acuiti management intelligence

Redefining European ETFs: The growing role of derivatives

2026

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MAREX

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Introduction



Recent years have seen a surge in the popularity of ETFs that use derivatives, such as Buffer ETFs. While the US market has driven the lion's share of this growth, European adoption has also been significant in a region where new products can often take time to gain traction.

The question now is how far this trend will spread and which products will see the most significant growth. While Buffer ETFs, which use options to create their payoff profile, are a new example of derivatives use in ETFs, the European market has a decades-long track record of using swaps in ETFs.

The development of buffered, capped and floored products (collectively, defined outcome ETFs) is broadening the use of derivatives further, with a range of instruments used to create more predictable return profiles by exchanging some potential upside for protection against a predetermined level of downside.

This increasing use of defined outcome ETFs is taking place alongside continued innovation in leveraged, inverse and synthetic products. The greater complexity of these products, however, can place additional demands on derivatives liquidity, counterparty access, distribution and investor education.

To understand how the market for derivatives-based ETFs in Europe is developing, Acuiti partnered with Marex to survey and interview 30 European issuers active in the ETF and ETP market. The study examines current derivatives use in Europe, where issuers expect growth and what will be required to support the next phase of innovation in European ETFs and ETPs.

The key findings are:

- **86% of respondents say their use of derivatives in ETFs and ETPs has increased over the past three years,** while 96% expect it to increase further over the next three years. Client and investor demand is the biggest driver, cited by 90%.
- **33% have already launched a defined outcome ETF and another 41% are in active development with a launch expected within 12 months.** A further 22% are planning products without a firm timeline.
- **54% cite better distribution infrastructure for complex products as a priority for unlocking derivatives-based ETP innovation,** while 46% point to improved investor and adviser education.
- **79% currently use total return swaps in at least part of their European ETF/ETP range,** with 86% of swap users citing access to exposures that are difficult or impossible to replicate physically as a main benefit.
- **84% have been unable to launch, or have had to materially change, a product** because they could not secure a swap counterparty on acceptable terms.



Boom times in derivatives-based ETFs?

Europe's ETF market is entering a new phase of product development and derivatives are at the centre of it.

Derivatives have long played a role in Europe's ETF market through synthetic replication, currency hedging and leveraged exposures. However, issuers are increasingly using them to broaden the range of strategies and investment outcomes that can be delivered through the ETF wrapper.

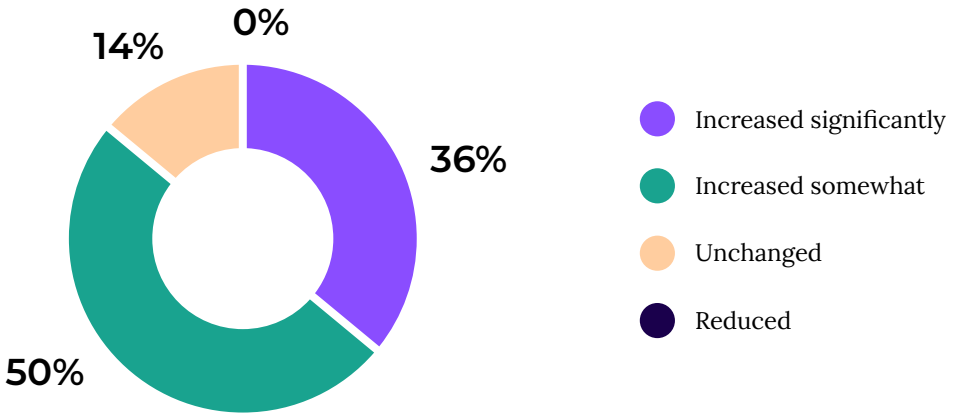
Defined outcome ETFs, in particular, have benefited from the weakening hedge that bonds have provided against equity drawdowns since 2022. In Europe, they have also appealed to investors in a region that is already familiar with the payoff profile of structured products, and have benefited from the general rise in popularity of passive investment products.

Almost a third of respondents say derivatives are currently used in 11–25% of their European ETF/ETP suite. Among firms managing $5–25bn in European-domiciled ETFs and ETPs, more than 60% report derivatives use across 11–25% of their products.

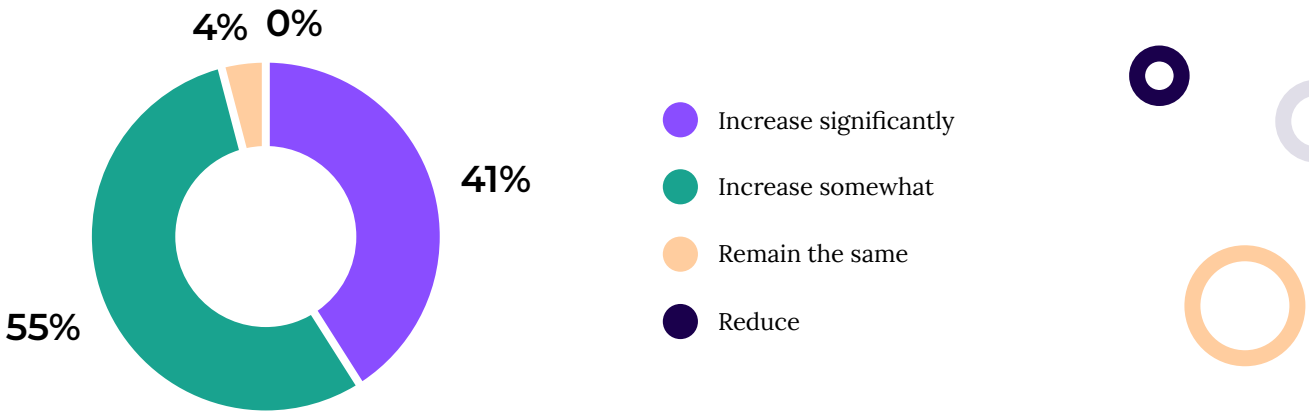
The pace of adoption is accelerating. Almost 90% of issuers in the survey that use derivatives in ETFs and ETPs say their use has increased over the past three years, with 36% reporting a significant increase.

Expectations for the next three years are stronger still. Almost all respondents expect their derivatives use to increase further during this period, split between 41% expecting a significant increase and 55% expecting some increase.

Compared with three years ago, how has your firm's use of derivatives in ETFs/ETPs changed?



And over the next three years, how do you expect your firm's use of derivatives to change?



Client and investor demand is the clearest force behind that expansion. Ninety percent of firms identify client or investor demand as one of the biggest drivers of increased derivatives usage.

