CORE CONCEPT

ETFs and Index Funds Course: Index Construction, Creation/Redemption and Market Making

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Introduction:

ETFs and index funds, covering index construction, creation/redemption and market making, are the subject of this 1-week course for ETF product, index portfolio, capital markets, liquidity provision and listing units, ending with an ETF Launch and Index Product Plan for a case organisation. Exchange-traded products lose investor trust when index rules are opaque, creation baskets are mispriced, quotes widen under stress and tracking difference is never explained. Nominees already manage, quote or list fund products and learn through a modelling build on index, basket and spread data. CoreConcept Training Center delivers this ETFs and index funds course.

Course Objectives:

- Design an index methodology with eligibility, weighting, capping and rebalancing rules and test its turnover and capacity before launch
- Choose between full physical replication, optimised sampling and swap-based synthetic replication for a given index and investor base
- Run the primary market cycle with authorised participants, building in-kind and cash creation and redemption baskets and portfolio composition files
- Monitor iNAV, premium and discount and the arbitrage band, and set liquidity provider quoting obligations for an ETF listing
- Attribute tracking difference and tracking error to fees, cash drag, sampling, rebalancing costs and income treatment
- Prepare ETF launch economics, seed capital and index licensing terms, including Shariah-compliant ETF features and index provider governance checks

Target Audience:

- ETF product units responsible for designing new exchange-traded products and maintaining existing ranges
- Index and passive portfolio units responsible for replication, rebalancing trades and tracking results
- Capital markets and authorised participant desks responsible for creation and redemption orders and basket settlement
- Liquidity provision units responsible for two-sided quotes, spread targets and hedging of ETF inventory
- Exchange listing and product admission units responsible for reviewing ETF applications and market quality
- Fund governance and oversight units responsible for index provider due diligence, conflicts and product reviews

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Course Outline:

Day 1: ETF and Index Fund Landscape, Wrappers and Product Baseline

- Index Mutual Fund Versus ETF Wrapper Feature Comparison
- Primary and Secondary Market Roles in the ETF Ecosystem
- Broad Market, Sector, Factor and Thematic ETF Categories
- Issuer, Index Provider, Custodian and Authorised Participant Responsibilities
- Existing Passive Product Range Baseline and Gap Review

Day 2: Index Construction Methodology and Replication Architecture

- Index Methodology Document Eligibility, Weighting and Capping Rules
- Free Float Adjustment and Liquidity Screen Calibration Worksheet
- Scheduled Rebalancing, Corporate Action Treatment and Index Turnover Estimate
- Full Physical Replication Versus Optimised Sampling Portfolio Design
- Synthetic Replication With Total Return Swaps and Collateral Baskets

Day 3: Creation and Redemption Mechanics, iNAV and Market Making

- Authorised Participant Agreement and Creation Unit Order Workflow
- Portfolio Composition File and In-Kind Basket Construction
- Cash Creation Spread, Transaction Charges and Dilution Protection
- iNAV Calculation Frequency and Premium Discount Arbitrage Band
- Liquidity Provider Quoting Obligations, Spread Targets and Inventory Hedging

Day 4: Tracking Analysis, Stressed Markets, Shariah ETFs and Index Governance

- Tracking Difference Versus Tracking Error Attribution Workbook
- Stressed Market Wide Spreads, Basket Halts and Discount Episodes
- Swap Counterparty Exposure Limits and Collateral Quality Tests
- Shariah-Compliant ETF Index Screens, Purification and Board Approval
- Index Provider Conflicts, Methodology Change Consultation and Licence Terms

Day 5: Modelling Build of the ETF Launch and Index Product Plan

- Case Index Methodology Draft With Back-Tested Turnover
- Case Replication Choice and Creation Basket Design
- Case Liquidity Provider Spread and Premium Discount Model
- Case Launch Economics, Seed Capital and Break-Even Assets
- ETF Launch and Index Product Plan Completion and Peer Review

Skills You Will Gain:

- Index Methodology Design
- Replication Strategy Selection
- Creation Basket Construction
- Premium and Discount Monitoring
- Liquidity Provider Oversight
- Tracking Difference Attribution
- ETF Launch Business Case Modelling
- Index Provider Due Diligence

Why Attend This Course:

- Deliver an ETF Launch and Index Product Plan for a case organisation to the product committee, head of passive investment and fund board
- Decide which index, replication method, basket type and quoting arrangement a new ETF should launch with, on modelled cost and capacity evidence
- Avoid persistent premiums and discounts, unexplained tracking difference and launches that never reach break-even assets
- Share index methodology templates, basket checklists and tracking attribution workbooks with portfolio, operations and capital markets colleagues

Conclusion:

Back at work, the participant presents the ETF Launch and Index Product Plan to the product committee, the head of passive investment and the fund board. They use it to approve the index methodology and licence terms, the replication method, the authorised participant and liquidity provider panel and the seed capital needed to reach break-even assets. After the first months of trading, the organisation should review spreads, premium and discount history, creation activity and tracking difference against the plan and adjust baskets, quoting obligations and fees.

Frequently Asked Questions FAQ:

What should participants know before an ETFs and index funds course?

Participants should already manage, trade, quote or oversee fund products and read portfolio and market data comfortably in spreadsheets. Bringing an index factsheet, a portfolio composition file or a fund prospectus helps them apply the modelling build to their own product range.

How does an ETFs and index funds course differ from a fund accounting or algorithmic trading course?

It covers how index products are designed, created, quoted and governed. Fund accounting courses produce the daily NAV and unit register, and algorithmic trading courses study order execution and trading cost, which this course touches only where they affect ETF baskets and spreads.

Why can ETFs and index funds trade at a premium or discount to their value?

The exchange price reflects supply and demand, while the underlying value moves with the basket. Authorised participants close the gap by creating or redeeming units, but costs, closed underlying markets and stressed liquidity widen the band they tolerate.

What do participants take back from the ETFs and index funds course?

Participants take back an ETF Launch and Index Product Plan for a case organisation, with an index methodology draft, replication and basket design, a spread and premium discount model and launch economics they can adapt to their own products.