FACT BOOK 2023

EFAMA

European Fund and Asset Management Association

21ST EDITION

TRENDS IN EUROPEAN INVESTMENT FUNDS

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I am delighted to present to you the 21st edition of EFAMA's Fact Book. Throughout the years, this publication has unquestionably established itself as the ultimate source of trustworthy data on the European investment fund industry. Just like last year, the Fact Book is available completely free of charge, ensuring its accessible to a wide audience.

This year's edition provides a comprehensive analysis of the developments in 2022, with a look back at trends over the last decade. This analysis confirms that last year was difficult for the industry and its clients, as net sales of UCITS and AIFs turned negative against the backdrop of a general decline in both the equity and fixed-income markets. There was also some positive news for the European fund industry, most of it related to important regulatory files on which EFAMA has been working actively.

The first prominent positive evolution is the resilience of the demand for Article 9 funds, which are classified as funds with a clear sustainability objective under the Sustainable Financial Disclosure Regulation (SFDR). Whereas UCITS in general suffered net outflows in 2022, Article 9 UCITS witnessed positive net sales every single month of the year. I strongly believe that sustainable funds will continue to be successful in the future as investors increasingly prioritise ESG considerations in their investment decisions.

Yet, it remains essential to clarify some key aspects of the EU sustainable finance regulatory framework, particularly concerning SFDR disclosures. The most significant issue lies in the lack of reliable standardised data on investee companies. Although the recently adopted Corporate Sustainability Reporting Directive (CSRD) will play a pivotal role in delivering accurate and meaningful non-financial data, the framework remains a work in progress and will only achieve full implementation in a few years. This environment is challenging for fund managers who need reliable ESG data to be able to fulfil their important role in the transition to a sustainable economy.

A second positive trend is the sustained decline in cost across different types and strategies of funds. This is partly due to the growing market share of large funds, which strengthens the downward trend in prices thanks to cost savings resulting from economies of scale. This cost pressure is set to continue due to enduring competition between fund managers and enhanced transparency on fees.

Another noteworthy trend is the recent investment behaviour of European retail investors, who continued to invest in capital market instruments and purchase investment funds (EUR 88 billion) throughout the year despite short-term market volatility. While this is highly encouraging, the average share of bank deposits remains very high in EU households' total financial assets (44%). Our hope is that the Retail Investment Strategy (RIS), if well calibrated, will help address this problem and encourage European citizens to become long-term investors. In this context, I can only confirm that effective and affordable investment advice is essential, and for that reason, the current coexistence of fee- and commission-based advice must be preserved to ensure the availability of financial advice for all EU citizens, not just for wealthy investors.

It remains to be seen what 2023 will bring, but so far it is shaping up to be a more positive year in terms of fund performance, despite the remaining geopolitical and economic uncertainties. As we navigate the year ahead, I am confident that the strength and reliability of the UCITS and AIF frameworks will continue to attract investors, both within Europe and internationally.

In conclusion, I would like to extend my heartfelt appreciation to EFAMA's research team for its unwavering dedication in producing the Fact Book. I would also like to express my sincere gratitude to EFAMA member associations, whose valuable contributions through their country reports and national statistics have played a pivotal role in the ongoing success of the Fact Book. And lastly, many thanks to the Fact Book sponsors whose financial support have made this publication possible.

Naïm Abou-Jaoudé
EFAMA President

PART 1

RECENT DEVELOPMENTS IN THE EUROPEAN INVESTMENT FUND INDUSTRY

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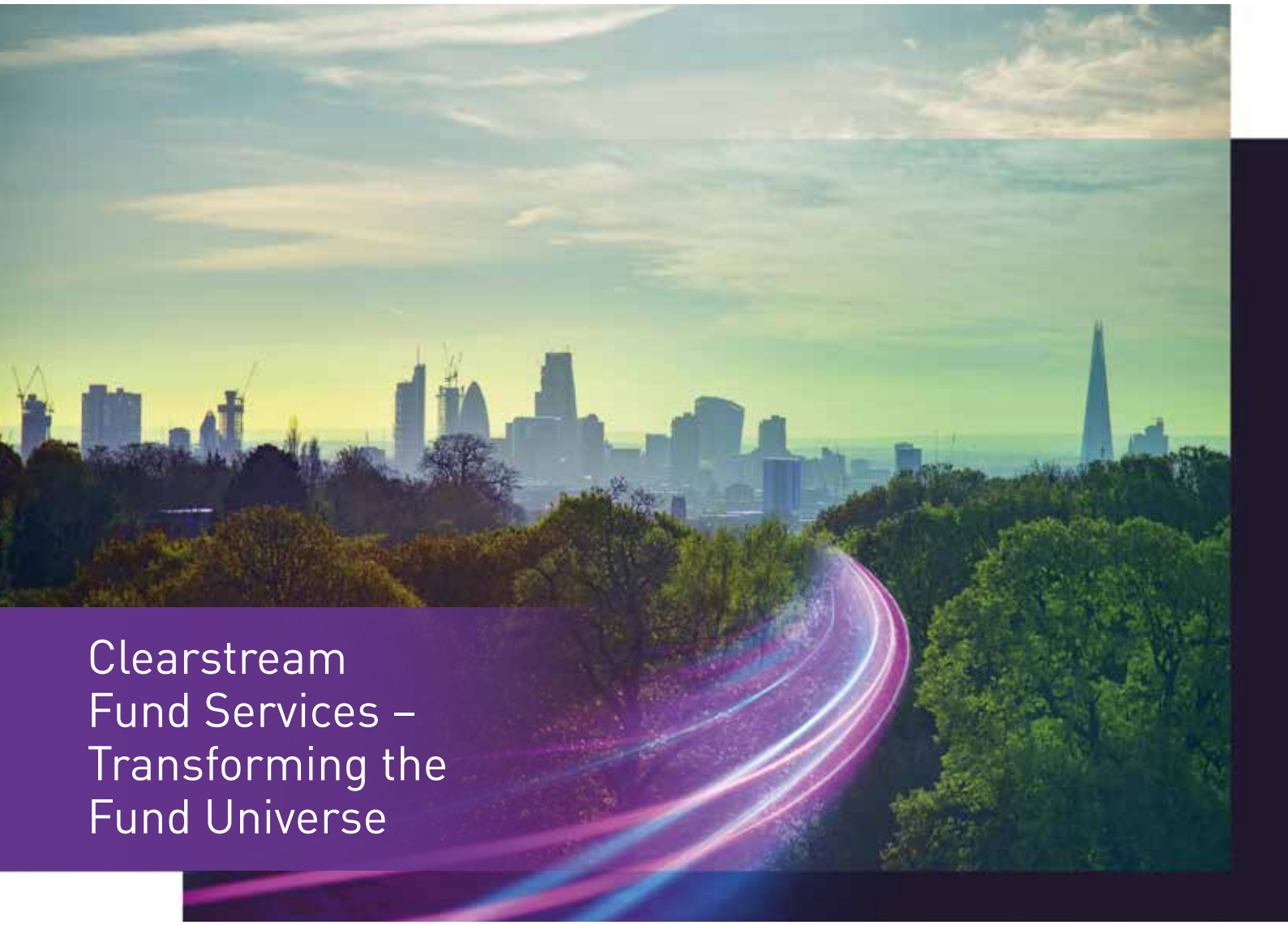

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ABBREVIATIONS

AIF	Alternative Investment Fund
AIFMD	Alternative Investment Fund Managers Directive
AMLD	Anti-Money Laundering Directive
ARIS	Absolute Return Innovative Strategies
AuM	Assets under Management
BIS	Bank for International Settlements
CBF	Cross-Border Fund
CCPs	Central Counterparties
CMU	Capital Markets Union
CSDR	Central Securities Depositories Regulation
CSRD	Corporate Sustainability Reporting Directivel
CNAV	Constant Net Asset Value
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EFC	European Fund Classification
EIOPA	European Insurance and Occupational Pensions Authority
ELTIF	European Long-term Investment Funds
EMIR	European Market Infrastructure Regulation
EMT	European MiFID Template
ESAs	European Supervisory Authorities
ESG	Environmental, Social, and Governance
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ETF	Exchange-traded Fund
EU	European Union
DLT	Distributed Ledger Technology
DORA	Digital Operational Resilience Act
FTT	Financial Transaction Tax
GDP	Gross Domestic Product
IBOR	Interbank Offered Rate
ICI	Investment Company Institute
ICPF	Insurance Corporations and Pension Funds
IIFA	International Investment Funds Association
IMF	International Monetary Fund
IMMFA	Institutional Money Market Funds Association
IOSCO	International Organisation of Securities Commissions
KID	Key Information Document
LVNAV	Low Volatility Net Asset Value
MiFID	Markets in Financial Instruments Directive
MIFIR	Markets in Financial Instruments Regulation
MMF	Money Market Fund
MMFR	Money Market Fund Regulation
NAV	Net Asset Value
NCA	National Competent Authority
NFRD	Non-Financial Reporting Directive
OECD	Organisation for Economic Co-operation and Development
OFI	Other Financial Intermediaries
OTC	Over-the-counter
PAI	Principal Adverse Impacts
PDCNAV	Public Debt Constant Asset Value
PEPP	Personal European Pension Product
PRIIPs	Packaged Retail Investment and Insurance-based Products
QIF	Qualifying Investor Funds

SFDR	Sustainable Financial Disclosure Regulation
SME	Small and medium-sized enterprises
VAT	Value-added Tax
VNAV	Variable Net Asset Value
UCITS	Undertakings for Collective Investment in Transferable Securities Directive

CHAPTER 1: KEY FINDINGS AND FIGURES

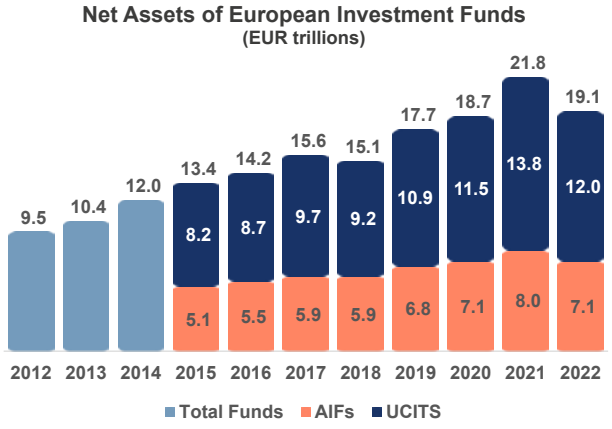
THE EUROPEAN INVESTMENT FUND INDUSTRY AT A GLANCE

Net assets
at end 2022

EUR 19.1 trillion

UCITS
EUR 12 trillion

AIFs
EUR 7.1 trillion

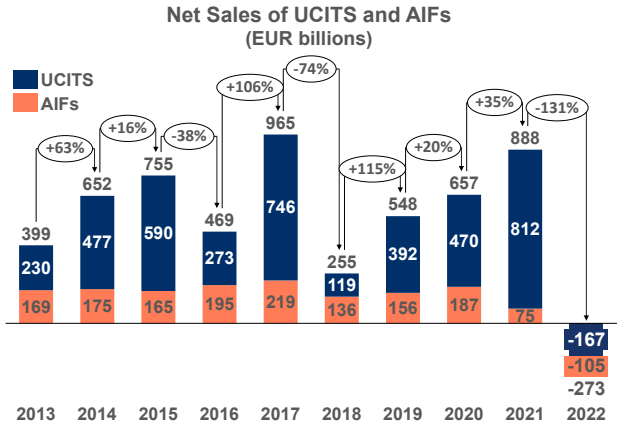


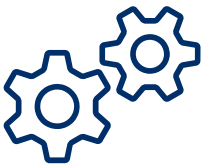
Net outflows
in 2022

EUR 273 billion

UCITS
EUR 167 billion

AIFs
EUR 105 billion



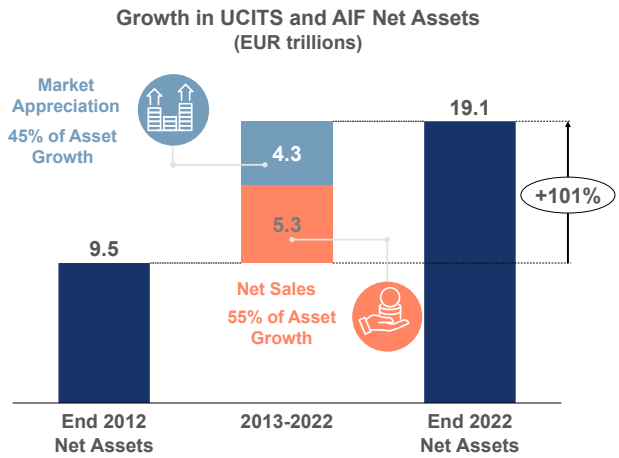


Net asset increase
since end 2012

EUR 9.6 trillion

Net sales
EUR 5.3 trillion

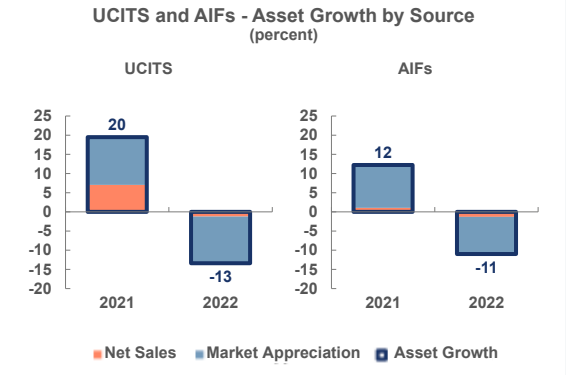
Market appreciation
EUR 4.3 trillion



WHAT HAPPENED IN THE UCITS AND AIF MARKETS IN 2022?

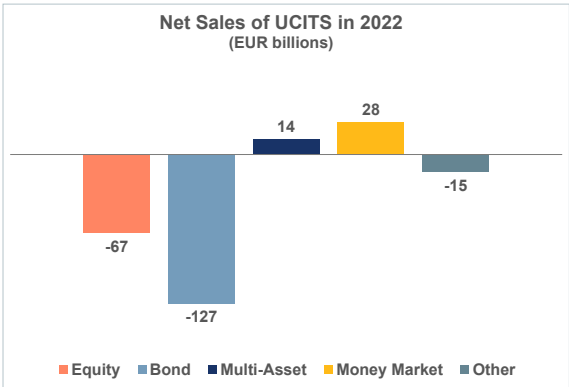
Net sales of UCITS and AIFs have turned negative, but the decline in net assets was mostly due to the fall in stock and bond prices.

The year 2022 was difficult for UCITS and AIFs, which recorded significant net outflows of EUR 167 billion and EUR 105 billion, respectively. Net UCITS assets declined by 13.4%; net outflows represented 1.2% of UCITS net assets at end 2021 and the remaining 12.2% were due to the market decline. Net AIF assets declined by 11% in 2022, with net outflows accounting for 1.3% of this.



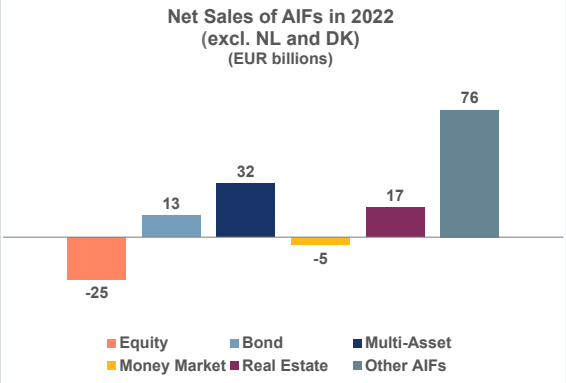
The UCITS market was marked by substantial net outflows, from equity and particularly bond funds.

The net outflows from equity UCITS reflected the poor performance of stock markets over much of 2022. Bond UCITS registered their worst results in 10 years, primarily due to a sharp rise in interest rates that negatively impacted the valuation of outstanding debt securities and the attractiveness of bond funds.



Net AIF sales were impacted by Dutch pension funds moving away from AIFs.

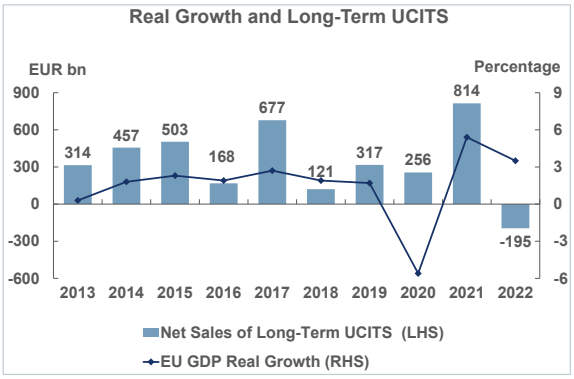
Net outflows from AIFs reached EUR 105 billion in 2022. This was mainly due to the decision of several pension funds in the Netherlands to manage their assets in segregated mandates rather than in AIFs, because of the new IFR/IFD prudential rules. Excluding the Netherlands and Denmark - where there was also a trend away from AIFs - AIFs would have registered solid net inflows in 2022 (EUR 108 billion), in particular in other AIFs and multi-asset AIFs.



WHAT HAPPENED IN THE UCITS AND AIF MARKETS IN 2022?

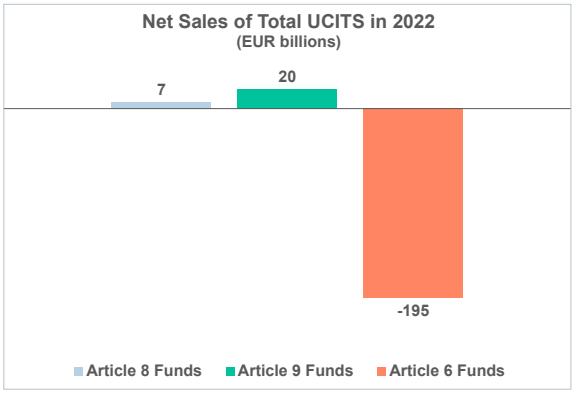
The war in Ukraine and rapidly rising interest rates led to weaker economic growth and net outflows from long-term UCITS in 2022.

This outcome confirms that the economic situation has a strong impact on investors' willingness to invest in capital markets and, in particular, in long-term UCITS. It can also be observed that the COVID-19 pandemic in 2020 led to a decline in GDP and a fall in the net sales of long-term UCITS during that year. At the same time, the strong rebound in economic growth in 2021 was accompanied by record net inflows into long-term funds.



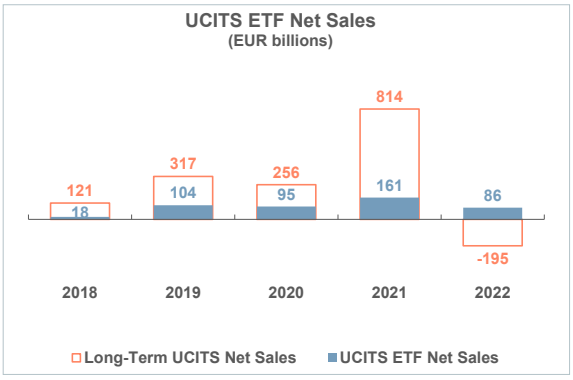
Demand for SFDR Article 9 funds was remarkably resilient.

Net sales of Article 9 funds amounted to EUR 20 billion in 2022, with positive net inflows in each month of the year. These solid net inflows were even more striking given that many SFDR Article 9 funds were reclassified as Article 8 in the second half of the year in order to comply with the SFDR Level 2 guidance provided by ESMA.



UCITS ETFs was another market segment where net sales remained positive.

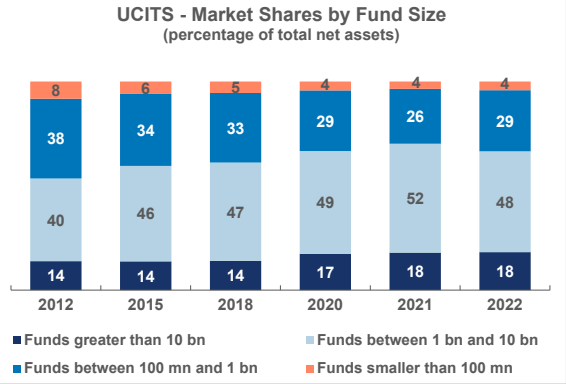
UCITS ETFs attracted EUR 86 billion in net new money in 2022, a stark contrast to the overall net outflows from long-term UCITS (EUR 195 billion). This suggests that the demand for ETFs is less impacted by the global economic and market environment. The fact that ETFs are typically low-cost funds that can be traded like stocks undoubtedly played a role in their continuing popularity.



WHAT ARE THE LONG-TERM TRENDS IN THE EUROPEAN FUND INDUSTRY?

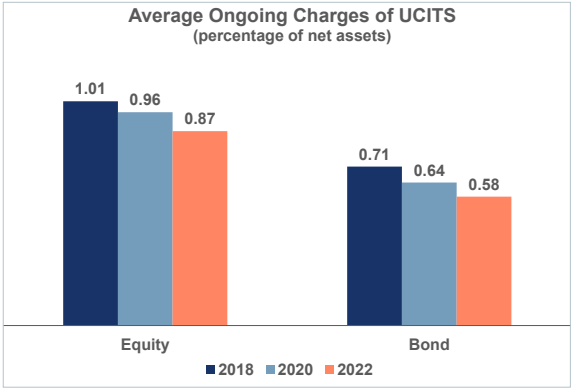
Large funds are becoming increasingly important in the UCITS market.

It is often noted that there are too many small funds in Europe, which cannot take advantage of economies of scale to better cover their fixed costs. Indeed, there were around 12,500 UCITS with less than EUR 100 million under management at end 2022. However, these small funds only amount to around 4% of the total net assets of UCITS in 2022, with a market share that is gradually falling. At the same time, the share of the funds with more than EUR 1 billion in net assets is steadily increasing.



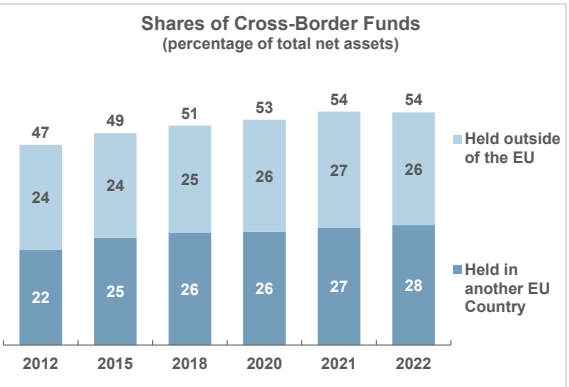
The average cost of UCITS continued to fall during the last five years.

Looking at the 2018-2022 period, the average cost of equity UCITS decreased from 1.01% to 0.87%, whereas the cost of bond UCITS declined from 0.71% to 0.58%. This trend is expected to continue in future, as increased transparency on fees and competition between fund managers in general and between active and passive funds in particular will remain in force.



The European fund industry is becoming more international, with growing importance for cross-border funds.

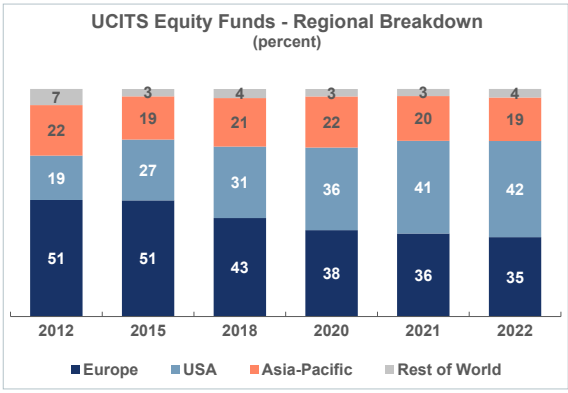
The share of cross-border funds domiciled in the European Union increased from 47% in 2012 to 54% in 2022. During this period, the share of funds held in another EU country rose from 22% to 28%, whereas funds held outside of Europe saw their share increase from 24% to 26%. These trends confirm the vitality of the single market for UCITS and their success outside the EU, in particular in Asia and South America.



HOW HAS THE ASSET ALLOCATION OF UCITS CHANGED IN THE LAST DECADE?

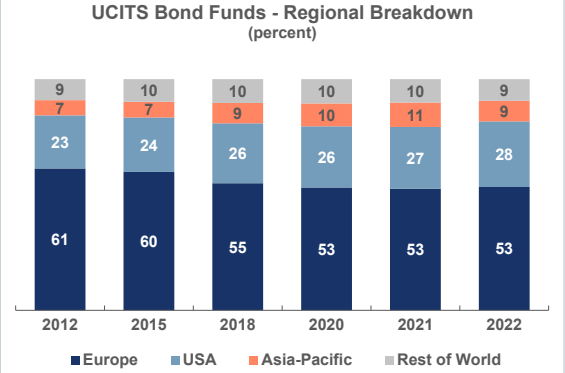
The share of European stocks in the asset allocation of UCITS equity funds has declined sharply since 2012.

This trend has coincided with a growing demand for US stocks, which can be explained by several factors that have made US stocks an attractive investment option for both domestic and international investors, notably the strength of the US economy and the fact that the US is home to many successful companies, particularly in the technology sector. The share of Asian stocks dropped markedly in 2021 and 2022, mainly due to a fall in stock markets in China.



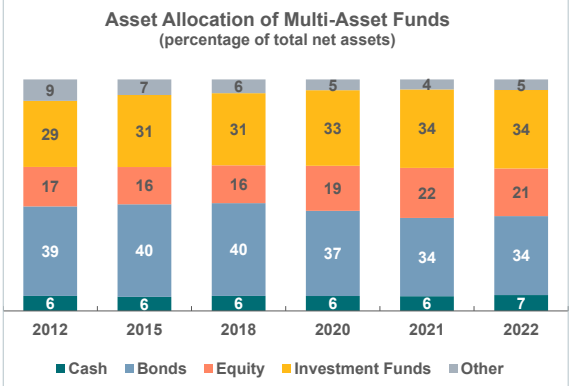
European-issued bonds accounted for slightly over half of total debt holdings of bond UCITS at end 2022.

Some 53% of the bonds held by UCITS bond funds at end 2022 were issued in Europe, compared to 61% in 2012. This decline, which halted in 2020, coincided with an increase in the share of bonds issued in the US and Asia-Pacific. This can be explained by the generally lower interest rates in Europe compared to the US and many Asian countries, making European bonds less attractive to investors seeking higher yields.



Multi-asset funds gradually increased their investments in other funds.

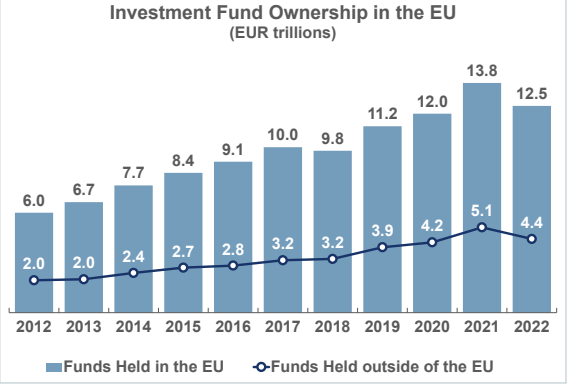
The share of directly held bonds in the asset allocation of multi-asset UCITS has fallen since 2012, while that of directly held equity has increased, as has the share of other funds held in multi-asset funds. This indicates that the managers of multi-asset funds are increasingly relying on the expertise of other fund managers.



WHO INVESTS IN EUROPEAN FUNDS?

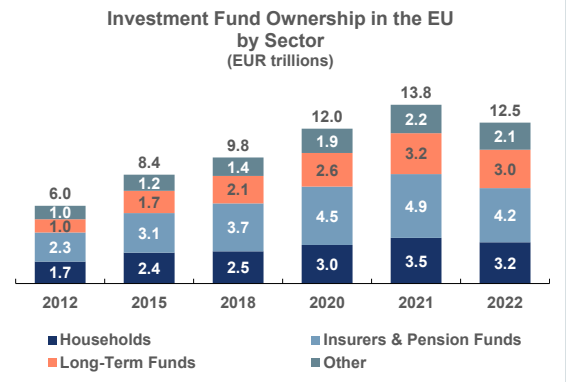
UCITS and AIFs held by investors both within and outside the EU gradually increased until 2021, before dropping in 2022.

Net assets of UCITS and AIFs owned by EU investors amounted to EUR 12.5 trillion at end 2022, compared to EUR 6 trillion in 2012. Over the same period, the net assets of European funds owned by non-European investors also rose strongly, from EUR 2 trillion in 2012 to EUR 4.4 trillion in 2022, thus confirming the popularity of UCITS as a global brand.



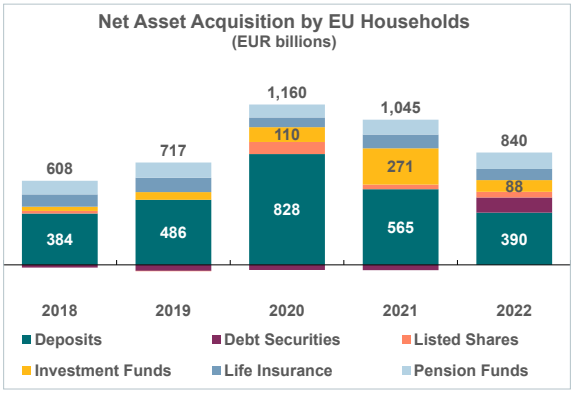
Insurers and pension funds are the largest fund investors in the EU.

At end of 2022, insurers and pension funds held approximately EUR 4.2 trillion of UCITS and AIF net assets. Households were the second-largest investors, with fund holdings of EUR 3.2 trillion, compared to EUR 1.7 trillion in 2012. Long-term investment funds were the third main type of investor, holding EUR 3 trillion of funds at end 2022.



EU retail investors have steadily purchased investment funds in recent years.

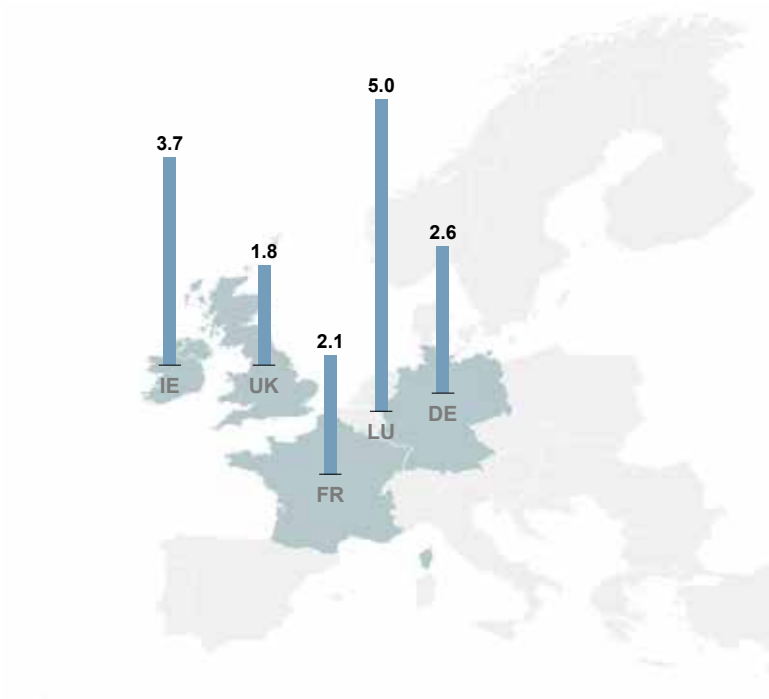
Households in the EU acquired a net EUR 88 billion in investment funds in 2022, despite the drop in stock and bond prices. They also continued to contribute to pension savings products and life insurance, and even kept investing directly in stocks and debt securities. At the same time, the increase in bank deposits slowed considerably compared to previous years, mostly due to the sharp fall in the gross saving rate of EU households, from 18.7% in 2020 to 17.1% in 2021 and 13.3% in 2022.



WHERE ARE EUROPEAN FUNDS DOMICILED?

Top country shares in UCITS and AIFs Net Assets at End 2022

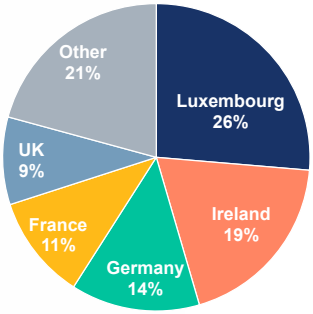
(EUR trillions, percent)



The top five countries accounted for

79%

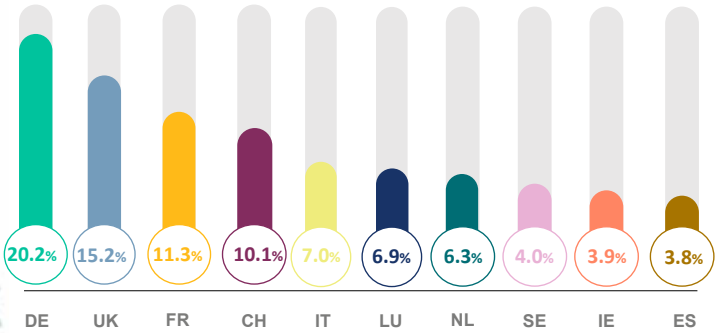
of total net fund assets in 2022



WHO IS HOLDING FUNDS IN EUROPE?

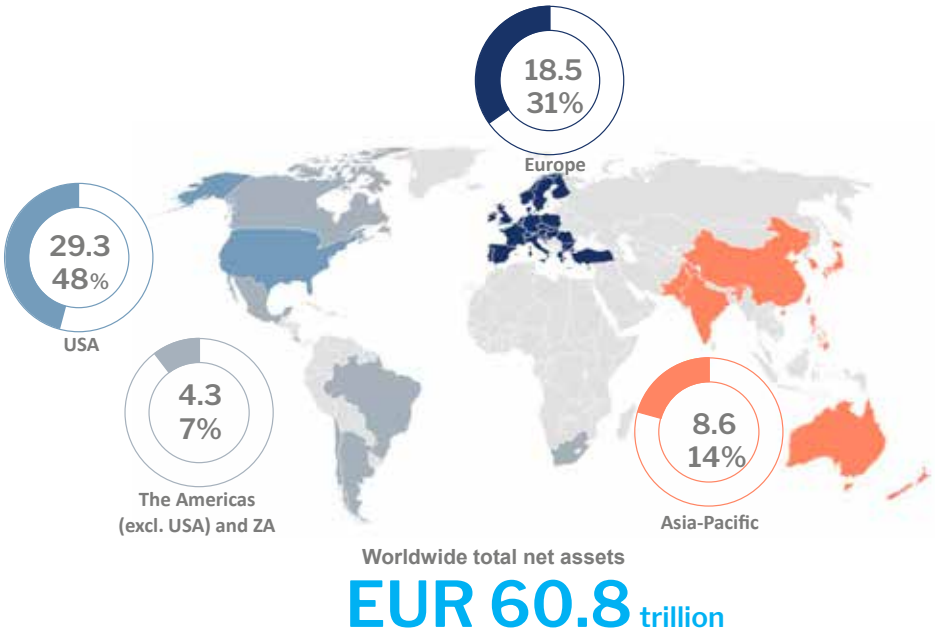
Top Country Shares of Fund Ownership at End 2022

01 Germany
02 UK
03 France
04 Switzerland
05 Italy
06 Luxembourg
07 Netherlands
08 Sweden
09 Ireland
10 Spain



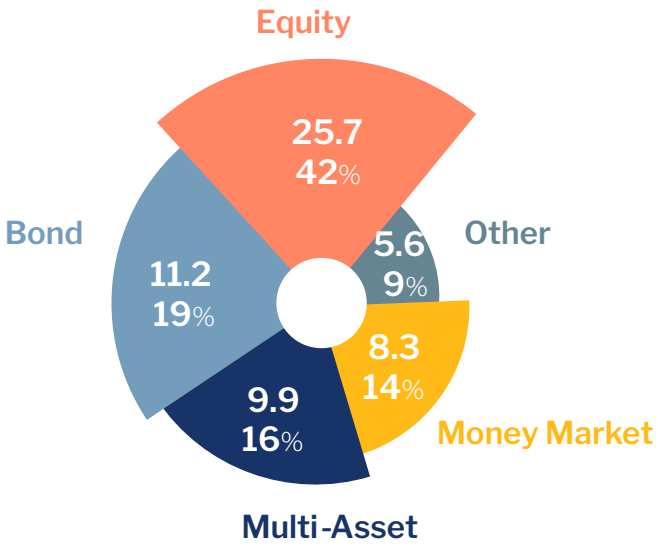
WORLDWIDE INVESTMENT FUNDS

Net Assets of Investment Funds at end 2022
(EUR trillions, percent)

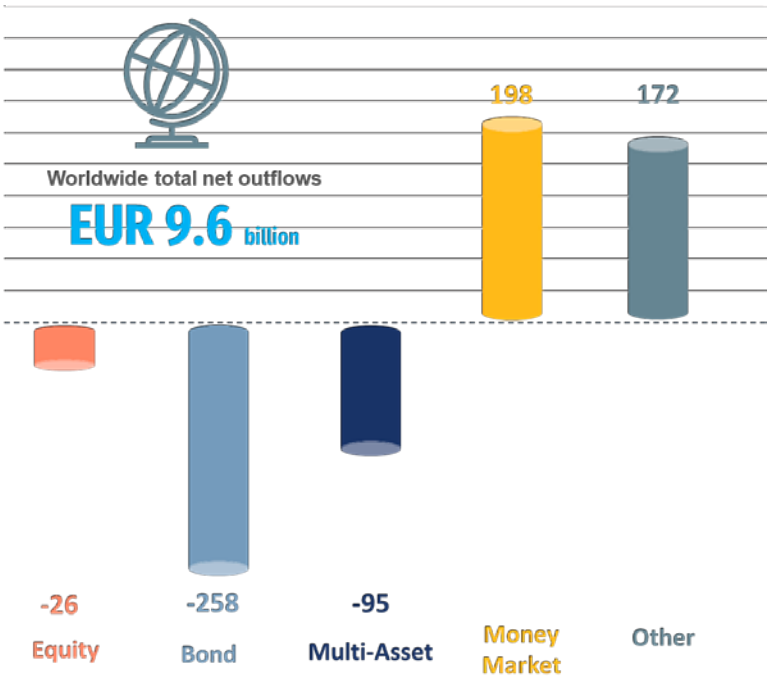


Net Sales of Investment Funds in 2022
(EUR billions)

Net Assets by Fund Type
(EUR trillions, percent)



Net Sales by Fund Type
(EUR billions)

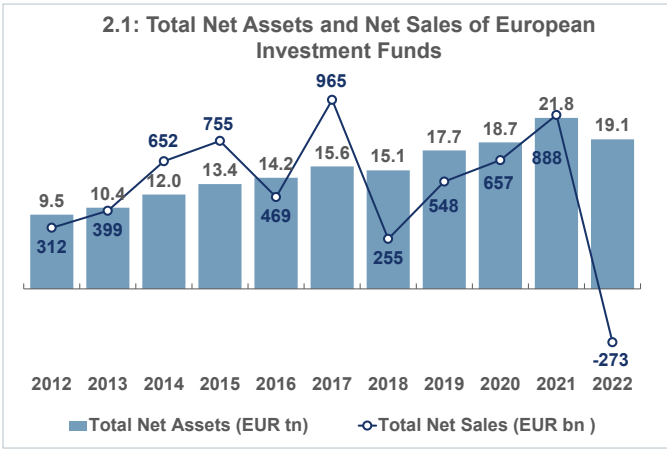


CHAPTER 2: INVESTMENT FUNDS IN EUROPE BY FUND DOMICILE

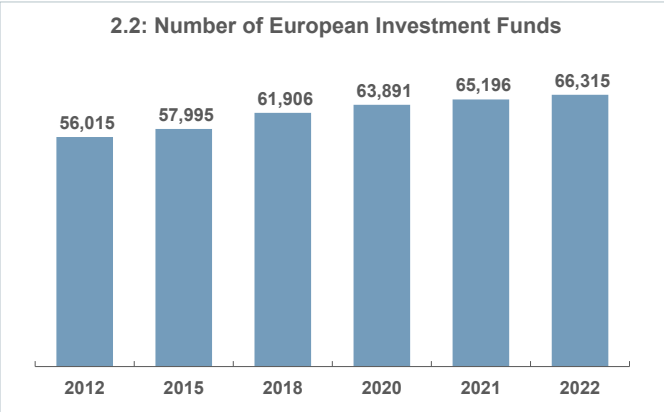
2.1 OVERVIEW

This chapter offers an overview of the evolution of the European investment fund industry.[i] It examines the trends in net asset growth and net sales of funds - both UCITS and AIFs - domiciled in Europe and in individual European countries.

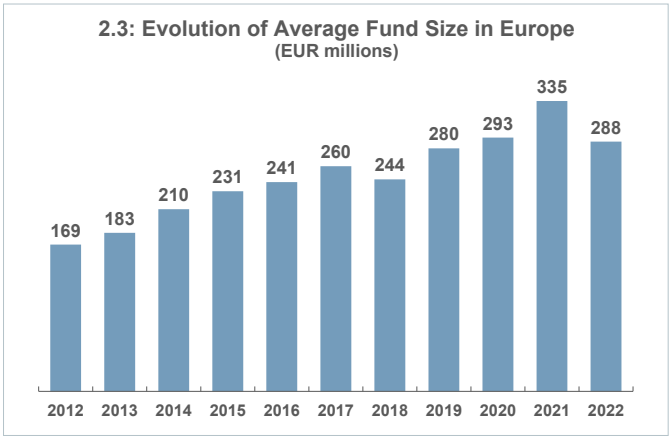
Net assets and net sales of funds. 2022 was a difficult year for the European fund industry. Net assets ended the year 12.5% lower than at end 2021 at EUR 19.1 trillion. Net sales turned negative (EUR 273 billion), a stark reversal from the record-breaking net sales of 2021.