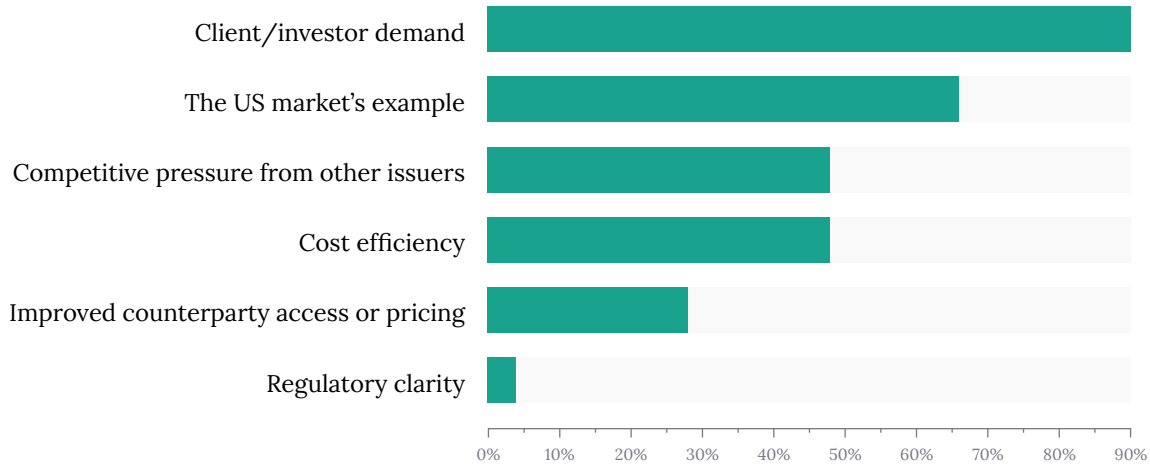
As well as factors such as portfolio construction, structured product similarity and demand for passive investment products, there are other drivers of European demand to consider.

Products like Buffer ETFs also appeal as a cheaper alternative to the OTC quantitative investment strategy (QIS) offerings that proved popular among institutional investors and lucrative for banks in recent years.

The US provides an important indication of the potential of the product set, both in terms of retail and institutional adoption. But structural differences mean growth in Europe will have its own characteristics.

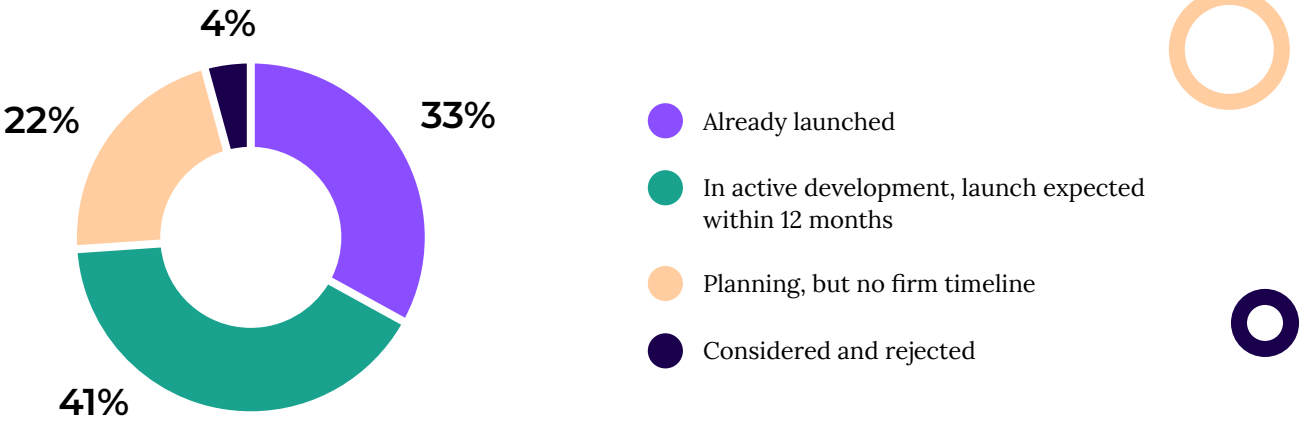
European traded markets are more fragmented and have traditionally had a higher proportion of institutional investors relative to retail than in the US. In addition, firms operating under the UCITS framework have restrictions on which derivatives-based products they can use.

What have been the biggest drivers of the increase in derivatives usage?



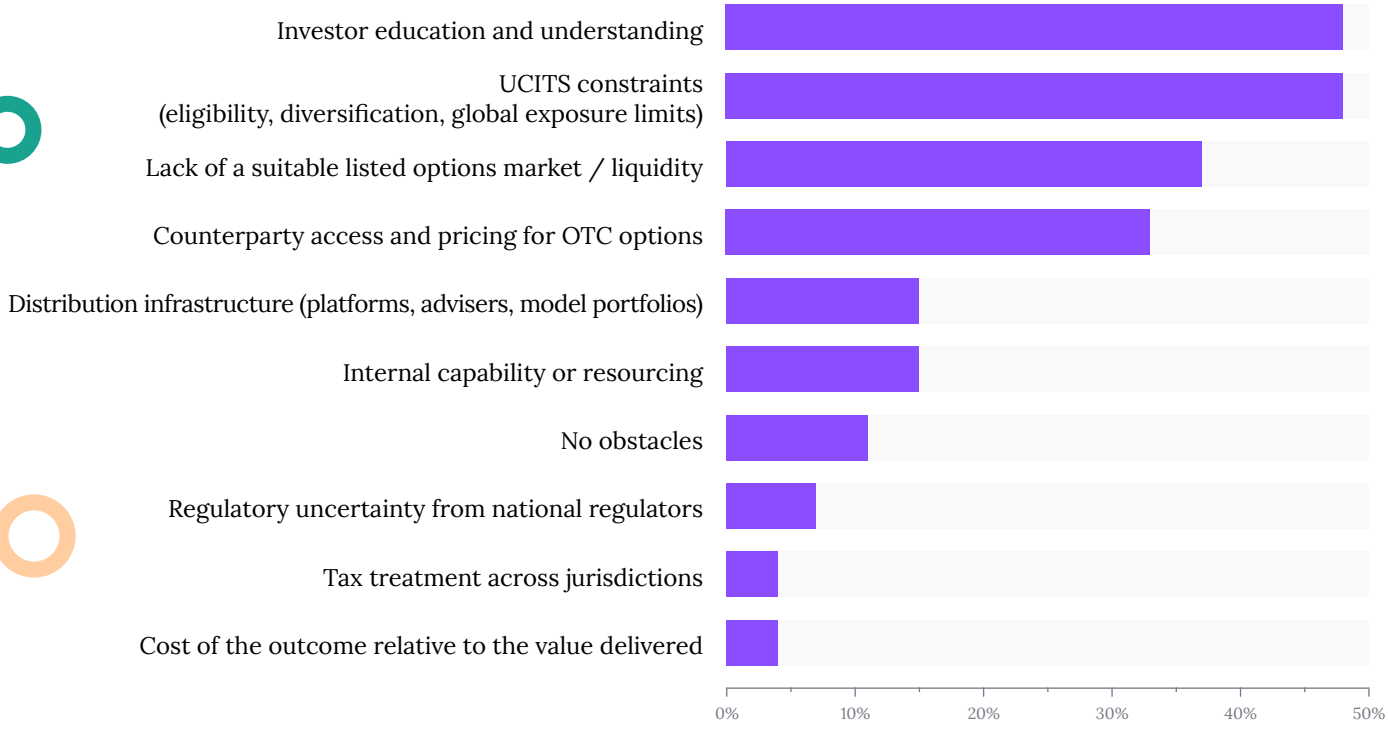
Nevertheless, there is significant room for innovation in European ETF markets, specifically with defined outcome ETFs, where momentum is building, with European issuers moving quickly into the market. A third of issuers in the survey have already launched a defined outcome ETF, while another 41% have products in active development that they expect to launch within 12 months. A further 22% are planning products without a firm timeline, leaving just 4% that have considered and rejected the concept. Almost half of ETF/ETP issuers that are part of a larger asset manager already have products in active development.

