

Minimum Time Required to Settle: ETF Creation Redemption

The industry standard lag time between creating and redeeming customized ETF baskets has been a hot ETF industry topic recently. The current trade settlement standard in the US markets per the Depository Trust & Clearing Corporation (DTCC) is a T+1 settlement cycle, which means that most securities transactions, including ETF creations and redemptions, settle on the next business day after the trade date.

Recent guidance by industry SMEs also supports this approach of at least a one-day lapse between settlement of custom redemption and create baskets for ETFs. A one-day waiting period between ETF in-kind transactions by ETFs and Authorized Participants (APs) is recommended because it allows time to accurately calculate the Net Asset Value (NAV) of the underlying securities within each basket at the end of the trading day. This allows adequate time for a proper valuation process and helps ensure a fair exchange of assets when creating or redeeming ETF shares, minimizing potential price discrepancies, and maximizing tax efficiency for ETFs.

This approach allows for an ETF security basket created and in-kind into an ETF on Day 1 to then be redeemed out via an in-kind exchange with the AP on Day 3 after a complete full day lapse.