


Economico Flash ⚡ #34

Cost-efficient asset management: ETF or (over-the-counter) index funds

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Chart of the week: Comparison of exchange-traded funds (ETFs) and over-the-counter index funds

Comparison criterion	ETF	Index funds	Conclusion
Ongoing management costs	TER	TER + Framework tariff ¹	Case-specific
Transaction costs	Bid-Ask-Spread	Dilution protection	Advantage index funds
Transaction taxes	Stamp duty	No stamp duty	Advantage index funds
Foreign withholding taxes	applicable ²	applicable ²	Asset management: Case-specific 3a / FZG: Advantage index funds
Tradability / Liquidity	anytime / intraday	daily	Advantage ETF

¹ Certain unit classes of OTC index funds are only available by signing a framework agreement with the fund management company. The tariff conditions are then subject to this tariff agreement; the product TER is usually 0%.

² Withholding taxes depend on the fund's investment universe, the fund domicile and the fund's investor group. More on this crisp topic in the upcoming Economico Flash 35.

The emergence of ETFs in the new millennium gave private investors access to diversified and cost-efficient investments. In the meantime, however, the ETF form of implementation has come under strong pressure from (over-the-counter) index funds, which are bought and sold via daily subscriptions and redemptions instead of being traded on the stock exchange. Competitive asset managers on the [Economico marketplace](#) are also increasingly using off-exchange, FINMA-regulated index funds in their portfolio construction, as registered users can transparently see in step 4 of the marketplace ("Detailed analysis"). It is therefore high time to compare the critical product features:

- Ongoing management costs:** In this respect, a case-by-case assessment is necessary by looking at the product-specific Total Expense Ratio (TER). For index fund unit classes that have a TER = 0 (so-called "no load" tranches), the tariff consideration of the enveloping tariff agreement with the fund management company is relevant.
- Transaction costs:** Off-exchange Swiss index funds require a so-called dilution protection in favor of the fund assets upon subscription and redemption, which is intended to protect existing investors from bearing the transaction costs caused by subscriptions and redemptions within the fund. ETFs are traded on the stock exchange with a bid-ask spread that compensates the trader. In contrast to index fund transactions, an additional party must therefore be compensated in ETF trading.

- Transaction taxes:** Off-exchange Swiss index funds are exempt from Swiss stamp duty on subscriptions and redemptions. ETF transactions, on the other hand, are subject to stamp duty - 0.075% of the transaction volume for Swiss-domiciled ETFs and 0.15% for foreign-domiciled ETFs.
- Foreign withholding taxes:** The treatment of withholding taxes on investment income generated abroad, such as the 30% tax on dividends from American shares, is highly relevant to returns and is often underestimated. We will take a closer look at this not entirely trivial topic in the next Flash 35. What can be said in advance: In the case of securities solutions for 3a & FZG solutions, over-the-counter index funds have a significant advantage over ETFs.
- Flexibility / liquidity:** ETFs can be traded flexibly on the stock exchange at any time, while OTC index funds have daily liquidity. This makes no difference for long-term investments.

Takeaways

- (Off-exchange) index funds are increasingly replacing ETFs as the optimal implementation tool for cost-efficient asset management.
- There are good reasons for this!