Is your firm currently developing, or actively planning, defined outcome ETFs (buffered, capped, floored or similar) for European distribution?



Bringing options-based defined outcome products to market presents challenges beyond structuring the strategy itself. Investor education and understanding was the joint most commonly cited obstacle, alongside UCITS constraints, each selected by almost 50% of respondents.

What are the main obstacles to launching options-based defined outcome products in Europe?



Regulation presents another constraint on product development. UCITS sets the regulatory framework for European investment funds, including requirements around eligible assets, diversification and the use of derivatives, which can shape how defined outcome strategies are structured within an ETF. This makes the emergence of products like single-stock Buffer ETFs, which have proven popular in the US, challenging to envisage in Europe.

UCITS therefore appears to shape product construction, rather than prevent development outright. Scale may prove a more practical constraint. Options-based ETFs need sufficient assets to execute their strategies efficiently, as limited AUM can restrict the size of options trades and make it more difficult to achieve efficient pricing.

Execution costs can therefore represent a larger proportion of the fund's total expense ratio, making some strategies harder to offer at a competitive fee. As assets grow, issuers have greater scope to execute the options strategy efficiently, improving the economics of the product.



Europe's derivatives preferences



As derivatives become more embedded in European ETF construction, the instruments issuers use will play an important role in shaping how that growth develops. Different structures bring different benefits, closely linking the choice of instrument to the exposure or investment outcome an issuer is seeking to deliver.

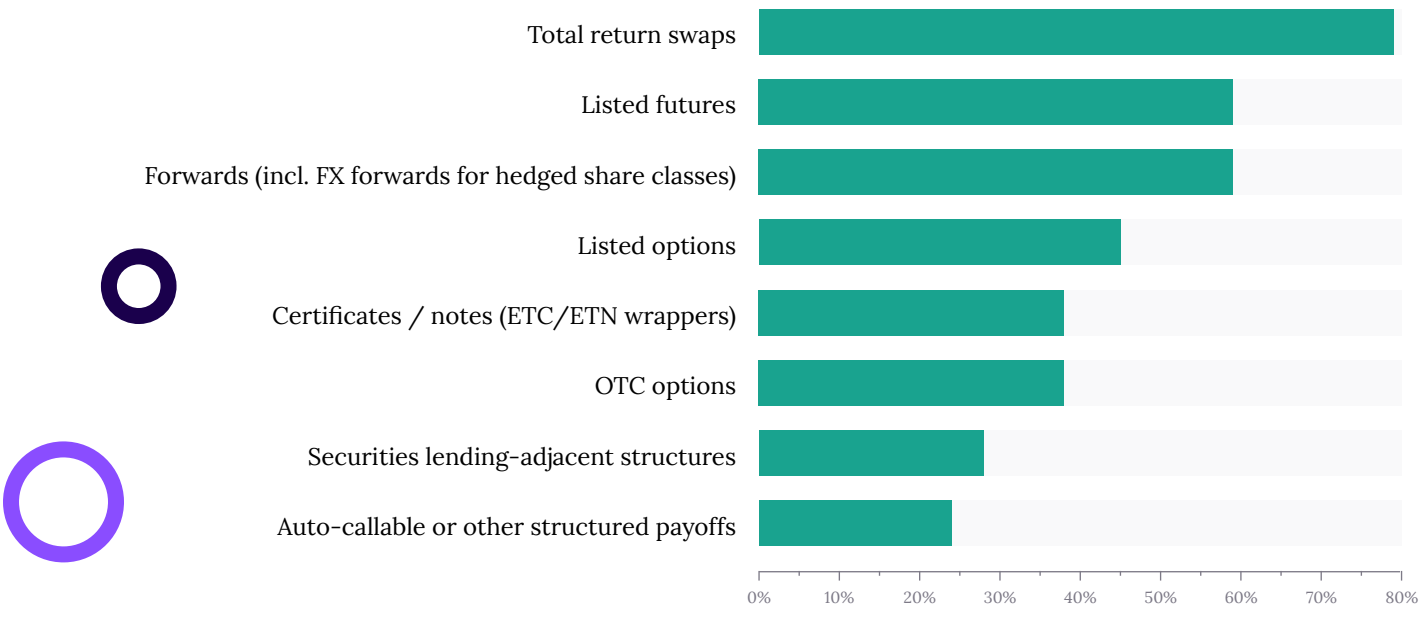
Total return swaps (TRS) are the most widely used derivative among issuers that took part in the survey, cited by 79%. Listed futures and forwards follow, each used by 59%, while 45% use listed options.

The prominence of TRS points to the continuing importance of synthetic replication in European ETF construction. In a synthetic structure, the asset manager can determine the investment strategy while a bank takes on much of the underlying execution and hedging responsibility, with the performance of the reference exposure delivered through the swap.

The model becomes particularly relevant as strategies move beyond straightforward benchmark replication. More complex exposures can require continuous execution, hedging and rebalancing across multiple assets.

