
# Understanding Exchange Traded Products (ETPs)

An exchange traded product (ETP) is a type of security that is derivatively-priced and which trades intra-day on a national securities exchange. This means that unlike a Unit Trust or Open Ended Investment Company (OEIC) it is not priced once a day. The price will change throughout the day in the same manner as a traded equity.

Exchange Traded Products are derivatively-priced, where the value is derived from another investment instrument such as a commodity, currency, share price or interest rate. Generally, exchange traded products are benchmarked to stocks, commodities, indices or they can be actively managed funds. Exchange traded products include exchange traded funds (ETFs), exchange traded vehicles (ETVs), exchange traded notes (ETNs) and certificates.

The most popular exchange traded product is the exchange traded fund (ETF). These funds contain securities that track an index, commodity or basket of assets.

Exchange traded notes, on the other hand, are a type of unsecured, unsubordinated debt security. The value of an ETN can be affected by the credit rating of the issuer and not just changes in the underlying index.

Before investing in an ETF it is important to fully understand its characteristics to make sure that it fits with the investment goals. The sector, nationality, replication method and liquidity of the ETF could all have an effect and increase the risk to your capital.

Monies invested in ETPs where the underlying assets (if physically backed) are held in overseas markets are likely to be more volatile due to the fluctuation in value between the currency in which the investment is held and the value of Sterling.

Although ETFs normally have a low tracking error i.e. a measure of how consistently an ETF follows its benchmark, during times of market volatility the tracking error of an ETF may increase.

Some ETFs trade during periods when the market they track is closed which will cause their market price to deviate from the Net Asset Value (NAV). Pricing in these circumstances appears to be similar to futures where investors bid the market price up or down based on their expectations of the next day's market movements.

**Taxation**

Income generated by an Exchange Traded Product is taxable.

Dividend payments are made without deduction of tax with effect from 6 April 2016. Interest distributions are made without deduction of tax with effect from 6 April 2017.

Individuals have a £2,000 dividend allowance each year. Dividends in excess of the allowance are subject to income tax at the prevailing dividend tax rates; this is normally paid under the self-assessment regime although there are alternative payment methods available where dividend income is below £10,000. Further information can be found at https://www.gov.uk/tax-on-dividends.

*Please note that TPO is not responsible for the accuracy of the information contained within the linked site(s) accessible from this page. Please be aware that by clicking on to the external links you are leaving the TPO website.*

On encashment, Capital Gains Tax is payable on any profit in excess of any Capital Gains Tax exemption.

On your death, your Beneficiaries may elect to retain or sell the underlying fund, which will form part of your estate for Inheritance Tax assessment.

**Important Information**

Our advice has been prepared based on our company's understanding of the current law and HM Revenue and Customs' practice. Whilst we believe the interpretation is correct we cannot guarantee it.

Tax treatment may change in the future.

**PLEASE REFER TO OUR SEPARATE DOCUMENT 'GENERAL AND INVESTMENT RISK WARNINGS' FOR ADDITIONAL INFORMATION RELATING TO THE RISKS OF INVESTING.**



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