

The many sides of digital ETFs

Eamonn O’Callaghan, global head of ETF Product at CACEIS, examines the regulatory, operational, and custody considerations shaping the growth of digital ETFs and ETNs as investor demand for cryptocurrency exposure through traditional investment wrappers accelerates



Investors have been purchasing digital assets since their inception. However, there has been growing investor interest in purchasing this asset class through an exchange-traded fund (ETF) or exchange-traded note (ETN) wrapper, which can be observed in the results of the numerous investor surveys and also through investor flows. The introduction of digital assets in ETF wrappers has expanded access by providing investors with exposure to this asset class without the need for direct custody or private key management.

These ETFs/ETNs blend traditional market infrastructure such as trading, clearing, settlement, and custody with cryptocurrency price tracking. Below we take a look at the many sides which need to be considered regarding these products.

The regulatory side

In the US, up to January 2024, funds were permitted to gain indirect exposure to digital assets which was generally achieved through holding derivatives or futures. In January 2024, the Securities and Exchange Commission (SEC) amended their approach and permitted spot bitcoin ETFs. This change enabled ETFs to directly hold digital assets such as bitcoin. Quickly after, a number of asset managers submitted regulatory filings to launch within the updated regulatory structure including Blackrock, Fidelity, Ark/21Shares, and Grayscale.

In Europe, Undertakings for Collective Investment in Transferable Securities (UCITS) are restricted from directly holding digital assets. Given this position, the vehicle of choice to directly hold digital assets is the ETN.

The Commission de Surveillance du Secteur Financier (CSSF) recently permitted Luxembourg domiciled UCITS to “invest indirectly in crypto assets for a maximum of up to 10 per cent of their net asset value”. This will be an interesting space to watch in the coming months and years as asset managers start to utilise the revised regulation.

The buy side

Up until now, US Spot Bitcoin ETFs have gathered US\$370 billion in assets, not an insignificant amount since their launch in January 2024. According to the ETF Book, in Europe digital ETNs have gathered US\$16 billion in assets and year to date inflows were US\$748 million.

These products are being bought by a wide variety of investors from virtually across the entire investor spectrum including, retail, high net individuals, institutional allocators (pension funds, family offices), hedge, and quant funds. However, the key segments where there is the highest demand are retail investors and institutional allocators.

Digital ETFs/ETNs are approved by the SEC in the US and in Europe by the national regulator where the product is domiciled such as the Autorite des Marches Financiers (AMF) in France. This regulatory approval provides investors with a level of comfort they don’t necessarily receive if they purchase digital assets directly through their brokerage account. There is also the additional comfort provided by large recognised asset managers running the funds. These factors are acting as tailwinds for growth.

The operations side

Supporting and running a digital ETF/ETN requires changes in some areas and a complete re-think in others, below are some of the key points:

Technical architecture: Many of the systems in place within financial institutions were developed prior to the introduction of digital assets. As such, these traditional systems will not have the technical capabilities needed to support some of the unique attributes inherent to digital assets.

Hence, the technical architecture to support digital ETFs/ETNs, should be reviewed to ensure that the functionality in place is capable of supporting them. It is likely that in some areas, enhancements will need to be introduced. In other areas, new native systems will have to be developed.

Custody of digital assets: Acting as custodian of digital assets, such as bitcoin, requires specialised systems, expertise, processes, and regulatory approvals. To obtain the Markets in Crypto Assets Regulation (MiCA) approval is a complex and detailed process with the relevant regulatory authorities.

In June 2025 CACEIS received its MiCA approval enabling it act as custodian and administrator of digital assets, and in doing so became the first European bank to receive this prestigious accolade. CACEIS is unique among European banks in being permitted to act as custodian of digital assets in-house without the need to elicit the support of an external 3rd party sub-custodian.

With the ability to provide issuer/common depositary services, transfer agency, accounting, and custody solutions, CACEIS is able to provide a true front-to-back service for ETNs with a digital underlying.

System interoperability: With the potential for the introduction of new systems to operational processes, and the goal of reducing manual touch points and promoting full straight through processing, system interoperability is crucial in promoting these goals. Hence, front, middle, and back end systems need to be analysed and tested to ensure that data flows as envisaged. In some cases middle ware may need to be developed to bring any connectivity gaps.

Oversight and governance policies: Supporting digital ETFs/ ETNs introduces the requirement for enhancements to oversight and governance policies. Oversight and governance policies throughout the value chain should be reviewed through the prism of where enhancements need to be made in supporting digital assets in a risk free environment.

This includes areas such as white-listing of wallets, verification of ownership, risk analysis of operational processes, and due diligence of the Authorised Participants (APs).

The flip side

Whilst still relatively new, digital assets within the ETF/ETN wrapper have received significant inflows since their introduction. In addition, there is evidence of strong investor interest, most notably with retail and institutional allocators.

This demand is likely to drive additional well known asset managers to launch these products and leverage their brand and distribution channels to gather assets. This in turn creates the need for service providers to enhance their offerings in order to support these complex products.

CACEIS's institutional bank grade digital custody solutions, combined with issuance services for fund units, gives asset managers the confidence to unlock new digital opportunities.

Using CACEIS Bank recent digital assets solutions allows for integrated assets servicing for both traditional securities and digital assets without any additional setup when already onboarded with us. Such an end to end solution avoids the need to add new providers and workflows. CACEIS has the expertise, systems, and scale to support asset managers digital asset journey.

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