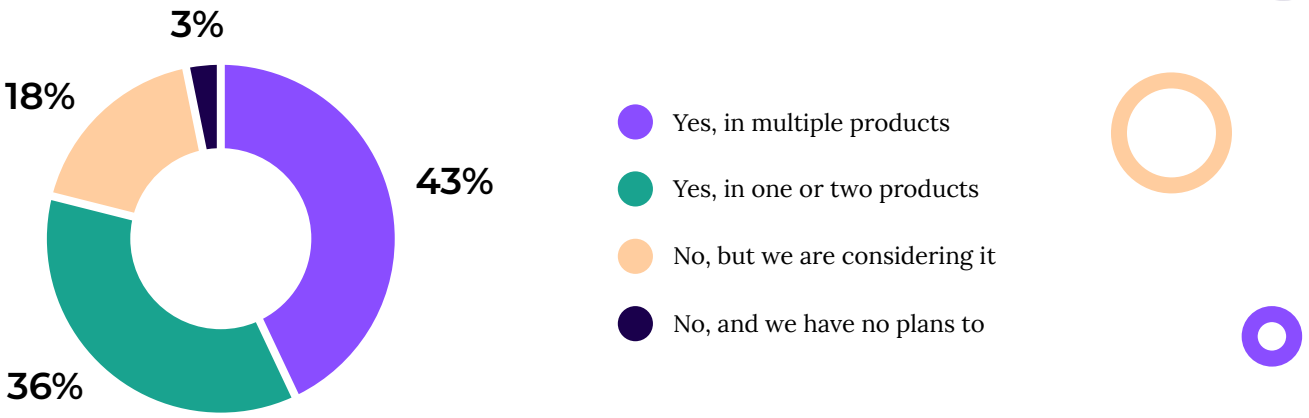
Placing more of that activity with a bank can reduce the operational burden on the asset manager while allowing it to retain control of the investment strategy itself.

Which derivative instruments does your firm currently use within its European ETF/ETP range?



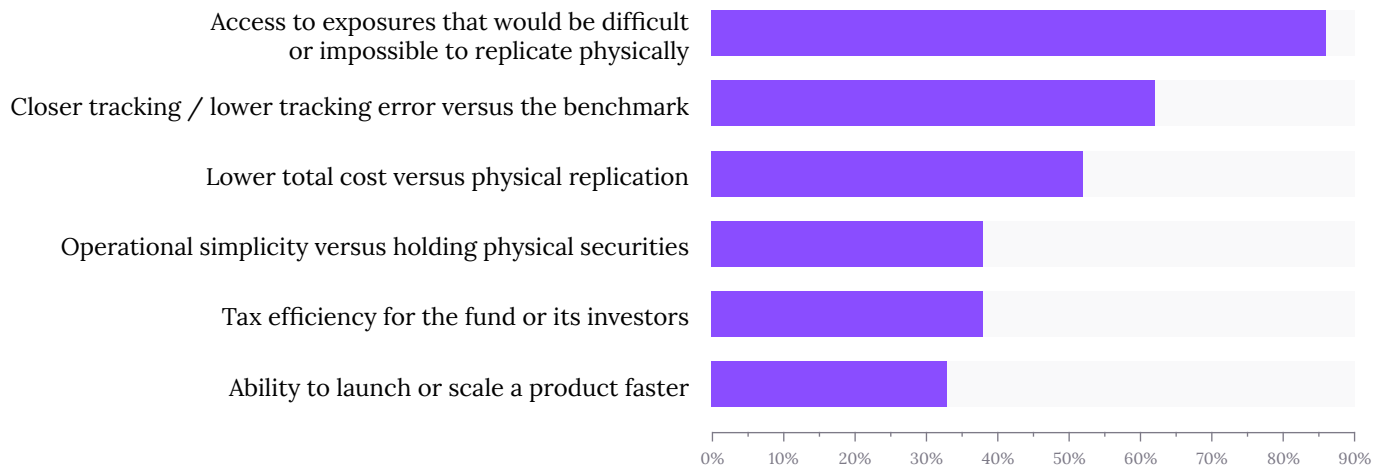
Forty-three percent of respondents use TRS across multiple European ETFs or ETPs and another 36% use them in one or two products. A further 18% are considering their use, leaving just 3% with no plans to use swaps.

Does your firm currently use total return swaps in any European ETF/ETP?



Access to exposures is the clearest attraction for issuers using swaps in their ETPs. Among firms using swaps, 86% identify the ability to access exposures that would be difficult or impossible to replicate physically as a main benefit. Sixty-two percent cite closer tracking or lower tracking error against the benchmark and 52% point to lower total costs relative to those incurred during the physical replication process.

What are the main benefits your firm has experienced from using swaps in its ETPs?





A classic, if perhaps outdated, reason that investors give not to use swaps is counterparty risk. Counterparty diversification is the obvious way of mitigating this and is well-established among survey respondents. Over 40% transact with five or more dealers across their ETP range, including 26% that use ten or more.

As well as mitigating counterparty risk, maintaining a broader dealer network can give issuers greater flexibility when sourcing capacity across products and exposures, particularly as individual banks may differ in their appetite, balance sheet capacity and ability to hedge particular strategies. As issuers move into more specialised exposures, the capabilities of those counterparties become as important as the number of relationships maintained.