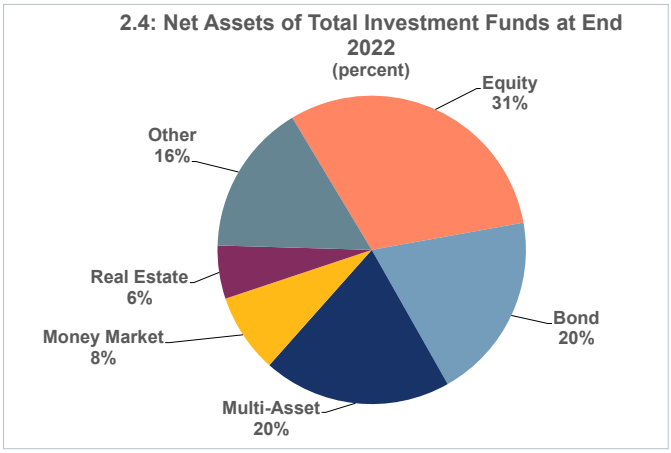
Number of investment funds. The number of European-domiciled funds continued to increase, with a net addition of 1,119 new funds over the year 2022. Since end 2012, the number of funds increased by 18.4%.



Average fund size. Despite the growth in number of funds, the average size of a European investment fund has steadily increased over the last decade, as net sales and market appreciation outpaced the creation of new funds. Since 2012, the average fund size has almost doubled, from EUR 169 million to EUR 335 million in 2021, only to fall to EUR 288 million in 2022.



Breakdown by type of fund. Investment funds are classified by the nature of their main investments. At end 2022, equity funds represented 31% of total European fund net assets, followed by bond funds (20%), multi-asset funds (20%), other funds (16%), money market funds (8%) and real estate funds (6%).



Country shares in 2022 and 2012. The following table shows the size of the investment fund industry in both 2022 and 2012. It compares the evolution of market share for each fund domicile. The same five countries (Luxembourg, Ireland, Germany, France and the UK) continue to hold the largest market shares in Europe. Combined, the net assets of these five countries amounted to 79% of European investment fund assets in 2022, roughly the same as their 2012 combined share..

2.5: Net Assets of Nationally Domiciled UCITS and AIFs [1] (EUR billions. %)

Members	Total Assets	Market Share	Total Assets	Market Share	Members	Total Assets	Market Share	Total Assets	Market Share
	2022		2012			2022		2012	
Europe	**19,090.3**	**100%**	**9,480.7**	**100%**	**Finland**	137.7	1%	66.3	1%
Luxembourg	5,028.5	26%	2,383.8	25%	**Liechtenstein**	70.1	0.4%	31.3	0.3%
Ireland	3,652.6	19%	1,227.4	13%	**Poland**	56.9	0.3%	35.3	0.4%
Germany	2,591.0	14%	1,285.8	14%	**Turkey**	48.2	0.3%	23.2	0.2%
France	2,096.4	11%	1,508.9	16%	**Portugal**	29.4	0.2%	23.7	0.2%
United Kingdom	1,758.4	9%	979.5	10%	**Hungary**	23.2	0.1%	10.0	0.1%
Netherlands [2]	773.0	4%	573.1	6%	**Czech Republic**	21.3	0.1%	7.0	0.1%
Switzerland	756.6	4%	302.6	3%	**Malta**	19.8	0.1%	9.7	0.1%
Sweden	495.2	3%	172.5	2%	**Greece**	13.2	0.1%	6.7	0.1%
Italy	340.6	2%	198.2	2%	**Slovakia**	8.8	0.05%	3.8	0.04%
Spain	322.7	2%	150.4	2%	**Romania**	8.4	0.04%	3.4	0.04%
Denmark	282.4	1%	164.4	2%	**Cyprus**	7.4	0.04%	-	-
Austria	198.7	1%	147.8	2%	**Slovenia**	4.4	0.02%	1.8	0.02%
Belgium	183.4	1%	87.6	1%	**Croatia**	2.8	0.01%	-	-
Norway	157.9	1%	76.0	1%	**Bulgaria**	1.3	0.007%	0.2	0.003%

(1) UCITS and AIF combined for 2022. UCITS and Non-UCITS combined for 2012.

(2) 2012 Data for the Netherlands is estimated on the basis of ECB data.

UCITS and AIFs. EFAMA classifies European investment funds by the EU Directive that regulates their activities, i.e. the UCITS or AIFM Directive.

The UCITS Directive ('Undertakings for Collective Investments in Transferable Securities') refers to the EU Directive that established a 'single licence' regime for collective investment schemes exclusively dedicated to assets raised from investors. UCITS benefit from a 'passport' that allows them - subject to notification - to be offered to investors in any jurisdiction of the European Economic Area once registered in an EU Member State.

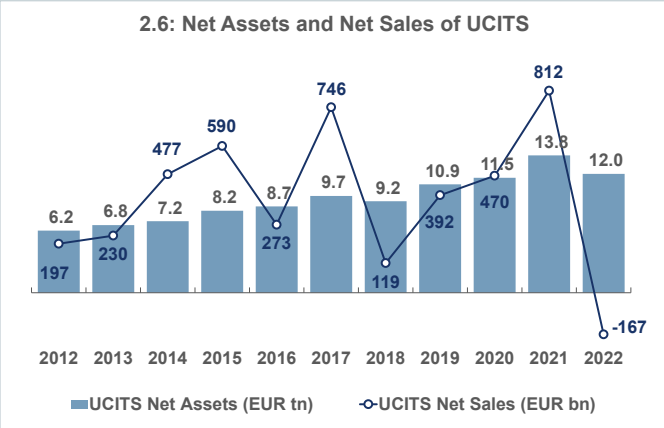
The AIFM Directive ('Alternative Investment Fund Managers') created a framework for all investment funds regulated in accordance with specific national requirements without fulfilling the UCITS Directive. The AIFMD also established a 'UCITS-like' regime, with authorisation and ongoing supervision as well as a passport for distributing AIFs to professional investors across Europe.[ii]

UCITS and AIF market shares. UCITS funds accounted for 63% of the total fund market at end 2022, down from 70% 10 years ago. Two reasons explain the increasing relative share of AIFs. First, AIF assets often record higher growth rates than UCITS, particularly during periods of market turmoil, such as 2018 or 2022. Second, there was a change in EFAMA classification in 2014 when the AIFMD came into force, resulting in a reassignment of about EUR 800 billion of net assets from UCITS to AIFs.

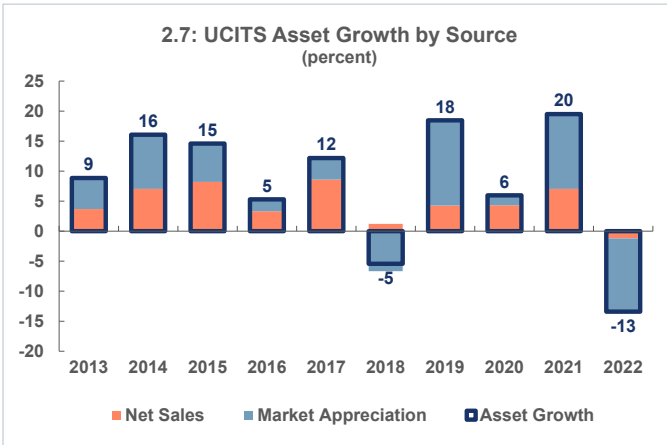
2.2 THE UCITS MARKET

2.2.1 Overview[iii]

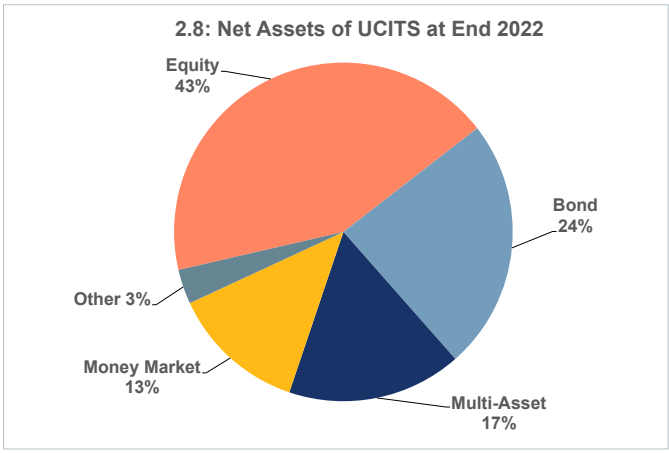
Net assets and net sales of UCITS. Trends in the net assets and net sales of UCITS generally reflected the evolution of the stock and bond markets. Strong performances of global capital markets tend to result in years with high net fund sales and strong net asset growth, as was the case in 2017 and 2021. In 2022 - a difficult year - both bond and stock markets fell, resulting in net outflows of EUR 167 billion, a stark contrast with the record-breaking net inflows of EUR 812 in 2021.



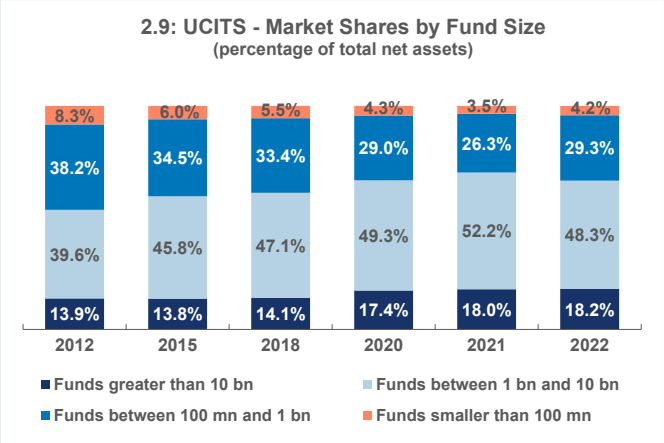
Breakdown of net asset growth. Breaking down the yearly net asset growth allows for differentiation between the effect of net sales and market appreciation. Net asset of UCITS declined significantly (13%) in 2022, the first decrease since 2018. This was an unusual year, one in which the valuations of both debt securities and listed equity dropped. Market depreciation caused the bulk of the 2022 net asset drop.



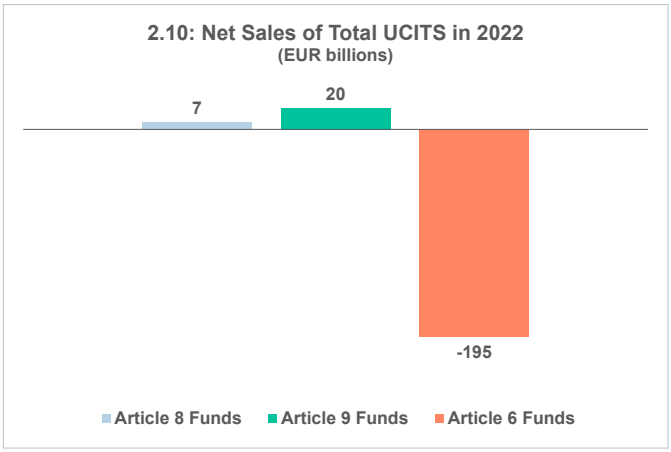
Breakdown by type of UCITS. Equity funds accounted for the largest (43%) share of UCITS assets at end 2022. Bond funds were next with a market share of 24%. Multi-asset funds (17%) and money-market funds (13%) were third and fourth, respectively. The remaining 3% of assets were other UCITS.



Breakdown by fund size. The UCITS market, measured in terms of net assets, can also be broken down by the size of individual funds.[iv] The European fund industry is often criticised for having too many funds of too small a size, which tend to charge higher costs to investors due to a lack of economies of scale. According to Morningstar data, more than 12,500 UCITS were smaller than EUR 100 million at end 2022, whereas only 11,200 funds are larger. However, if we look at what proportion these smaller funds represent in the total net assets of UCITS, we see that funds smaller than EUR 100 million only represented about 4.2% of the total in 2022. Moreover, the market share of funds smaller than EUR 100 million has steadily declined over the past decade, from 8.3% in 2012 to 4.2% in 2022. At the same time, funds larger than EUR 1 billion and funds larger than EUR 10 billion saw their market shares increase significantly, indicating that investors are shifting more and more into those larger funds.



Source: Morningstar

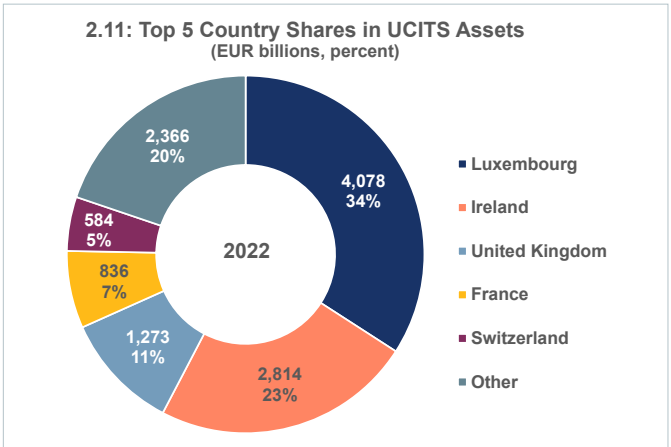


Source: Morningstar

SFDR Article 8 and 9 funds. Sustainable UCITS are becoming increasingly important. Using data on Sustainable Finance Disclosure Regulation (SFDR) Article 6, 8 and 9 funds, we can measure the size of the market. The SFDR was introduced in March 2021 and established a set of sustainability-related disclosure obligations for financial market participants, including financial advisers. Among other obligations, the SFDR requires asset managers to make specific sustainability-related disclosures for all funds, according to Articles 6, 8 and 9. Although it was not the regulators' intention for these Articles to be treated as product labels, in practice these split the UCITS universe into three categories. Each category is named after the relevant Article in SFDR: Article 8 are funds with sustainability characteristics, Article 9 are those that have explicit sustainability objectives and Article 6 funds have neither sustainability characteristics nor explicit sustainability objectives.

SFDR Article 8 and 9 funds - Net sales in 2022. Breaking down the 2022 net sales by SFDR Articles shows the remarkable resilience of Article 9 funds during a year of overall net UCITS outflows. Net sales of Article 9 funds reached EUR 20 billion in 2022, with positive net inflows each month of the year. These solid net inflows are even more striking considering that many SFDR Article 9 funds were reclassified to Article 8 in the second half of the year, in order to comply with the SFDR Level 2 guidance provided by ESMA. SFDR Article 8 funds also registered net inflows over the year (EUR 7 billion), but this was solely due to strong net inflows in Article 8 MMFs during October 2022 (see section 2.2.6). Article 6 funds accounted for all the 2022 net outflows.

The top five domiciles for UCITS. Luxembourg (34%) was the largest domicile at end 2022, followed by Ireland (23%), the UK (11%), France (7%) and Switzerland (5%). Combined, these countries accounted for 80% of total UCITS net assets in 2022.



Net asset of UCITS by domicile. The following table shows the net assets and growth rate of UCITS per domicile at end 2022, as well as the market shares of each country of domiciliation.[v] Given the overall decline in bond and equity markets during 2022, 25 of the 29 European domiciles registered a decrease in net assets, with the majority of declines falling between 10% and 20%. The main outlier was Turkey, which registered a 90% net asset growth in 2022. This was mainly a consequence of Turkish investors flocking into domestic equities and funds, in an attempt to escape chronically high inflation and a steep decline in the exchange rate.[vi] The Borsa Istanbul 100 equities index returned almost 200%, in Turkish Lira terms - during 2022. The Netherlands also registered around 48% net asset growth; a result of several large AIFs being replaced by UCITS.

Net sales of UCITS by domicile. In contrast to the net asset declines across the board in 2022, net sales were more mixed, with 15 domiciles recording net inflows and 14 net outflows.

Luxembourg registered the bulk of net outflows in 2022 (EUR 219 billion), followed by France (EUR 36 billion) and the UK (EUR 34 billion). At the same time, sizeable net inflows were recorded in Switzerland (EUR 52 billion), Ireland (EUR 40 billion) and Spain (EUR 16 billion).

2.12: Net Assets and Net Sales of UCITS by Country [1]

Country	Net Assets of Nationally Domiciled UCITS at End 2022			Net Sales of Nationally Domiciled UCITS	
	EUR bn	Market Share	Growth Rate	in 2022, EUR bn	Accumulated 2018 - 2022
Austria	90.8	0.8%	-14.4%	0.2	13.2
Belgium	181.3	1.5%	-13.0%	4.2	21.5
Bulgaria	1.2	0.01%	-5.4%	0.004	0.4
Croatia	2.2	0.02%	-24.4%	-0.5	-0.3
Cyprus	0.5	0.004%	-5.9%	-0.02	0.2
Czech Republic	18.8	0.2%	16.1%	2.9	6.6
Denmark	157.4	1.3%	-15.6%	-1.1	32.3
Finland	118.2	1.0%	-15.3%	-4.3	4.6
France	836.2	7.0%	-12.3%	-35.6	-8.8
Germany	452.0	3.8%	-14.3%	-3.8	43.4
Greece	8.2	0.1%	0.7%	0.6	2.6
Hungary	1.3	0.01%	-19.1%	-0.2	-0.41
Ireland	2,814.1	23.5%	-9.1%	39.5	792.4
Italy	228.3	1.9%	-11.7%	0.5	-12.4
Liechtenstein	31.7	0.3%	-3.8%	2.7	2.5
Luxembourg	4,077.7	34.1%	-17.2%	-218.7	435.6
Malta	2.8	0.02%	-18.3%	-0.2	0.3
Netherlands	70.9	0.6%	48.4%	-0.1	-6.0
Norway	157.9	1.3%	-12.8%	0.4	27.2
Poland	20.5	0.2%	-25.0%	-4.1	-2.4
Portugal	16.3	0.1%	-13.7%	-0.4	6.1
Romania	3.0	0.03%	-33.7%	-1.3	-1.9
Slovakia	6.0	0.05%	-10.9%	0.1	1.2
Slovenia	3.9	0.03%	-9.0%	0.2	0.9
Spain	288.7	2.4%	-5.0%	15.6	62.9
Sweden	470.2	3.9%	-18.9%	4.7	52.2
Switzerland	584.4	4.9%	-3.2%	51.6	152.3
Türkiye	34.2	0.3%	89.8%	13.4	22.9
United Kingdom	1,272.8	10.7%	-17.3%	-33.8	-22.4
Europe	**11,951.3**	**100.0%**	**-13.4%**	**-167.5**	**1,626.5**

(1) Funds domiciled in Switzerland, Turkey and the United Kingdom that fulfill the UCITS criteria are classified as UCITS.

Box 1
Are there systemic risks in the European investment fund sector?

Author: *Marin Capelle*

Following the Global Financial Crisis in 2008, and the completion of the Basel III package, in 2011 the Financial Stability Board (FSB) began to investigate the 'shadow banking system' – broadly defined as "credit intermediation involving entities and activities outside the regular banking system". The concern was that this system has been, and could again become, a source of systemic risks.

Despite some positive developments over the years – prominent among which was the move away from the misleading term 'shadow banking' for the more neutral, but still inaccurate term, of 'Non-Bank Financial Intermediation' (NBFI) – the FSB has, every year since 2011, published a Global Monitoring Report stressing year after year the necessity to monitor developments in the 'NBFI sector' in more depth. While these reports provide an overview of developments among a heterogenous group of financial intermediaries (including insurance companies, pension funds, investment funds, broker-dealers, CCPs and financing companies), the FSB has developed, over the course of the years, a narrow NBFI measure, which only includes entities engaging in "economic activities that may give rise to systemic risks". Investment funds represent the overwhelming majority of this measure, as the FSB aggregated most Open-End Funds (OEFs) on the ground that they are involved in credit intermediation and have features that make them subject to bank-like runs. So, is the investment fund sector systematically relevant?

Before seeking to address this question, a more thorough understanding of the investment fund sector is necessary. By chance, the EFAMA Fact Book provides a wealth of insights into the European investment fund industry. This is a highly diverse sector. Investment funds can follow many different investment strategies (Charts 2.4 and 2.93) and service multiple investor categories (Chart 3.14 and table 3.16). Despite this heterogeneity, 'vanilla' investment products such as equity and bond UCITS(-like) funds account for the overwhelming majority of investment funds (Chart 2.4). By contrast, hedge funds or real estate funds only represent a small share of the broader investment fund sector (Charts 2.74 and 2.93). In addition, this sector naturally grows faster than other financial sectors because, overall, investment funds have exposure to higher-yielding assets (compare, for example, Chart 2.4 with the charts in section 3.4). This is unsurprising, given that many market participants – including Insurance Companies and Pension Funds (ICPFs) – use investment management services to gain exposure to markets where they have less expertise. In the last decade, the loose monetary conditions have further contributed to the growth of the sector, as these have led ICPFs and other financial institutions to increase their exposure to investment funds (see section 3.4).

Market-based finance – like any other form of financial intermediation – can contribute to the build-up of systemic risks through three interconnected channels: excessive risk-taking, leverage and liquidity transformation. When reviewing these channels for the European investment fund sector, it becomes clear that investment funds, as a sector, are not systematically relevant. On the first channel, it is undeniable that investment funds are currently exposed to riskier assets than was the case a decade ago. This increase in risk-taking was, however, driven by the aforementioned loose monetary conditions that forced end investors to adjust their risk-return preferences. For example, in bond funds, the aggregate share of assets with ratings of BBB or below rose from 39% in 2011 to 59% by the end of 2016. This increase was compensated by a decrease in the aggregate share of assets with AAA ratings, which fell from 28% to 14% over the same period. It is nonetheless noteworthy to mention that credit risk in bond funds has remained stable since this initial shift. In the second channel, investment funds use significantly less leverage than banks. While the leverage ratio in the traditional banking sector is usually between 10-30 times the size of bank equity, by the end of 2021, the leverage ratio in the investment sector was only 1.08 times that of the amount of equity. The majority of investment funds do not use leverage at all. Those that do tend to be larger funds that either follow short or arbitrage strategies or invest in assets that require hedging such as, for example, fixed-income securities.

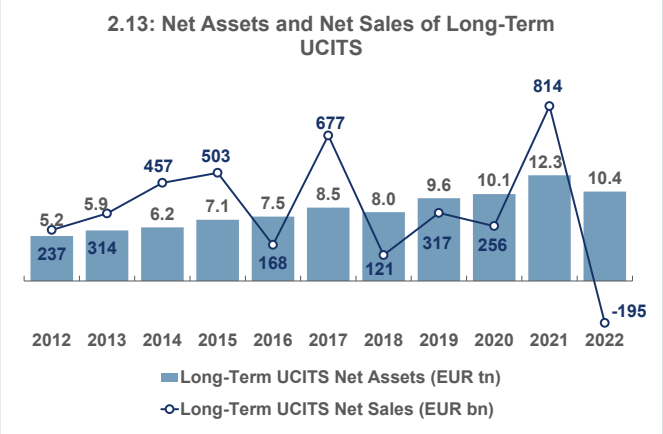
On the third channel, liquidity transformation is a desirable characteristic of the sector. Funds investing in transferable securities often offer the possibility of daily redemption to reflect the daily trading of underlying assets. This liquidity transformation is, however, made possible by the fact that clients are long-term investors and that investment funds have access to a large array of Liquidity Management Tools (LMTs). These allow these funds to deal with unforeseen redemptions (anti-dilution tools, gates and suspension, among others).

Although the European investment fund sector as a whole is not systematically relevant, the fact that it is a diverse industry does not allow the exclusion of the possibility that a subset of investment funds could have the potential to destabilise the financial system. Therefore it is crucial that the UCITS/AIFMD framework continues to evolve to assist supervisors in identifying those investment funds that could contribute to the build-up of systemic risks. In Europe, steps towards this goal have been taken through ESMA's adoption, in 2020, of the guidelines on liquidity stress testing in UCITS and AIFs and the guidelines on Article 25 AIFMD. In the eventuality that supervisors do indeed find pockets of risks, they have all the powers required to address any build-up of risks. They can deny the authorisation of funds that contribute to the problem (Art. 19(3) UCITS), impose leverage limits to these funds (Art. 25 AIFMD) and – in more extreme cases – require the suspension of the issue of shares in the public interest (Art. 46 AIFMD / 98 UCITS).

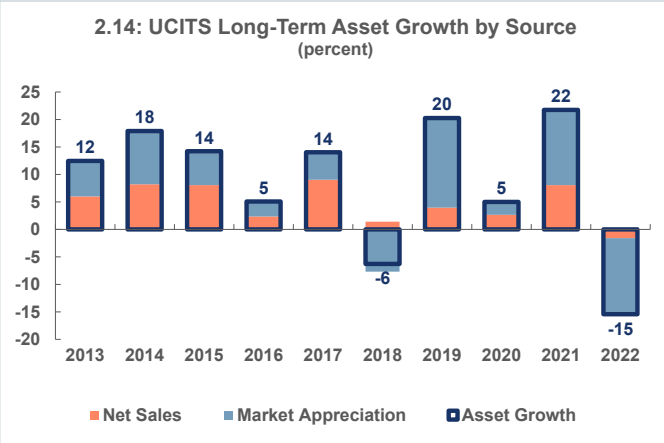
As a concluding thought, one may question the usefulness of the NBFI methodology in identifying sources of systemic risks. Given that investment funds represent the largest sector within the NBFI's narrow measure, macroprudential supervisors have dedicated considerable time and energy to understanding how this sector may contribute to the build-up of systemic risks. Yet the parameters chosen for determining whether a financial intermediary is pursuing bank-like activities (such as credit intermediation, maturity transformation or liquidity transformation) are alarmingly simplistic. Simply because a financial intermediary provides credit does not mean that it is engaging in a bank-like activity. While banks can create scriptural money by expanding their balance sheets, market-based finance can only recycle savings and is therefore constrained in the amount of credit it can provide to the real economy. By the same token, it is not because a financial intermediary offers daily redemptions that one should equate these financial products with deposits susceptible to bank-like runs. Banks are subject to runs for two complementary reasons: deposits are a means of payment and banks can rapidly become insolvent. In contrast, funds are long-term investment vehicles for which the risk of default is close to zero. There have been concerns around the possibility of a 'first-mover advantage' in funds investing in less-liquid assets; at this stage, however, such concerns remain highly theoretical and without concrete empirical backing. The COVID-19 crisis, the Archegos debacle and other recent market developments have further demonstrated the limits of the narrow NBFI measure. Financial institutions that do not fall within this narrow measure – banks, ICPFs, broker-dealers and even central banks – have also found themselves in situations where they were forced to sell assets, a scenario that macroprudential supervisors understandably wish to avoid. Given that investment funds are only the third-largest financial sector after banks and other financial institutions (such as broker-dealers and wealth funds), conducting system-wide, rather than sector-specific, macroprudential analyses would be a more sensible method of identifying and addressing cross-sectoral vulnerabilities.

2.2.2 Long-term UCITS

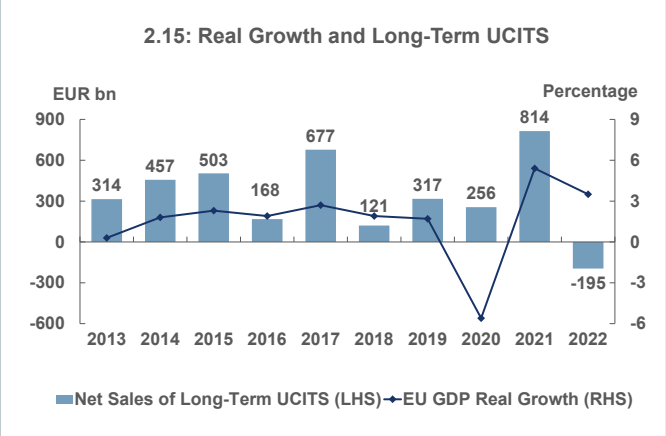
Net assets and net sales of long-term UCITS. Net assets of long-term UCITS, which exclude money market funds (MMFs), dropped to EUR 10.4 trillion in 2022, from EUR 12.3 trillion in 2021. Net sales were negative at EUR 195 billion, the first net outflows of the decade. Compared to the record high net inflows of 2021 (EUR 814 billion), net sales of long-term UCITS were pushed into negative territory by the war in Ukraine, rising inflation and the severe tightening of monetary policy.



Breakdown of net asset growth. Net assets of long-term UCITS fell in 2022, which was - together with 2018 - the only yearly decline of the decade. The bulk of the drop in net assets can be attributed to a market depreciation effect, with both the bond and equity markets declining. The negative net sales only accounted for 2% of the total net assets decrease of 15% in 2022.

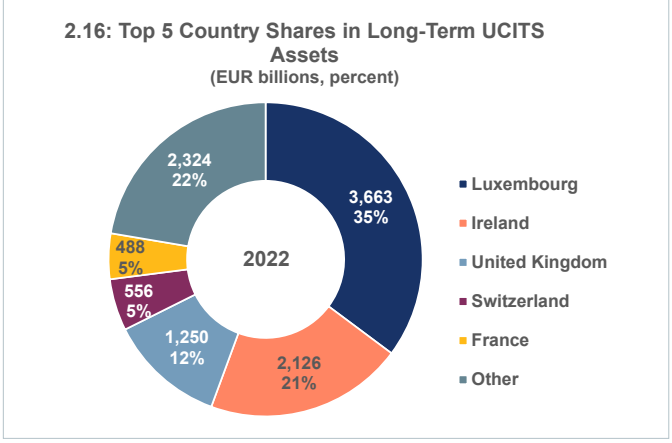


Net sales of long-term UCITS and real GDP growth. There appears to be a positive correlation between net sales of long-term UCITS in a specific year and GDP growth in that year. This reflects the notion that investors' views on the economic outlook impact their demand for long-term UCITS. Brexit, and Donald Trump's election, resulted in sudden investor caution in 2016. The COVID-19 pandemic in 2020 led to a fall in net sales. This was followed by a strong rebound in economic growth and record net sales in 2021, and a reversal of this pattern in 2022, due to the war in Ukraine and the rapid rises in interest rates.



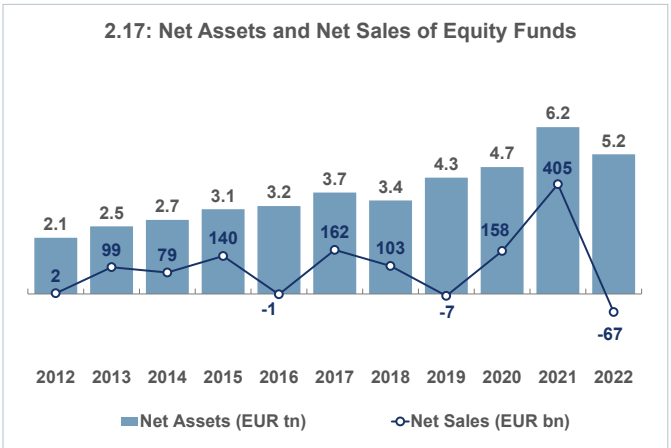
Source: Eurostat, IMF and EFAMA

Top five domiciles for long-term UCITS. Luxembourg is the largest domicile for long-term UCITS in Europe (35%), followed by Ireland (21%), the UK (12%), Switzerland (5%) and France (5%). Other European countries accounted for around 22% of the market.

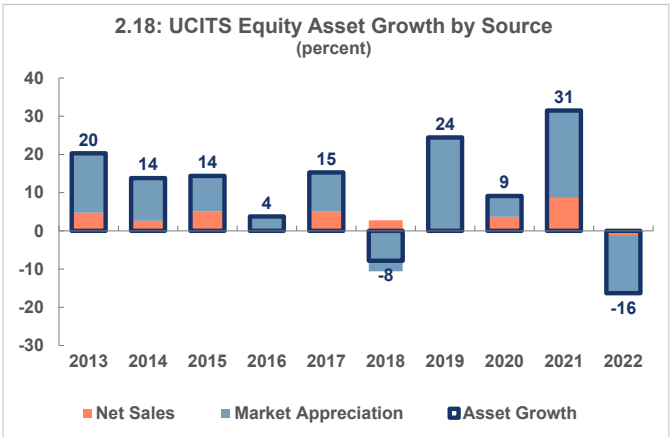


2.2.3 Equity UCITS

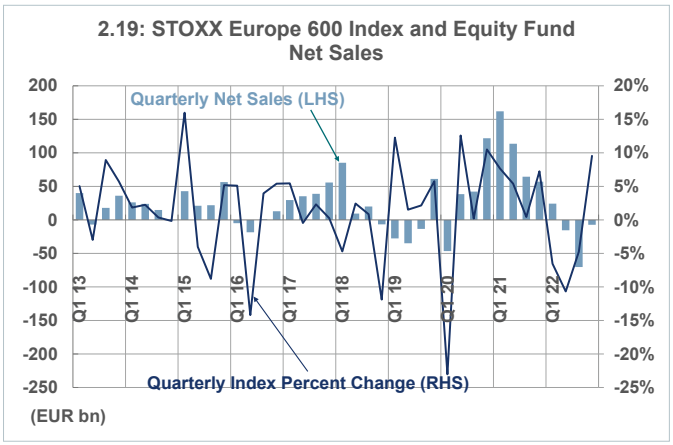
Net assets and net sales. 2022 was a poor year for global stock markets, with the MSCI world index dropping by 17.7%. Net assets of equity UCITS mirrored this development, ending the year at EUR 5.2 trillion, a significant decrease compared to the EUR 6.2 billion of 2021. Net sales of equity funds turned negative (EUR 67 billion), the first net outflows since 2019.



Breakdown of net asset growth. Net assets of equity UCITS declined by 16%, the first such fall since 2018 and the largest decrease of the decade. Breaking down this net asset decline shows that only 1% of the decrease can be attributed to net outflows, with the remaining 15% being due to the general decline in European stock markets. This breakdown illustrates that equity UCITS investors remained relatively resilient during 2022, mostly remaining in the market and not taking a loss by withdrawing their money during this period of lower equity valuations.

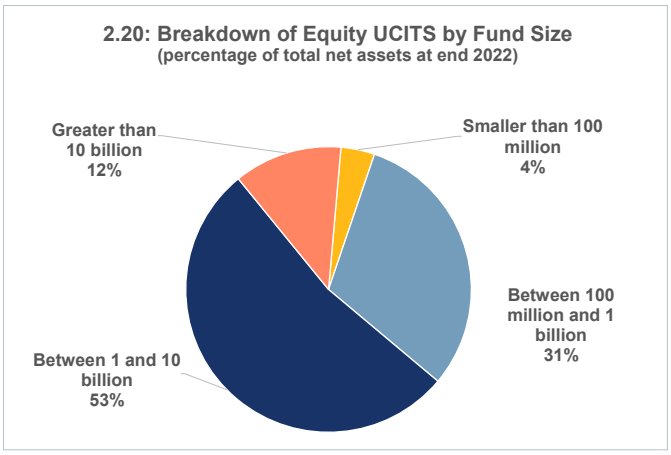


Demand for equity funds and the stock markets. Inflows into equity funds usually closely track the stock market evolution, with stronger inflows in equity funds when stock markets rise and vice versa.



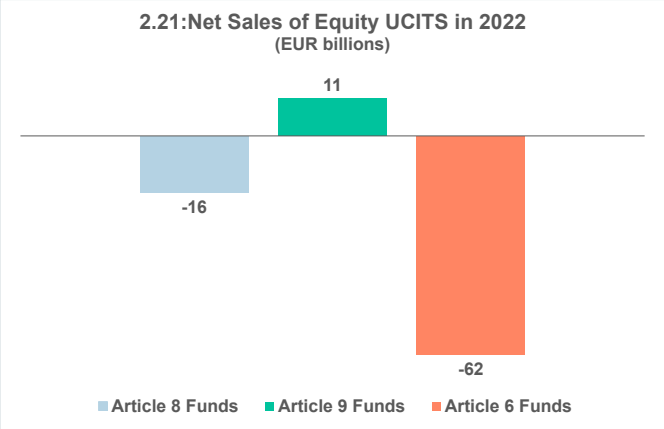
Source: Deutsche Börse Group and EFAMA

Breakdown by fund size. Breaking down the net assets of equity UCITS by fund size shows that more than half of UCITS equity funds are between EUR 1 billion and EUR 10 billion, while another 12% is larger than EUR 10 billion. Only 4% of equity UCITS net assets are smaller than EUR 100 million.

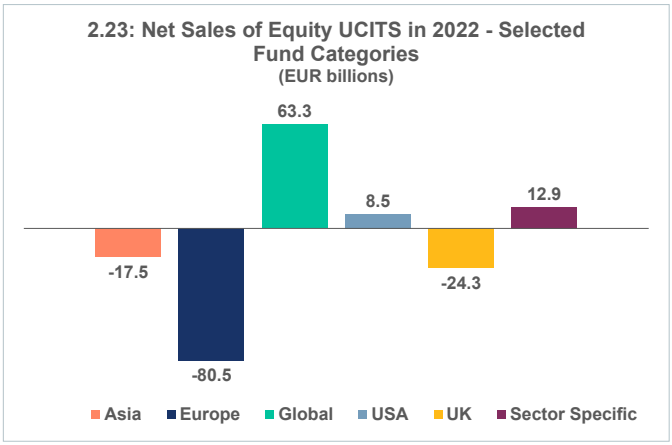


Source: Morningstar

Net sales of SFDR funds. Looking at the net flows of equity UCITS by type of SFDR funds, the net inflows of Article 9 funds - those with a sustainability objective - became apparent. Over the course of 2022, investors continued to invest in these so-called 'dark green' equity funds, despite the deteriorating economic and geopolitical environment. This was not the case for Article 8 and Article 6 funds, which both registered net outflows.

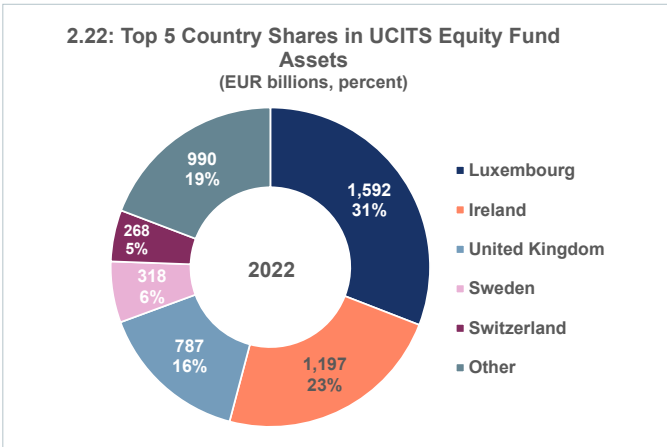


Source: EFAMA and Morningstar



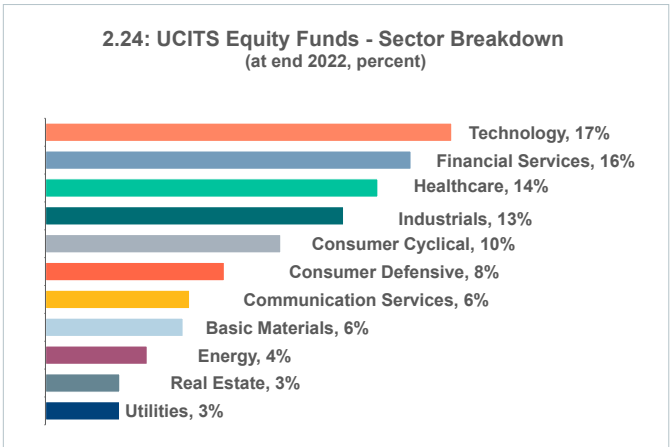
Source: Morningstar

Top five domiciles for UCITS equity funds. In 2022, the main domiciles for UCITS equity funds - in terms of net assets - were Luxembourg (31%), followed by Ireland (23%), the UK (16%), Sweden (6%) and Switzerland (5%).



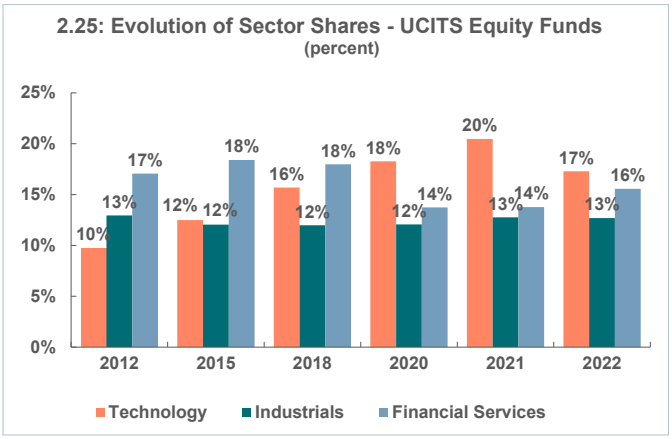
Net sales of selected fund categories. We can delve a little deeper into the overall net sales of equity funds over the course of 2022, identifying which fund categories accounted for the bulk of the net outflows and net inflows. Equity UCITS with a European focus suffered the bulk of net outflows (EUR 80 billion), as investors expected that the European economy would be heavily impacted by the war in Ukraine and persistent interest rate hikes by the ECB. In addition, Asia-specific and UK-focused funds recorded net outflows during 2022. Equity funds with a global focus, however, registered solid net inflows, as investors sought to reduce geo-specific risks and diversify their portfolios. US-centric funds and sector specific funds experienced positive net sales, despite net outflows from technology funds.

