficient cross-border distribution. The CSSF's proactive engagement and the expertise of market participants ensure ETFs domiciled in Luxembourg uphold high standards of transparency, governance, and investor protection.

4.2 Call to action

Review your existing mutual funds to evaluate their potential to be launched in an ETF wrapper. Assess whether creating new share classes, converting existing strategies, or leveraging existing infrastructure can benefit your strategy. Luxembourg provides a strong foundation to adapt your mutual fund range into ETF-compatible models, supported by experienced legal advisors, ManCos, and operational specialists. Begin by exploring share class flexibility, assessing fund strategies for ETF alignment, and ensuring operational readiness to dive into the faster trading environment.

4.3 Why Luxembourg works

Luxembourg combines global fund expertise with flexibility, making it one of the best choices for ETFs. As the leading cross-border fund hub and largest UCITS domicile, it manages everything from regulatory approvals to international distribution and capital markets integration.
The key strength of Luxembourg's model lies in its collaborative approach. Service providers, regulators, and market participants work together to support ETFs, not only during setup but throughout their lifecycle. This ensures faster market entry, less uncertainty, and smoother operations for all involved.

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