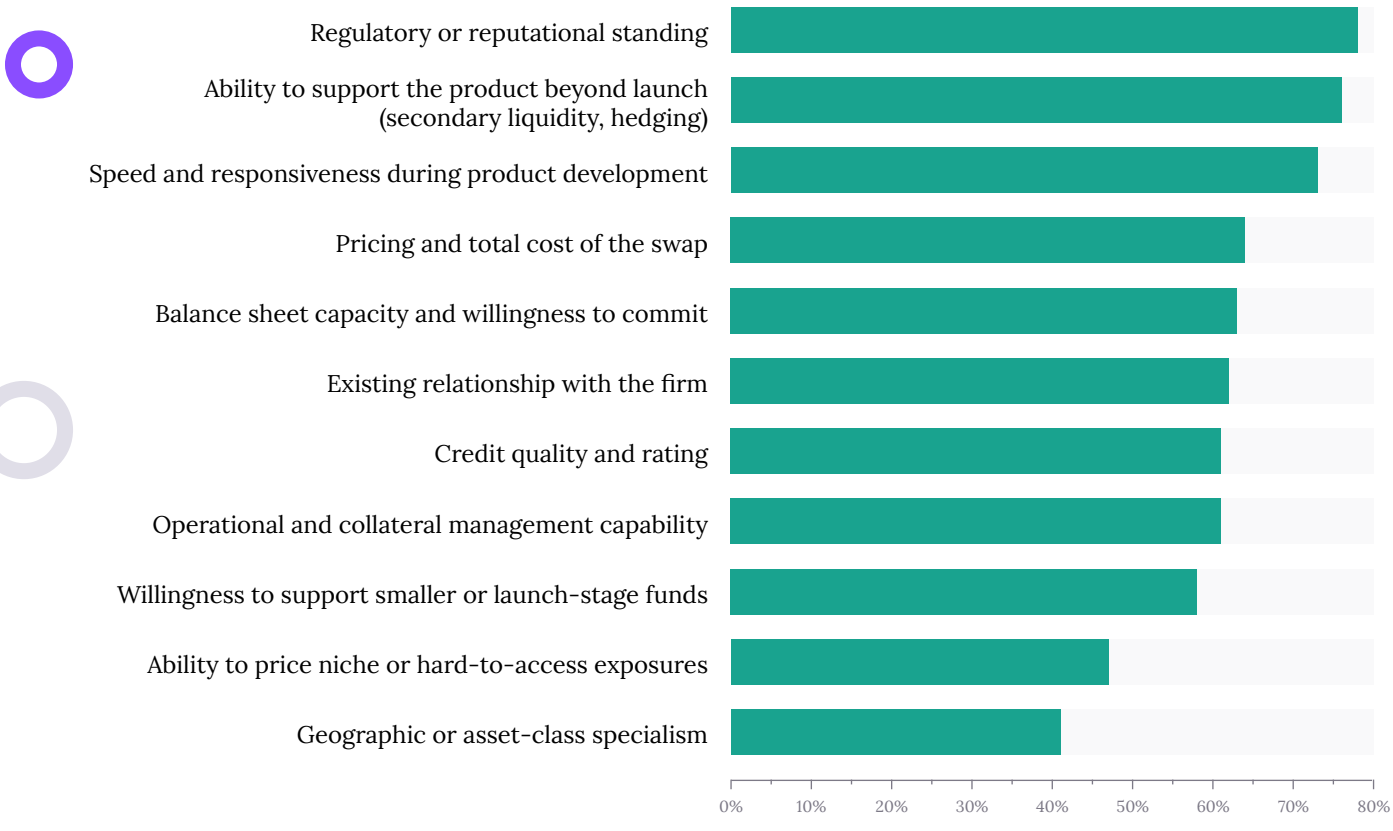
The criteria ETF issuers use to select counterparties show that the relationship extends beyond pricing ability. The ability to support the product beyond launch was rated very or critically important by 76% of respondents, while 73% say the same for speed and responsiveness during product development.

That need for support extends across the lifecycle of an ETP. Issuers need dealers that can help bring a product to market quickly but also have the appetite and capability to continue supporting it as assets and trading activity develop. This is particularly relevant for newer products, where assets may initially be limited.

In a competitive market for ETF production, counterparty selection therefore depends not only on pricing or credit quality, but on whether a dealer is prepared to commit to the product from launch through to scale.

When selecting a dealer/swap counterparty for an ETP, how important is each of the following?

% of respondents saying the metric is very or critically important



The availability of support that issuers expect, however, differs significantly by asset class.

Commodities exposures are relatively well served, with almost 60% of respondents somewhat or very satisfied with the availability of counterparties in the market.

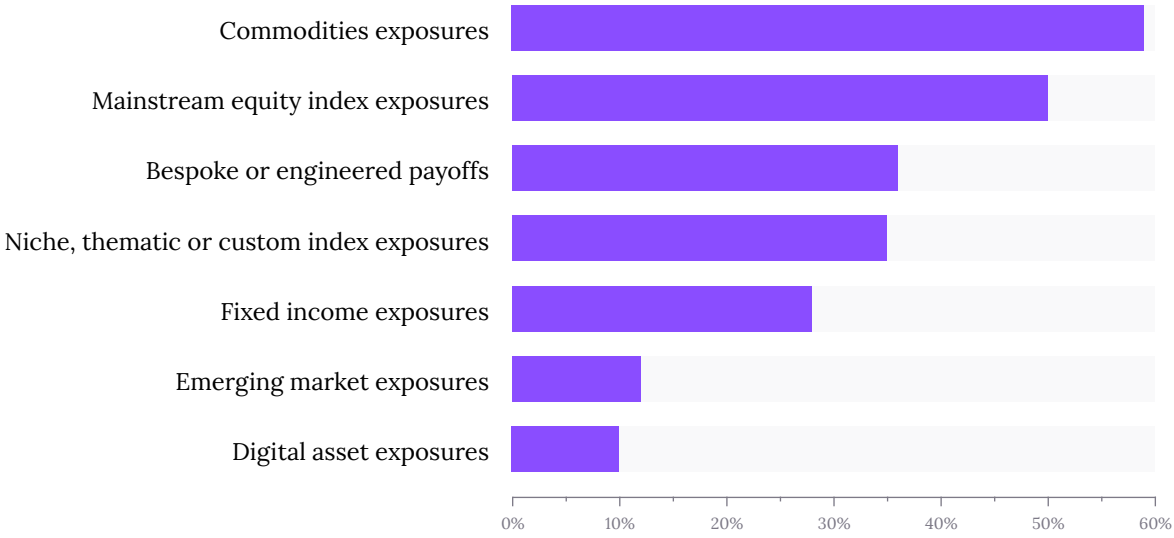
Mainstream equity index exposures are also relatively well served, with 50% satisfied with counterparty availability.

Digital assets stand out at the other end of the spectrum. More than half of respondents are somewhat or very dissatisfied with the availability of swap counterparties for digital asset exposures, including 31% that are very dissatisfied. This may be related to the regulatory and capital constraints that banks face in taking on digital asset exposure.

For ETF and ETP issuers, a more limited pool of available counterparties can make it harder to source competitive pricing and sufficient capacity, potentially constraining the development and scaling of synthetic digital asset products.

How satisfied are you with the current availability of swap counterparties in Europe for the following?