Industry sector breakdown. Examining the industry sector breakdown of the stocks held by equity funds, technology companies still represented the largest sector at 17% of the total at end 2022. Financial services were place (16%), followed by healthcare (14%) industrials (13%) and consumer cyclical shares (10%).

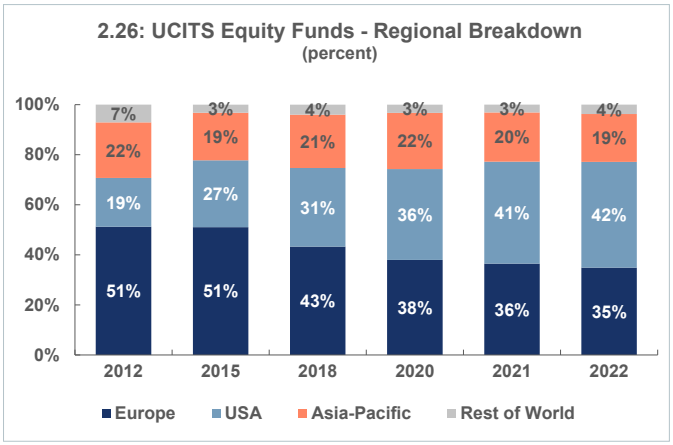


Source: Morningstar

Evolution of industry sector breakdown. During the 2012-2021 period, the technology sector exhibited an exceptional growth trend, with its market share doubling from 10% in 2012 to 20% by end 2021. This was largely fuelled by the robust stock market performance of major global technology giants such as Alphabet, Apple, Amazon and Microsoft, with particularly strong growth during the pandemic years of 2020 and 2021. However, this trend saw a sharp reversal in 2022, with technology stocks experiencing a deeper-than-average dive, resulting in their market share falling back to 17% by end 2022.



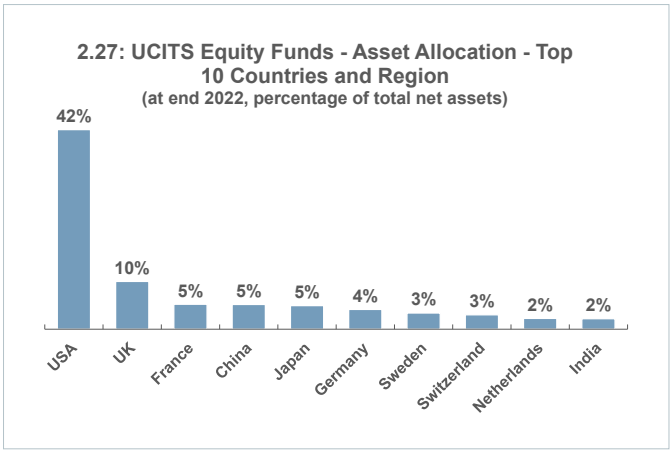
Source: Morningstar



Source: Morningstar

Regional breakdown. Looking at equity funds assets broken down by region[vii], a steadily declining share of European stocks has become clear. The shares of American stocks in the asset allocation of UCITS equity funds gradually increased over the past decade. This was a direct consequence of several factors: the outperformance of US stock markets compared to European markets, the success of the UCITS brand outside Europe and the greater demand from international investors for US stocks. Following the sharp increase in the share of US stocks in 2021, their market share increased even further in 2022. The share of Asian stocks also declined in 2021 and 2022; to a large extent this was because of the fall in Chinese stocks, which suffered from a tightening of certain regulatory measures and from the lockdown measures taken to contain the spread of COVID-19.

Country breakdown. All of the top-ten countries represented in the portfolios of European equity funds host stock exchanges with large market capitalisations, and are home to several large-cap companies. Five of these top 10 countries are European: the UK (10%), France (5%), Germany (4%), Sweden (3%), Switzerland (3%) and the Netherlands (2%).



Source: Morningstar

Box 2
ESG Ratings

Author: *Chiara Chiodo*

For many reasons, environmental, social and governance (ESG) considerations are becoming a vital factor in asset managers' investment decisions. First, there is a growing understanding that ESG considerations can have a significant impact on a company's financial success and long-term viability. Second, there is a growing demand from investors - both retail and institutional - for investment solutions that incorporate ESG factors. Third, there are regulatory requirements in Europe, such as the Sustainable Finance Disclosure Regulation (SFDR), the Corporate Sustainability Reporting Directive (CSRD), the EU Taxonomy Regulation and the Shareholders Rights Directive (SRD II), all aimed at integrating ESG considerations into established investment processes. Regulations and market trends require asset managers to consume and analyse an

extensive amount of ESG data. As a consequence, in recent years we saw market research providers and sustainability rating agencies substantially increase their efforts to collect and analyse data and in order to provide ESG ratings to investors. However, despite these improvements, the current data landscape still presents asset managers with substantial challenges when trying to assess the true sustainability of their investments. Further progress is necessary to facilitate sustainable investments and achieve the objectives of the EU Green Deal.

The way forward

Reducing the lack of transparency in the methodology and data used

The lack of transparency in ESG ratings and data providers represents a significant challenge for asset managers. While we expect divergence in ESG scores between different providers, it sometimes remains unclear how those scores are calculated, thus requiring greater transparency in the methodology and the data used as well as a higher frequency of revising data sources and calculation criteria. Asset managers also require greater granularity in the transparency if they are to ensure that the information provided matches their own, proprietary ESG views and can be relied upon in their investments and product development strategies. In addition, the estimation methodologies used by ESG rating providers are often opaque, and data collection has become increasingly challenging since the introduction of the new EU Taxonomy obligations. In fact, third-party providers who have not yet applied the Technical Screening Criteria adopted by the European Commission are not yet in a position to provide complete and high-quality data. The lack of transparency therefore limits the usability of ESG ratings and data by asset managers and can lead to potential misallocation/mispricing of investments and confusion for end investors.

Addressing the market concentration and the rising cost of ESG data services

The concentration of ESG data and ratings providers has created an oligopoly, leaving EU market actors in a vulnerable and captive position when it comes to acquiring ESG information. As IOSCO has previously pointed out, the market for ESG data is dominated by a few major providers, giving them substantial market power and the opportunity to charge high fees. This may negatively impact both smaller market players with less resources to buy data and ratings as well as end investors. Asset managers are particularly concerned about the missing transparency in pricing and licensing regimes, which vary depending on the combination of data modules and the number of ESG assets managed. To counter this phenomenon, it is of vital importance that providers create globally uniform frameworks and standards that are compatible with the EU's legislative requirements.

Advice

Tackling the lack of transparency and standardised ESG Ratings is a key priority for minimising the risk of 'greenwashing' risk and for continuing to finance the green transition through responsible investment practices. Legislators should, therefore, focus on providing a regulatory framework that will cover ESG Ratings and data providers based on the following principles:

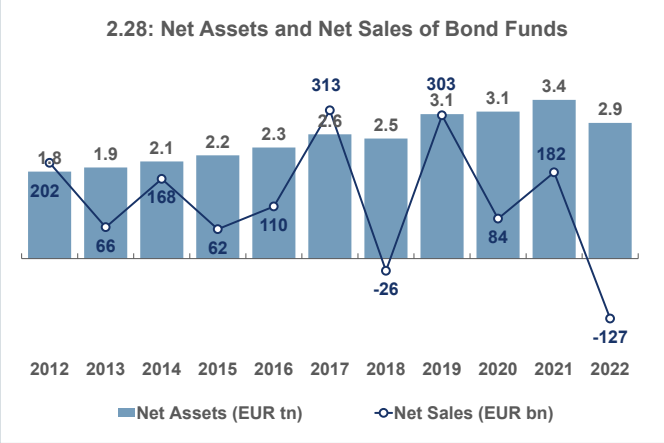
1. Improving the transparency around ESG rating methodologies and data sources.
2. Enhancing data quality through internal controls and robust data governance to avoid potential conflicts of interest.
3. Ensuring proportional coverage of EU and non-EU ESG ratings and data providers.

Conclusion

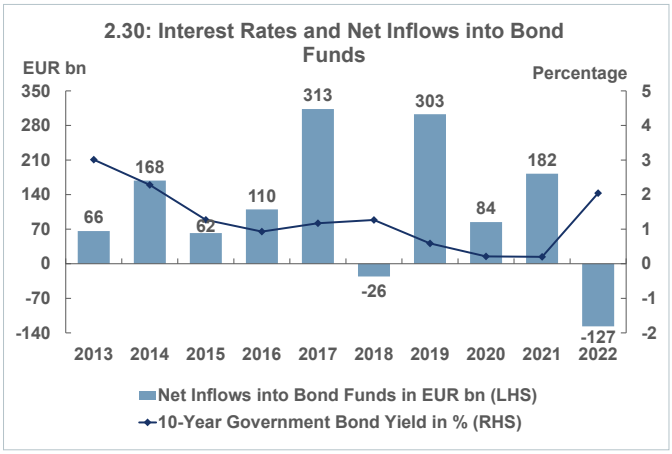
The European Commission is expected to present a legislative proposal on ESG ratings in June 2023, which could exponentially alleviate part of the existing data gap, allow financial market participants access to higher-quality ESG information and reduce asset managers' reliance on these providers in Europe. To achieve these goals, policymakers should focus not only on ESG ratings but also on the ESG data providers. This will create a legislative framework that can be a natural complement to the reporting framework under CSRD, the international convergence on sustainability reporting standards and the development of the European Single Access Point (ESAP).

2.2.4 Bond UCITS

Net assets and net sales. The year 2022 was an exceptionally difficult year for bond funds. Central banks were forced to tighten monetary policy aggressively as inflation - already on the rise at end 2021 – again increased significantly during 2022. This abrupt end to the era of low-interest rates led to a decrease in bond markets over much of 2022, as outstanding bonds with lower interest rates declined in price. Net assets of UCITS bond funds ended 2022 at EUR 2.9 trillion, compared to EUR 3.4 trillion at end 2021. Net sales also plummeted, resulting in net outflows of EUR 127 billion, a stark contrast to the net inflows of EUR 182 billion in 2021. The 2022 net outflows were the worst of the past decade.

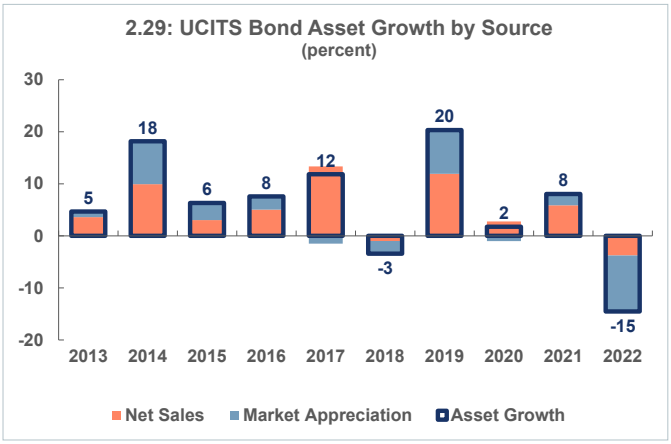


Demand for bond funds and long-term interest rates. Demand for bond funds tends to show a negative correlation with the evolution of long-term interest rates. This correlation became quite evident in 2018, as bond funds faced headwinds as interest rates started to rise at the beginning of the year. In 2019, net sales of bond funds rebounded sharply, as the ECB and the Federal Reserve cut interest rates. Net inflows were sustained in 2020 and 2021 as bond yields continued to fall. The situation changed dramatically in 2022, with the strong tightening of monetary policy, negatively impacting the appeal of bonds.

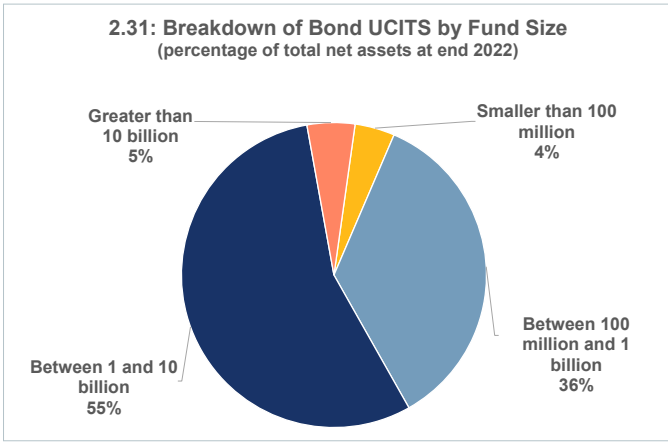


Source: ECB and EFAMA

Breakdown of net asset growth. Price effects tend to have less of an impact on the overall asset growth in bond funds than they do in equity funds. This is because bond prices tend to fluctuate less than stock prices. However 2022 proved to be an exception, as most of the 15% overall net asset decline was due to a drop in bond values (11%) and only 4% the result of net outflows.

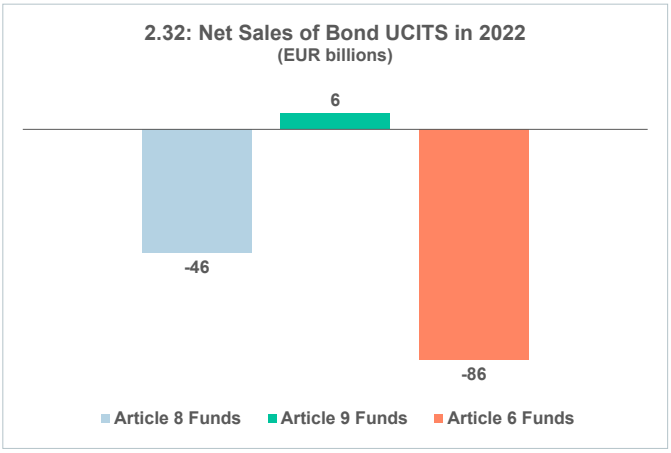


Breakdown by fund size. We can break down the net assets of bond UCITS by fund size: 36% of bond UCITS are between 100 million and 1 billion, 55% are between EUR 1 billion and EUR 10 billion and 5% are larger than EUR 10 billion. Only 4% of bond fund net assets are smaller than EUR 100 million.



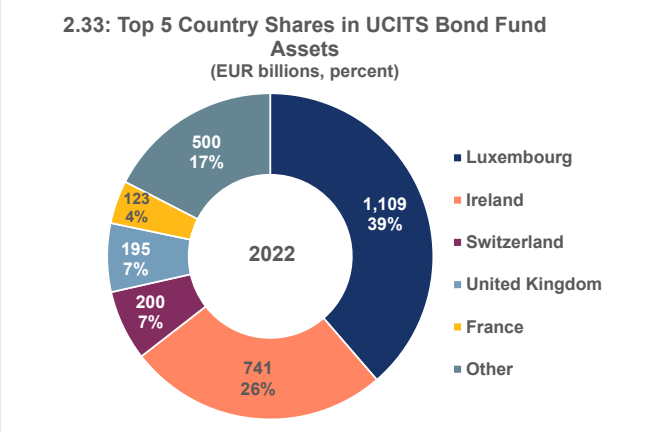
Source: Morningstar

Net sales of SFDR funds. Despite the substantial net outflows from UCITS bond funds during 2022, SFDR Article 9 bond funds continued to attract positive net inflows. Article 6 and 8 funds, however, registered significant net outflows.

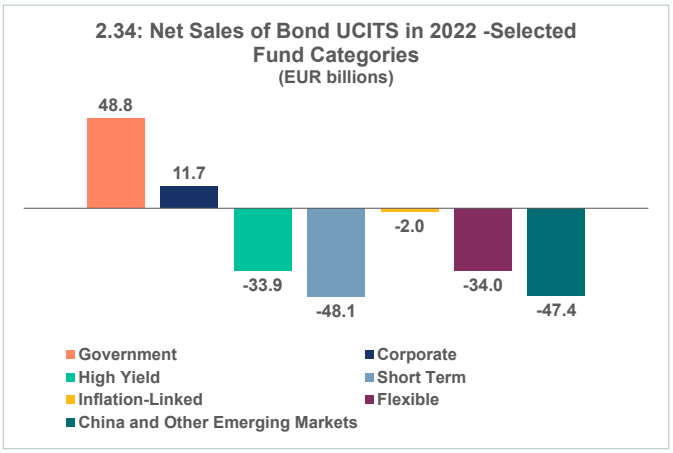


Source: EFAMA and Morningstar

Breakdown by domicile. At end 2022, Luxembourg had the largest market share of UCITS bond fund net assets (39%), followed by Ireland (26%), Switzerland (7%), the UK (7%) and France (4%).

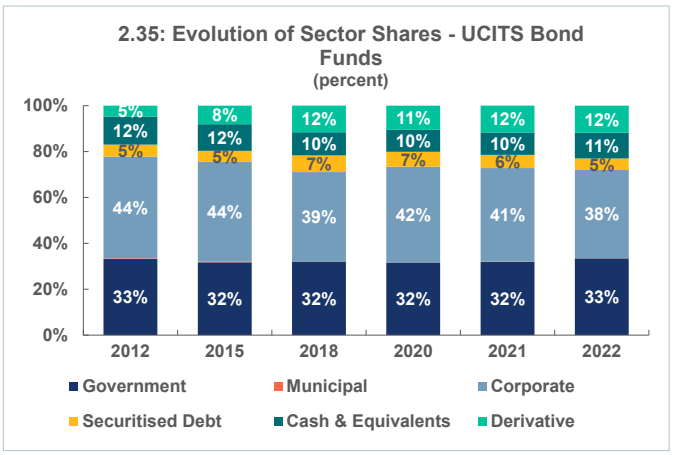


Net sales of selected fund categories. Looking at which categories of bond funds attracted net inflows and net outflows can shed additional light on the developments in the 2022 market. Bond fund investors de-risked their investments in 2022, moving mainly into government bond funds (EUR 48 billion) and American and European corporate bond funds (EUR 12 billion). The higher interest rates that these types of fixed-income products started to offer in 2022 made them attractive investment options again. Funds focused on riskier debt securities suffered the brunt of net outflows, as investors withdrew from high yield bond funds (EUR 34 billion), China and other emerging market-centric funds (EUR 47 billion) as well as flexible bond funds (EUR 34 billion). Short-term bond funds also recorded significant negative net sales (EUR 48 billion) as the anticipation of further rate rises deterred investors during much of the year.



Source: Morningstar

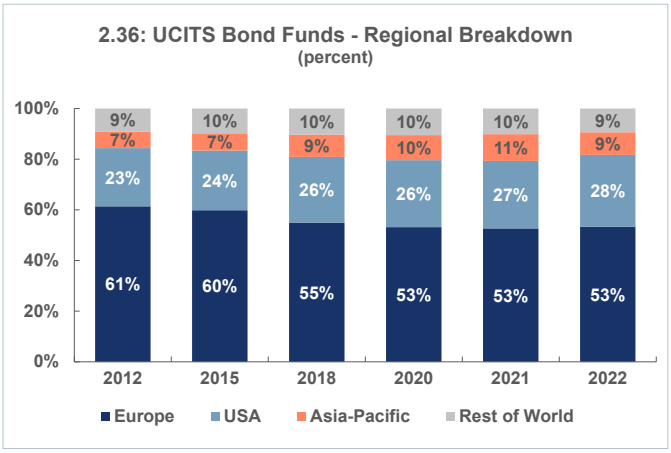
Asset allocation. Corporate bonds accounted for 38% of the net asset holdings of UCITS bond funds at end 2022. Sovereign debt represented 33%, while derivatives and securitised debt accounted for 12% and 5%, respectively. Bond funds held 11% of their assets in cash and cash-like equivalents.[viii] In 2022, the percentages of corporate bonds and securitised debt declined and the percentages of government debt and cash increased as fund managers de-risked their asset allocation.



Source: Morningstar

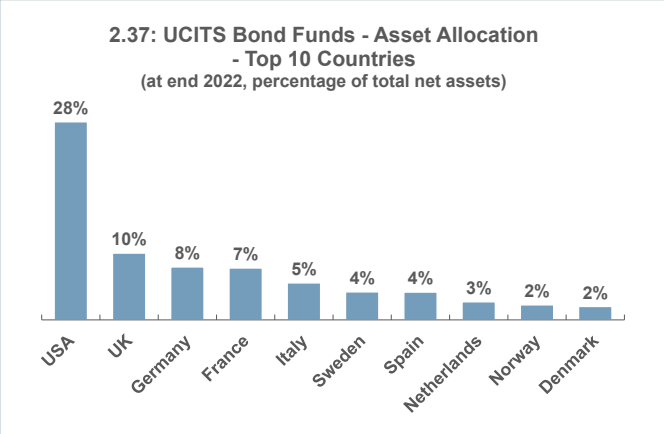
Regional asset breakdown. An overview of the bond holdings by geographical region[ix] shows that 53% of the bonds held by UCITS bond funds at end 2022 were issued

in Europe. The US accounted for 28%, with Asia-Pacific and the rest of the world accounting for 9% each. Looking at this evolution, the steadily rising share of bonds issued in the Asia-Pacific region came to a halt in 2022. This can be explained by regional trends in interest rates. UCITS managers and investors were searching for higher yields in Asian markets, as interest rates in Europe and the US were relatively low until recently. The rapidly rising rates in the US and Europe have made European and American fixed-income attractive once again.



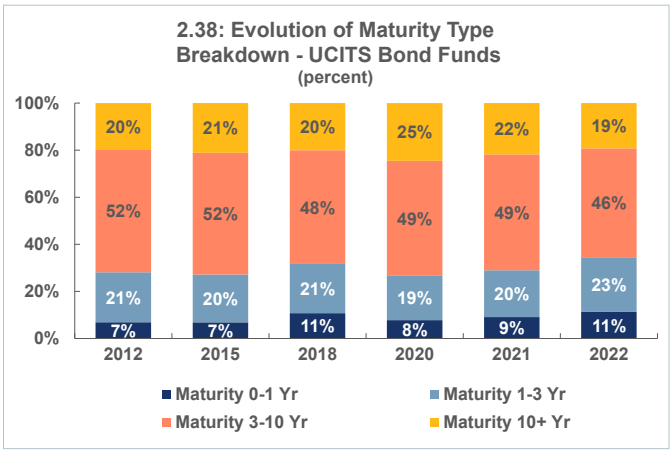
Source: Morningstar

Country breakdown. Some 28% of bond assets were issued in the US. The UK (10%) and the three other large European countries - Germany (8%), France (7%) and Italy (5%) - complete the top five. Nine of the 10 largest countries in terms of bond asset allocation are European. China has appeared in the top ten in recent years, accounting for around 3% of UCITS bond holdings at end 2021. In 2022, China dropped out of the top ten, as investors and asset managers refocused on European and American debt securities.



Source: Morningstar

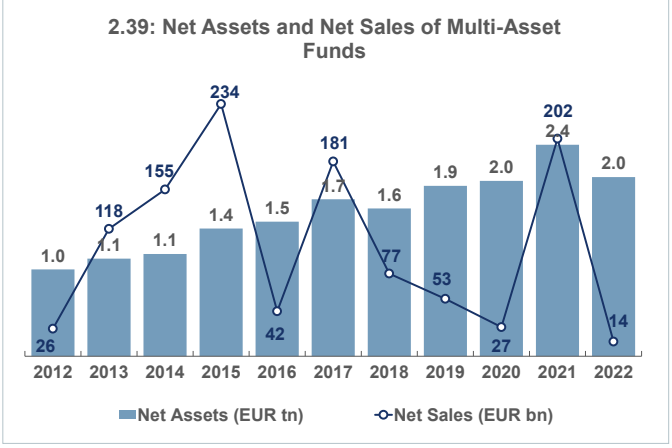
Evolution of maturity. The asset allocation by maturity of the bond holdings of bond UCITS has remained broadly stable from 2012 to 2021. In 2022, however, there was a clear shift towards shorter-term securities. The fact that the yield curves flattened significantly - and in some cases even inverted - clearly played a pivotal role in this shift.



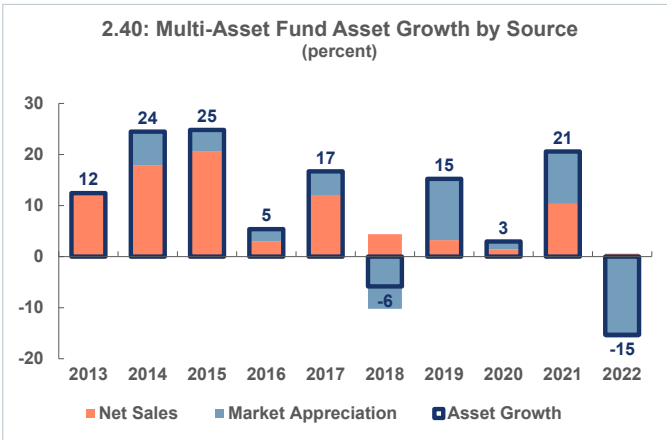
Source: Morningstar

2.2.5 Multi-asset UCITS

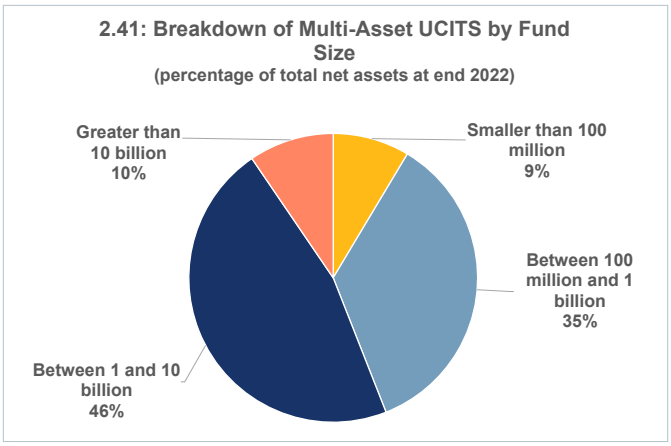
Net assets and net sales. Net assets of multi-asset UCITS ended 2022 at EUR 2 billion, compared to EUR 2.4 trillion at end 2021. Net sales of multi-asset funds also dropped markedly in 2022 (EUR 14 billion) following the high net sales in 2021 (EUR 202 billion). However, considering the 2022 net outflows in both bond and equity funds, multi-assets funds was the best performing long-term UCITS category. Multi-asset UCITS attracted net inflows over the first four months of the year as investors were enticed by the portfolio diversification benefits of these funds. Net sales did turn mainly negative later in the year, as investors were deterred by drops in both the equity and fixed-income markets.



Breakdown of net asset growth. Net assets of multi-asset funds declined by around 15% in 2022, the first decrease since 2018. A breakdown of the total asset growth shows that the small net inflows of 2022 did not offset the significant market depreciation in both the stock and bond markets.

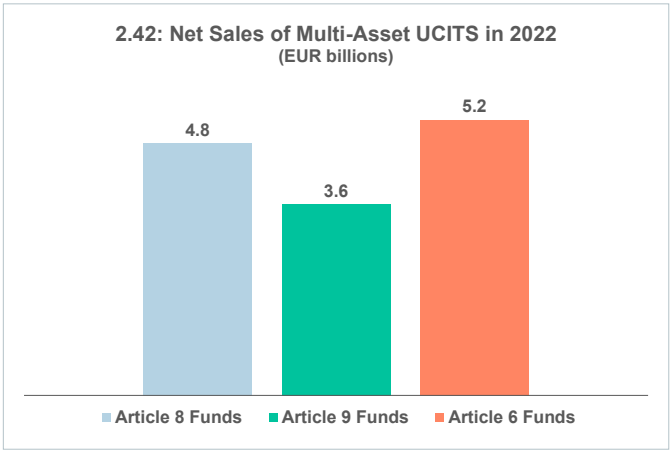


Breakdown by fund size. As for equity and bond funds, we can also break down the net assets of multi-asset UCITS by fund size. Some 35% of bond UCITS are between 100 million and 1 billion, 46% are between EUR 1 billion and EUR 10 billion and 10% are larger than EUR 10 billion. Some 9% of multi-asset fund net assets are smaller than EUR 100 million, the largest percentage of any major type of UCITS.



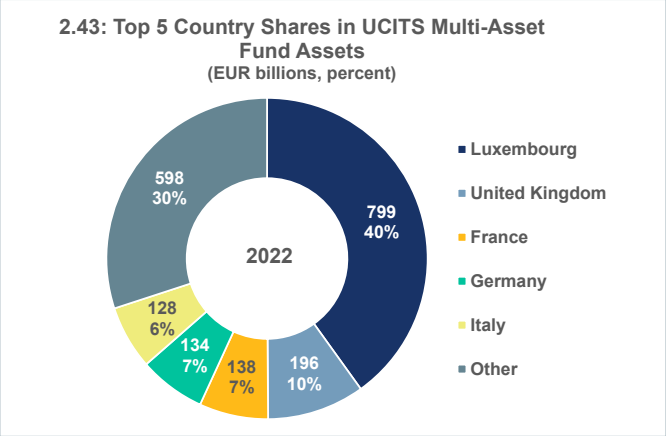
Source: Morningstar

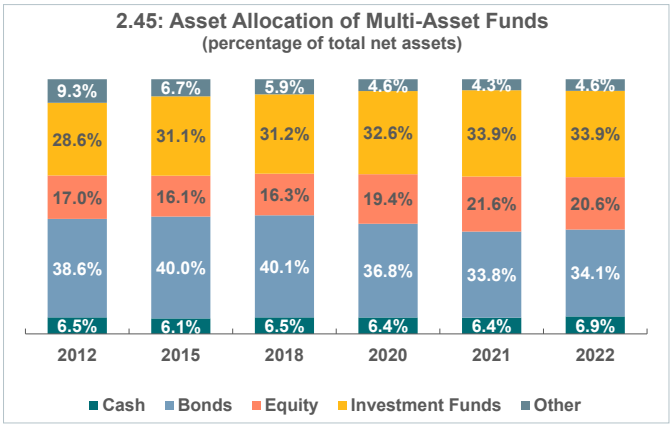
Net sales of SFDR funds. Looking at net sales of multi-asset UCITS by type of SFDR funds, we can see that all three types of SFDR fund (Article 6, 8 and 9) attracted net inflows in 2022. The EUR 3.6 billion of net inflows in Article 9 funds is also striking, as these types of funds represent only a tiny fraction of the total net assets of multi-asset UCITS.



Source: EFAMA and Morningstar

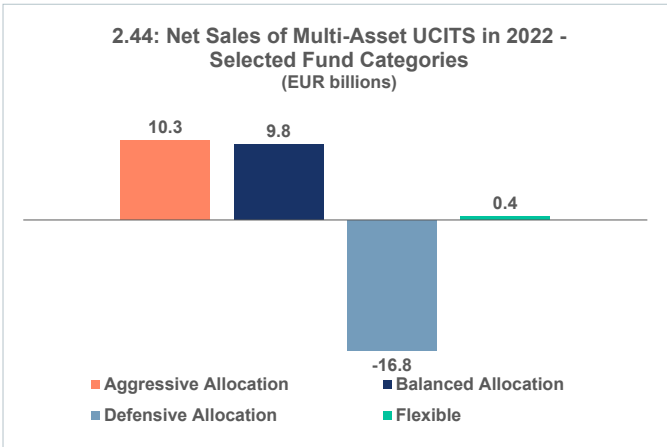
Breakdown by domicile. In the UCITS multi-asset fund market, Luxembourg held the largest market share (40%), followed by the UK (10%), France (7%) Germany (7%) and Italy (6%). The remaining European countries have a relatively large share of the multi-asset UCITS market, accounting for 30% of the total.





Source: ECB

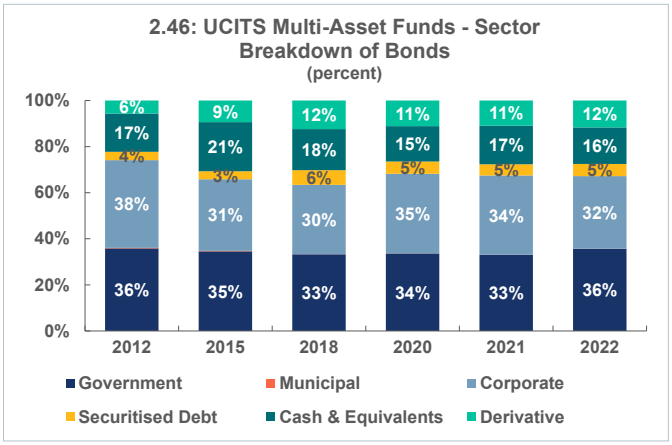
Net sales of selected fund categories. Zooming in on which categories of multi-asset funds attracted net inflows and which net outflows in 2022, we can see that it was mainly funds with an aggressive and a balanced allocation that recorded net inflows. These are funds that invest a higher share of their asset allocation in equities. Funds with a defensive allocation - which mainly invest in bonds - accounted for the bulk of net outflows.



Source: Morningstar

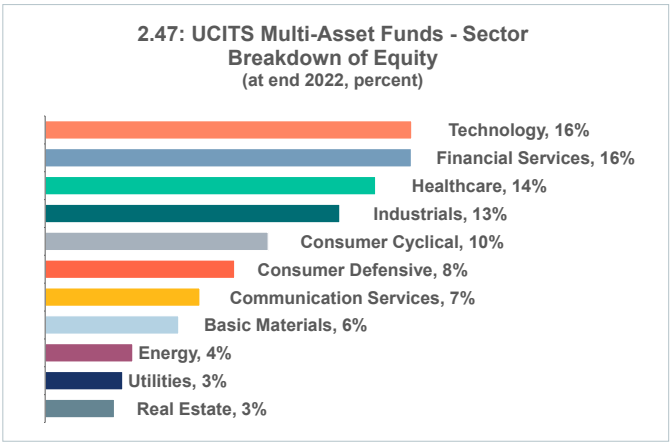
Asset allocation. Examining the asset allocation of multi-asset funds, the share of directly held stocks remained relatively stable at around 17% during the 2012-2018 period, climbing to 21.6% in 2021 and dropping back to 20.6% in 2022. At the same time, the share of funds-of-funds managed in multi-asset funds increased from 28.6% in 2012 to 33.9% in 2022, indicating that multi-asset fund managers have been steadily increasing the equity exposure of their funds, not only by investing directly in stocks but also via the use of funds-of-funds.

Asset allocation of bond holdings. We can break down the debt holdings of multi-asset funds by type of debt instrument.[x] Corporate bonds accounted for 32% of total holdings at end 2022, substantially lower than the 38% share in the asset holdings of bond funds. Sovereign bonds represented 36%, a similar percentage to that of bond funds. Multi-asset funds held 16% of their debt investment in cash-like equivalents, compared to only 11% cash in the asset allocation of bond funds. Derivatives and securitised debt accounted for 12% and 5%, respectively.



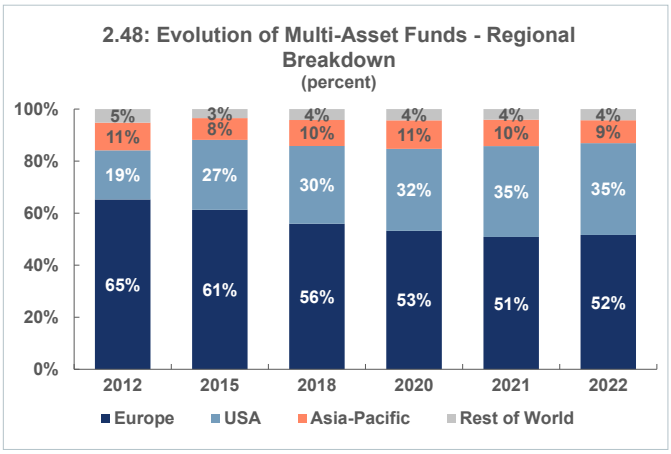
Source: Morningstar

Equity holdings - Industry sector breakdown. Looking at the industry sector breakdown of stocks held by multi-asset funds[xi], technology companies represented the largest sector at 16% at end 2022, closely followed by financial services (16%). Healthcare was third (14%) and industrials fourth (13%). As in all recent years, the sector breakdown of multi-asset funds at end 2022 is largely similar to that of equity funds.



Source: Morningstar

Regional breakdown. As with equity and bond funds, we can also examine the asset holdings of multi-asset funds, combining their equity and debt holdings by geographical region. This geographical breakdown has evolved significantly since 2012. Europe's share has steadily decreased, from 65% in 2012 to 51% in 2021. Over the same period, the share of assets issued or listed in the US has increased from 19% to 35%. The share of the Asia-Pacific region has remained relatively stable over the past decade at about 10%. In 2022, the share of European assets edged up again to 52%, whereas the share of Asia-Pacific assets declined. This drop was mainly due to investors and asset managers disinvesting from Chinese stocks and debt securities.



Source: Morningstar

Box 3
Sustainability preferences and ESG products

Authors: *Anyve Arakelijan and Carolina De Giorgi*

With the entry into force of the so-called 'MiFID ESG amendments', as of August 2022, retail investors across the EU are required to hold conversations on their ESG preferences with their investment advisors. This shift should bring with it a surge in awareness in - and hopefully, enthusiasm for - sustainable investment practices. Nevertheless, incorporating investors' sustainability preferences remains a difficult undertaking, complicated by numerous interrelated and sometimes misaligned regulations that are still in the process of being developed. In particular, most ESG products currently available on the shelves of EU distributors are based on interpretations derived from the Sustainable Finance Disclosure Regulation (SFDR), whose Level 2 rules were only introduced at the beginning of 2023. Not only are the rules constantly evolving, but so are the expectations of investors, the public and regulators, creating regulatory uncertainty even for responsible market participants.

Given such legal ambiguity, market participants have no choice but to continuously adjust their offerings to the constant evolutions in the rules. Nonetheless, the incomplete regulatory framework not only fragments the EU single market but also exposes fund and asset managers to potential accusations of 'greenwashing'. Additional obstacles include the current shortage of ESG data, the absence of clear definitions and low levels of financial literacy.

The way forward

ESG data

While the recently adopted CSRD framework will play a pivotal role in delivering accurate and meaningful data on non-financial matters, the framework is still a work in progress and will only deliver in full from 2029 onwards. As a result, asset managers currently rely on other service providers to develop their ESG strategies, particularly for ESG data and ratings.

ESG data and rating providers must remain liable for any errors in their ESG data. This issue of liability should be part of a wider discussion around the upcoming regulatory framework for ESG data and rating providers.

This does not, by any means, weaken asset managers' responsibility for conducting proper due diligence before selecting ESG data and rating providers. Nor does it excuse them from remaining vigilant throughout their ongoing contractual relationships. It is also important for asset managers to be transparent about their use of third-party data. This should include any limitations on its use, as this may impact sustainability performance depending on the provider, the methodology used as well as any associated data quality and coverage.

Regulatory clarification and harmonisation

The industry's ability to build and launch coherent sustainable investment solutions in compliance with current and upcoming ESG rules will benefit from additional clarity on outstanding questions and detailed rules (such as the concept of 'do no significant harm').

We would thereby encourage policymakers to take the existing regulatory framework into account, and to identify any potential gaps before introducing new legislative requirements. This will help to maintain consistency and prevent confusion. Some of our recommendations include:

- aligning and making the funds' names guidelines interoperable with SFDR, MiFID and other regulatory developments
- taking already-existing market and regulatory conditions into account when considering the concept of 'greenwashing'
- Aligning ESG benchmark disclosures with user needs under SFDR/Taxonomy.

Consistency between policymakers and regulators is vital, particularly in allowing consumers to improve comparability between cross-border products. Supervisors and regulators can also provide guidance on implementation when regulatory requirements are unclear. They can help mitigate reputational risks by acknowledging the challenging circumstances, including regulatory uncertainty and data availability. This can be achieved through supporting communication efforts aimed at explaining these nuances and uncertainties to the public and by ensuring workable timelines for implementing new guidance and acknowledging best efforts.

Advice

Importantly, we see that investors are overloaded with information when evaluating the E, S and the G of a product they may wish to invest in. The complex regulatory jargon (such as 'principal adverse impact', 'DNSH' and 'Taxonomy') adds to this general confusion, leading to discrepancies between what end investors (particularly retail investors) expect to find in products labelled as sustainable and the actual strategy of the products marketed. To inspire consumer confidence, the importance of simple and understandable information cannot be overestimated.

All this underlines the importance of, and need for, high-quality and widely accessible investment advice to allow investors to navigate this complex environment. This will ensure that they invest in products that match both their goals and values and their risk profile and financial ambitions. The absence of such advice could either turn away enormous capital inflows from the transition to a more circular economy, or lead investors into taking the higher risk of making inappropriate purchases. Either outcome - which could materialise in the event of a ban on commission-based advice and the subsequent decrease in the availability of affordable advice in Europe - would strongly impact the CMU and the sustainable finance objectives.

Conclusion

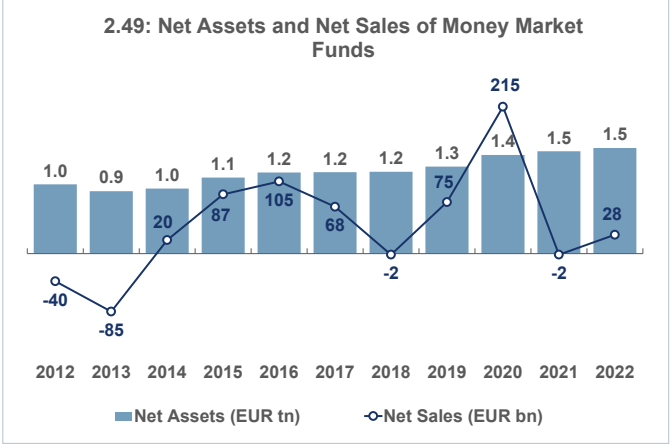
While sustainable finance may currently appear intimidating - particularly to retail investors - there are promising signs of progress. The SFDR is undergoing revision, which demonstrates a significant effort to address the current shortcomings and make it better suited to the market. In addition, the recently phased-in CSRD framework is expected to enhance the accessibility and reliability of ESG data, making it easier for investors to evaluate sustainable investment opportunities.

Qualified investment advisors can play a crucial role in helping retail investors navigate the complexities of sustainable finance. By providing critical guidance and support, they can empower investors to make informed decisions that align with their values and financial goals.

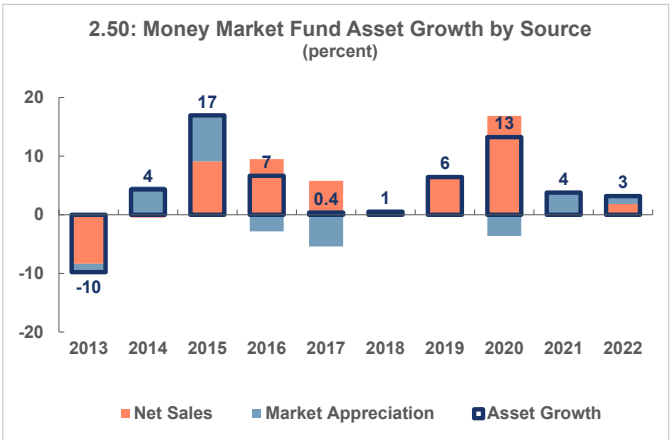
These developments suggest sustainable finance will become more manageable for investors, bringing positive change towards a more sustainable future.

2.2.6 Money market funds (MMF) UCITS

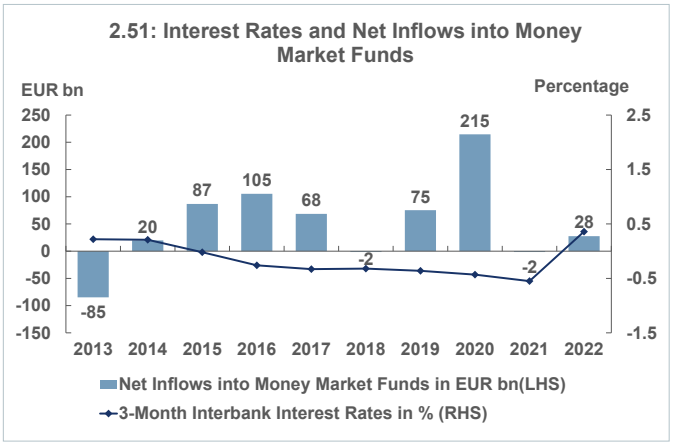
Net assets and net sales. Net assets of MMFs ended the year at EUR 1.5 trillion. MMFs attracted net inflows over the full year (EUR 28 billion), but demand was volatile over the course of the year. The early months registered net outflows as investors were expecting imminent rate hikes. October 2022 on the other hand, accounted for the largest-ever monthly net inflows (EUR 124 billion). These exceptional net inflows, mainly into Sterling MMFs, were driven by UK pension funds using liability-driven investment (LDI) strategies, which experienced margin calls during the gilt market turmoil.



Breakdown of net asset growth. Net asset growth of MMFs amounted to around 3% in 2022, similar to 2021. Compared to long-term UCITS, MMF asset growth reflects net sales rather more closely, as the valuation of the short-term instruments that MMFs mainly invest in varies little over time. Exchange rate effects can, however, have an impact on MMF asset growth.

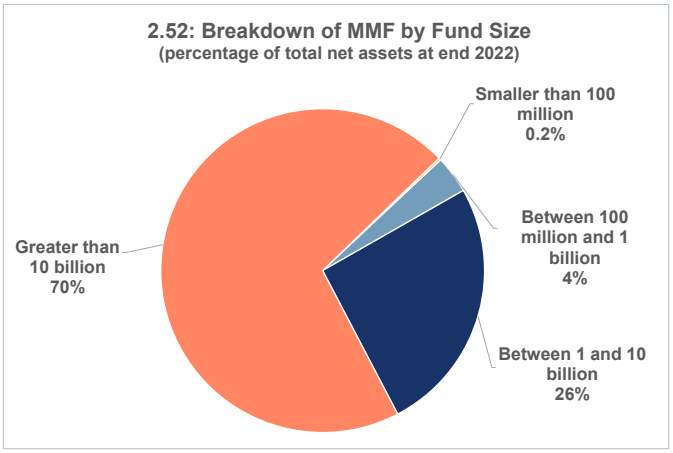


Demand for MMFs and short-term interest rates. In general, interest rate changes have an impact on the demand for MMFs. MMFs mainly invest in very short-term debt, often with a maturity of less than one month. Hence when interest rates rise, the yield on MMFs also tends to increase, making them more attractive to investors. However, the demand for MMFs is also influenced by other factors, in particular investor sentiment and the use of MMFs as a 'safe-haven' investment in times of crisis. This was clearly demonstrated in 2020, when the uncertainty and volatility caused by the COVID-19 pandemic led to a sharp rise in demand for MMFs.



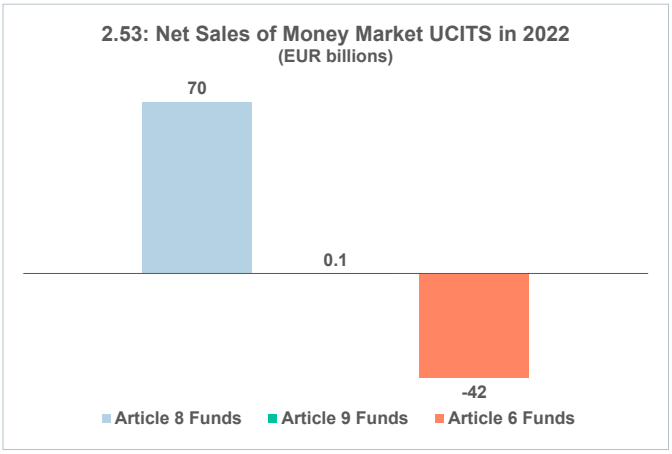
Source: ECB and EFAMA

Breakdown by fund size. Breaking down the net assets of MMF UCITS by fund size, we can see that the MMF market is highly concentrated. Some 70% of total MMF net assets are invested in funds larger than EUR 10 billion, a further 26% are in funds between EUR 1 billion and EUR 10 billion. Only 4% is invested in MMFs between 100 million and EUR 1 billion, while the proportion of MMFs smaller than EUR 100 million is negligible (0.2%).



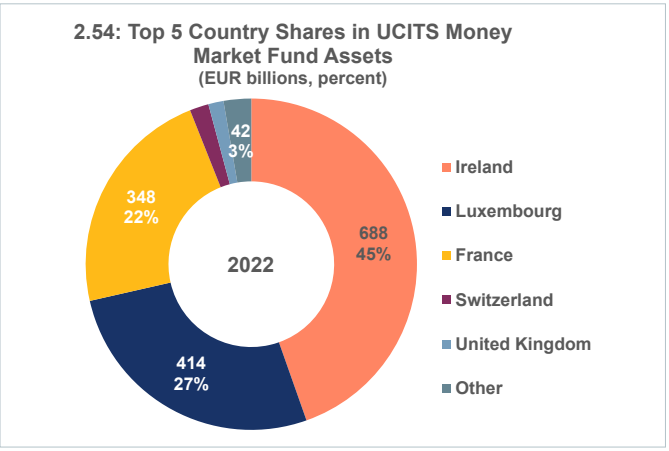
Source: Morningstar

Net sales of SFDR funds. Net sales of MMF UCITS by type of SFDR fund show that all 2022 net inflows were concentrated in Article 8 funds (EUR 70 billion). Compared to long-term UCITS, Article 9 funds had almost no net inflows, but this is because there are almost no Article 9 MMFs.



Source: EFAMA and Morningstar

Breakdown by domicile. The MMF market is heavily concentrated in three domiciles. Ireland holds the largest market share of UCITS MMF net assets (45%), followed by Luxembourg (27%) and France (22%). Combined, they represent 94% of the European total at end 2022.



The MMFR and types of MMFs. The EU Money Market Fund Regulation (MMFR) was adopted in 2016 and came into full effect in January 2019. The MMFR distinguishes between three main categories of money market funds:

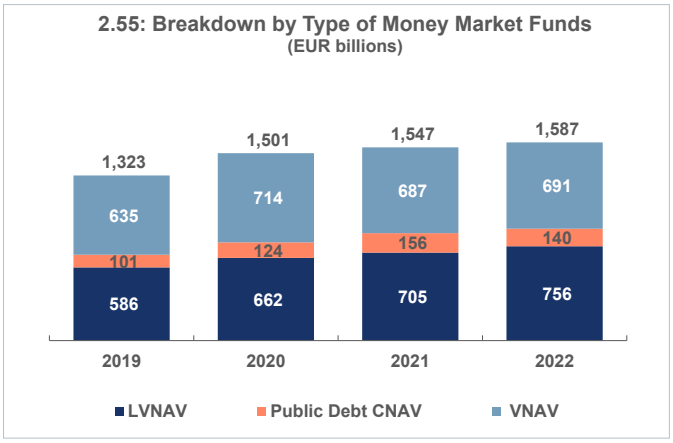
- Public Debt Constant Asset Value (PDCNAV) MMFs
- Low Volatility Net Asset Value (LVNAV) MMFs
- Variable Net Asset Value (VNAV) MMFs.

Aside from these categories, the MMFR also distinguishes between Short-term and Standard MMFs. Short-term MMFs are required to adhere to tighter investment rules than Standard MMFs. All three types may be categorised as Short-term MMFs: Public Debt CNAV, LVNAV and Short-term VNAV. Standard MMFs must be variably priced, therefore making all Standard MMFs VNAV funds.

PDCNAV and LVNAV MMFs use amortised cost accounting - provided certain conditions are met - to value all of their assets and maintain a net asset value (NAV), or value of a share of the fund, at €1/£1/$1. Public Debt CNAV MMFs must invest a minimum of 99.5% of their assets in public debt. Units/shares in an LVNAV MMF can be purchased or redeemed at a constant price, as long as the value of the assets in the fund does not deviate by more than 0.2% from par.

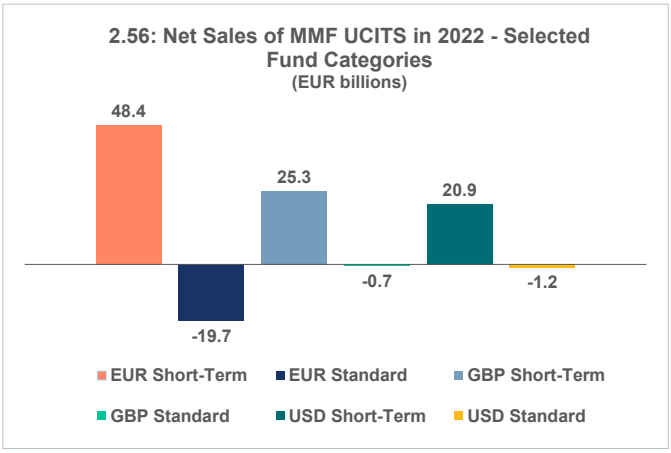
VNAV MMFs refer to funds that use mark-to-market accounting to value some of their assets. The NAV of these funds will vary with the changing value of the assets and - in the case of an accumulating fund - by the amount of income received.

Evolution by type of MMF. LVNAV have been growing steadily in recent years, with their market share rising from 44% of the MMF market to 48% at end 2022. Net assets of VNAV increased strongly in 2020, but decreased in 2021 as outflows that year were mainly concentrated in that segment of the MMF market. VNAV net assets in 2022 stayed roughly at the same level. PDCNAV accounted for about 8.8% of MMF net assets at end 2022, a slight increase compared on the 2019 share (7.6%).



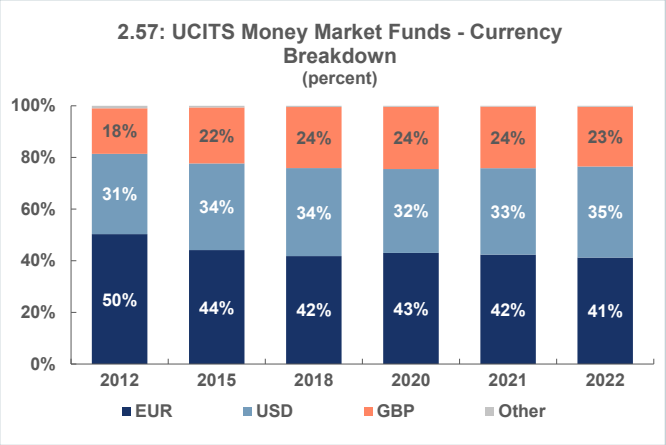
Source: IMMFA and EFAMA

Net sales of MMF by type and currency. Investors in 2022 had a clear preference for short-term MMFs as these funds in the three major currencies (EUR, GBP and USD) attracted net inflows. Standard MMFs, however, registered negative or flat net sales over the year. The stricter investment rules for short-term MMFs, combined with higher short-term interest rates, clearly marked them out as a 'safe haven' investment or as an interesting alternative to cash during a turbulent 2022.



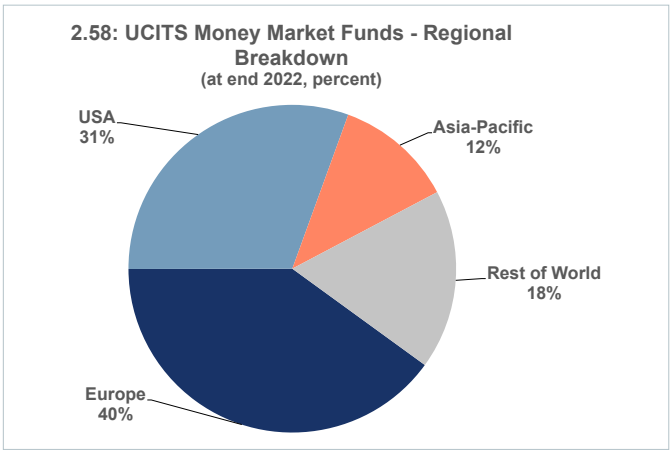
Source: Morningstar

Currency breakdown - evolution. MMFs net assets can be broken down by base currency.[xi] Three main base currencies accounted for 99.5% of UCITS net assets at end 2022. EUR was the leader with 41% of net assets, followed by USD (35%) and GBP (23%). The share of EUR-dominated MMFs has been falling gradually, from 50% in 2012 to 42% in 2018. Consequently, the market shares of USD- and GBP-denominated MMFs have risen over the same period, edged up by generally higher interest rates in those currencies. In recent years, market shares of MMFs by base currency have tended to remain more stable.



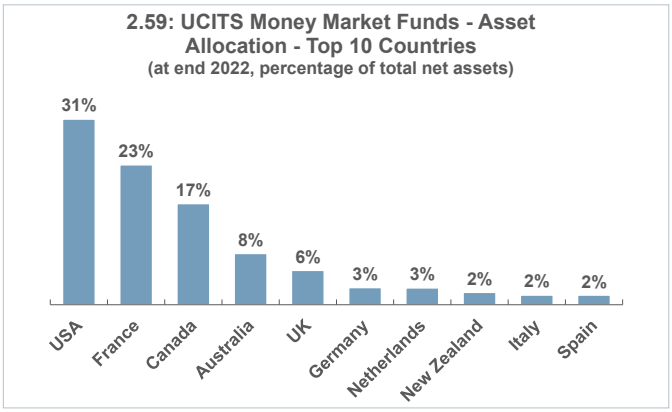
Source: Morningstar

Regional breakdown. An overview of the 2022 holdings of MMFs by geographical region[xii] shows that 40% of the short-term paper held by UCITS MMFs was issued in Europe. The US accounted for 31% and Asia-Pacific for 12%.



Source: Morningstar

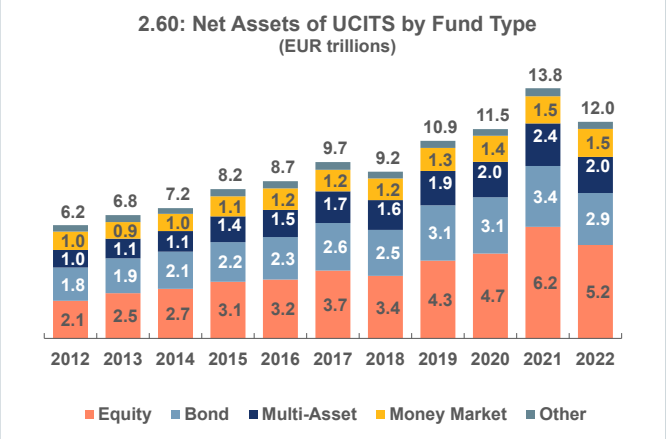
Country breakdown. After the US and Asia-Pacific, short-term securities issued in France made up 23% of the MMF assets at end 2022. Canada (17%), Australia (8%) and the UK (6%) complete the top five. Comparing the asset breakdown by base currency and issuing country shows that MMFs with a USD or GDP base currency invested a substantial proportion of their assets in securities issued in a non-base currency country. Often, countries such as Canada or Australia (and companies based there) issue short-term debt in a major currency to attract more international investors. MMFs can also invest in non-base currency-denominated debt and then hedge the currency exposure. The MMFR does require all non-base currency exposures to be fully hedged.



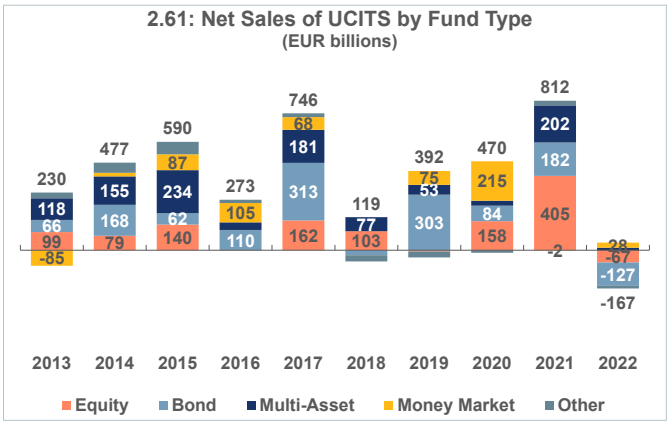
Source: Morningstar

2.2.7 UCITS by type of fund

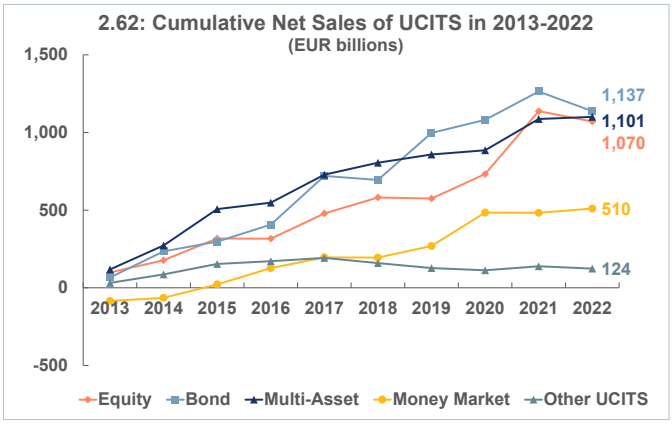
Net assets by UCITS type. In general, the evolution of net assets of UCITS by fund type tends to mirror that of the financial markets. Net assets grew during 2012-2017 and 2019-2021, when the performance of the markets was broadly strong. When financial markets recorded a fall, such as in 2018, asset growth turned negative. This was also the case in 2022, as all major types of long-term UCITS funds - equity, bond and multi-asset – ended the year lower. Money market funds were the only category of UCITS that registered a modest growth in their net assets during 2022.



Net sales by UCITS type. For the first time in the past decade, UCITS recorded net outflows during 2022. Net sales of MMFs and multi-asset UCITS remained positive, while equity and particularly bond UCITS, suffered net outflows. Large drops in the stock and bond markets, precipitated by the war in Ukraine and a sharp hawkish turn by central banks, were behind these net negative net sales. The 2022 results stand in contrast to the robust net inflows in the two previous years. In 2020, as a result of the pandemic, MMFs recorded the strongest-ever net inflows (EUR 215 billion), as many investors were cautious over how financial markets would evolve following the steep market drop in March of that year. However, markets recovered in the second half of that year resulting in strong net inflows into equity funds. In 2021, net sales of UCITS rose to an all-time high, as markets were buoyed by the successful roll-out of COVID-19 vaccines, with net sales of equity UCITS reaching an all-time high.



Cumulative net sales. Over the last decade, bond funds attracted the greatest cumulative net inflows (EUR 1,137 billion), helped by strong net inflows in 2012, 2017 and 2019. Multi-asset funds followed, with net sales totalling EUR 1,101 billion over the past 10 years. Cumulative net inflows of equity funds stood in third place, with total net sales amounting to EUR 1,070 billion. Cumulative net inflows were helped by solid net sales in 2015, 2017, 2018, 2020 and notably the record net sales of 2021. MMFs attracted cumulative net inflows of EUR 510 billion during 2013-2022, thanks both to a gradual rebound in net sales that began in 2014 and the exceptionally high net sales of 2020. Other UCITS accounted for EUR 124 billion, depressed by net outflows in the 2018-2020 period and in 2022.

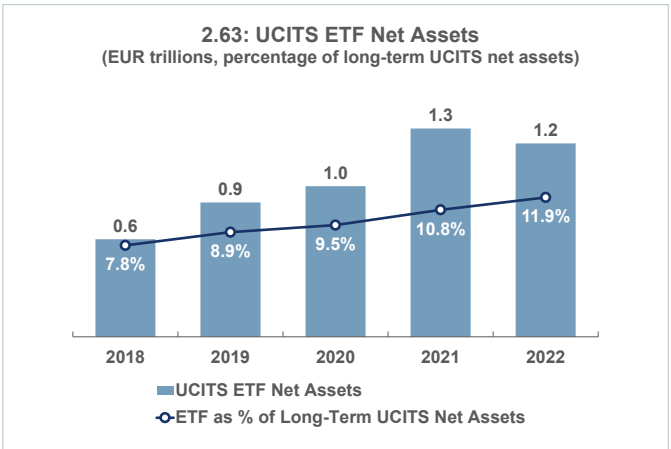


2.2.8 ETFs and Index UCITS

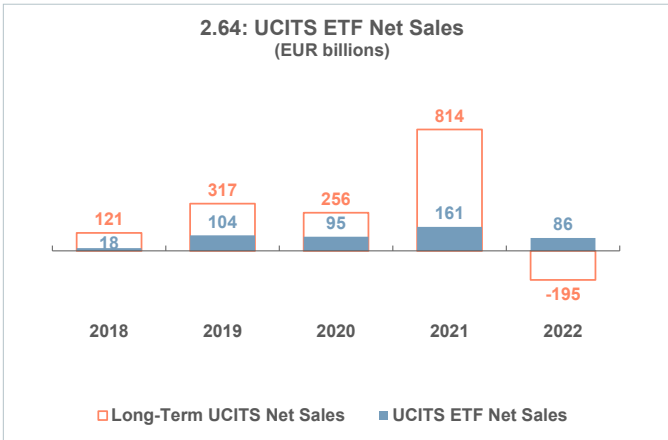
What are ETFs (Exchange-Traded Funds)? ETFs are pooled investment vehicles with shares that investors can buy and sell on a stock exchange, throughout the day, at a market-determined price. ETFs usually track an index, with a portfolio of securities designed to mirror its rises and falls. They are an increasingly popular investment instrument, thanks to their flexibility, liquidity and cost efficiency. They combine the low cost and broad diversification of investment funds with the real-time pricing and trading of equities.

UCITS ETFs. In Europe, the vast majority of ETFs are created as UCITS and are therefore subject to a robust regulatory framework. Within EFAMA statistics, ETFs are treated in the same way as other funds, but they are also considered as an 'of which' category, i.e. they are included in their underlying type of fund: equity, bond or other.

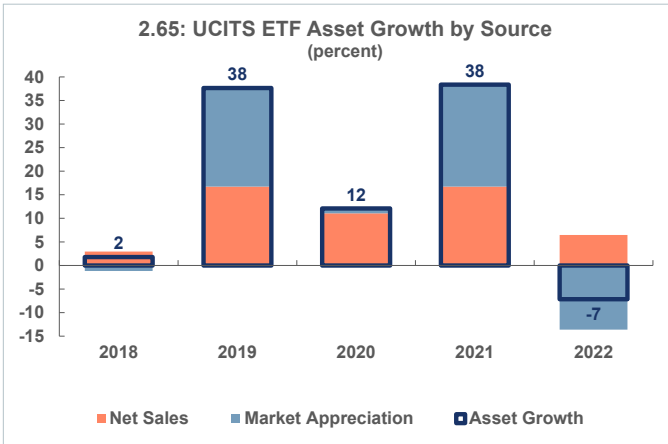
Net assets of ETFs. The ETF market has grown steadily over the past five years, with net assets rising from EUR 624 billion in 2018 to EUR 1.3 trillion at end 2021. In 2022, due to a general fall in stock markets, net assets declined by 7.2% to EUR 1.2 trillion. However, as a percentage of long-term UCITS net assets, ETFs have continued to grow, from 7.8% in 2018 to 11.9% at end 2022.



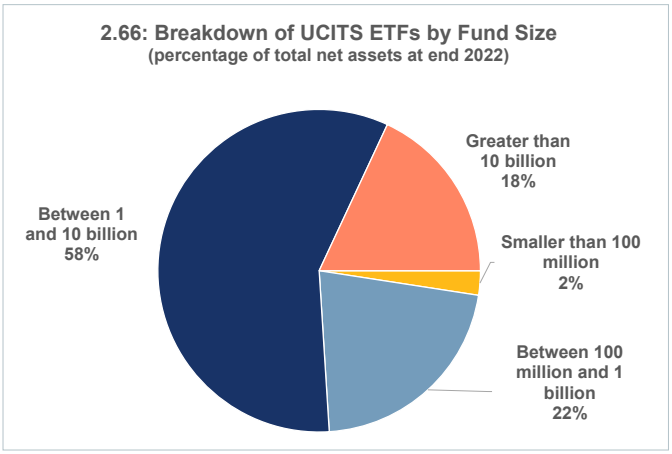
Net sales of ETFs. After reaching a record level in 2021 (EUR 161 billion), net sales of ETFs dropped in 2022 but remained largely positive (EUR 86 billion). This is in stark contrast to the net outflows from total long-term UCITS (EUR 195 billion), indicating that investor continued to make use of ETFs in their 2022 asset allocation decisions.



Breakdown of net asset growth. Net assets of UCITS ETFs declined by about 7% in 2022 as a result of market depreciation, despite the positive impact of the net inflows over the year. Comparing the 2022 net asset change of ETFs to that of total long-term UCITS, we can see that the asset decline of ETFs was about half that of long-term UCITS.

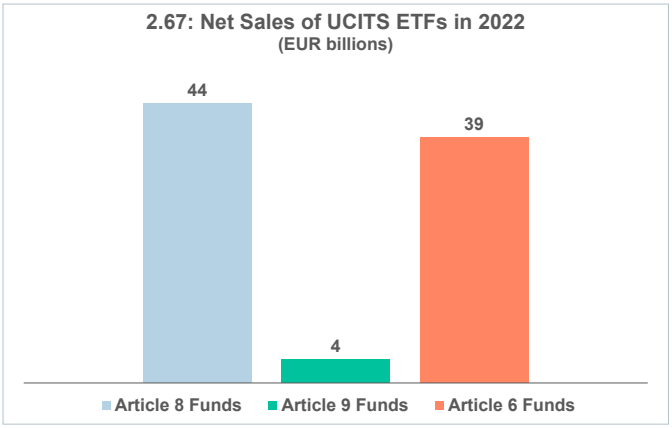


Breakdown by fund size. Breaking down the net assets of ETF UCITS by fund size, we can see that the ETF market is rather concentrated, as economies of scale tend to play a large role in these type of funds. Some 58% of ETF net assets are invested in funds between EUR 1 billion and EUR 10 billion and a further 18% are even larger than EUR 10 billion. 22% of ETF net assets are between EUR 100 million and 1 billion, with only 2% in ETFs smaller than EUR 100 million.



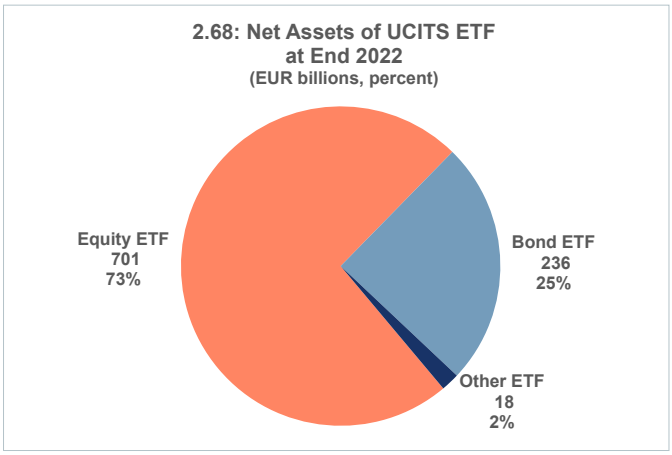
Source: Morningstar

Net sales of SFDR funds. Net sales of ETF UCITS by type of SFDR fund show that Article 8 and Article 6 ETFs attracted the bulk of net sales in 2022, at EUR 44 billion and EUR 39 billion, respectively. Article 9 funds only registered net sales of EUR 4 billion. This allocation of net sales stands in sharp contrast with what we observed for long-term UCITS in general. These relatively low net inflows into Article 9 ETFs can be explained by the nature of ETFs, which mainly track an index of a wide variety of stocks. Often, not all the stocks tracked by an ETF comply with the SFDR Article 9 sustainability objectives, effectively barring these funds from being designated an Article 9 classification. The development of green or ESG-compliant indices could further the development of Article 9 ETFs in future.

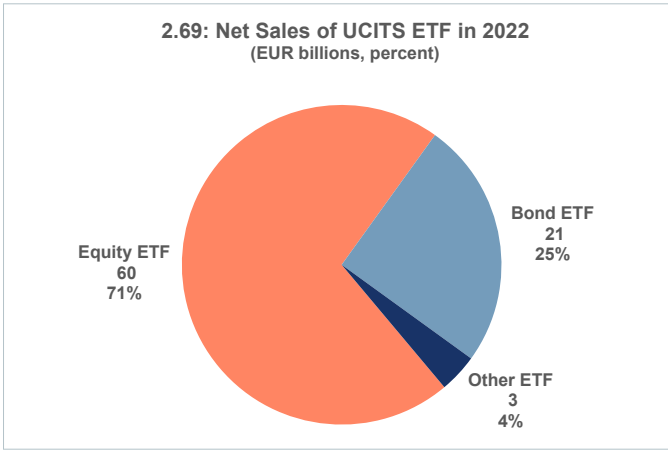


Source: EAMA and Morningstar

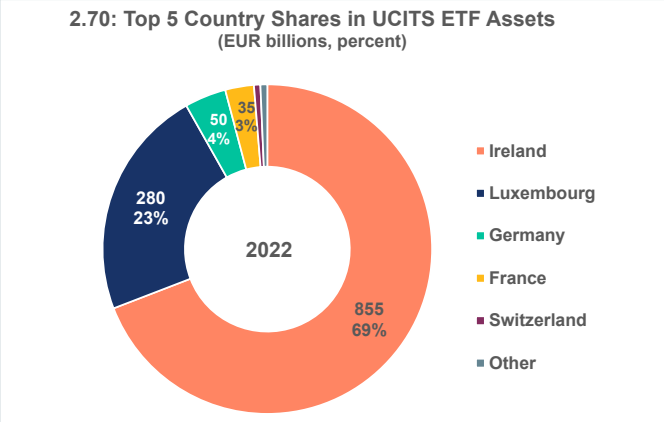
Breakdown of net assets per ETF type. Drilling down into the specific types of ETF funds, equity ETFs accounted for almost three-quarters of the total market (73%) at end 2022, followed by bond ETFs (25%) and other ETFs (2%). The percentage of equity ETFs dropped from 74% in 2021, as global stock markets declined sharply over the year.



Breakdown of net sales per ETF type. This showed a similar picture to the net assets in 2022. Net sales of equity ETFs (EUR 60 billion) accounted for 71% of the total. Bond ETFs net sales (EUR 21 billion) represented 25%, with other ETFs (EUR 3 billion) making up 4%. This situation was comparable to 2021 and 2020, when equity ETFs also accounted for the bulk of net sales.

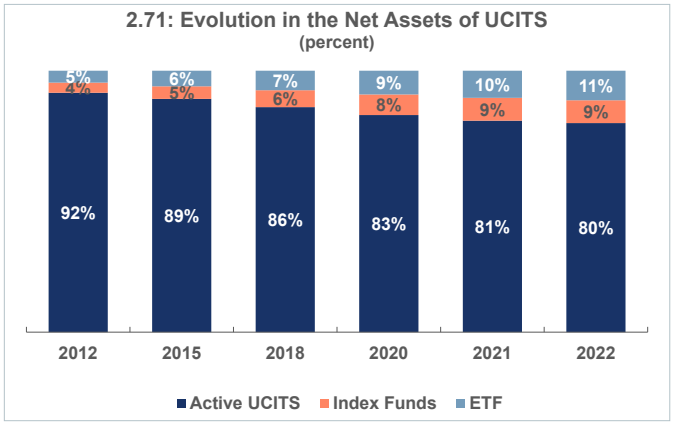


Breakdown by domicile. The European ETF market is heavily concentrated in one domicile. Ireland accounted for 69% of total European ETFs at end 2022. Luxembourg (23%) was second, followed by Germany (4%) and France (3%). Other European domiciles are negligible for the ETF market.



Index funds. Another important distinction we can make in the UCITS funds universe - apart from that between ETFs and non-ETFs - is between active funds and index funds. Index funds, also often referred to as passive funds, are funds designed to track a market index by investing in the same securities at the same weightage. The sole aim of an index fund manager is to replicate the performance of their index. In the case of active funds, portfolio managers can adjust the fund's holdings on an ongoing basis, with the aim of delivering a performance that beats the fund's stated benchmark or index. Active managers use their expertise, coupled with extensive research, to decide which investments their funds should hold. An active approach offers investors the opportunity to earn a return superior to that of an index, or to meet other investment objectives such as limiting risk, managing volatility or altering asset allocations in response to changes in market conditions.

Actively managed UCITS, ETFs and other index funds. The shares of both ETFs and index funds have more than doubled between 2012 and 2022 to reach 11% and 9%, respectively. The main reason behind this growth is the generally lower cost of passive funds and ETFs (see Box 7).



Source: EFAMA and Morningstar

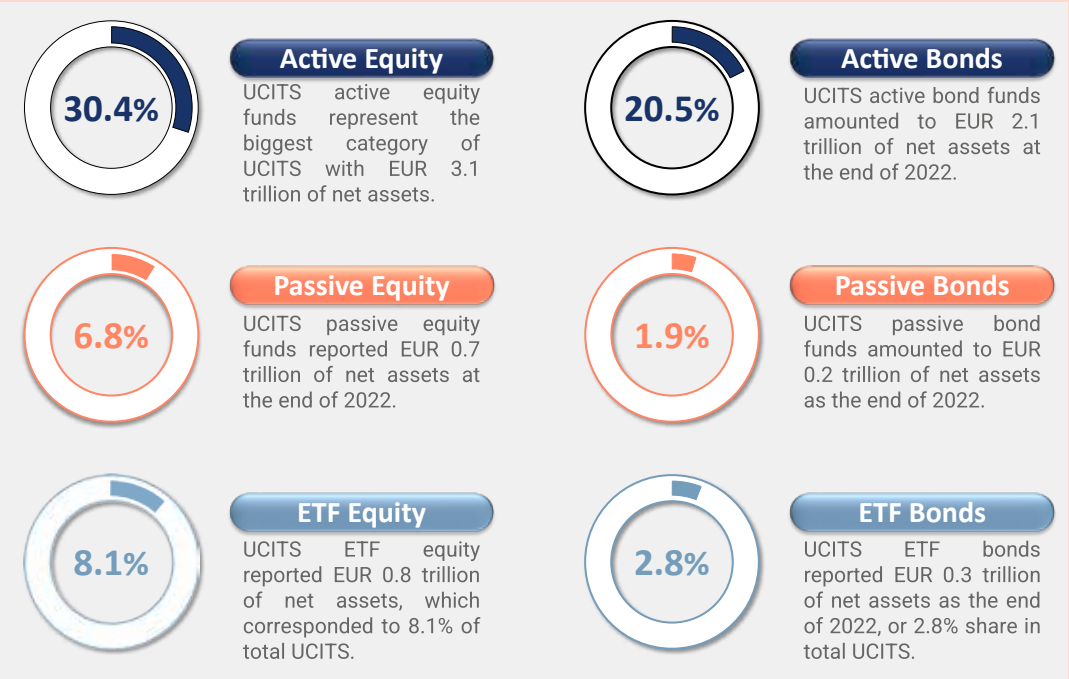
Box 4
Fund performance in 2022 - A difficult year for investors

Author: Vera Jotanovic

This box analyses the performance of active and passive funds and ETFs[1], focusing on two major asset classes: equities and bonds. Active equity and bond UCITS accounted for 50.9% of total net assets of UCITS, compared to 8.7% for passive funds and 10.9% for ETFs.

1. Net Assets and Shares of Analysed Fund Categories in Total UCITS

(EUR trillions and percent in total UCITS)



Source: Morningstar Direct platform and EFAMA's calculations.

Due to the Russian war against Ukraine and the resulting sharp increase in energy prices and general inflation, which led central banks to switch to severely restrictive monetary policies, 2022 proved a difficult year in terms of fund performance. This new macroeconomic environment negatively impacted global growth prospects and stock markets, whereas higher interest rates severely impacted the market value of bonds.

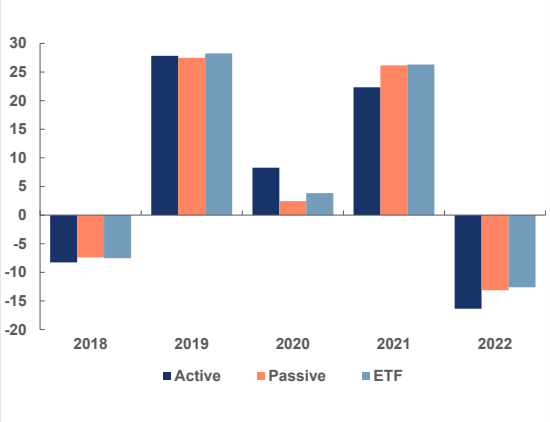
The average annual gross performance of active and passive funds and ETFs in 2022 is shown in the charts below.[2] Active equity UCITS suffered an average gross performance loss of 16.4%, compared to 13.1% for passive funds and 12.6% for ETFs. Active bond UCITS reported a negative gross performance of 8.7%, compared to a negative performance of 14.8% for passive funds and 8.3% for ETFs. This outcome is in line with the losses sustained by bond markets worldwide, with many bond investment funds globally reporting

1 We separate index funds from ETFs.

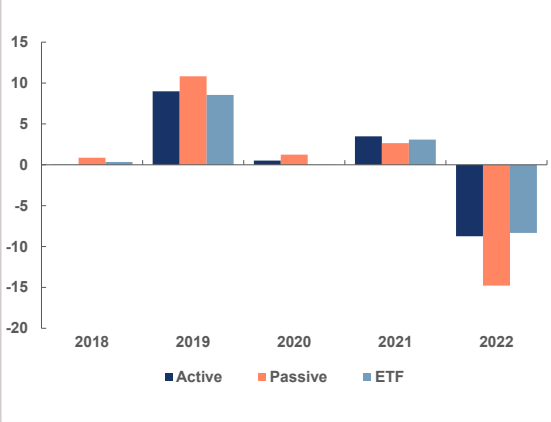
2 The performance figures presented in this note are asset-weighted averages.

their worst-ever year.[3,4,5,6] As noted above, this was largely due to the sharp rise in interest rates, which reduced bond valuations, particularly for long-term bonds.

2. Annual Gross Performance of Equity Funds
(as percentage of net assets)



3. Annual Gross Performance of Bond Funds
(as percentage of net assets)



Source: Morningstar Direct platform and EFAMA's calculations.

Taking a longer-term perspective, the next charts show the five-year gross performance of UCITS funds across these categories of funds.

The gross annualised performance of active UCITS over the period 2018-2022 was 3.5%. Active equity funds were the top-performing category, with an average annualised gross performance of 7.3%, compared to 0.96% for actively managed bond funds.