% of respondents that were either somewhat or very satisfied



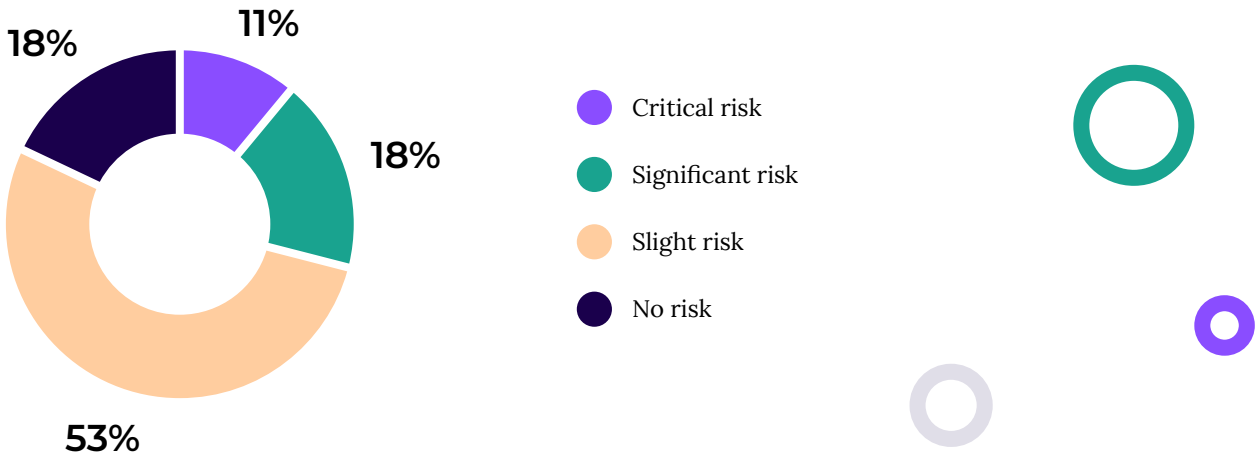
Concentration of swap provision among a relatively small number of large banks is not widely viewed as a risk to the market. Over 70% of respondents consider it either a slight risk or no risk at all.

The number of providers is less of a concern in itself than whether those providers have sufficient appetite and capacity to support the exposures that issuers require.

This becomes particularly important as product development moves beyond mainstream markets into more specialised strategies as the market's sophistication grows.

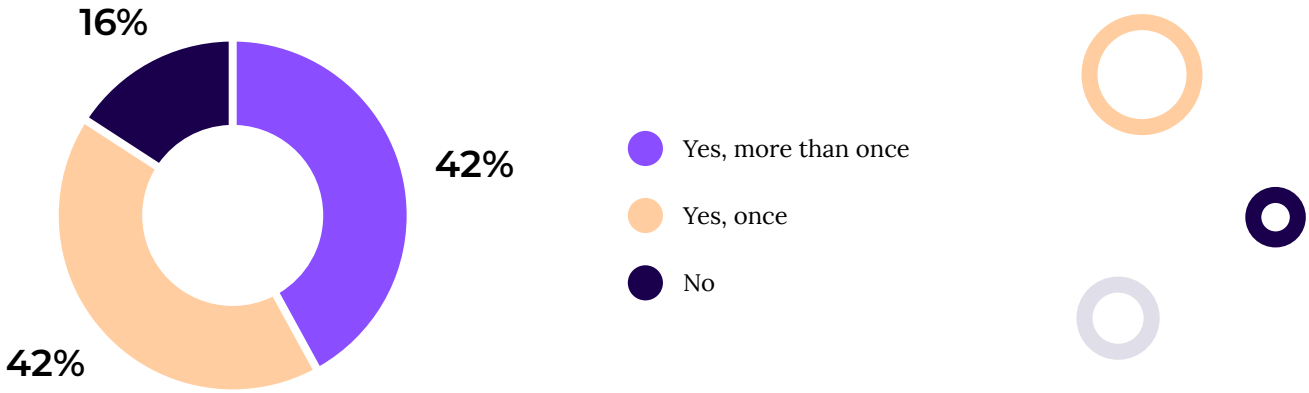


Do you think that the concentration of swap provision among a small number of large banks is a risk to the European ETP market?



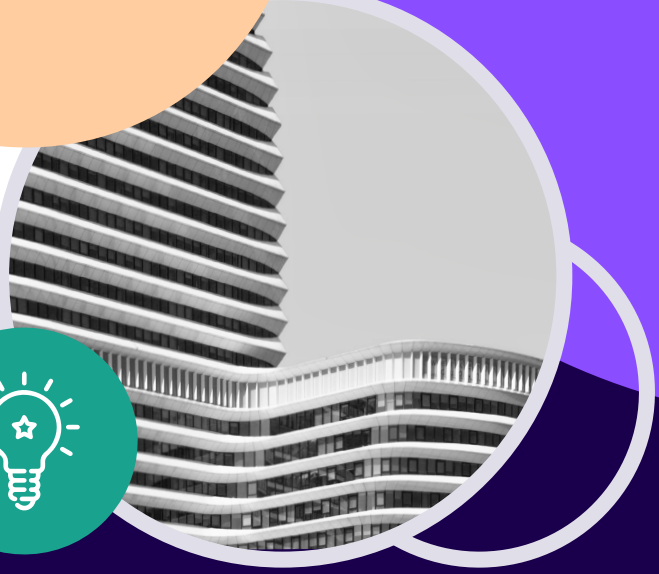
The impact of counterparty availability was more apparent at the individual product level. Eighty-four percent of respondents have been unable to launch, or have had to materially change, a product because they could not secure a swap counterparty on acceptable terms. Counterparty access is not simply an operational consideration; it can directly shape which products issuers are able to bring to market and how those products are ultimately structured.

Has your firm ever been unable to launch, or had to materially change, a product because you could not secure a swap counterparty on acceptable terms?