Passive UCITS recorded an average gross annual performance of 5.3% in 2018-2022. Passive equity funds delivered a slightly lower performance than their active counterparts (6.5%), while the average gross performance of passive bond funds was negative (-0.38%).

UCITS ETFs recorded an average annual gross performance of 6.0% during 2018-2022, with equity and bond ETFs achieving an average gross performance of 7.6% and 0.5%, respectively.

The charts below show the density distribution of the five-year gross annual performance of funds, divided into four quartiles.7 The charts show that the differences between the performance of the higher- and lower-performing funds were significant. This reflects the reality that the universe of funds consists of many heterogeneous funds in terms of investment strategies, which differ greatly between issuers, types of securities, geographical exposure, currency and industrial sectors.

Despite negative returns in 2022, a significant group of equity and bond funds enjoyed positive returns over the last five years.

3 CNBC (2023). 2022 was the worst-ever year for U.S. bonds. How to position your portfolio for 2023.

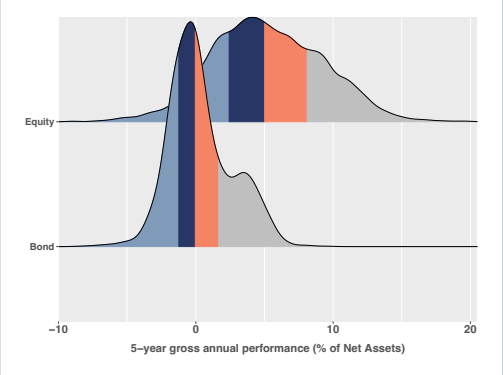
4 Forbes (2023). The Worst Bond Year Ever Was 2022 – What Does That Mean For You?

5 Forbes (2022). Is This Worst Year Ever For Bonds?

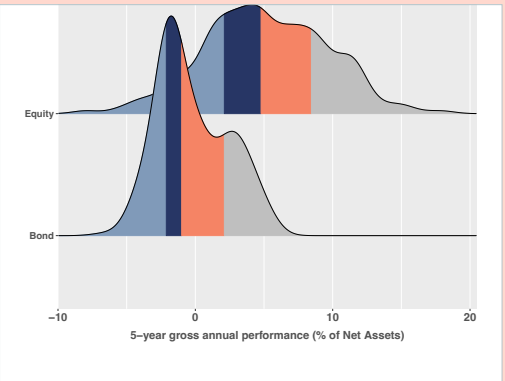
6 NY Times (2022). Bonds May Be Having Their Worst Year Yet.

7 The line separating the second and the third quartiles corresponds to the median.

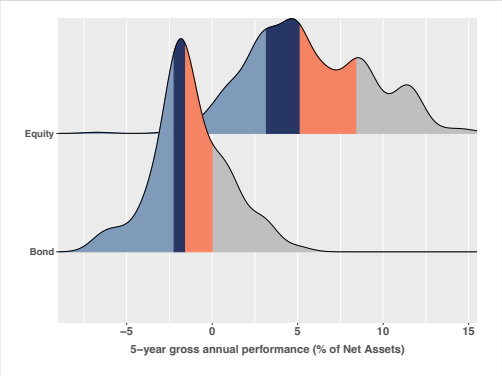
4. Active Fund Performance



5. Passive Fund Performance



6. ETF Fund Performance



Source: Morningstar Direct platform and EFAMA's calculations.

There are signs that the performance of funds will bounce back in 2023, as inflation stabilises[8] and interest rates may be close to their peak.[9]

8 https://data.oecd.org/price/inflation-forecast.htm.

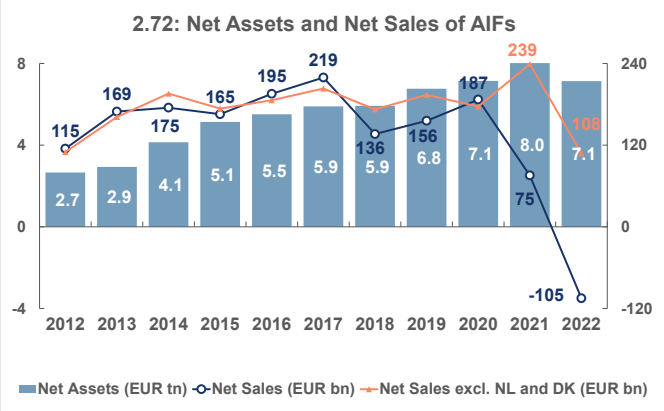
9 https://data.oecd.org/interest/long-term-interest-rates-forecast.htm#indicator-chart.

2.3 THE AIF MARKET

2.3.1 Overview

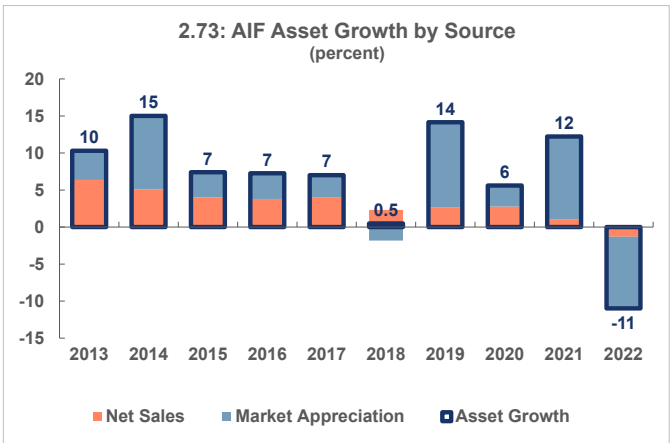
Trends in the AIF market[xiv] tend to be less overtly influenced than UCITS by developments in capital markets, because AIFs invest a larger proportion of their assets in alternative financial products such as private equity or real estate. In addition, the main buyers of AIFs - pension funds and insurers - often display a counter-cyclical investment behaviour, taking advantage of stock market dips to increase their AIF purchases.

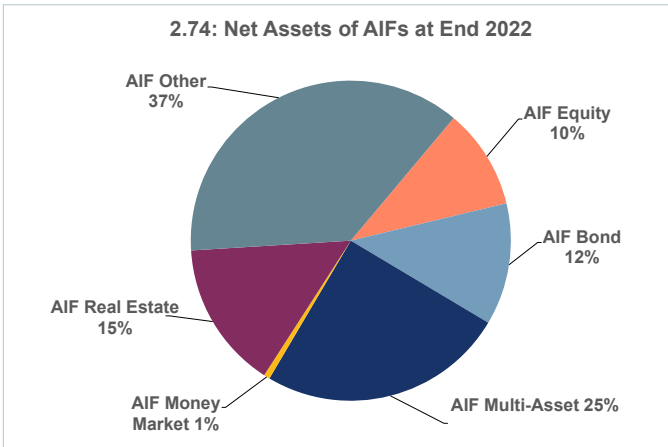
Net assets and net sales of AIFs. Net AIF assets declined to EUR 7.1 trillion in 2022, compared to EUR 8.0 trillion in 2021. For the first time this decade, net sales in 2022 were negative, as Dutch AIFs registered large net outflows. These were a result of the decision taken by certain large Dutch pension funds to manage their assets in segregated mandates rather than in AIFs, due to the new IFR/IFD prudential rules. This was a continuation of the 2021 trend. Disregarding net sales of AIFs in the Netherlands and Denmark, where there was also a trend away from AIFs, we can observe record net AIF sales for 2021 (EUR 239 billion) and robust net AIF inflows in 2022 (EUR 108 billion).



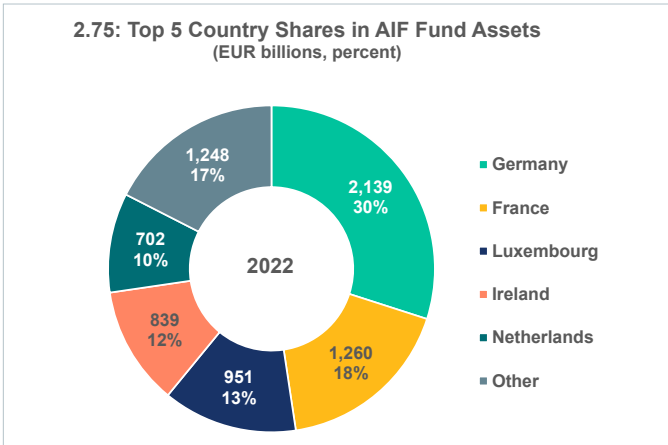
Breakdown of net asset growth. The combination of negative net flows and market depreciation resulted in the first net asset decline of the decade (11%). As AIFs have a lower exposure to equity than UCITS, their 2022 market depreciation was also lower, 10% compared to 12% for UCITS.

Breakdown by type of fund. AIFs – as with UCITS - can be broken down according to their overall investment strategy. At end 2022, 'other' AIFs were the predominant type (37%). Multi-asset AIFs accounted for 25% of the total market, followed by real estate funds (15%), bond AIFs (12%) and equity AIFs (10%).





Breakdown by AIF domicile. The five largest domiciles in the European AIF market accounted for a combined 83% of net assets at end 2022. Germany was the largest with 30% market share, followed by France (18%), Luxembourg (13%), Ireland (12%) and the Netherlands (10%).



Net asset of AIFs by domicile. The following table shows the net assets of AIFs per domicile at end 2022. It also shows their respective AIF market shares and the 2022 net asset growth. Among the larger AIF domiciles, Luxembourg was the only country to register net asset growth (1.7%), whereas France, Germany, Ireland and the Netherlands recorded net asset declines of 4.1%, 10.3%, 13.7% and 29%, respectively.

Net sales of AIFs by domicile. Luxembourg accounted for the largest portion of total AIF sales (EUR 51 billion) in 2022, closely followed by Ireland (EUR 50 billion); Germany (EUR 17 billion) took third place. AIFs domiciled in the Netherlands registered substantial net outflows over the year (EUR 181 billion). As explained above, these net outflows were a direct consequence of certain pension funds in the Netherlands switching from AIF wrappers to segregated mandates. Danish AIFs also registered net outflows (EUR 32 billion) as some pension funds in Denmark also moved away from an AIF structure.

2.76: Net Assets and Net Sales of AIFs by Country

Country	Net Assets of Nationally Domiciled AIFs at End 2022			Net Sales of Nationally Domiciled AIFs	
	EUR bn	Market Share	Growth Rate	in 2022, EUR bn	Accumulated 2018 - 2022
Austria	108.0	1.5%	-12.6%	-0.6	12.0
Belgium	2.1	0.03%	-23.9%	0.0	0.8
Bulgaria	0.1	0.002%	80.3%	0.02	0.06
Croatia	0.7	0.01%	1.9%		
Cyprus	6.9	0.1%	-4.2%	-0.2	3.2
Czech Republic	2.5	0.03%	18.2%	0.1	1.0
Denmark	125.0	1.8%	-30.7%	-31.6	-63.9
Finland	19.5	0.3%	0.7%	0.5	3.5
France	1,260.2	17.7%	-4.1%	-12.9	-30.2
Germany	2,139.0	30.0%	-10.3%	16.9	426.1
Greece	5.0	0.07%	14.9%		
Hungary	22.0	0.3%	11.2%	3.2	5.9
Ireland	838.5	11.7%	-13.7%	49.7	220.5
Italy	112.2	1.6%	12.4%	0.1	22.5
Liechtenstein	38.4	0.5%	9.7%	3.1	13.4
Luxembourg	950.7	13.3%	1.7%	50.7	166.5
Malta	17.0	0.2%	-0.2%	-0.1	6.3
Netherlands	702.1	9.8%	-29.0%	-181.3	-377.1
Norway					
Poland	36.4	0.5%	-5.0%	-0.8	-3.2
Portugal	13.0	0.2%	8.3%	0.0	-0.4
Romania	5.4	0.1%	2.1%	-0.03	0.1
Slovakia	2.8	0.04%	4.1%	0.1	1.0
Slovenia	0.5	0.007%	50.3%		
Spain	34.0	0.5%	-21.2%	1.6	-9.0
Sweden	25.0	0.4%	-18.3%	0.7	1.6
Switzerland	172.2	2.4%	-1.0%	4.8	57.4
Türkiye	14.0	0.2%	41.5%	1.1	2.2
United Kingdom	485.6	6.8%	-18.6%	-10.2	-10.6
Europe	**7,139.0**	**100.0%**	**-11.0%**	**-105.1**	**449.5**

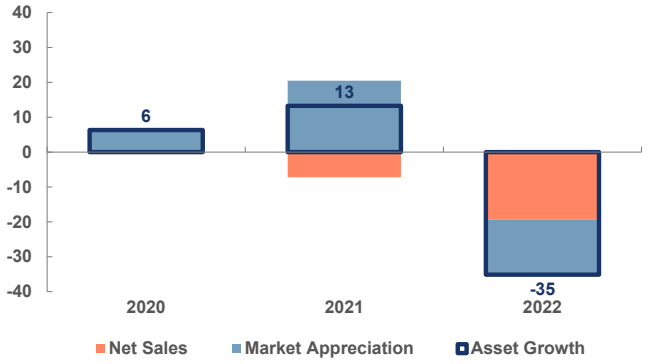
2.3.2 Equity, bond and multi-asset AIFs

Net assets and net sales of equity AIFs. Net assets of equity AIF grew steadily in 2020 and 2021, pushed up by strongly performing stock markets. However in 2022, net assets plummeted to EUR 0.7 trillion. Net sales were negative over the past four years, with sizeable net outflows in 2022 (EUR 216 billion). The negative flows in 2021 and 2022 were mainly due to what happened in the pension fund sector in the Netherlands and Denmark. Disregarding these two countries, net AIF sales were close to zero in 2021 and dropped to net outflows of EUR 25 billion in 2022.

2.77: Net Assets and Net Sales of AIF Equity Funds

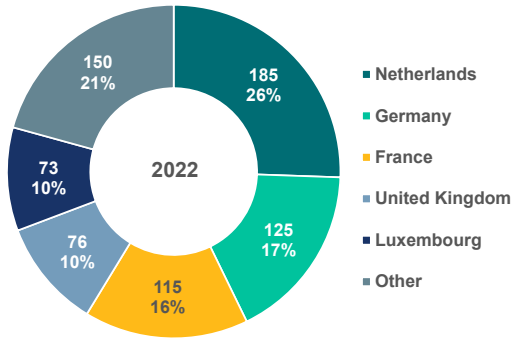
Breakdown of net asset growth of equity AIFs. Net assets of equity AIFs declined by 35% in 2022, this was due to a combination of negative net sales (-19%) and market depreciation (-16%). In most years, net asset growth of equity AIFs was lower than that of equity UCITS, but this was mainly due to negative net AIF sales. Indeed, market appreciation of equity UCITS and equity AIFs were quite similar in recent years. This could indicate that - at an aggregated level - the asset allocations of equity UCITS and AIFs are broadly similar in terms of geographical and sectoral investments.

2.78: AIF Equity Asset Growth by Source
(percent)



Breakdown of equity AIFs by domicile. Looking at the AIF equity market by domicile, the Netherlands - with its large pension fund industry - accounted for 26%, followed by Germany (17%), France (16%), the UK (10%) and Luxembourg (10%).

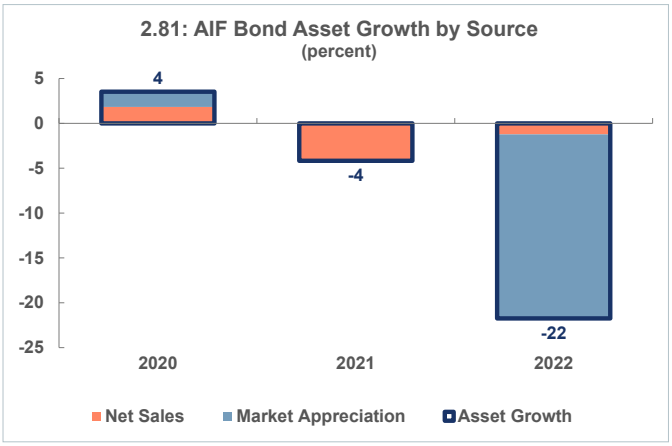
2.79: Top 5 Country Shares in AIF Equity Assets
(EUR billions, percent)



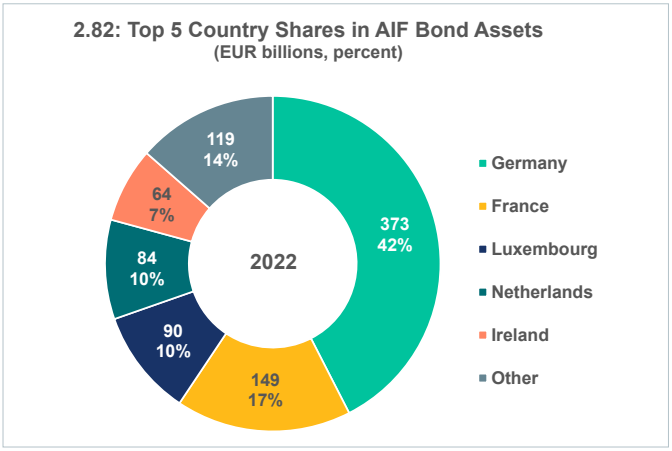
Net assets and net sales of bond AIFs. Net assets of bond AIFs declined to EUR 0.9 trillion in 2022, from EUR 1.1 trillion in 2021 and even EUR 1.2 trillion in 2020. Net sales were negative in 2021 and 2022, and were again primarily driven by Dutch and Danish pension funds moving away from AIF wrappers.

2.80: Net Assets and Net Sales of AIF Bond Funds

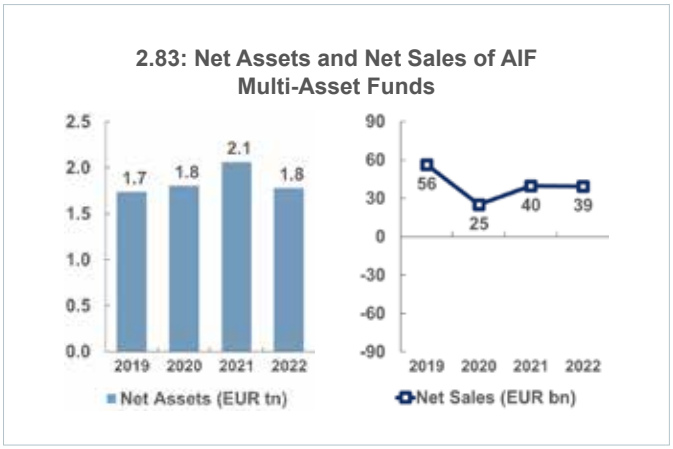
Breakdown of net asset growth of bond AIFs. Net assets of bond AIFs declined by 22% in 2022, the largest drop in recent years. Breaking down this decrease shows that falling bond prices were the main culprit behind this decline, as net sales only accounted for 1% of the total asset decline.



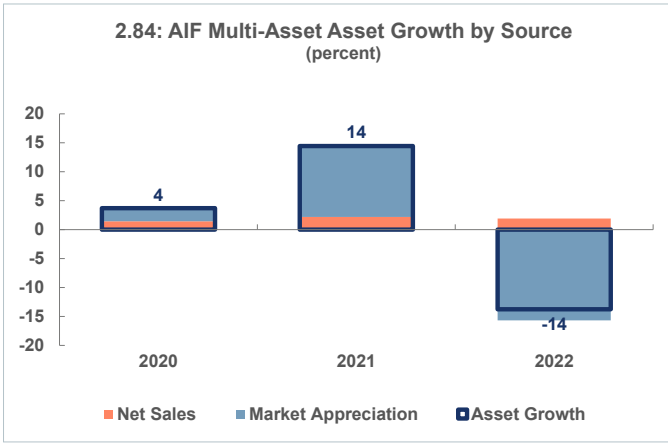
Breakdown of bond AIFs by domicile. Germany, with its large institutional 'Spezial fonds' sector, dominates the AIF bond market (41%). It is mainly insurers and pension funds in Germany that make use of these types of funds. France, which also has a large insurance sector, took second place (14%) and the Netherlands (12%), Ireland (11%) and Luxembourg (10%) complete the top five.



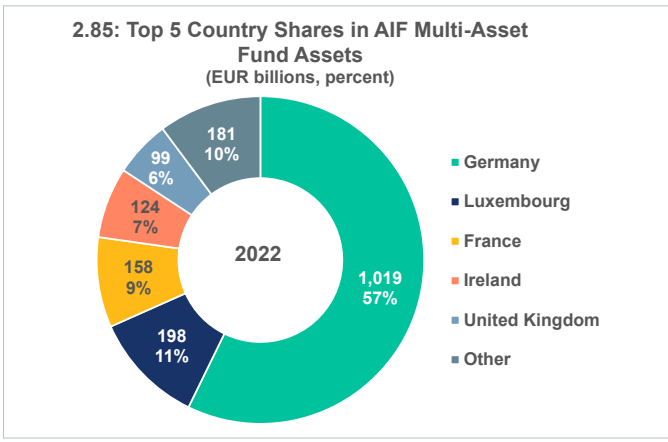
Net assets and net sales of multi-asset AIFs. Net assets of multi-asset AIFs grew steadily in 2020 and 2021, but the fall in both the stock and fixed-income markets resulted in a decline in 2022. They ended 2022 at EUR 1.8 trillion, down from EUR 2.1 trillion in 2021. Net sales were positive during the previous four years, with net inflows amounting to EUR 39 billion in 2022.



Breakdown of net asset growth of multi-asset AIFs. Net assets declined by 14% in 2022, as the decline in stock and bond prices had a larger effect than the positive net inflows.

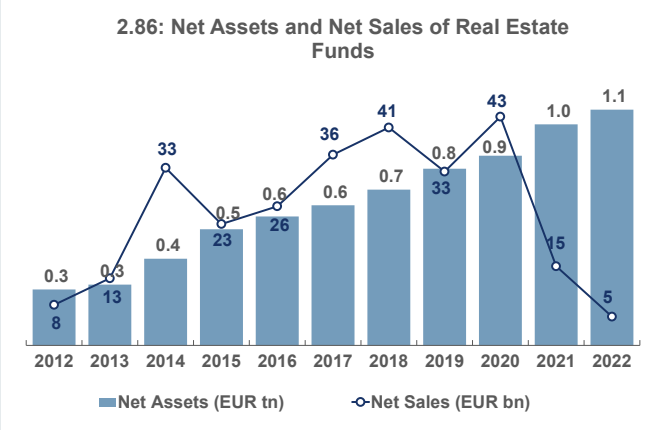


Breakdown of multi-asset AIF by domicile. Even more is than in bond AIFs, it is German 'Spezialfonds', which accounted for the majority of total multi-asset AIFs (57%) at end 2022. Luxembourg (11%), France (9%), Ireland (7%) and the UK (6%) followed in the ranking.

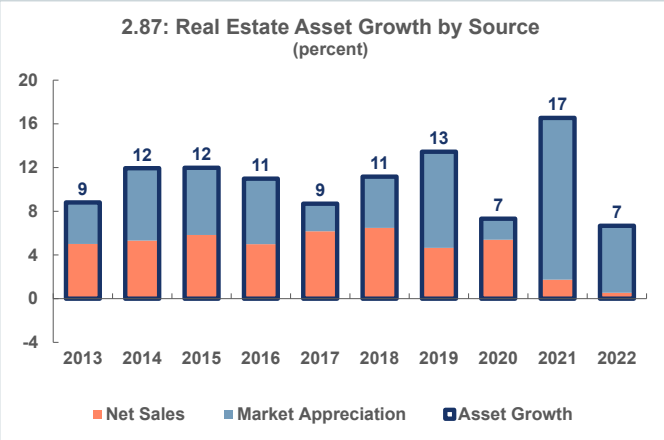


2.3.3 Real estate AIFs

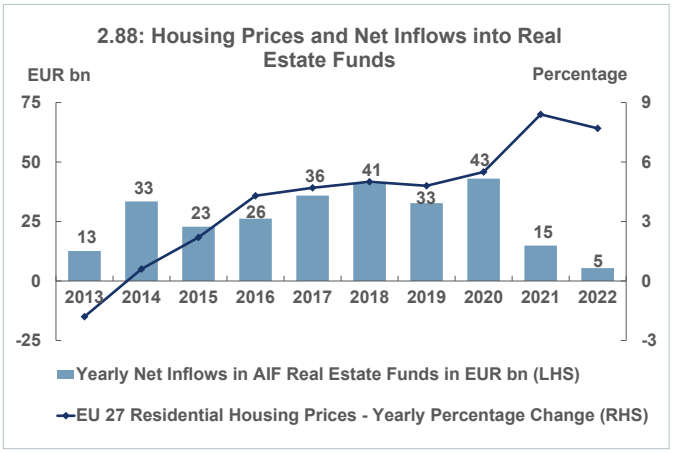
Net assets and net sales of real estate AIFs. Net assets of real estate funds ended 2022 at a record high of EUR 1.1 trillion, compared to EUR 1.0 trillion in 2021.[xv] Real estate funds were the only major category of AIFs that registered net asset growth in 2022. Net sales were also positive, but fell to EUR 5 billion from EUR 15 billion in 2021. The low 2022 inflows were, like in 2021, heavily influenced by net outflows in the Netherlands (EUR 12 billion). Demand for real estate funds is, in general, only correlated to a small degree to developments in the broader financial markets.



Breakdown of net asset growth. Real estate fund asset growth was only 7% in 2022, one of the lowest growth levels of the decade. This was mainly a result of exceptionally low net sales. The 2022 net asset growth of real estate funds was almost solely a reflection of market appreciation (6.5%) over the year.

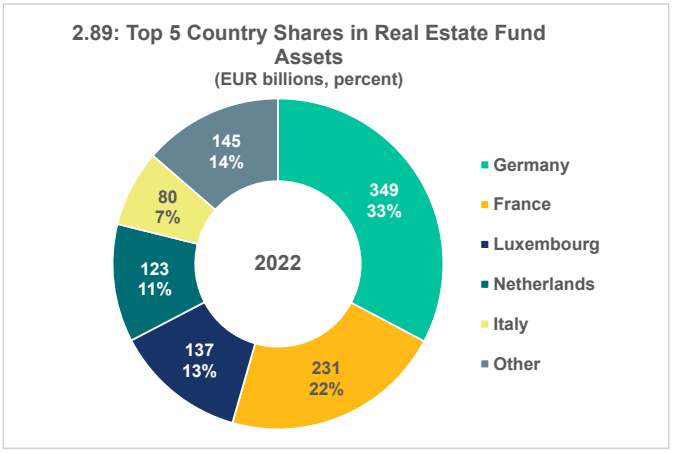


Demand for bond funds and housing prices. The demand for real estate funds tends to correlate positively with the evolution in housing prices. Strong growth in housing prices tends to coincide with higher net inflows into real estate funds and vice versa. In 2021, however, house prices rose sharply, but net sales of real estate funds dropped. Results in 2022 reaffirmed this correlation, as there was a decrease in the growth of house prices, a result of rising mortgage rates and a consequent drop in the net sales of real estate funds.



Source: Eurostat and EFAMA

Breakdown by domicile. Germany accounted for the largest share of the European real estate fund market (33%) at end 2022. France was the second largest (22%), followed by Luxembourg (13%), the Netherlands (11%), and Italy (7%). The remaining 14% of real estate fund net assets were domiciled in other European countries.



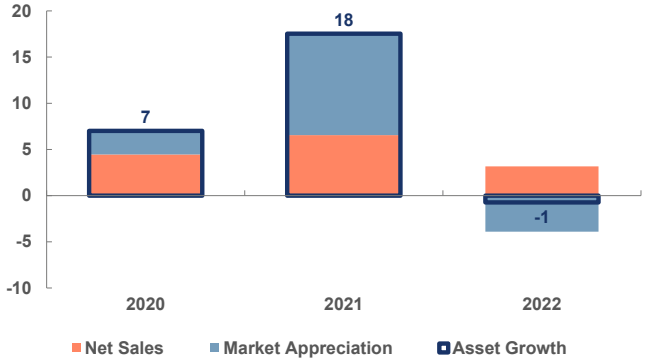
2.3.4 Other AIFs

Net assets and net sales. 'Other' AIFs are the predominant type of AIFs. These encompass a wide range of fund types, including securitisation funds, private equity funds, debt/loan funds and hedge funds as well as others such as commodities funds. What these funds have in common is that they all invest in alternative, less-liquid assets. Net assets of other AIFs grew briskly in recent years, only to edge down again in 2022. Asset growth in most years was supported by strong net sales. Often net sales of other AIFs accounted for the bulk of total AIF sales.

2.90: Net Assets and Net Sales of Other AIF Funds

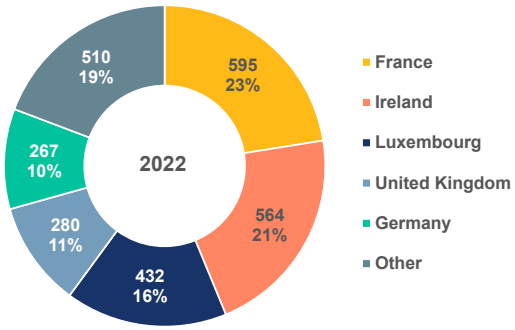
Breakdown of net asset growth. Net asset growth declined slightly in 2022 (1%) as market depreciation amounted to -4%, despite positive net sales accounting for +3%.

2.91: Other AIF Asset Growth by Source
(percent)



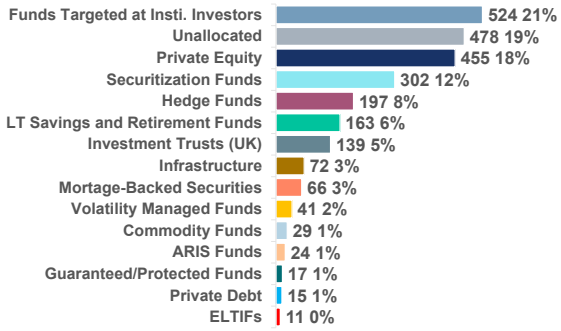
Breakdown by domicile. France accounted for the largest proportion of the 'other' AIF sector at 23% in 2022. Ireland (21%), Luxembourg (16%), the UK (11%) and Germany (10%) followed in this ranking.

2.92: Top 5 Country Shares in Other AIF Assets
(EUR billions, percent)



Breakdown of other AIFs. Using data gathered from various national associations, we can zoom in on the diverse types of funds making up 'other' AIFs. Several of the funds identified as making up a significant portion of the net assets are specific to one or a couple of European countries. German Spezialfonds and Luxembourg SIFs are investment vehicles aimed specifically at institutional investors. These are often funds-of-funds and are mostly classified under 'other' AIFs because they invest in both securities and real assets. Securitisation funds and long-term savings and retirement funds are mainly concentrated in France, whereas investment trusts and volatility-managed funds are unique to the UK.

2.93: Estimated Breakdown of Other AIFs at End 2022
(EUR billions, percent)



Box 5
ELTIF 2.0 - The redesigned framework

Author: *Elona Morina*

European Long-Term Investment Funds (ELTIFs) were created in 2015 as a new type of collective investment framework that allow investors - mainly institutional and high-net-worth retail investors - to put money into companies and projects that need long-term capital. ELTIF's products were an integral element of the European Commission's investment plan and Capital Markets Union (CMU), which were intended to rebuild Europe and channel capital into the European real economy.

Key features of ELTIF 2.0

A review of the ELTIF Regulation was required to address some of the main obstacles that have restricted the product's appeal since its introduction. The review of the ELTIF framework has seen the key features of the products reshuffled. Now with a broader range of eligible assets, more-flexible rules for portfolio composition and less barriers to participation by retail investors, **ELTIF 2.0 has the potential to become a key enabling tool for mobilising capital for the financing of projects** such as transport and social infrastructure, sustainable energy generation and / or distribution as well as new technologies.

Important legislative changes have made the ELTIF fund structure more attractive to asset managers and investors alike. These include:

- A broader scope of eligible assets, including a simplified definition of 'real assets', an increased market capitalisation threshold and the possibility to invest in FinTechs, STS securitisations and green bonds.
- Flexible fund rules, with an increased pocket for liquid investments, more-flexible risk diversification requirements, the ability to invest in fund-of-funds and master-feeder structures as well as utilising increased leverage.
- Improved access and safer conditions for retail investors, including the removal of the previous EUR 10,000 entry ticket and the minimum net worth requirement as well as harmonisation of the distribution regime through aligning the ELTIF suitability test with MiFID II.

The redesigned ELTIF regime, which will **apply from 10 January 2024**, now has to be supplemented by the ESMA draft regulatory technical standards (RTS). These aim at defining the key criteria of the redemption terms and liquidity management of the revised fund structure. Here, the criteria established by the **ESMA's RTS must offer sufficient flexibility** to ensure that the ELTIF product remains competitive. Inevitably, rigid redemption rules would undermine the efforts made to date to tailor the revised regime to retail investors' needs and preferences, diminishing the product's appeal as a result.

Overview of the ELTIF market

As the new rules have been brought into line with what is required to make the product an attractive and competitive long-term investment structure, the redesign of ELTIF has generated **considerable interest among industry participants**. Prior to the review, there were only around 20 ELTIFs in the ESMA register, while today we can count 89 ELTIFs launched in the EU[1], with **many more in the pipeline**. This means that the market grew by more than 50% year-on-year in 2022 alone, reaching a total volume of **approximately EUR 11.3 billion** by the end of 2022.[2]

In terms of asset allocation, ELTIFs invest primarily in private equity, infrastructure and private debt. In terms of target groups, 60% of ELTIFs are sold to private and professional investors ('private-client ELTIFs'), while around 40% are reserved for institutional investors.[3]

ELTIFs are domiciled in only four European countries; Luxembourg, France, Italy and Spain. The first two still account for the vast majority of net assets and numbers of registered funds.

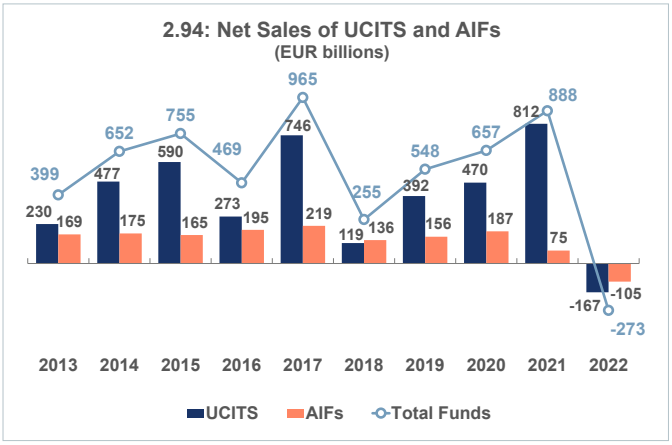
1 As of April 2023

2 European ELTIF Study Market Survey and Outlook. Scope Fund Analysis, March 2023

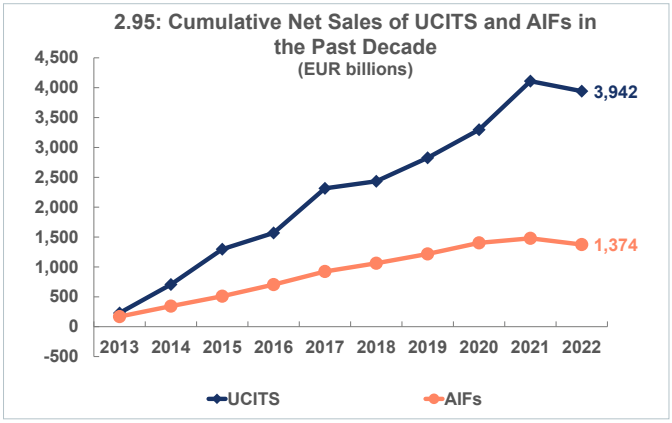
3 Ibis

2.4 TRENDS IN NET SALES AND ASSETS OF UCITS AND AIFS

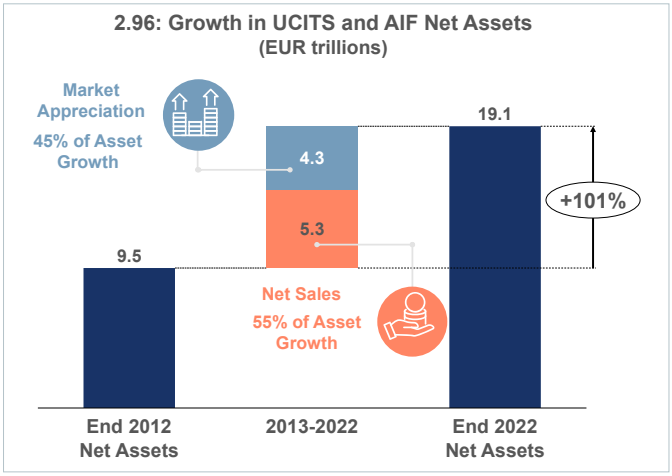
Net sales of UCITS and AIFs. Net sales of European investment funds were negative, the first net outflows of the decade.[xvi] The negative net sales of UCITS in 2022 (EUR 167 billion) were driven by a combination of policy actions and investor sentiment, as central banks tightened monetary policy sharply across much of the world. The net AIF outflows in 2022 (EUR 105 billion) were less the result of turbulent markets but rather were mainly due to Dutch and Danish pension funds restructuring their AIF wrappers due to the IFR/IFD prudential rules. The net UCITS outflows in 2022 marked a sharp deviation from the record net inflows observed in 2021 (EUR 888 billion), when investor confidence was boosted by the successful roll-out of COVID-19 vaccines and the rebound in stock markets.



Cumulative net sales. Over the past 10 years, UCITS have clearly attracted the highest cumulative net sales (EUR 3,942 billion), thanks to particularly strong net sales in 2014-2015, 2017 and 2020-2021. Cumulative inflows to AIFs over the same period amounted to EUR 1,374 billion. Compared to UCITS, net inflows into AIFs over the period 2012-2020 have remained relatively stable, due to sustained demand from institutional investors. Those tend to adopt a longer investment horizon and are therefore less influenced by short-term market uncertainty and opportunities.



Growth of UCITS and AIFs. Net assets of total European funds have more than doubled over the past 10 years (+101%). UCITS and AIFs attracted EUR 5.3 trillion in net new inflows during 2013-2022. These cumulative net sales represented almost 55% of the total net asset growth of European investment funds over that period. Market appreciation of EUR 4.3 trillion accounted for the remaining 45% increase.



CHAPTER 3: CROSS-BORDER FUNDS AND FUND OWNERSHIP

3.1 OVERVIEW

This chapter is divided into three main parts. The first focuses on domestic and cross-border funds in the European Union (EU).[xvii] Domestic funds are those sold solely in their country of domiciliation, whereas cross-border funds are 'exported' and sold from their country of domiciliation to other countries, thanks to their European passport.

In the second part of the chapter, we will turn to the ownership of investment funds, focusing on where funds are bought and who owns them, irrespective of their country of domiciliation.

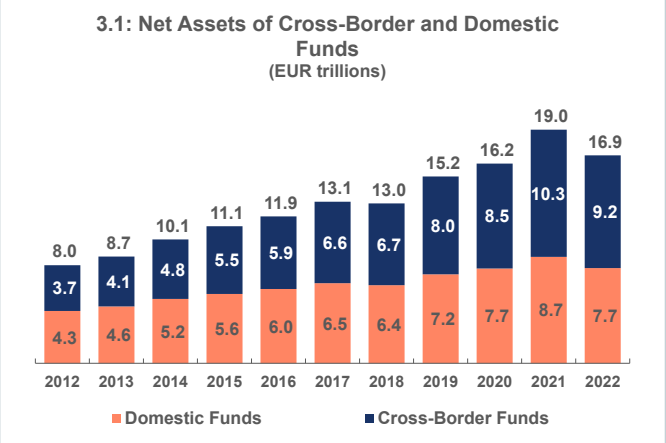
The last section takes a deeper dive into the portfolio composition of the main investors in investment funds, i.e. households, insurers, pension funds, long-term funds and other financial intermediaries.

3.2 CROSS-BORDER FUNDS

3.2.1 The cross-border fund market

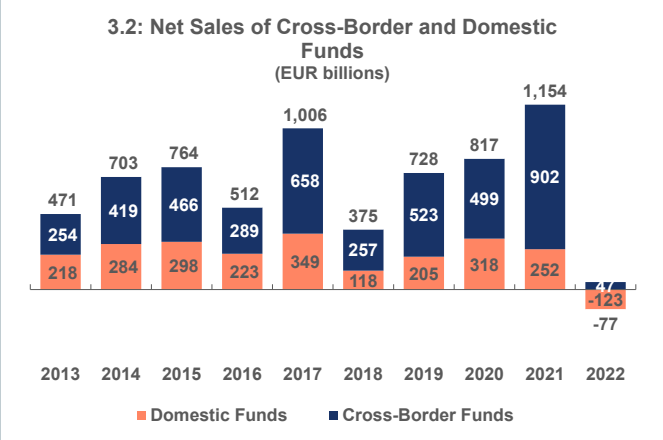
Funds can be sold in the same country where they are domiciled, or they can be sold in an another country. The first type are commonly referred to as domestic or local funds, the second as cross-border funds.

Net assets of cross-border funds in the EU amounted to EUR 9.2 trillion at end 2022, compared to EUR 7.7 trillion for domestic funds. The share of cross-border fund assets has increased steadily over the last decade, growing from 47% in 2012 to just over 54% by end 2022.



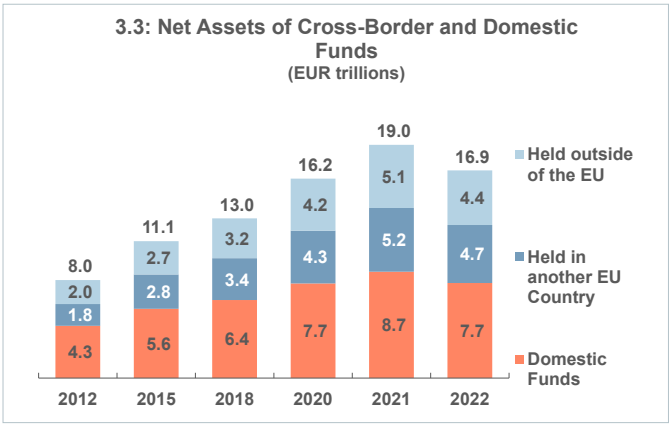
Source: ECB

Net sales of cross-border funds. Growth in the market share of cross-border funds is driven by strong demand. Cross-border funds have outperformed domestic funds in terms of net sales in every year since 2012. In 2021, the net sales of cross-border funds were more than three times higher than those of domestic funds. Net sales of domestic turned negative in 2022, the first net outflows of the decade. Cross-border fund flows dropped down significantly but did remain in positive territory.



Source: ECB

Cross-border funds inside/outside of the EU. It is possible to separate European cross-border funds into cross-border funds[xviii] held/sold in another European Union country and cross-border funds sold/held outside of the EU. This split sheds additional light on developments in the European cross-border fund market. In recent years, the cross-border fund market was split about 50/50, with slightly more than half of cross-border funds being held in another European country and the remainder being owned by investors outside of Europe.

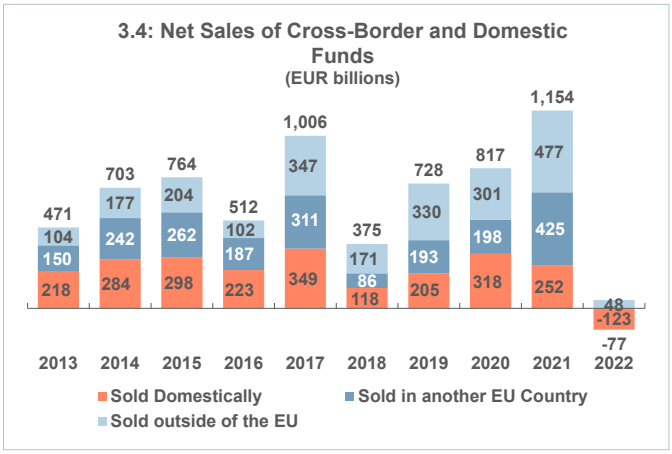


Source: ECB

Net sales of cross-border funds inside/outside of Europe. During the 2013-17 period, the strong growth in the cross-border market was mostly attributable to net sales of cross-border funds to other European countries. In 2018-2019, the level of domestic funds and cross-border funds sold within Europe fell, as European investors reacted to the rise in economic and financial instability. At the same time, net sales of cross-border funds outside Europe remained strong, as the demand for European funds from investors in other parts of the world - mainly for UCITS - remained robust.

Developments in 2020-2021. Net fund purchases by European investors recovered in 2020, thanks to a strong rise in the net sales of domestic funds. In 2021, net sales of cross-border funds rose to a record high, while net sales of domestic funds declined somewhat.

Developments In 2022. Net domestic funds turned negative in 2022 (EUR 12 billion). Net flows of cross-border funds sold in another EU country were close to zero, whereas the net sales of cross-border funds to investors outside of Europe was postive (EUR 48 billion).



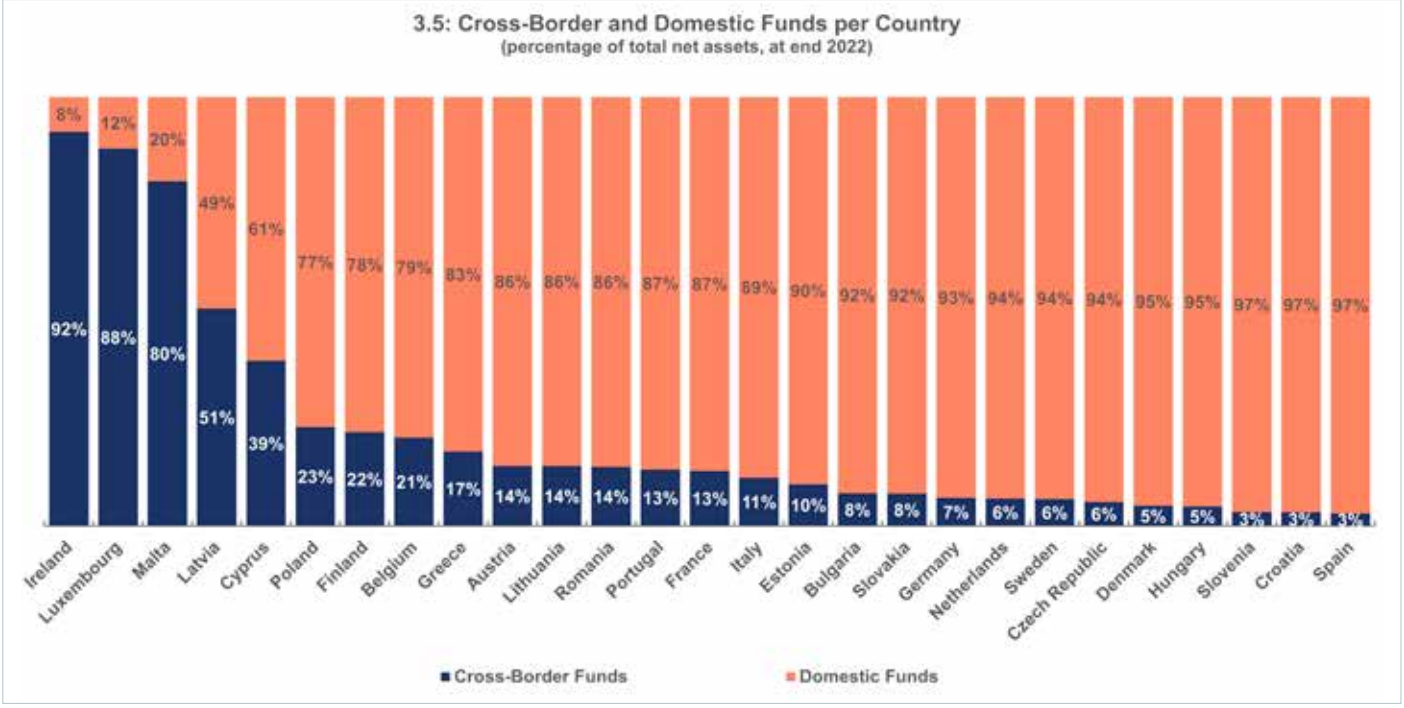
Source: ECB

3.2.2 Share of cross-border funds at national level

Country-level cross-border funds. At country level, we can estimate the respective shares of home-domiciled funds sold either domestically or cross-border.

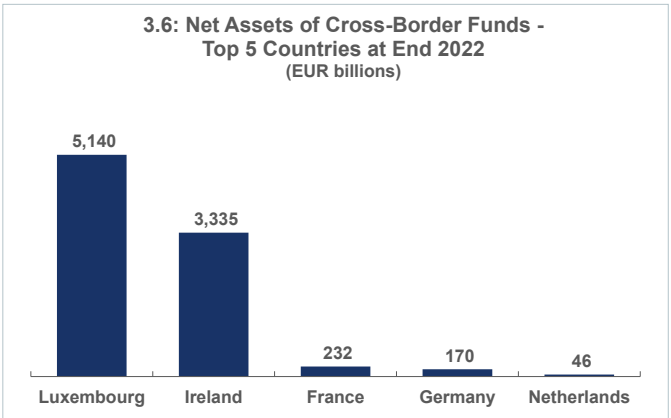
Domestic-focused markets. In most European countries, the vast majority of home-domiciled funds are held at home. In 12 countries, more than 90% of the home-domiciled funds are held domestically. Asset managers in these countries mainly focus on their domestic market or they domicile the funds that they sell cross-border in one of the cross-border fund domiciles.

Cross-border domiciles. Luxembourg and Ireland are the two principal Cross-border fund domiciles in Europe, 88% and 92%, respectively of the funds domiciled in these countries were held abroad at end 2022. Both European and global asset managers make extensive use of the economies of scale and expertise available in those countries to domicile their cross-border funds there. Malta - and to a lesser extent Latvia and Cyprus - can also be considered cross-border fund centres, as a significant portion of their home-domiciled funds were held abroad.



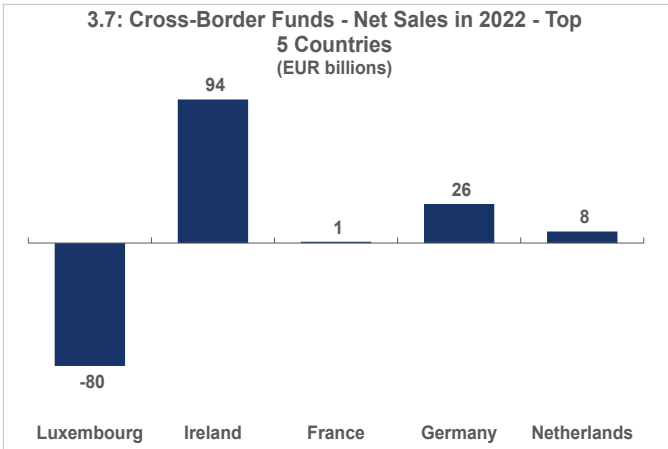
Source: ECB

Net assets of cross-border funds. The net assets of cross-border funds domiciled in Luxembourg and Ireland totalled EUR 5.1 trillion and EUR 3.3 trillion, respectively. Combined, these accounted for more than 95% of the total cross-border fund market in Europe at end 2022. France, Germany and the Netherlands complete the top five, albeit with substantially smaller amounts of cross-border fund assets.



Source: ECB

Net sales of cross-border funds. Given the size of its net assets, it is unsurprising that Luxembourg accounted for the bulk of cross-border fund flows, recording net outflows of EUR 80 billion in 2022. Ireland registered high net inflows (EUR 94 billion). Germany, the Netherlands, and France registered lower amounts of net inflows of cross-border funds over 2022.

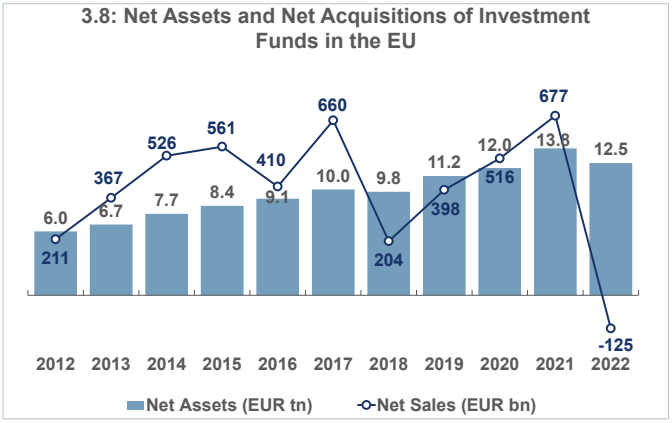


Source: ECB

3.3 INVESTMENT FUND OWNERSHIP IN EUROPE

3.3.1 Recent developments

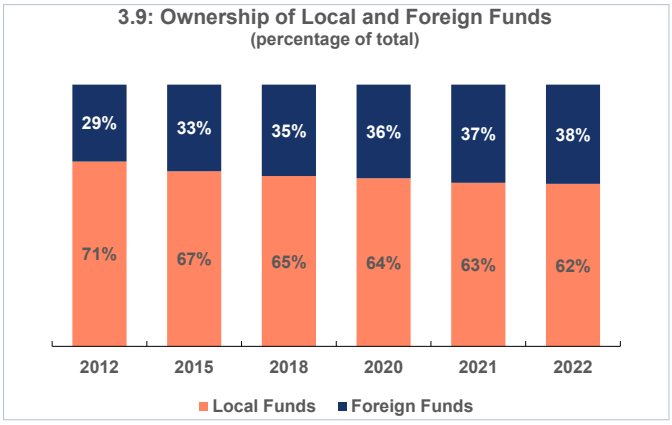
Total fund ownership. Demand for investment funds in the EU grew steadily in recent years, reaching EUR 13.8 trillion at end 2021, before dropping to EUR 12.5 trillion in 2022.[xix] The amount of UCITS and AIFs held by EU investors dropped by about 9.4% in 2022, mainly due to sharp decreases in valuations of both bonds and stocks.



Source: ECB

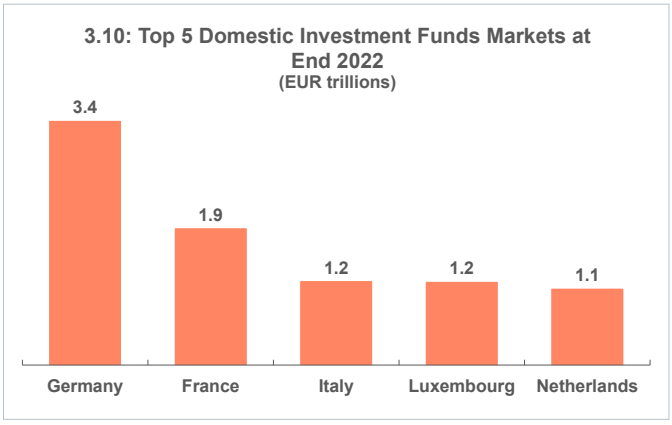
Net acquisitions of funds. Fund acquisitions were strong during the 2013-2017 period, before dropping in 2018. Thereafter, they increased gradually to reach EUR 677 billion in 2021, before turning negative in 2022 (EUR 125 billion).

Local and foreign funds. Investors can invest in local funds, i.e. funds domiciled in the same country where they are held, or in foreign funds, i.e. funds domiciled in another country than the one of the investor. At end of 2022, local funds accounted for 62% of fund ownership in the EU, compared with 71% in 2012. This decline is a direct consequence of the increased purchases of cross-border funds by European investors, as discussed in the previous section (Section 3.2 Cross-border and domestic funds).



Source: ECB

Fund ownership per country – top five countries. The five EU countries with the highest level of fund ownership at end 2022 were Germany, France, Italy, Luxembourg, and the Netherlands. This list includes the three largest European countries in terms of the size of their economies and populations. Luxembourg is in fourth place, due to the fact that investment funds are treated by the ECB as a specific investor category. Following this approach, investment funds in which other investment funds invest are categorised as funds held locally. Given the size of the fund industry in Luxembourg, this constitutes a substantial segment. The Netherlands is fifth due to the size of its occupational pension fund sector, which holds a significant share of its portfolios in investment funds.



Source: ECB

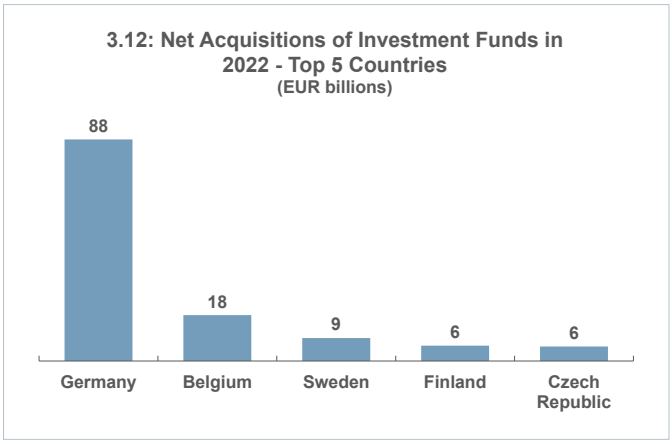
Fund ownership per country – All countries. The table below provides estimates of the fund assets holdings in EU countries, as well as the market share of each country within Europe. It also breaks down the fund holdings per country by local and foreign funds.

3.11: Investor Demand for Investment Funds

Country [1]	Total Ownership of Investment Funds		Local Funds		Foreign Funds	
	Assets (EUR bn)	Market Share in 2022	Assets		Assets	
			EUR bn	%	EUR bn	%
Austria	271	1.6%	173	64%	98	36%
Belgium	461	2.7%	166	36%	294	64%
Bulgaria	4	0.02%	1	31%	3	69%
Croatia	1	0.004%	0.4	56%	0.3	44%
Cyprus	10	0.1%	5	44%	6	56%
Czech Republic	49	0.3%	32	66%	17	34%
Denmark	364	2.1%	299	82%	65	18%
Estonia	9	0.1%	5	58%	4	42%
Finland	306	1.8%	116	38%	190	62%
France	1,921	11.3%	1,566	82%	355	18%
Germany	3,434	20.2%	2,415	70%	1,019	30%
Greece	17	0.1%	8	45%	10	55%
Hungary	38	0.2%	31	80%	8	20%
Ireland	658	3.9%	291	44%	367	56%
Italy	1,179	7.0%	318	27%	862	73%
Latvia	6	0.0%	0	4%	6	96%
Lithuania	9	0.1%	2	20%	7	80%
Luxembourg	1,170	6.9%	700	60%	469	40%
Malta	14	0.1%	4	28%	10	72%
Netherlands	1,072	6.3%	676	63%	397	37%
Poland	47	0.3%	41	88%	6	12%
Portugal	68	0.4%	31	45%	37	55%
Romania	9	0.1%	7	84%	1	16%
Slovakia	21	0.1%	8	39%	13	61%
Slovenia	8	0.0%	4	55%	3	45%
Spain	639	3.8%	341	53%	297	47%
Sweden	680	4.0%	497	73%	184	27%
EU	**12,466**	**73.5%**	**7,740**	**62%**	**4,726**	**38%**
Norway	188	1.1%	137	73%	51	27%
Switzerland	1,710	10.1%	1,321	77%	389	23%
Türkiye [2]	22	0.1%	22	100%	0	0%
United Kingdom	2,574	15.2%	1,909	74%	665	26%
Europe	**16,960**	**100.0%**	**11,128**	**66%**	**5,831**	**34%**

(1) Data sourced from the ECB, the OECD and the SNB.
(2) Data as at end of Q3 2022.

Net acquisitions of funds per country. Germany, as the largest fund market, recorded the greatest level of net acquisitions during 2022 (EUR 88 billion). It was followed by lower levels of net acquisitions in Belgium, Sweden Finland and the Czech Republic. The Netherlands accounted for the vast majority of the net outflows in 2022 (EUR 175 billion).



Source: ECB

Box 6
The impact of taxation on the strategies of funds

Author: *António Frade Correia*

There should be no doubt taxation influences investors' decisions. When establishing their investment strategies, they will consider whether, in a certain jurisdiction, they will be offered the ability to provide tax-neutral efficiency solutions for investment fund products, access to the double tax treaties network. They also want certainty on the tax treatment a certain investment entity will receive from tax authorities (both in the country of residency and the country of investment).

Although taxation is an important consideration, the decision to establish an investment structure in a certain jurisdiction is based on many other factors. Indeed, it is highly unlikely that business location would be selected only on the basis of the tax treatment of the fund, the management companies, the service providers and, ultimately, of the end-investors.

When establishing a business in the EU investor's will take into account the regulatory environment, the availability of a qualified workforce / expertise to manage and run the day-to-day operations of the funds, as well as the economic, social, legal and tax stability in the respective jurisdictions. The connectivity and easy access to the key international financial centres (throughout Europe, Asia, the Middle East and the Americas) will also be a consideration in the context of the fund structures strategy.

Investment management decisions are a combination of all the above-referenced factors and not limited to taxation alone. It should be clear to all relevant stakeholders - in particular policymakers and regulators - that investment decisions ultimately focus on the investment's performance and potential returns.

Investment funds are treated as tax-neutral investment pooling vehicles as a matter of public policy and are therefore generally exempt from taxation to fulfil that tax neutrality objective. Investment returns are generally taxed at the investor level upon distribution. This tax neutrality principle for investment funds is increasingly being acknowledged in both EU and non-EU countries where tax policy measures are being implemented to reduce adverse taxation effects on investments. The aim is to ensure that, as far as possible, the overall final tax burden on investments is about the same regardless people or businesses savings are being invested directly in the market or indirectly through investment funds. This is particularly important for paying dividends, interest and capital gains. The tax neutrality principle also involves avoiding double taxation through withholding taxes incurred by investment funds.

Over the years, EFAMA has been advocating for greater tax harmonisation at both EU and non-EU levels. It has also been raising awareness of industry concerns of ensuring that - as far as possible - the overall final tax burden for direct or indirect investments should be the same, irrespective of the vehicle used. The economic double taxation of income received by the fund should be avoided to protect the interests of European consumers, who should not see the return on their investments reduced because of tax inefficiencies.

The role that investment funds must play in providing investors with global market access and a diversified portfolio is not to be underestimated. Investments should flow in a Capital Markets Union (CMU) without tax barriers, because it would create a level playing field for investors and businesses throughout the EU (leading to, for example, greater investment and real economic growth).

As you will see from the evidence collected in EFAMA's Fact Book, the international diversification of the distribution of investment funds has evolved significantly in recent years, with increasing numbers of investments being made by European investors in an EU / no EU cross-border environment.[1]

This Fact Book also includes country reports that provide an overview of the investment management industry in individual EU countries. These also highlight the key national tax concerns and challenges facing the industry. Some of the common tax concerns and challenges reflected in the country reports include updates on topics marked as priorities for our Taxation and Accounting Standing Committee.

Building on the good work of our research team, EFAMA will keep making its voice heard in – among others - the following topics,:

- On withholding tax (WHT), EFAMA will keep calling on Member States to ensure tax neutrality of Investment Funds is preserved by abolishing WHTs for payments made to UCITS and AIFs. As an alternative – if / while this is not feasible - EFAMA will support an EU-wide WHT rate limited to 15% in all Member States, and the recognition of the treaty entitlement of UCITS and comparable investment funds.
- Regarding VAT, we will continue to call for the maintenance of the VAT exemption for management services of EU funds. Otherwise, the removal of the VAT exemption and the application of VAT on the management services would increase management costs and lead to lower returns.
- On tax transparency, while we support the EU/OECD initiatives[2] to fight tax avoidance and aggressive tax planning, we will continue calling for streamlined, targeted, harmonised and fit-for-purpose procedures. This is in order to ensure proportionate compliance costs, certainty for end investors and effectiveness for tax authorities, supervisors and regulators. Indeed, before new reforms/initiatives are initiated, countries should always ensure they are making effective use of the tools already available under the existing EU/OECD legal framework.

We need unanimous agreement from all Member States to harmonise the EU tax policy in particular to removing tax barriers, administrative obstacles, eliminate the risk of double taxation and increase the certainty on the tax treatment of investment vehicles and products. While we deal with the challenges of unanimity to harmonise tax policy at the level of the EU, it is essential to continue calling on Member States to adjust their national tax regimes, in particular, to strengthen tax incentives to promote the channelling of European citizens' savings into investment products such as PEPPs, ELTIFs and other long-term products.[3] [4]

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1 *At the end of 2022, foreign investors were one of the main investors in UCITS and AIFs, representing EUR 4.4 trillion. EU households represented EUR 3.2 trillion (26% of the EU total), European insurers and pension funds EUR 4.2 trillion (34% of the EU total) and the remaining EUR 5.1 trillion represent the investments made by all types of other European investors (see section 3.3.2).*

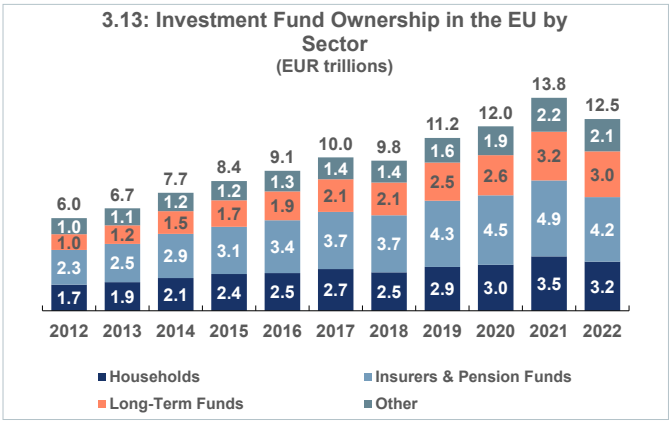
2 We have been monitoring the implementation and post-implementation of several initiatives in the field of tax transparency e.g. Directives on Administrative Cooperation (DACs), Anti-Tax Avoidance (ATADs), Country-by-Country Reporting (CbCR) and OECD Common Reporting Standard (CRS).

3 EFAMA's views on how tax incentives should be redesigned can be found here (*"Household Participation in Capital Markets - Assessing the current state and measuring future progress"*, Sep 2020).

4 More information on how the OECD countries are offering tax incentives to encourage individuals to save for retirement is available here (OECD (2022), *"Annual survey on financial incentives for retirement savings"*).

3.3.2 Fund ownership per type of investor

Different types of investors. Fund ownership can be broken down by the main type of investor. Insurance and pension funds, households and long-term funds can be considered as the three main types. Together, these hold around 83% of total investment fund assets in the European Union. The 'other investors' category groups together all other types of investors that do not make a lot of use of investment funds.



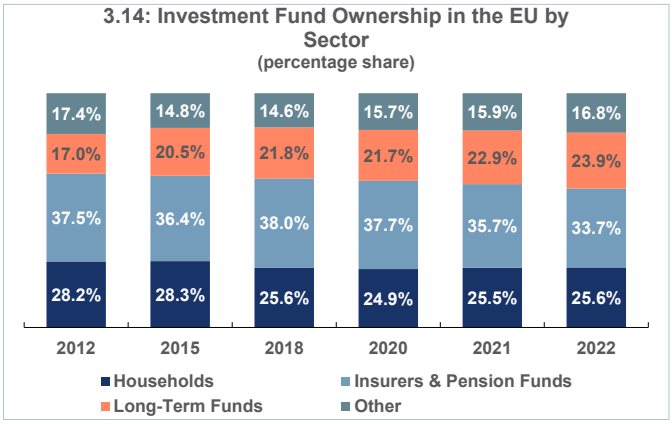
Source: ECB

Insurers and pension funds. Insurers and pension funds are the largest investors in investment funds, holding more than a third of the total in the European Union. Despite solid growth in absolute terms, the share of investment funds owned by insurers and pension funds has gradually decreased since 2018.

Households. Households are the second-largest type of investor in funds; their share also dipped, from 28.2% in 2012 to below 25% in 2020. In 2021 and 2022, their market share grew again, helped by net fund acquisitions.

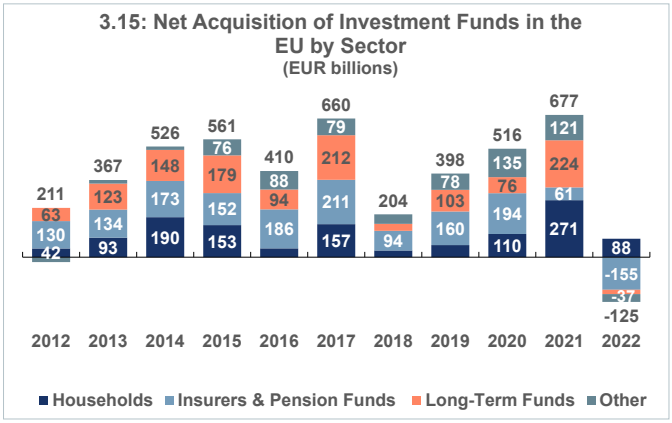
Long-term funds. The share of other long-term funds has grown steadily, from 17% in 2012 to 23.9% at end 2022. This was driven by long-term funds investing an increasing portion of their assets into other investment funds. Long-term funds are making progressively more use of ETFs and index funds to adjust their geographical or sector exposure in a cost-effective way.

Other investors. This category combines all types of investors not making extensive use of investment funds. It includes monetary financial institutions[xx], non-financial corporations, general governments and remaining financial intermediaries[xxi]. Their market share has steadily edged up in recent years, from 14.6% in 2018 to 16.8% at end 2022.



Source: ECB

Net fund acquisitions. Economic uncertainties and increased volatility in financial markets discouraged retail investors in 2018-2019. European households regained confidence during 2020 and fund acquisitions reached an absolute record in 2021 (EUR 271 billion). In 2022, despite stock and bond market declines, net acquisitions by EU retail investors remained positive (EUR 88 billion). Institutional investors tend to be less wary of short-term volatility, as illustrated by their more-consistent fund acquisitions over much of the past decade. In 2022, however, net fund acquisitions by most types of institutional investors were negative.



Source: ECB

Fund ownership by country. The following table depicts fund ownership by country at end 2022, broken down by type of investor. It provides an insight into how the market for investment funds is structured in each European country. We can distinguish three broad categories of European countries. Retail-dominated countries are those where households account for the bulk of fund ownership; institutional investors plays less of a role here. Examples of retail-dominated countries include Belgium, the Czech Republic, Greece, Hungary, Italy, Poland and Spain. A second category are those European countries where fund ownership is dominated by either the domestic insurance or pension fund sectors. These countries often have a large second-pillar pension systems, such as the Netherlands, Sweden and the UK. Some - such as France or Germany - have very well-developed domestic insurance sectors. Retail markets can be important in these countries, but are generally dwarfed by the institutional market. A third category of countries is where long-term funds dominate domestic fund ownership. These countries are all cross-border fund hubs with relatively small populations. Luxembourg and Ireland, as well as Malta, fall into this category.

3.16: Investment Fund Ownership by Sector at End 2022
(EUR billions)

Country[1]	Households	Insurers & Pension Funds		Long-Term Funds	Other				Total
		Insurers	Pension Funds		Non-Financial Corp.	MFIs	General Govt.	OFIs (excl. funds)	
Austria	83.9	33.6	23.5	64.2	17.8	13.2	12.2	23.0	**271.3**
Belgium	249.6	66.8	30.7	86.5	20.7	1.2	3.4	1.7	**460.7**
Bulgaria	1.1	0.8	1.4	0.5	0.3	0.1	0.1	0.04	**4.2**
Croatia	0.3	0.04	0.3	0.03	0.02	0.01	0.04	0.002	**0.7**
Cyprus	0.9	1.8	1.6	1.2	1.1	0.1		3.5	**10.2**
Czech Republic	33.9	4.0	0.8	6.9	2.4	0.7	0.1	0.4	**49.3**
Denmark	86.3	85.9	56.0	50.1	21.0	14.5	6.2	44.3	**364.4**
Estonia	4.9	0.4		2.7	0.5	0.5	0.2	0.1	**9.3**
Finland	48.4	46.3	1.6	41.3	12.6	2.2	149.9	3.7	**306.1**
France	316.9	832.3		347.7	154.1	84.4	153.8	31.8	**1,921.1**
Germany	949.3	766.6	435.9	610.9	214.9	202.4	84.1	170.1	**3,434.2**
Greece	9.6	4.1	0.5	1.1	0.8	0.6	0.7	0.1	**17.4**
Hungary	17.1	3.1	1.4	7.2	4.7	2.9	1.3	0.5	**38.1**
Ireland	4.2	175.0	12.0	425.6	20.2	1.8	5.4	13.8	**658.0**
Italy	664.0	273.1	20.7	44.1	35.2	30.7	42.8	69.1	**1,179.5**
Latvia	0.4	0.5	4.3	0.03	0.1	0.4	0.1	0.1	**5.8**
Lithuania	1.2	1.1	4.6	0.3	0.9	0.9	0.05	0.2	**9.3**
Luxembourg	14.8	106.7	0.9	851.1	5.2	4.0	1.6	185.1	**1,169.5**
Malta	0.8	1.2	2.5	7.0	0.6	0.5	0.1	1.0	**13.7**
Netherlands	98.1	107.4	571.7	239.6	6.1	5.6	0.1	43.4	**1,072.1**
Poland	24.3	8.9	0.3	3.8	6.0	1.6		2.4	**47.1**
Portugal	26.4	10.0	7.8	6.3	6.3	4.6	5.3	1.1	**67.7**
Romania	4.1	0.7	1.6	1.1	0.5	0.2	0.2	0.2	**8.7**
Slovakia	9.0	1.7	5.7	3.7	0.2	0.6	0.0	0.0	**21.0**
Slovenia	3.3	1.7	1.3	0.3	0.3	0.4	0.4	0.1	**7.7**
Spain	386.6	31.1	40.4	97.5	71.8	2.6	3.0	5.6	**638.6**
Sweden	152.9	96.9	310.1	74.5	20.4	0.7	22.1	2.8	**680.3**
EU	**3,192.2**	**2,661.6**	**1,537.5**	**2,975.2**	**624.8**	**377.5**	**493.4**	**603.9**	**12,466.0**
Norway	38.4	99.3		17.1	14.6	3.9	2.4	12.5	**188.2**
Switzerland	379.8	937.5		205.3	41.5	1.4	10.5	133.7	**1,709.7**
Türkiye[2]	14.7	0.5			6.0	0.7			**22.0**
United Kingdom	313.7	1,949.9		290.8	1.4	4.3		13.8	**2,573.9**
Europe	**3,938.9**	**7,186.3**		**3,488.3**	**688.4**	**387.7**	**506.3**	**763.8**	**16,959.7**

(1) Data sourced from the ECB, the OECD and the SNB.
(2) Data as at end of Q3 2022.

Net fund acquisitions by country. In the following table, the net fund acquisitions in 2022 of each European country by type of investor are depicted. Country-specific fund acquisitions are usually in line with the fund ownership trends presented in the previous table. This means that the largest fund acquisitions per type of investor will usually be in those countries where that specific type of investor accounts for a significant part of total fund ownership. In the retail market, German households were the largest purchasers by far of funds (EUR 55 billion). Within the EU, retail investors in Spain (EUR 12 billion), Belgium (EUR 11 billion) and France (EUR 6 billion) also bought smaller quantities of investment funds. Fund purchases by the insurance fund sector were positive in 2022 (EUR 12 billion), with Germany (EUR 18 billion) and Italy (EUR 7 billion) accounted for the bulk of net acquisitions. The strong net outflows in the pension fund sector were due to one country; the Netherlands (EUR 189 billion). These outflows were not due to market circumstances but resulted from the decisions taken by several Dutch pension funds to stop managing their assets within AIF structures and shift to segregated mandates. This was a continuation of the trend in 2021 (See section 2.3 The AIF market).

3.17: Net Acquisition of Investment Funds by Sector
(EUR millions)

Country[1]	Households	Insurers & Pension Funds		Long-Term Funds	Other				Total
		Insurers	Pension Funds		Non-Financial Corp.	MFIs	General Govt.	OFIs (excl. funds)	
Austria	5,430	688	170	-2,135	13	-769	-328	158	**3,227**
Belgium	10,865	4,889	-916	2,574	-614	1,066	253	-2	**18,117**
Bulgaria	52	157	-96	42	12	28	-29	16	**181**
Croatia	-4	2	-34	-2	-8	-8	-2	-1	**-57**
Cyprus	98	106	148	26	-424	518	49		**522**
Czech Republic	5,053	-46	187	633	43	-189	37	11	**5,728**
Denmark	56	-24,836	-3,459	1,641	223	-124	860	244	**-25,395**
Estonia	217	11		154	4	-25	264	154	**778**
Finland	1,213	985	174	1,344	362	1,457	-10	524	**6,049**
France	6,038	7,507		3,626	-2,203	-12,741	-12,846	5,772	**-4,847**
Germany	55,474	18,468	14,200	-7,332	2,254	-107	1,513	3,084	**87,554**
Greece	3	-311	50	69	10	92	256	84	**253**
Hungary	2,842	-65	-27	11	-96	958	1,146	221	**4,991**
Ireland	972	-10,434	5,146	-19,973	-1,870	-1,574	198	-122	**-27,657**
Italy	-7,375	6,603	-245	-2,154	2,281	1,233	814	2,667	**3,824**
Latvia	21	39	431	-3	-22	13	-22	8	**465**
Lithuania	37	5	288	55	69	80	409	15	**957**
Luxembourg	3,253	2,739	-162	12,434	-36,729	-151	626	82	**-17,907**
Malta	-103	-243	-2,600	-681	162	104	52	-10	**-3,320**
Netherlands	516	4,820	-189,414	4,118	4,562	570	-513	2	**-175,339**
Poland	-4,303	-938	113	-573	879	226	140		**-4,455**
Portugal	-518	-734	-24	-332	73	169	-1,759	-84	**-3,210**
Romania	-930	148	-121	10	3	-291	8	36	**-1,138**
Slovakia	1,107	376	962	363	-35	40	-46	-0.1	**2,767**
Slovenia	208	-45	-22	-51	-2	33	117	-8	**230**
Spain	12,426	-1,908	-2,797	-16,001	933	-348	908	383	**-6,404**
Sweden	-4,864	3,734	11,165	1,539	98	-1,145	-424	-1,049	**9,054**
EU	**87,785**	**11,716**	**-166,885**	**-20,597**	**-30,022**	**-10,885**	**-8,329**	**12,183**	**-125,033**
Norway	744	1,151		-3,439	576	-755	182	308	**-1,232**
Switzerland	16,574	70,698		10,772	8,259	1,821	278	652	**109,054**
Türkiye	6,103	519				1,455	413		**8,490**
United Kingdom	-11,091	-87,047		-9,120	14,685	16	53		**-92,504**
Europe	**100,115**	**-169,847**		**-22,384**	**-6,502**	**-8,348**	**-7,403**	**13,143**	**-101,226**

(1) Data sourced from the ECB, the OECD and the SNB.

Box 7
Costs of UCITS funds

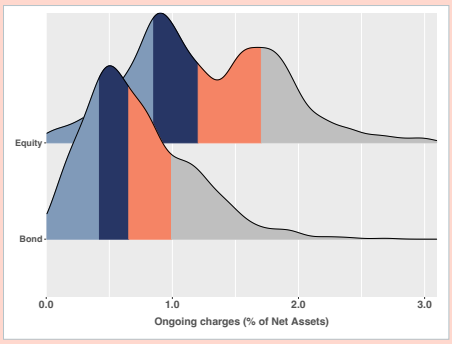
Author: *Vera Jotanovic*

The simple average ongoing charge for active funds was 1.17% of the fund's net asset value in 2022, compared with 0.30% for passive funds and 0.31% for exchange-traded funds. The weighted average values amounted to 0.89%, 0.19% and 0.22%, respectively for active, passive and exchange-traded funds. These lower values reflect the fact that larger funds tend to be cheaper than smaller funds because they can take advantage of economies of scale. This means that - as they grow in size - their fixed costs are spread across a larger asset base, resulting in lower expenses per euro invested.

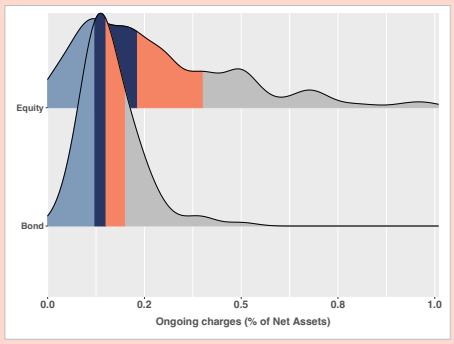
As expected, the costs also differed between fund types, with bond funds charging lower fees compared to equity funds, particularly in the universe of active funds. The fee difference was less noticeable between passive and exchange-traded funds.

The charts below display the 2022 distributions in ongoing charges of actively and passively managed equity and bond funds and ETFs. While active funds on average charge higher fees than their passive counterparts and ETFs, it should be noted that some active funds charge fees that are as low as those charged by the majority of passive and ETF funds. This reflects the fact that the fees charged can vary widely, depending on several factors, in particular their level of assets under management. This point was emphasised in ESMA's 2023 Statistical Report, which noted that *"Across time horizons and asset classes, larger funds have lower costs than smaller funds. For equity and bond funds, ongoing costs for the top 25% funds in terms of size were on average around 30% lower than for the bottom-25%."*[1]

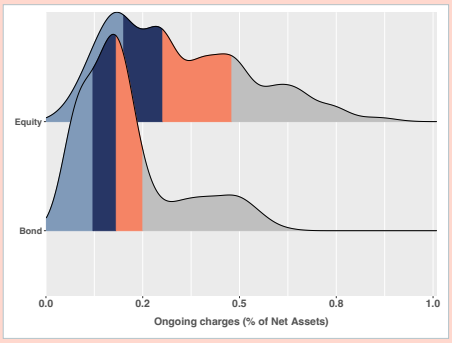
1. Active Fund Cost in 2022
(as percentage of net assets)



2. Passive Fund Cost in 2022
(as percentage of net assets)



3. ETF Fund Cost in 2022
(as percentage of net assets)

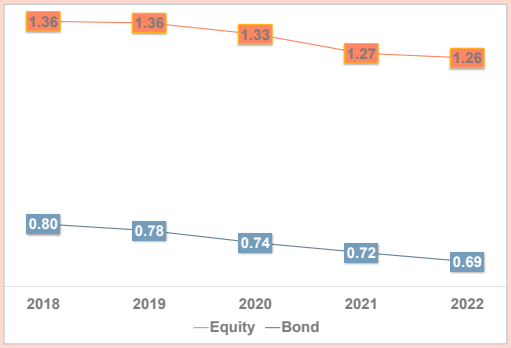


Source: Morningstar Direct platform and EFAMA's calculations.