European innovation

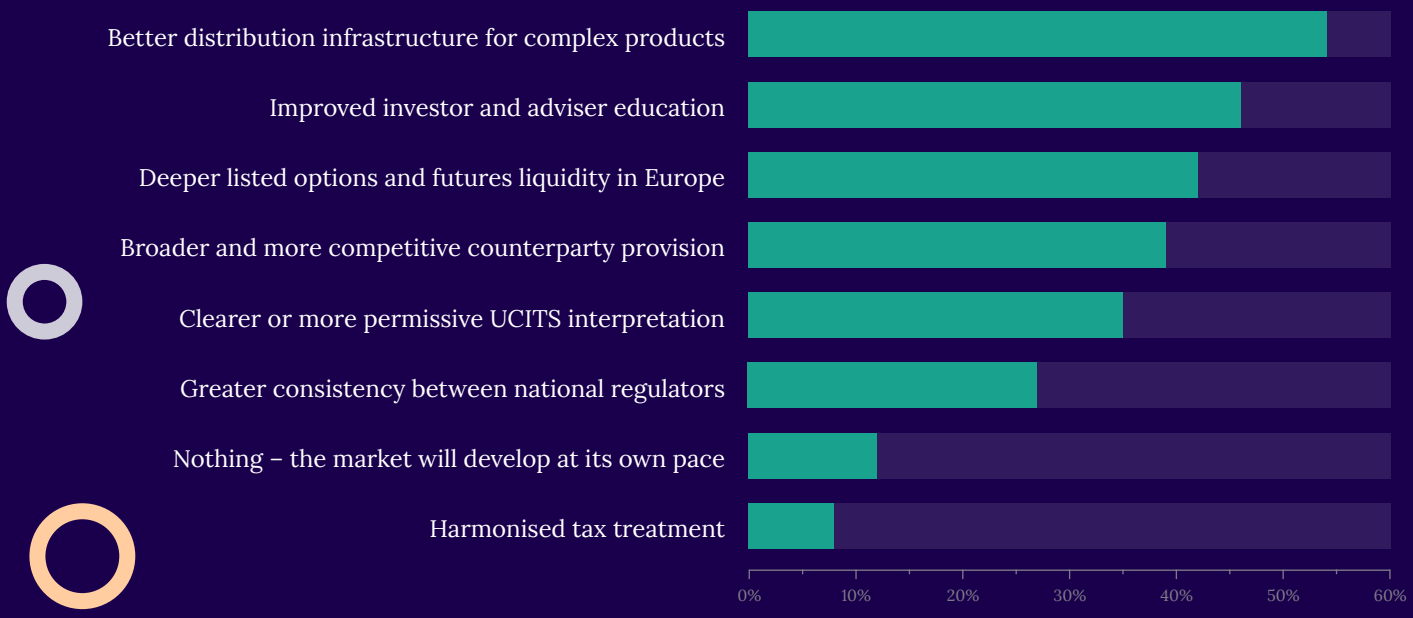


With strong momentum building in European derivatives-based ETFs, a crucial question will be how greater adoption powers innovation.

Unlocking the next phase of derivatives-based ETP innovation will require more than product development alone. Distribution and education were the highest priorities flagged by firms, with 54% of respondents citing better distribution infrastructure for complex products and 46% pointing to improved investor and adviser education.

Further growth will depend on issuers being able not only to manufacture and hedge more sophisticated products, but also to distribute them effectively to investors who understand how they work.

What would do the most to unlock derivatives-based ETP innovation in Europe?



Product innovation will remain central to any growth story, though, and an obvious candidate for new ETFs will be leveraged or inverse vehicles. Despite recent notoriety in the South Korean market, where single-stock leveraged ETFs contributed to a sharp KOSPI sell-off, these products have an established use case and have proven popular in the US.

Demand is currently varied. Eighteen percent of respondents describe European investor demand for leveraged and inverse ETFs as very strong and growing and 21% as strong but stable. Just over a quarter describe it as weak, however.

How would you characterise current European investor demand for leveraged and inverse ETPs?



The end investor base that these products appeal to is weighted heavily towards retail and wealth.

Retail traders are cited by 83% of respondents as driving demand, followed by wealth managers at 72%.

Which investor segments are driving demand for leveraged and inverse ETPs in Europe?



The importance of retail and wealth management in Europe makes access through distribution platforms particularly important.

More than half of respondents identify distribution and platform restrictions on complex products as one of the biggest limitations on growth.

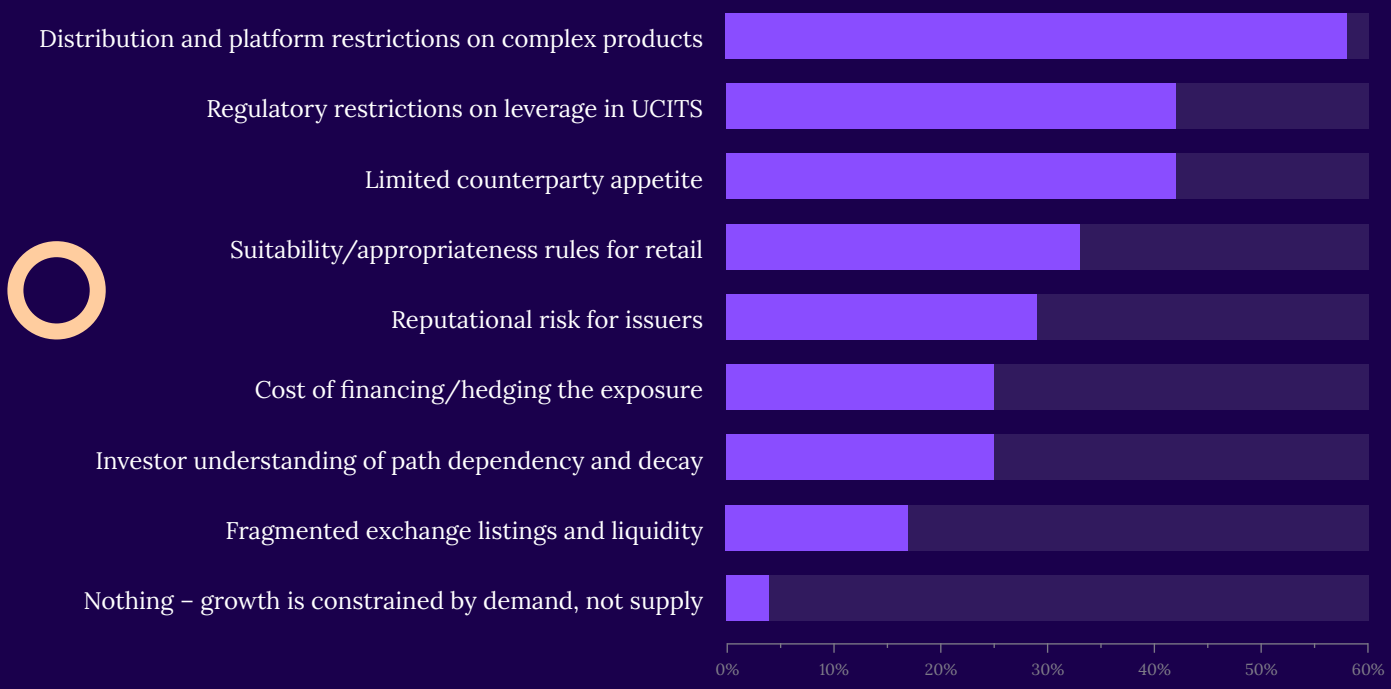
Limited counterparty appetite and regulatory restrictions on leverage within UCITS were joint second, each cited by 42% of respondents.