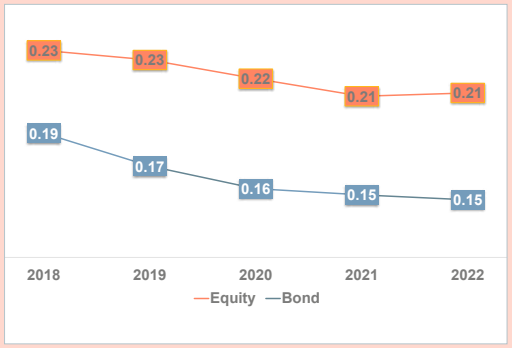
1 The ESMA report can be downloaded here.

Our analysis confirms our conclusions in previous reports that the cost of all types of funds has been trending downwards for a number of years.[2] During the period 2018-2022, the average ongoing charges for all types of equity funds - active, passive and ETFs – fell by 7%, 9% and 15%, respectively. The bond fund costs have also fallen for all three categories, the sharpest fall (23%) being observed for ETFs.

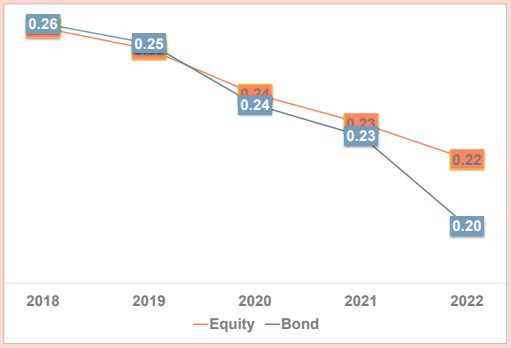
4. Active Funds Cost
(ongoing charges, as percentage of net assets)



5. Passive Funds Cost
(ongoing charges, as percentage of net assets)



6. ETF Funds Cost
(ongoing charges, as percentage of net assets)



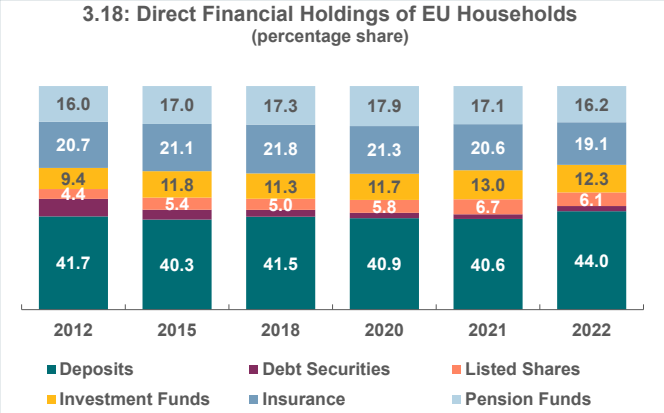
Source: Morningstar Direct platform and EFAMA's calculations.

2 The charts show the weighted averages of ongoing charges.

3.4 LOOK-THROUGH THE FINANCIAL PORTFOLIO HOLDINGS OF EUROPEAN INVESTORS

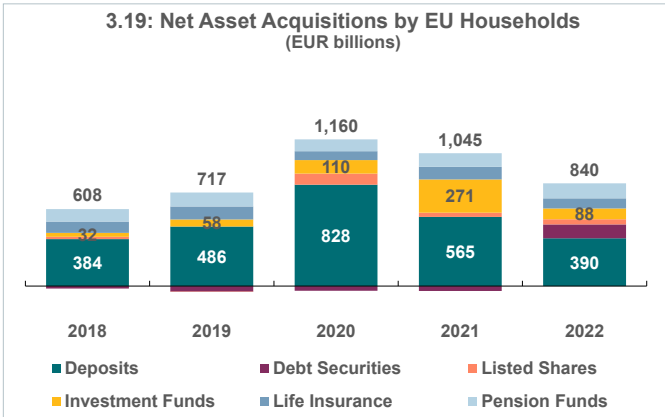
3.4.1 Households

Financial assets of households. The high share of deposits stands out when we look at the financial assets of European households.[xxii] This share fluctuated between 40-42% over the 2012-2022 period. The share of investment funds owned by households gradually increased over the same period, from 9.4% in 2012 to 13% in 2021, due mainly to a combination of fund acquisitions and market appreciation. In 2022, the share of deposits rose to a record high (44%) while the shares of all other financial market assets decreased. This was a result of the steep drops in the valuations of both bonds and stocks over the course of the year.



Source: ECB

in recent years, a direct consequence of low interest rates and the limited offer available to retail investors. However, this trend reversed in 2022, as the abrupt rise in interest rates made these assets more attractive again (EUR 114 billion). Investment funds attracted low amounts of retail inflows in 2018 and 2019. In 2020, the quick recovery following the market dip of March 2020 restored confidence and led to solid inflows (EUR 110 billion). This was followed by record fund acquisitions in 2021 (EUR 271 billion). Encouragingly in 2022, European retail investors continued to buy investment funds, despite overall decreases in financial markets (EUR 88 billion).

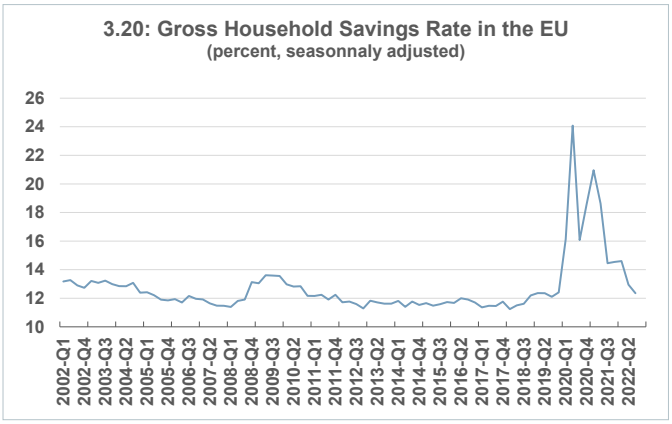


Source: ECB

Net acquisitions of deposits by households. Over the past five years, European households have continued to save vast amounts of money into deposits, despite the fact that savings accounts generate very low - or even negative - real returns for much of that period. In 2020, European households saved a record EUR 828 billion in deposits, as households were prevented from consuming a large share of their income by lockdown measures. Deposit savings dropped again in 2021 and in 2022. Last year, deposits accounted for only 46% of total financial assets acquisitions, the lowest percentage of the past five years.

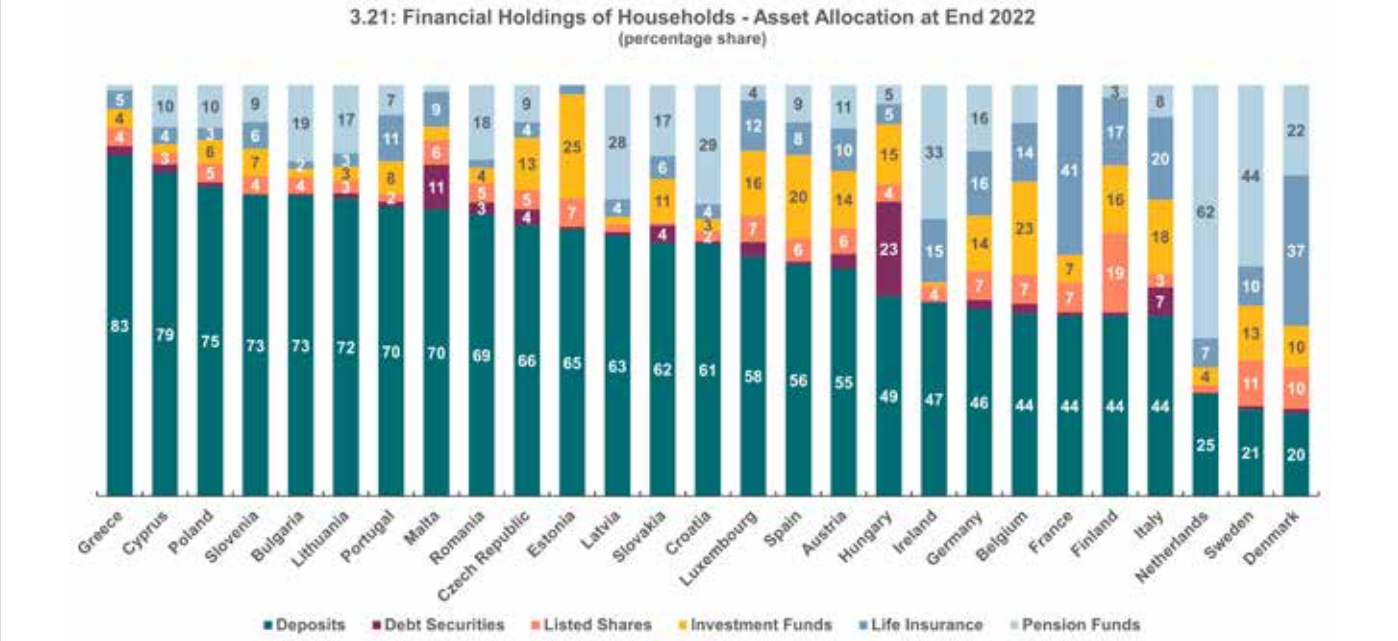
Net acquisitions of capital market instruments by households. Net acquisitions of life insurance and pension products have remained fairly over the last five years, as households tend to invest fixed monthly or yearly amounts into these types of products. Households have been steadily exiting from directly owning debt securities

Gross household savings rate. The gross savings rate of households is often expressed as the percentage of the gross disposable income that households do not spend on consumption, but either save in bank deposits or invest in capital markets instruments. Looking at the evolution of the quarterly gross savings rate of EU households over the past 20 years, we can see a gradual decline in the early years, to a level below 12% in 2008. The onset of the great financial crisis in Q4 2008 saw the savings rate top 13% as the crisis dampened consumption and households tend to save more during times of uncertainty. However by 2012, it had dropped down again to around 12%. In Q2 2020, the gross savings rate spiked at 24% as the lockdown measures resulted in an unprecedented decline in consumption and a strong increase in precautionary savings. The savings rate gradually dropped throughout 2022, back to 12%, indicating that households have returned to their normal savings and consumption behaviour.



Source: ECB

Country-level data. Significant differences in financial asset allocation between European countries can be observed. In general, countries with lower income levels tend to save a higher proportion of their financial assets in deposits. The countries where the share of deposits are the lowest are those with well-developed private pension markets, such as the Netherlands, Denmark and Sweden. Households in those countries hold high shares of pension funds (Netherlands, Ireland) or life insurance products (Denmark, France). Investment funds are the most common way to invest in capital markets for households in many European countries. Direct fund holdings are particularly popular in Estonia (25%), Belgium (23%), Spain (20%) and Italy (18%). In only two countries, Sweden and Finland, do households invest more than 10% of their financial assets directly in the stock market. In Hungary, the promotion of special government securities - only available to households and offering above market interest rates - resulted in a 23% share of savings in debt securities.



Source: ECB

Box 8
Retail Investment Strategy

Author: *Carolina De Giorgi*

The European Commission's newly published Retail Investment Strategy (RIS) is a comprehensive package that seeks to better equip EU citizens with the necessary safeguards and confidence to become capital markets investors. This goal is wholeheartedly supported by the European asset management industry.

Why do we need an EU Retail Investment Strategy

Unlocking the potential of capital markets for EU consumers is imperative for a number of reasons. First, European households have one of the highest individual savings rates in the world but a disconcertingly low level of investment participation. At the same time, almost one in five pensioners is at risk of poverty or social exclusion.[1] Second, we need enhanced retail participation to fuel a healthier and greener financial ecosystem

1 Eurostat 2022.

for European businesses. On top of that, half of the EU adult population struggles with basic financial concepts, such as the risks involved when borrowing or investing money.[2] All of this contributes to making capital markets smaller and European savers poorer than they should be.

Recent developments

Over recent years, tremendous efforts have been made by policymakers, regulators and industry to improve the current framework governing retail investing and to enhance the offer to end investors in the EU.

The regulatory landscape has seen significant advancements, including the implementation of additional safeguards under MiFID II for retail investors in a broad range of areas, such as extensive regulation on commission-based advice. Furthermore, investors now have access to investment advice on their ESG preferences, while European Supervisory Authorities (ESAs) and local National Competent Authorities (NCAs) have taken additional measures such as Common Supervisory Actions (CSAs), publications, Q&As and guidelines to further strengthen investor protection.

Currently, European consumers have access to a diverse range of investment products that can cater to their unique ESG preferences, risk appetite, investment horizon and financial knowledge. It is also widely recognized that consumers who invest in capital markets tend to benefit from largely positive net returns on their investments over the long term[3]. ESMA has also confirmed that fund costs, including ongoing and one-off fees, continued to decline.[4] There are also a variety of investment strategies that are increasingly integrating ambitious sustainability characteristics and objectives, paving the way for a more responsible investment landscape.

Despite this, the vast majority of EU consumers continue to miss out on the opportunity to secure long-term financial wealth.

Our recommendations for a bold RIS

EFAMA has provided the European Commission with a wide range of recommendations for an ambitious RIS.

One such recommendation outlines a client-centric value assessment that encompasses both the manufacturing and distribution aspects of the value chain. This internal test would aid regulators in ensuring that products deliver value, without adding information overload to clients.

Regarding the proposed quantitative "value for money" benchmarks, we observe that it would be extremely complex to execute and would only bring limited benefits to the clients, as value encompasses more than just costs and holds diverse meanings for different consumers.

Effective and affordable investment advice is also deemed essential and, for that reason, the current coexistence of fee- and commission-based advice must be preserved to ensure the availability of financial advice for all EU citizens and not just the wealthy. At the same time, the current MiFID II investor protection safeguards should be harmonised and extended to IDD products, ensuring a cohesive regulatory framework. Furthermore, aligning digital disclosures across regimes can further help investors understand what they are buying. Finally, care should be taken not to unduly increase the complexity of disclosures, as to avoid discouraging consumers engagement; on the contrary, an optional suitability-light regime could streamline retail clients' access to simple and diversified investment solutions.

However, there is no 'one-size-fits-all' solution. Individual Member States should have the flexibility to intervene and tailor their national tax regimes and financial literacy initiatives to benefit the unique aspects of their national markets, under the coordination of the European Commission.

Ultimately, it is retail investors who stand to gain the most from this project. The implementation of the RIS, if properly calibrated, will be a significant step in cultivating a culture of investment in the EU, paving the way for a brighter financial future for all European citizens.

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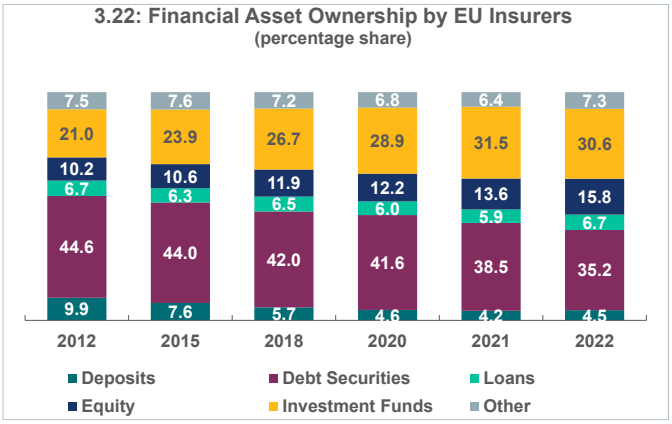
2 OECD/INFE 2020 international survey of adult financial literacy.

3 According to ESMA 2023, an hypothetical 10-year investment of EUR 10,000 over the 2012-2021 period, based on a stylised portfolio of equity, bond and mixed assets funds, would have valued EUR 18,500, net of costs at the end of 2021 (see ESMA's Costs and Performance of EU Retail Investment Products 2023).

4 See page 8 in ESMA's Costs and Performance of EU Retail Investment Products 2023.

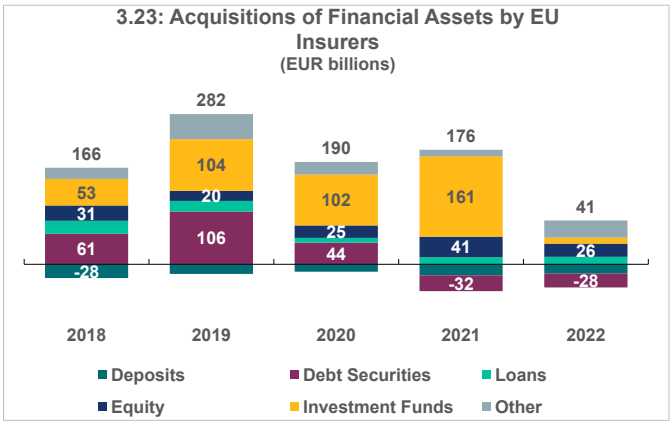
3.4.2 Insurers

Financial assets of insurers. Insurers are among the most significant institutional investors in Europe; by issuing insurance policies, they generate substantial sums that need to be invested in the financial markets. Traditionally, insurers tend to invest the bulk of their financial assets in debt securities, because the fixed and predictable income stream generated by this type of assets allows insurers to match their liability and assets streams. Looking at the evolution of the asset allocation of the insurance sector over the past 10 years, we see a clear decline in the share of directly held debt securities, from 44.6% in 2012 to 35.2% in 2022. At the same time, funds are taking an increasingly important place, increasing from 21% in 2012 to 30.6% in 2022.



Source: ECB

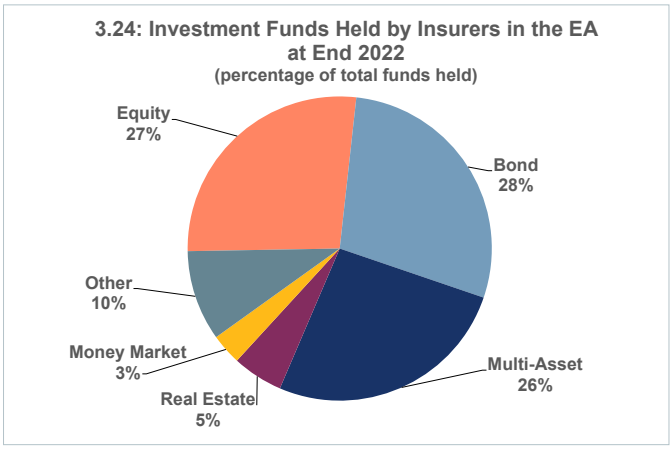
Net acquisitions of financial assets by insurers. The shift from directly held debt securities to investment funds becomes clearer still when we look at the acquisitions of financial assets by insurers in recent years. In 2020 and 2021, funds accounted for more than half the total acquisition of financial assets over that year. Net fund acquisitions dropped significantly in 2022, as insurers were deterred by rising interest rates and volatile stock markets. During 2017-2019, insurers bought direct securities, but in 2021 and 2022, they reduced their exposure to debt securities.



Source: ECB

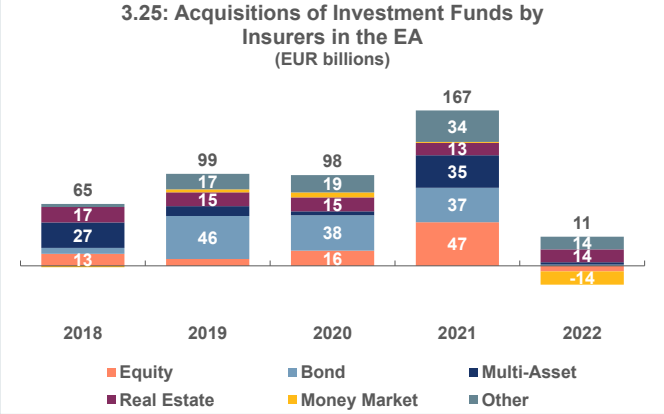
Growing share of funds. Despite the minor 2022 dip in market share, investment funds are playing an increasingly important role in the asset allocation of insurance companies. As interest rates fell in recent years, it became increasingly difficult for insurers to find fixed-income products that offered a sufficiently high return. Investment funds provided them with an easy route for expanding their sectoral or geographical exposure or diversify risk. Cost also played a role; the average cost of investment funds, particularly in the institutional segment, has dropped significantly in recent years, as products such as ETFs and index funds became widely available.

Types of funds held by insurers. ECB data allows us to look in depth at the type of funds that euro area insurers held at end 2022. Predictably, bond funds accounted for the largest share (28%); but equity and multi-asset funds followed suit with shares of 27% and 26%, respectively. These percentages indicate that insurers are making extensive use of investment funds for investing in equity markets.



Source: ECB

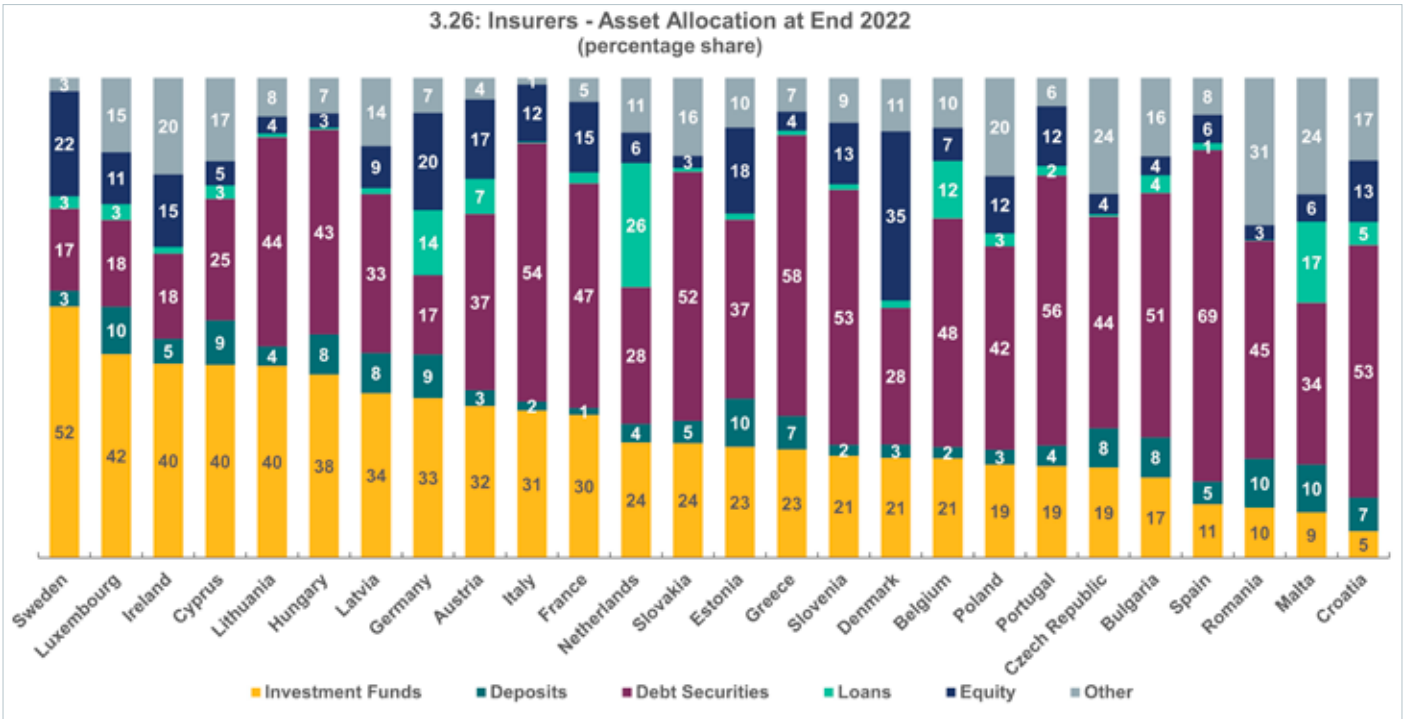
Net acquisitions of funds by insurers. The chart below shows the types of funds euro area investors bought and sold over the past five years. In 2019 and 2020, EA insurers bought mainly bond funds. In 2021, as stock markets boomed, there were also significant purchases of equity and multi-asset funds. Unsurprisingly, 2022 with its steep declines in stock and bond valuations, saw net purchases of equity and bond funds drop to close to zero. EA insurers sold money market funds over the year 2022 (EUR 14 billion) as the expected imminent rate hikes would lower the value of their MMF holdings. Interestingly enough, throughout these past years, insurers continued to invest consistently in real estate funds and other funds.



Source: ECB

Solvency II is the EU legislation that codifies and harmonises EU insurance regulation. Crucially, it sets out capital requirements for the different asset holdings of insurance companies. The current framework heavily favours investing in traditional, low-risk, debt securities with low- or even zero-capital requirements, in the case of holdings of certain government bonds. Investment funds are subject to a look-through approach and treated in the same way as direct investments in the calculation of the solvency capital requirements. All securities held by the insurer - either held directly or indirectly via an investment fund - are subject to their relevant Solvency II market risk requirements.

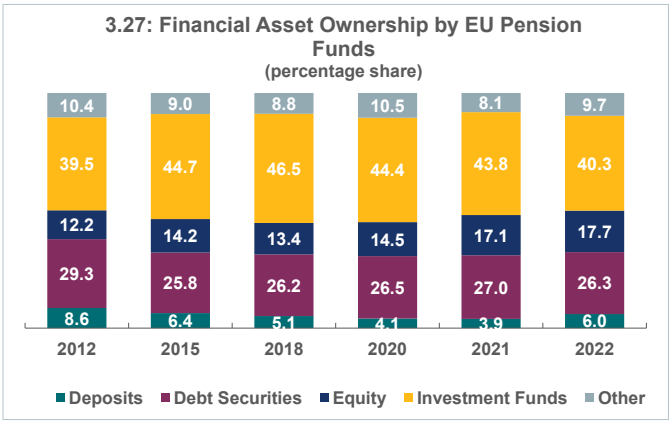
Country-level data. In most European countries, insurers hold the largest share of their financial portfolio in debt securities. Insurers - in particular in Southern and Eastern European countries - hold large levels of debt securities. In addition, there is a certain home-bias in their debt holdings as they mainly hold domestic bonds. Insurers in Northern and Western European countries, in particular smaller countries, tend to have higher shares of investment funds in their portfolio allocation.



Source: ECB

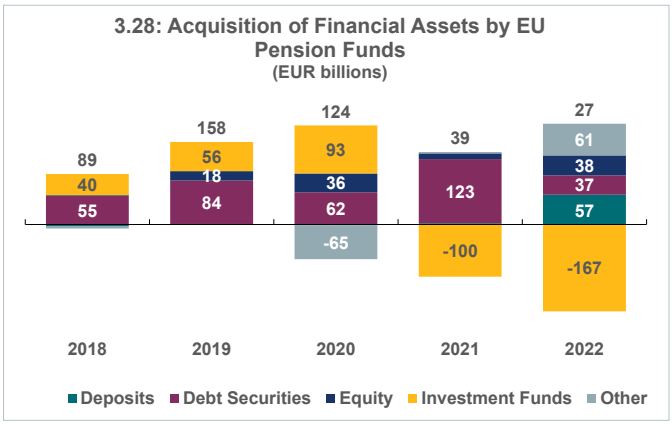
3.4.3 Pension funds

Asset allocation of pension funds. Investment funds are the dominant asset type in the investment portfolios of pension funds. The share of investment funds rose steadily from 39.5% in 2012 to 46.5% in 2018, only to drop again to 40.3% at end 2022. The share of directly held debt securities has not changed significantly since 2015, whereas the share of directly held equity fluctuated in line with stock market valuations The reason investment funds continue to dominate pension funds is because an they provide easy way to diversify geographic, sectoral exposure and diversify risk. Falling costs also make funds an increasingly attractive investment option.



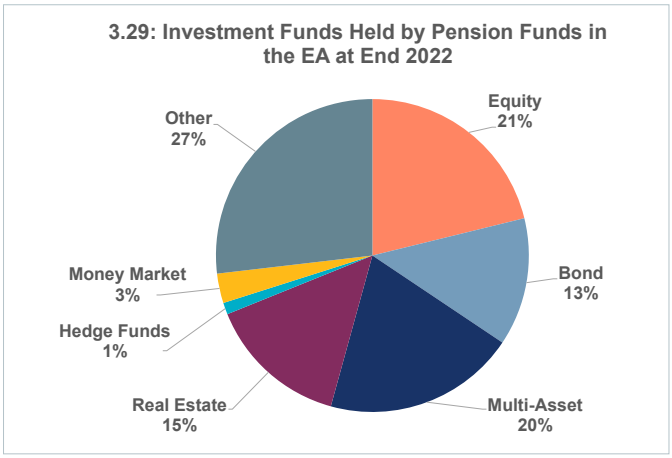
Source: ECB

Net acquisitions of financial assets by pension funds. Pension funds continued to invest significant amounts into debt securities during 2018-2021, but inflows were lower in 2022. Direct acquisitions of equity were relatively low in most years. Pension funds invested heavily in investment funds in every year, but this changed in 2021-2022, mostly because several large Dutch pension funds decided to switch their portfolio from AIFs to segregated accounts. The fact that the Dutch pension fund sector accounts for around 45% of the EU total explains why this switch had a significant impact on the overall net acquisitions of investment funds in those years. In 2022, there was also a marked steep increase in deposit acquisitions, as pension funds were forced to increase cash holdings to meet margin requirements under derivatives contracts, which had risen rapidly due to increasing interest rates.



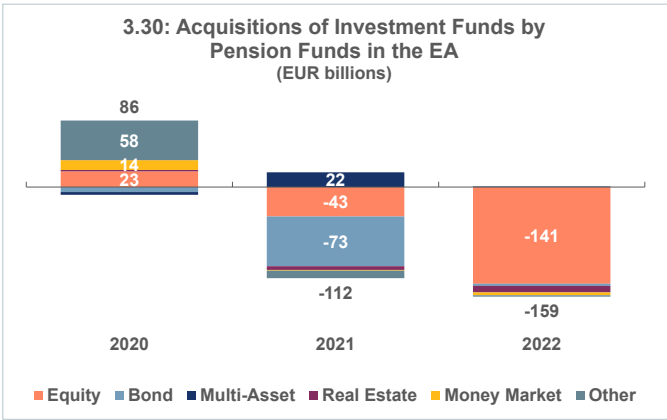
Source: ECB

Types of funds held by pension funds. Pension funds held a smaller share of equity funds (21% at end 2022) compared to insurers; also, the shares of bond and multi-asset funds were lower. At the same time, the shares of 'other' funds (27%) and real estate funds (15%) were significantly higher. What 'other' funds - which are mainly alternative assets such as private equity, private debt and infrastructure funds - and real estate funds have in common is that they invest in more illiquid assets, which tend to have a higher or guaranteed yield. Pension funds, with their extremely long-term investment horizon and unconstrained by Solvency II rules, are the ideal clients for these types of funds.



Source: ECB

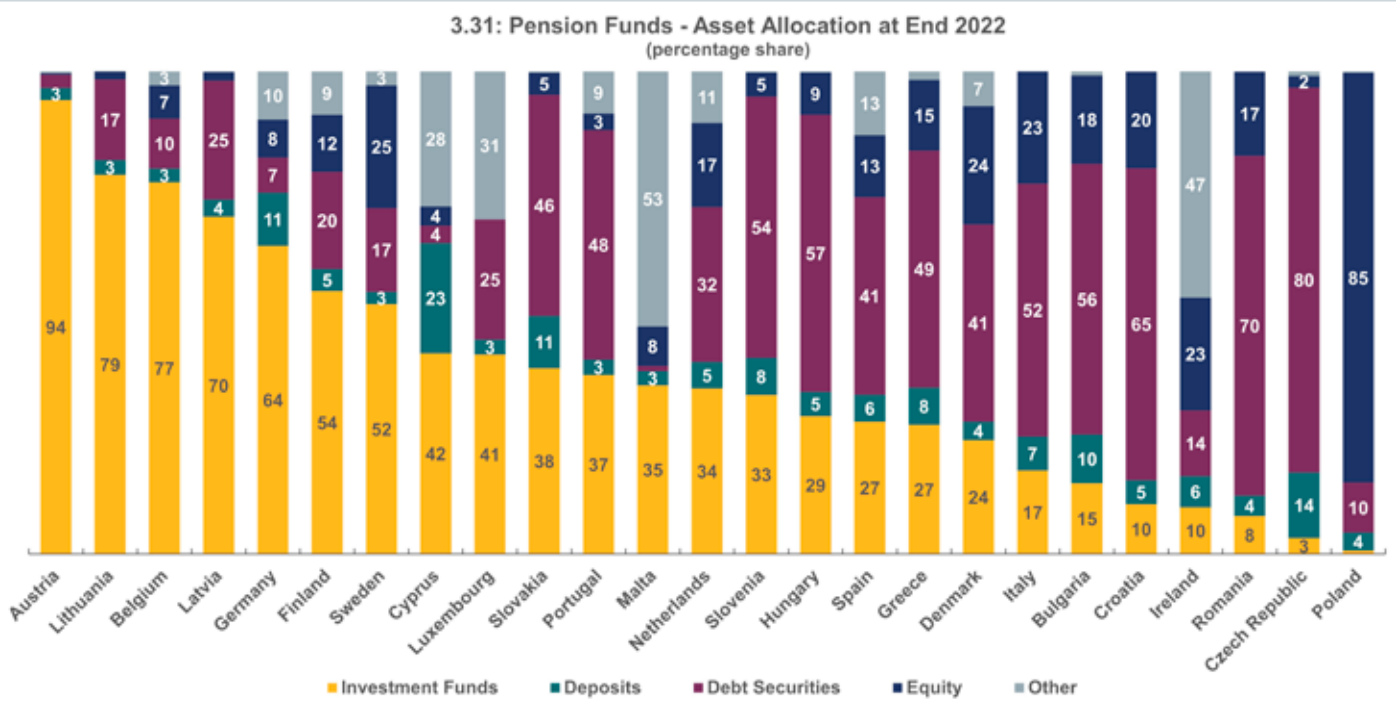
Net acquisitions of funds by pension funds. Looking at the types of funds that were bought and sold by euro area pension funds, the very large net outflows from bond funds in 2021 and particularly equity funds in 2022 become evident. Many of these were due to the developments in the Dutch pension fund market mentioned previously.



Source: ECB

Part of the negative acquisitions in 2022 were also a result of pension funds selling off assets - mainly stocks - to increase their cash holdings in order to meet margin calls in an environment of interest rate increases.

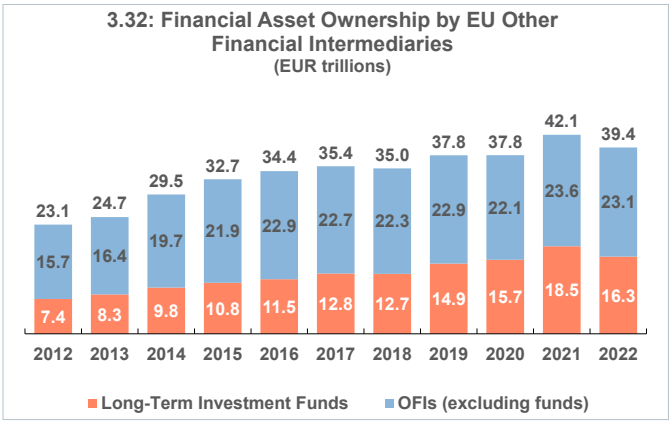
Country-level data. Similar to insurers, pension funds in Southern and Eastern Europe invest a relatively high share of their assets directly in domestic government, debt. The exception is Poland, where pension funds are prohibited by law from investing in government bonds. Western and Northern European pension funds, as well as pension funds in the Baltics, make greater use of investment funds, thus enjoying the diversification benefits these products have to offer.



Source: ECB

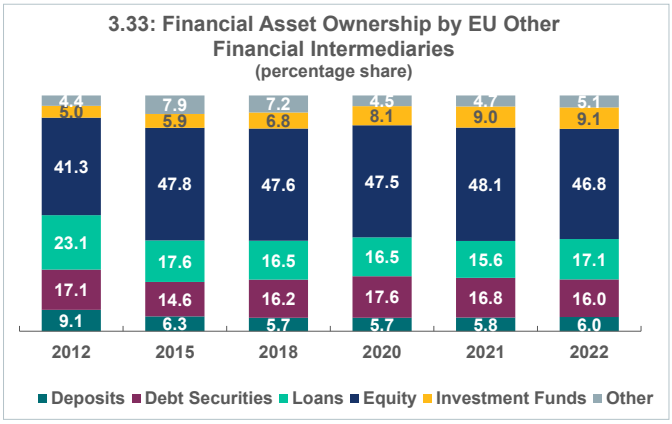
3.4.4 Long term funds and other financial intermediaries

What are other financial intermediaries? Other financial intermediaries (OFIs) are a diverse group of financial actors who do not fall into one of the other categories (monetary financial institutions, insurers or pension funds). This group includes financial players such as holding companies, central counterparties (CCPs), security and derivatives dealers and sovereign wealth funds. The predominant type of investor among these various financial intermediaries - which can be identified separately - are long-term investment funds. The financial assets of long-term investment funds amounted to EUR 16.3 trillion, whereas those of the remaining financial intermediaries amounted to EUR 23.1 trillion at end 2022.



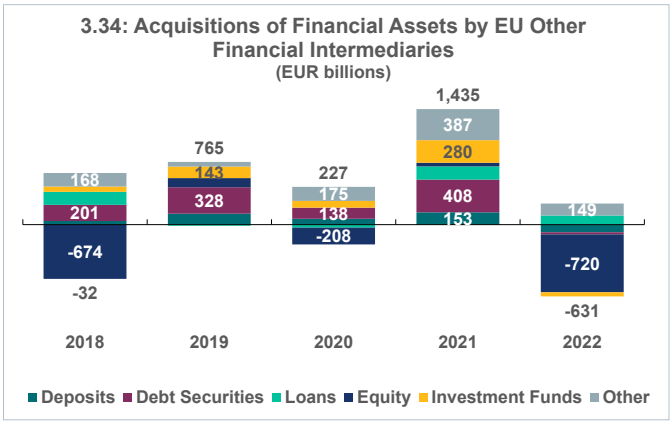
Source: ECB

Asset allocation of OFIs. Of all the main types of investors in investment funds, OFIs invest the smallest percentage of their financial assets in investment funds. However, this percentage did almost double from 5% in 2012 to 9.1% in 2022. It are mainly long-term funds that invest in other investment funds, and less so the remaining other financial intermediaries. The most likely explanation for this growing share is that active investment funds are increasingly making use of ETFs and index funds in their portfolio allocation. Equities accounted for 46.8% of the total asset allocation of OFIs at end 2022, but to a large extent this is not listed equity. For the most part, these are unlisted equity holdings within. holding companies and special purpose entities of multinational companies. These are often set up for tax reasons and hold large amounts of equity, accounting for all the subsidiary corporations they control.



Source: ECB

Net acquisitions of financial assets by OFIs. In comparison to their total net acquisitions of financial assets, the investment fund acquisitions of OFIs tend to be relatively minor. However in 2021, fund purchases by OFIs amounted to EUR 280 billion. In 2022, OFIs disinvested from funds and particularly equity.