UCITS presents a different consideration for leveraged and inverse ETFs than for Buffer ETFs. The diversification and eligible asset requirements of UCITS can restrict the construction of certain Buffer strategies. However, leveraged and inverse ETFs are permitted within the framework, with the principal constraints relating instead to the use of derivatives, calculation of global exposure and risk management.

UCITS therefore does not necessarily restrict the underlying strategy in the same way, but places parameters around how leverage is created and managed.

While the UCITS framework influences how leveraged products can be structured, distribution seems a more immediate constraint on growth. Even where products can be brought to market within the regulatory framework, issuers still need access to the platforms and distributors through which retail and wealth investors typically invest. Widening that access will therefore be critical to unlocking further growth in European leveraged ETFs.

What is most limiting the growth of leveraged ETPs in Europe?

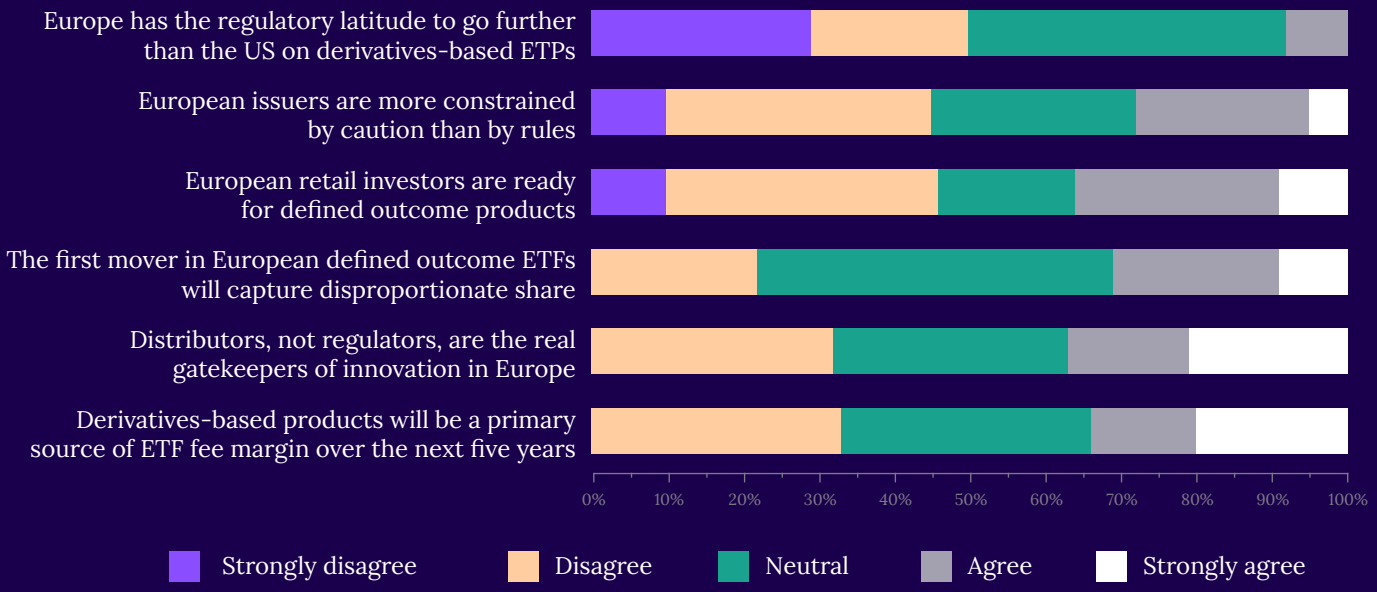


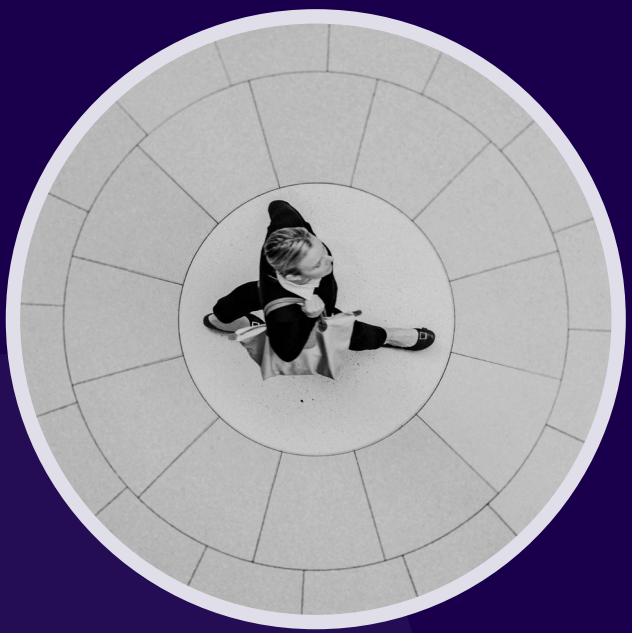
Overall, optimism is high about the prospects of derivatives-based ETFs in Europe. Thirty-four percent of firms foresee derivatives-based products becoming a primary source of ETF fee margin over the next five years.

However, the market's next stage of growth could be a gradual build. Forty-six percent of survey respondents believe that European retail investors are not yet ready for defined outcome products – reinforcing the importance of education.

There clearly needs to be a change in mindset across the market for the products' potential to be realised. Thirty-seven percent of respondents said that distributors, not regulators, are the real gatekeepers of innovation.

To what extent do you agree with each statement?





Conclusion



Derivatives are becoming more deeply embedded in the European ETF market. Options, swaps, futures and forwards are broadening both the exposures that can be accessed and the investment outcomes delivered through the ETF wrapper.

Defined outcome strategies are bringing approaches traditionally accessed through derivatives and structured products into a more accessible and tradable format, while synthetic replication provides an efficient route to exposures that can be difficult or costly to replicate physically. Leveraged and inverse products offer another avenue for innovation.

As product complexity increases, derivatives liquidity, counterparty capacity, distribution and investor understanding become increasingly important to bringing products to market and building scale.

Europe has the opportunity to develop this market around its own investor base and market structure. Growing interest in defined outcome products, established institutional use of derivatives and early signs of retail readiness provide a strong foundation. The next phase is about turning that momentum into products that can achieve distribution and scale to power the market's next phase of growth.



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Marex partners with ETF and ETP issuers to structure, fund, launch and support products across traditional and digital asset markets. Leveraging global multi-asset capabilities, the firm provides integrated services including seeding, authorised participant support, execution, clearing, custody and tailored exposure management. Marex helps issuers access complex and hard-to-reach markets, improve liquidity, manage risk and reduce trading costs through direct relationships with leading market makers and liquidity providers.



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