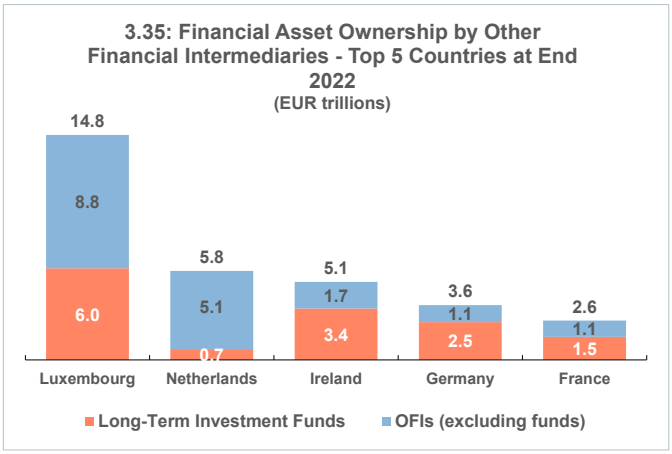


Source: ECB

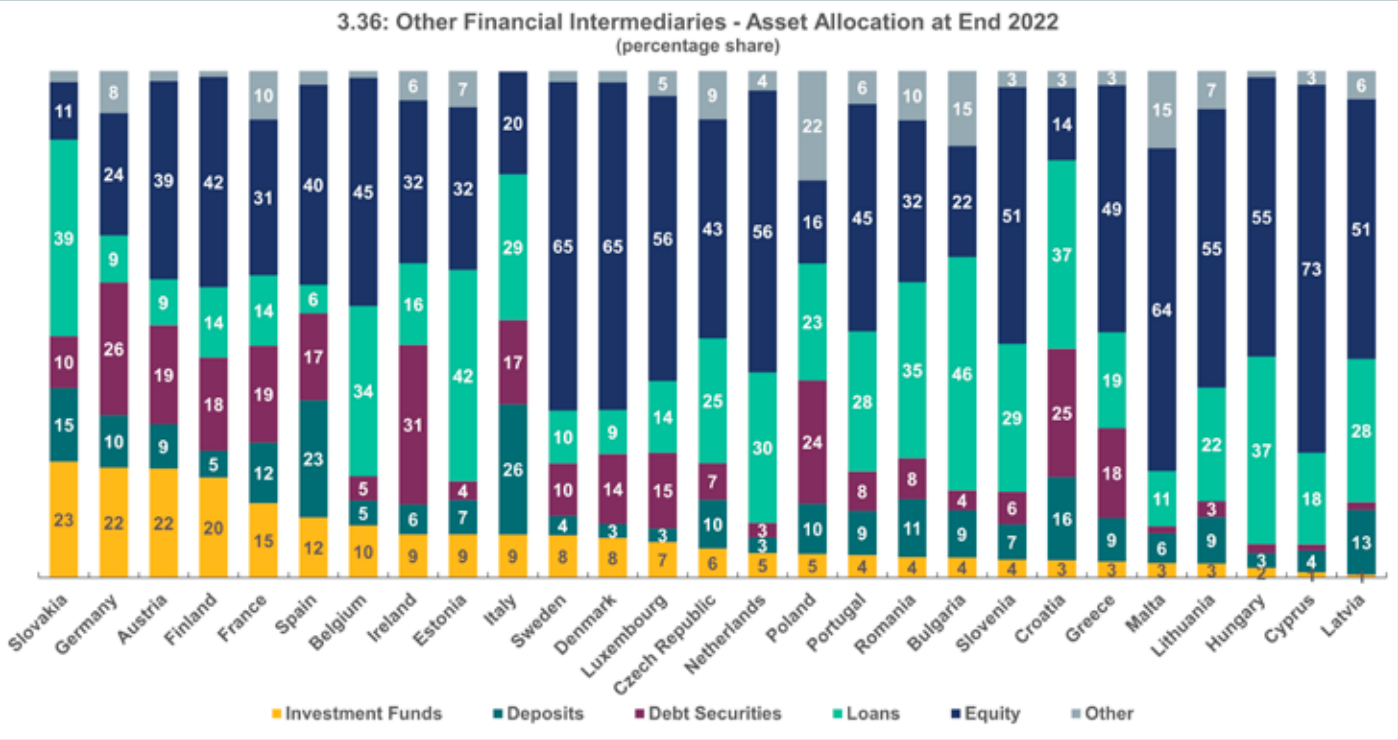
Country-level data. The asset allocation of OFIs varies significantly across European countries, depending on the predominant type of OFI in each country (see chart 3.36). More important for the European aggregate are the respective sizes of OFI financial assets in each country.

OFIs - Long-term funds. Looking at the long-term fund portion of OFIs, the countries in the EU with the highest amounts of financial assets are the main domiciles of UCITS and AIFs. Luxembourg and Ireland account for the lion's share of financial assets, as both are the main cross-border fund domiciles in Europe. The other sizeable fund domiciles, Germany and France, also accounted for a significant share of the European total.

Remaining OFIs (excluding long-term funds). Among all other OFIs (excluding long-term funds), the bulk of financial assets in the EU can be found in Luxembourg, the Netherlands and - to a lesser extent - Ireland. All these countries have a number of large holding companies or headquarters of multinational companies.



Source: ECB



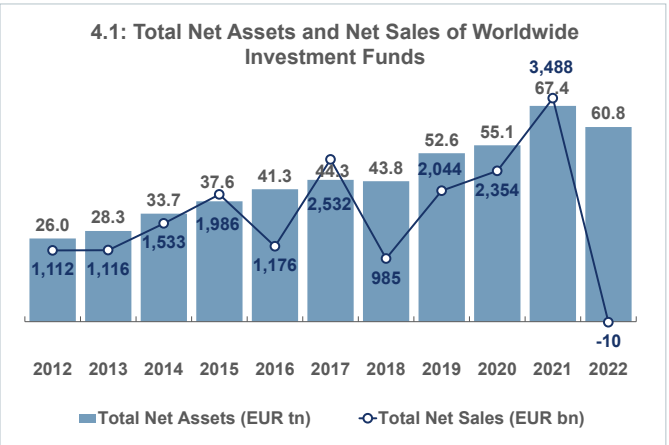
Source: ECB

CHAPTER 4: WORLDWIDE INVESTMENT FUNDS

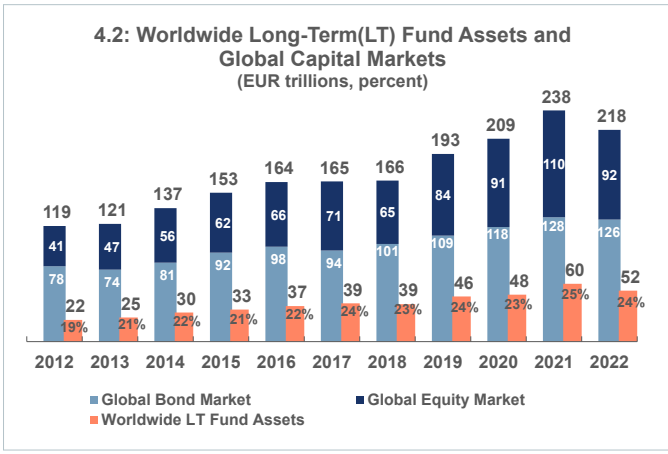
4.1 OVERVIEW

The aim of this chapter is to examine the trends in the fund industry at world and regional level. We will be focusing on four broad geographical regions: Europe, the United States, the Asia-Pacific region[xxiii] and the Americas.[xxiv] The analysis is based on data compiled by EFAMA in association with the International Investment Funds Association (IIFA). For comparability reasons, this data covers only substantively regulated, open-ended funds domiciled in the reporting countries.

Net assets and net sales of worldwide investment funds. Worldwide investment fund assets dropped by almost 10% in 2022, the first decline of the decade, to end the year at EUR 60.8 trillion. Net sales of worldwide investment funds also collapsed, from a record level of EUR 3,488 billion in 2021 to net outflows of EUR 10 billion in 2022.



Investment funds and global capital markets. Long-term investment funds are an important source of financing for companies and governments around the world. Over the last 10 years, investment funds have strengthened their role in the financing of the economy. Using market values for global listed stocks and bonds as a proxy for the total size of global capital markets, we can see that the share of funds in global capital markets grew from 17% in 2011 to 24% at end 2022. The reasons behind this gradually increasing importance in global financial markets are diverse, and vary across regions.



Source: BIS, WFE, IIFA and EFAMA

In the United States, the strong growth of investment funds has been driven by the increasing popularity of mutual funds in the US retirement system, in particular in 401(k) pension plans. Another reason is the strong demand for ETFs in recent years.

In Europe, the success of the UCITS brand, with its stable regulatory framework, has contributed strongly to the growth of the investment funds industry. This is illustrated by the continued growth of sales of UCITS to investors outside of Europe. A second reason is the trend among institutional investors, i.e. insurers and pension funds, to outsource increasingly large shares of their assets to professional asset managers.

In emerging markets such as China and Brazil, the growth of the fund industry is driven by the overall development and deepening of capital markets in those countries. Demand for investment funds strongly correlates with the level of capital market development in a country.

Box 9
Copper Pipes: The Future of Settlement [1]

Author: *Susan Yavari*

On 28 May 2024, an unusual event will take place in the US; the time in which trades in securities and funds are required to settle will be reduced to one trading day. What does that mean? Currently, the settlement cycle is based on a Trade plus 2 (T+2) cycle, meaning that a trade needs to settle (the point where securities and cash are exchanged) by the second trading day after the trade is executed. This is a time window in which a number of processes need to take place. Trades needs to be matched, allocated and confirmed, typically involving the counterparties, brokers, custodians and CSDs. There is some degree of automation in these processes, but by no means do we have full automation. If you are trading securities for funds that you are managing, you also need to match the settling of securities with the subscriptions and redemptions to your funds and to manage that cash flow.

While a few jurisdictions have already moved to a T1 settlement environment - India among others, as well as China on some securities - the US will be the first major financial market to move to a settlement cycle of T+1. This move has been in the works for some time, and was only possible due to the concerted actions of the DTCC (CSD), SIFMA (US sell-side) and ICI (US buy-side). The SEC published its final rule in February 2023, setting the go-live for the transition to May 2024.

Barring the necessary investments in people, processes and technology, this is a move that will benefit all market players with reduced counterparty risk exposure and the more efficient use of capital. However, the story doesn't end there.

While the US is moving to a T+1 environment, Europe will remain on T+2; and this is where the interdependence of our capital markets, and exposure to securities in different jurisdictions, becomes an issue. If your European-domiciled funds settles fund subscriptions on a T+2 or T+3 basis, how do you pay for the US securities in your fund basket which will now settle on T+1? On a redemption, the US cash will come into the EU fund a day early, causing the fund to be long on cash. There are a number of such scenarios that the misalignment of settlement cycles will expose. Another, of course, is the access to FX funding on T+0 before the trade is matched and confirmed. In particular, if a trade is made late in the day, there are only a few hours to secure FX before the matching and confirmation needs to take place.

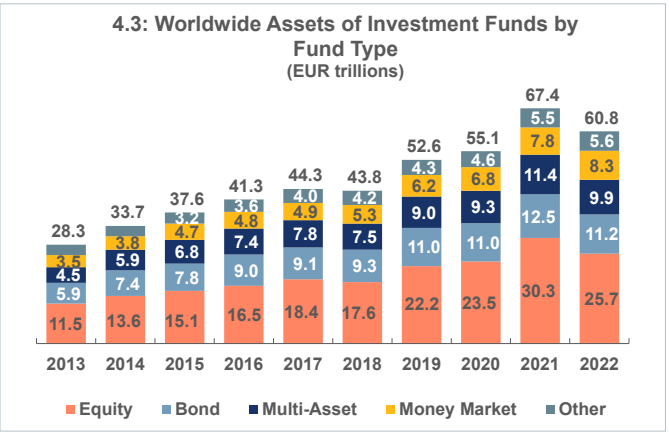
Players in the value chain are now busy seeking solutions to these challenges. At the same time, they are asking what would it take for Europe to shorten its settlement cycle to T+1. Are we so much more complex on the market infrastructure side, with a myriad of national CCPs and CSDs, that a coordinated move to T+1 is unrealistic in the near-term? Or will we find that - with major markets like the US and Canada moving to T+1 and the UK possibly following suit - there is a competition imperative that will inevitably move us to a similarly shortened settlement cycle sooner rather than later.

There are more questions than answers at this point. However, the drive exists to find the right solutions that will ultimately benefit European capital markets as a whole. So watch this space, a lot will be happening in 2023 and beyond.

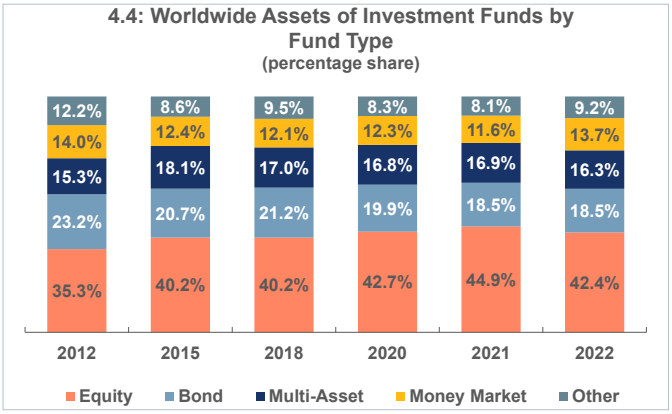
1 See SEC chair Gary Gensler remarks to the SEC on the settlement cycle rule change.

4.2 NET ASSETS AND NET SALES OF WORLDWIDE FUNDS BY TYPE

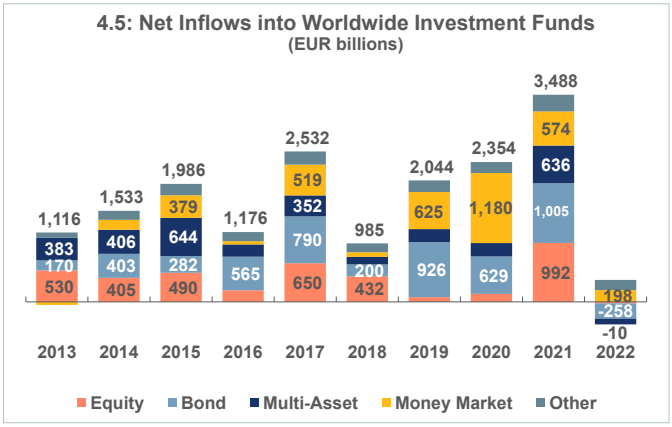
Net assets by fund type. Worldwide equity funds ended 2022 at EUR 25.7 trillion. Bond funds were the second-largest category, with EUR 11.2 trillion in net assets. Multi-asset funds represented EUR 9.9 trillion while MMFs amounted to EUR 8.3 trillion. The net assets of all types of long-term funds declined in 2022, as fixed-income and stock markets declined across the globe. MMFs were the only type of fund that registered an increase in net assets in 2022.



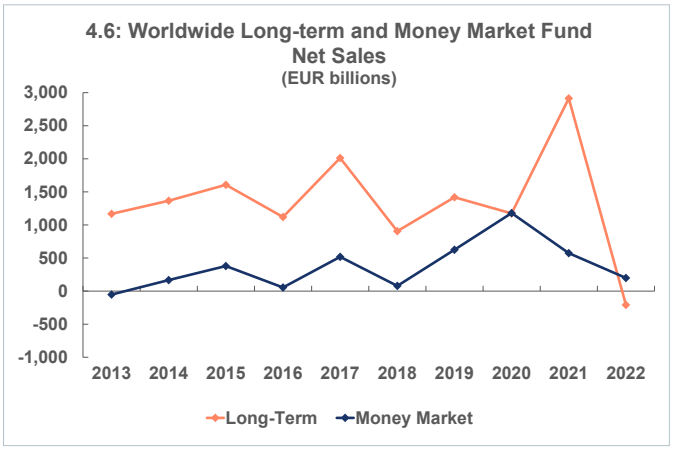
Market share evolution. The evolution in market share of each fund type shows that the share of equity funds grew briskly from 35.3% in 2012 to 44.9% in 2021, driven by the strong growth in global stock markets, before declining again in 2022 (42.4%). Bond funds saw a steady decline in market share from 23.2% in 2012 to 18.5% in 2022, as interest rates were low for much of the past decade. Shares of multi-asset funds also edged down in recent years, from 17% in 2018 to 16.3% at end 2022, mainly as a result of lower net sales. The share of MMFs dropped during the first years of the decade, but stabilised at around 12% in the 2015-2021 period, only to climb sharply to 13.7% in 2022 as result of the relative drop in equity and fixed-income valuations.



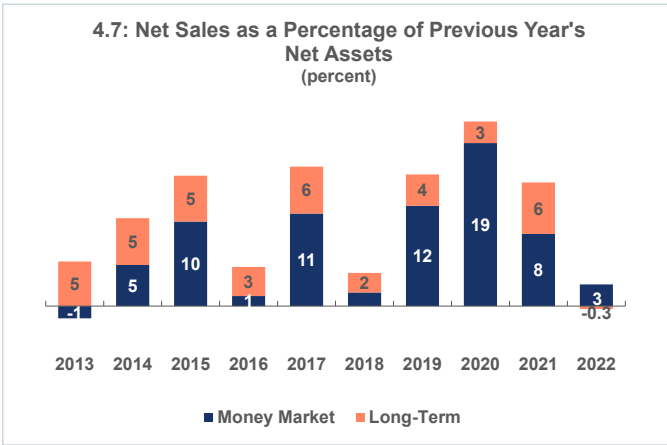
Net sales of worldwide funds. After reaching record levels in 2021, net sales of equity and bond funds turned negative in 2022, to EUR 258 billion and EUR 26 billion, respectively. Multi-asset funds also registered net outflows in 2022 (EUR 95 billion). Money market funds and other funds were the exceptions, with net inflows of EUR 198 billion and EUR 172 billion, respectively.



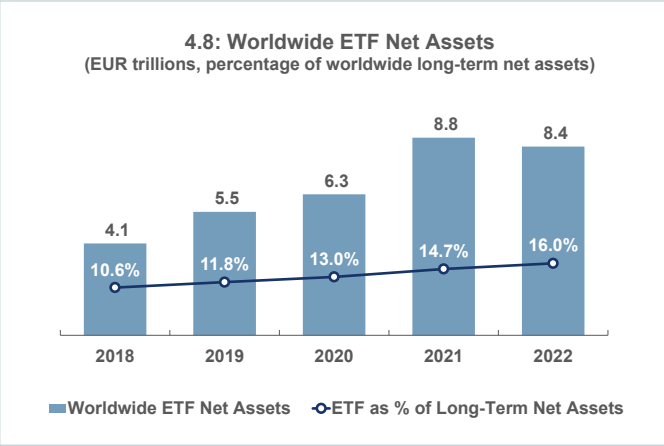
Net sales of long-term funds and MMFs. Comparing trends in the net sales of long-term and money-market funds show that both types of funds followed similar trends in the first years of the decade, rising and decreasing in tandem. Trends diverged in 2020 when net sales of long-term funds fell, while net inflows into MMFs reached an all-time high, as investors sought safe haven in the midst of the COVID-19 crisis. In 2021, the situation reversed, as net sales of long-term funds rose to an all-time high while net sales of MMFs weakened. Net sales of MMFs continued to fall in 2022 and long-term funds recorded net outflows for the first time since the global financial crisis of 2008.



Relative net sales of long-term funds and MMFs. Over the last decade, net sales of MMFs - expressed as a percentage of the previous year's assets - have mostly outpaced inflows into long-term funds; including in 2022, as net sales of long-term fund turned negative.

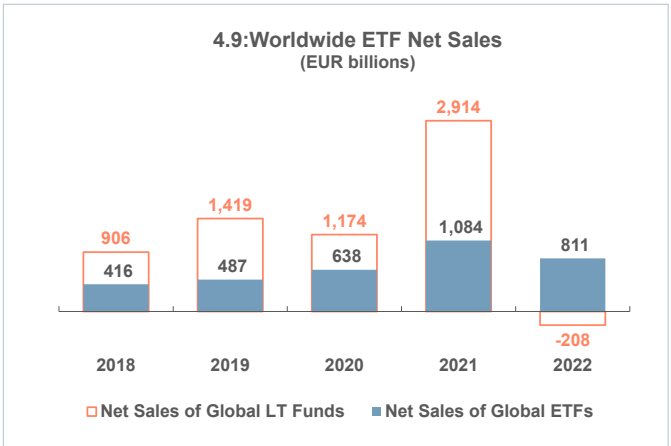


Worldwide ETF assets. Net assets of ETFs dropped by 4.5% in 2022, from EUR 8.8 trillion at end 2021 to EUR 8.4 trillion. At end 2022, ETFs represented 16% of the global long-term fund market. This percentage has risen steadily over the past five years - from 10.6% in 2018 - as ETFs became increasingly popular with investors across the globe.



Net assets of ETFs by fund type. Breaking down ETF assets by type, equity ETFs accounted for 76.1% of the worldwide ETF market at end 2022, followed by bond ETFs (18.8%) and other ETFs (5.1%). The percentage of equity ETFs dropped from 78.4% at end 2021, the result of the steep drop in stock markets in 2022.

Net sales of worldwide ETFs. Net inflows of ETFs amounted to EUR 811 billion in 2022, a remarkable outcome given the overall negative net sales of total long-term funds that year (EUR 208 billion).

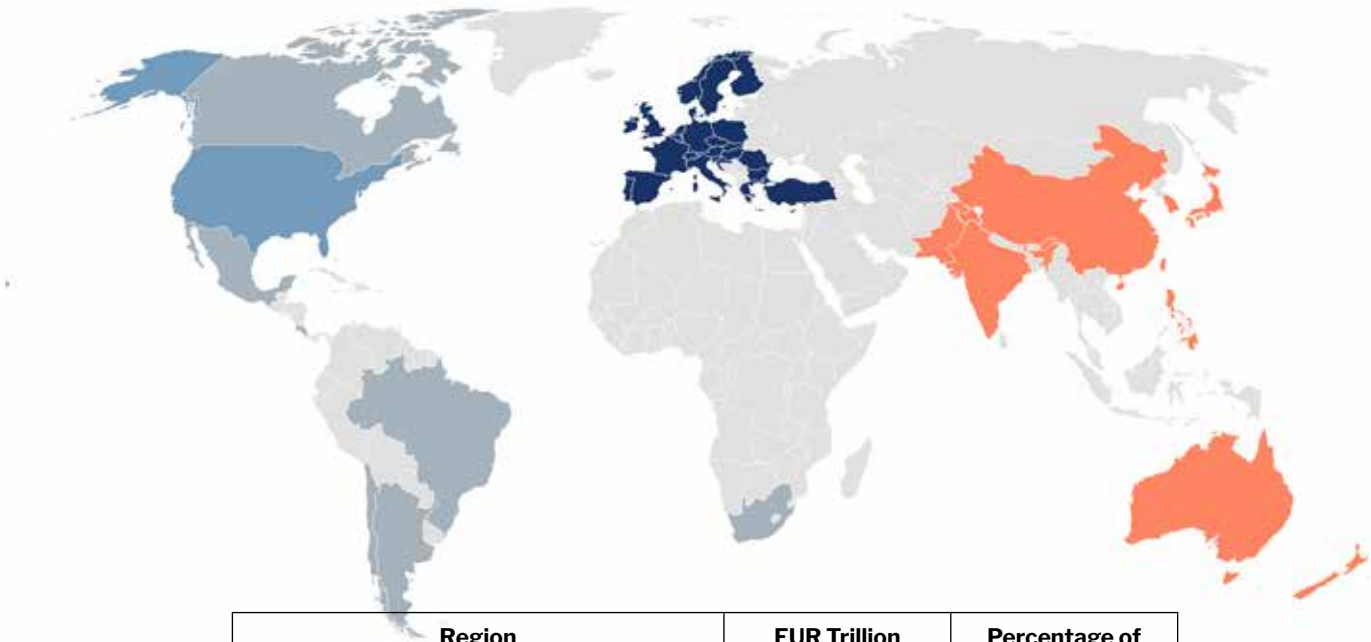


Net sales of ETFs by fund type. Broken down by fund type, net sales of equity ETFs totalled EUR 539 billion, a decrease on the 2021 inflows (EUR 818 billion). Bond ETFs attracted EUR 234 billion in new money, compared to EUR 217 billion in 2021. This was surprising given the rise in interest rates and corresponding decline in bond valuations.

4.3 WORLDWIDE FUND ASSETS BY REGION

Regional net assets in 2022. Net assets of investment funds in the US ended the year 2022 at EUR 29.3 trillion, while European investment fund net assets[xxv] totalled EUR 18.5 trillion. In the Asia-Pacific region - which includes major Asian economies such as China, Japan and India as well as Australia and New Zealand - investment fund assets amounted to EUR 8.6 trillion. Net assets of funds in the Americas - encompassing the larger economies in that region such as Brazil and Canada but excluding the US - stood at EUR 4.3 trillion at end 2022.

4.10: Worldwide Assets of Investment Funds by Region at End 2022
(EUR trillions, percent)



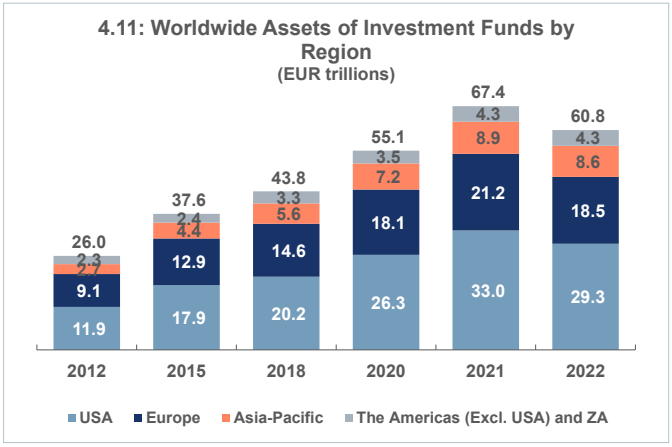
Region	EUR Trillion	Percentage of Total
USA	29.3	48.3%
Europe	18.5	30.5%
Asia-Pacific	8.6	14.1%
The Americas (Excl. USA) and South Africa	4.3	7.1%
Worldwide Total	60.8	100%

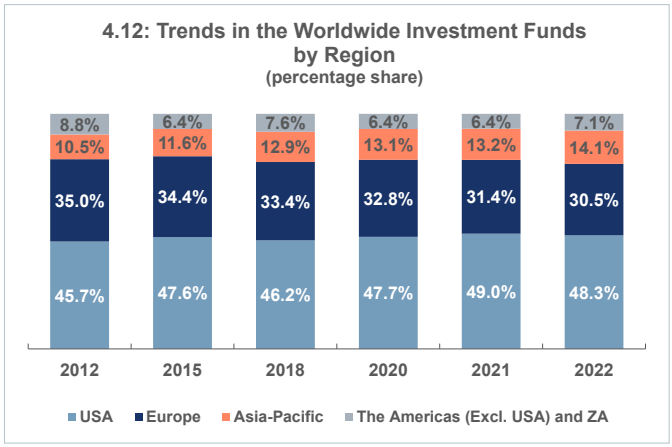
The United States. The US has undoubtedly remained the largest investment fund market in the world over the past decade. Its market share grew from 45.7% in 2012 to 49% in 2021, only to drop to 48.3% in 2022.

Europe. Europe has seen its market share decline steadily, from 35% in 2012 to 30.5% at end 2022, as European financial markets grew at a relatively slower pace than in other regions.

Asia-Pacific. The share of the Asia-Pacific region has risen from 10.5% in 2012 to 14.1% in 2022. China, Australia and Japan held the largest shares of fund assets in this region, accounting for 5.0%, 3.7% and 3.1% of worldwide assets, respectively. In recent years, it was primarily the growth in the Chinese fund market that pushed up the market share of this region.

The Americas. This is the smallest region in terms of net assets, but its market share grew significantly from 6.4% in 2021 to 7.1% at end 2022. This was mainly due to an increase in the net assets of Brazilian funds, with particularly robust growth in Q1 2022. The reasons behind this were a combination of well-performing capital markets and a strong appreciation of the Brazilian Real.





Top-15 domiciles in 2022. The table below highlights the net assets and market shares of the 15 leading domiciles in 2022. It also shows net asset growth and net assets in percentage of GDP. Eight European countries are represented; Luxembourg, Ireland, Germany, France, the UK, the Netherlands, Switzerland and Sweden. In 2022, only Brazil (19.1%) and Korea (2.4%) recorded net asset growth; all other countries recorded a decline in net fund assets..

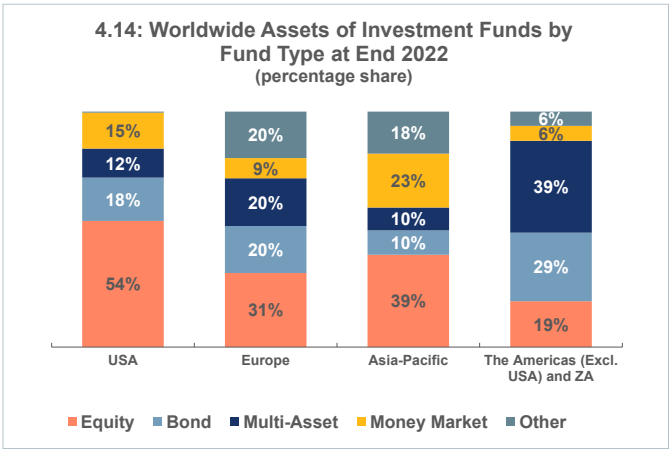
4.13: Net Assets of Investment Funds in Top 15 Domiciles in 2022

Countries	Net Assets End 2022 (1) EUR billions	Market Share 2022	Asset Growth in 2022	Net Asset in Percentage of GDP
United States	29,340	48.3%	-11.1%	123%
Europe	18,504	30.5%	-12.6%	90%
Luxembourg	5,028	8.3%	-14.2%	6436%
Ireland	3,653	6.0%	-10.2%	727%
China	3,062	5.0%	-1.8%	18%
Germany	2,582	4.2%	-11.1%	67%
Australia	2,277	3.7%	-1.5%	156%
France	2,096	3.5%	-6.8%	79%
Brazil	1,966	3.2%	19.1%	111%
Canada	1,944	3.2%	-12.9%	109%
Japan	1,913	3.1%	-10.3%	39%
United Kingdom	1,758	2.9%	-17.7%	59%
Netherlands	641	1.1%	-29.4%	68%
Switzerland	631	1.0%	-2.6%	82%
Korea, Rep. of	629	1.0%	2.4%	39%
Sweden	495	0.8%	-18.9%	89%

(1) Net assets for European countries include UCITS and redeemable, open-ended, substantively-regulated AIF funds, representing approx. 92% of total AIF.

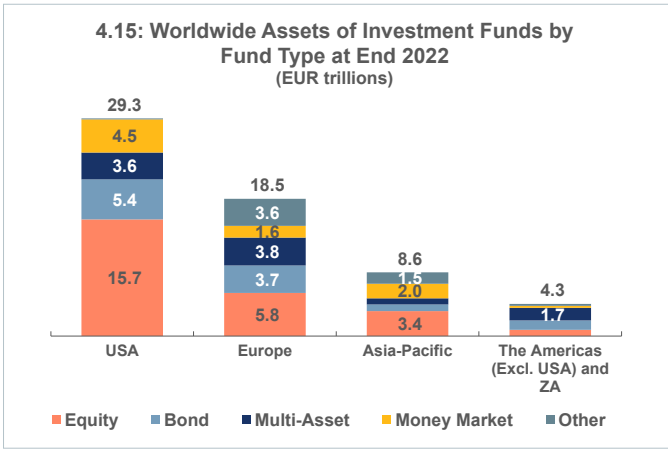
United States by fund type. More than half of the total investment fund assets in the US were equity funds (54%) at end 2022. The rest of the fund market consisted of bond funds (18%), MMFs (15%) and multi-asset funds (12%).

Europe by fund type. Equity funds accounted for 31% of fund assets in Europe. They were followed by bond funds (20%), multi-asset funds (20%) and other funds (20%). MMFs accounted for 9% of the total.



Asia-Pacific by fund type. Equity funds accounted for 39% of the fund market in the Asia-Pacific region, primarily thanks to the predominance of these funds in Japan and Australia. The high market share of MMFs (23%) is due to China, which has a highly developed MMF industry. Bond and multi-asset funds accounted for 10% each.

The Americas by fund type. The investment fund market is structured differently in the Americas. Multi-asset funds were the largest type of fund (39%), chiefly due to their popularity in Canada.



4.16: Worldwide Net Assets of Investment Funds by Fund Type at End 2022

Region	USA		Europe		Asia-Pacific		The Americas (Excl. USA) and South Africa		World
	EUR billions	percent	EUR billions	percent	EUR billions	percent	EUR billions	percent	EUR billions
Equity	15,717	61%	5,819	23%	3,365	13%	845	3%	25,746
Bond	5,395	48%	3,697	33%	890	8%	1,263	11%	11,245
Multi-Asset	3,620	37%	3,752	38%	832	8%	1,693	17%	9,897
Money Market	4,478	54%	1,587	19%	1,965	24%	273	3%	8,304
Other	129	2%	3,649	65%	1,531	27%	263	5%	5,571
Total Funds	**29,340**	**48%**	**18,504**	**30%**	**8,583**	**14%**	**4,337**	**7%**	**60,764**

Equity funds. In the global equity fund market, the US held a market share of 61%, followed by Europe (23%) and Asia-Pacific (13%). The Americas only accounted for 3%.

Bond funds. Regarding worldwide bond funds, the US again accounted for the largest share (48%), followed by Europe with 33%.

The market shares of the Americas and Asia-Pacific, at 11% and 8%, respectively, were relatively small.

Multi-asset funds. In the global multi-asset fund market, Europe held the largest market share (38%), compared to 37% in the US. The Americas were third with 17% and Asia-Pacific 8%.

MMFs. The US held a 54% share of the worldwide MMF market at end 2022. The Asia-Pacific region accounted for 24% and Europe for 19%.

Other funds. Europe held the largest market share of global other funds at end 2022 (65%), followed by Asia-Pacific (27%). Market shares in the US and the Americas were negligible.

Box 10
Comparing market shares of ESG fund markets across the world

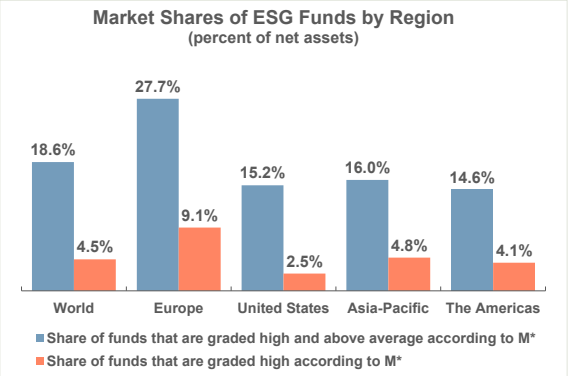
Author: *Thomas Tilley*

It is not just in Europe that ESG funds are becoming increasingly popular. Also globally these funds gained significant popularity as investors increasingly prioritise sustainability and responsible investing. However, comparing the size of the ESG fund markets across different regions of the world is not straightforward due to notable differences in investment approaches, regulations, and market developments. Therefore, **to ensure an accurate comparison, we used the Morningstar Sustainability Rating (MSR) for funds** to assess and compare the market shares of ESG funds across regions.[1]

The MSR for funds evaluates how well ESG risk is managed at a fund level relative to a peer group as defined by Morningstar's Global Category. Ratings are determined using a bottom-up assessment of the underlying holdings of a fund portfolio, underpinned by methodologies for assessing corporate and sovereign ESG risk. The rating categorises the fund universe into five parts, represented by so-called globes:

- Funds with a low Morningstar Sustainability Rating, "1 globe"
- Funds with a below average Morningstar Sustainability Rating, "2 globes"
- Funds with an average Morningstar Sustainability Rating, "3 globes"
- Funds with an above average Morningstar Sustainability Rating, "4 globes"
- Funds with a high Morningstar Sustainability Rating, "5 globes"

A higher number of globes indicates that the portfolio has lower ESG risk. For this rating, it is important to note that the number of globes a fund receives is determined relative to other funds in the same fund category (Morningstar Global Category). This means that a fund could have more ESG risk than another fund and yet still receive a better rating if it belongs to a category that has a better risk profile altogether.



Source: Morningstar

The chart to the left depicts the respective market shares of ESG funds across various regions. ESG funds are defined for this purpose as funds that have either an above average or a high MSR. Additionally, it presents the specific market shares of funds with just a high MSR.

Analysis of the results reveals that **Europe leads in terms of ESG market shares**, with approximately 28% of the European fund market consisting of ESG funds, and 9.1% of funds having a high MSR.

In comparison, market shares of ESG funds in other regions (United States, Asia-Pacific, and the Americas)[2] range from 14.5% to 16%, just over half the size of the European market. Market shares of funds with a high MSR range from around 4% to 5%, with a dip to 2.5% in the US.

The **comparatively high European market shares can be attributed to Europe's longstanding position as a pioneer in ESG investing**. Recent regulations also had a positive impact, such as SFDR, which introduced various disclosure-related requirements with the aim to provide more transparency on sustainability within the financial market in a standardised way. It remains to be seen if other regions will catch up in terms of ESG fund market share in the future.

A common obstacle faced by fund managers worldwide, regardless of region, is the **lack of reliable and standardised data on investee companies**. Currently, it is fair to say that the scarcity of accurate and meaningful non-financial ESG data on investee companies is the main hindrance to the further development of ESG fund markets across the world.

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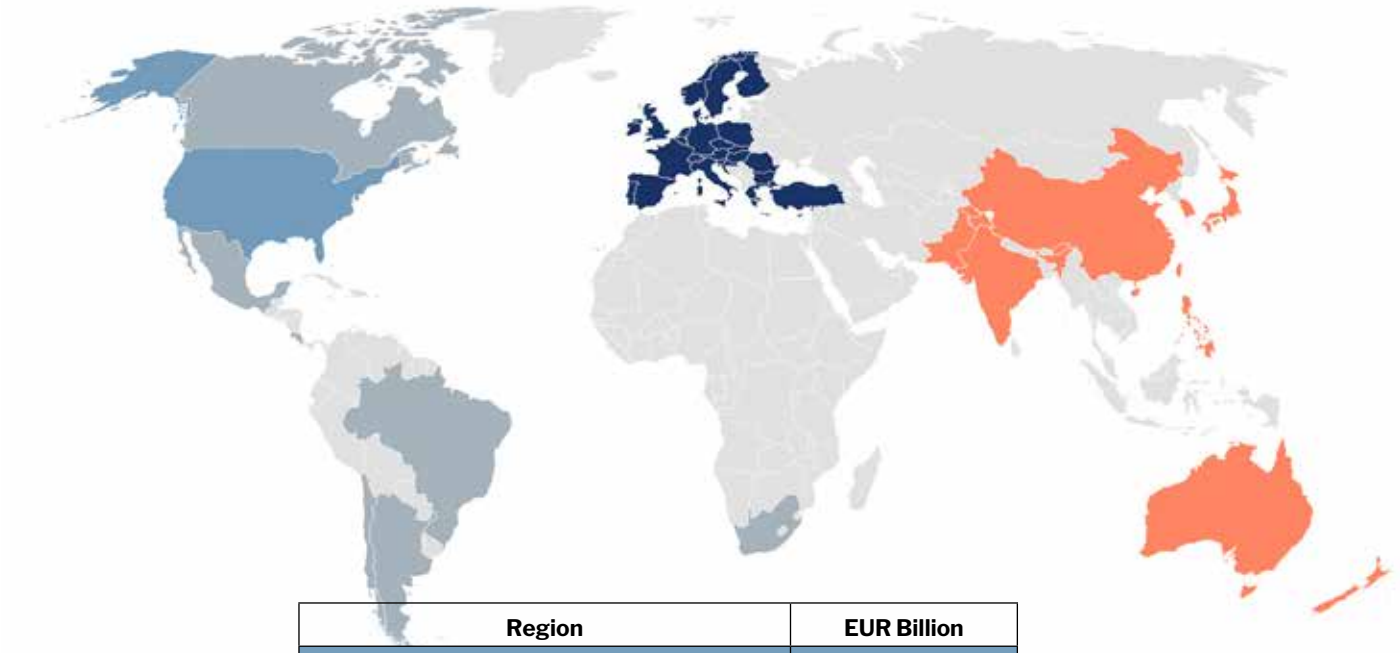
1 EFAMA's Markets Insight issue #11, shows how there is only a limited correlation between a fund's SFDR classification and its Morningstar Sustainability Rating. Even funds classified as having an explicit sustainability objective, SFDR Article 9, will not necessarily have a high ESG rating according to Morningstar.

2 The country composition of the regions varies slightly from that in Chapter 4 due to data availability issues

4.4 NET SALES OF WORLDWIDE FUNDS BY REGION

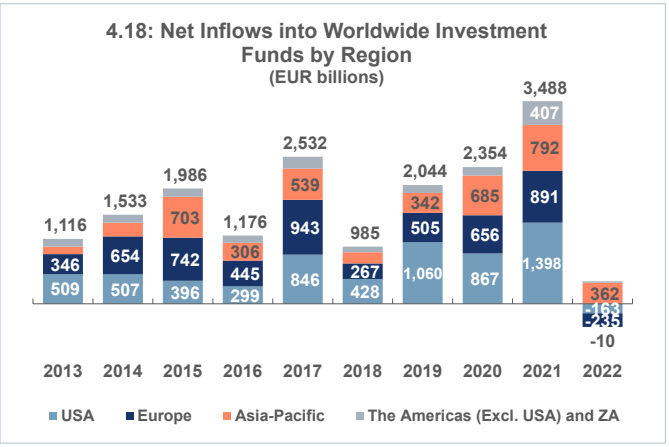
Regional net sales in 2022. A breakdown of the worldwide net sales in 2022 shows that outflows were mainly concentrated in Europe (EUR 235 billion) and to a lesser extent, in the US (EUR 163 billion). Asia-Pacific accounted for the bulk of global net sales in 2022 (EUR 362 billion), mainly due to strong net inflows in China (EUR 199 billion) and Japan (EUR 90 billion). Net sales of funds in the Americas amounted to EUR 26 billion.

4.17: Net Inflows into Worldwide Investment Funds by Region in 2022
(EUR billions)

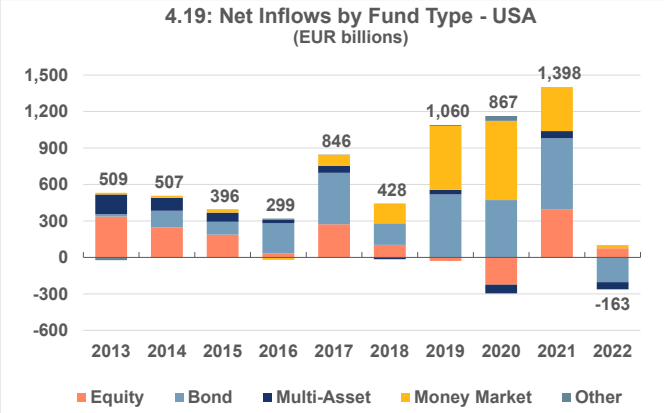


Region	EUR Billion
USA	-163
Europe	-235
Asia-Pacific	362
The Americas (Excl. USA) and South Africa	26
Worldwide Total	-10

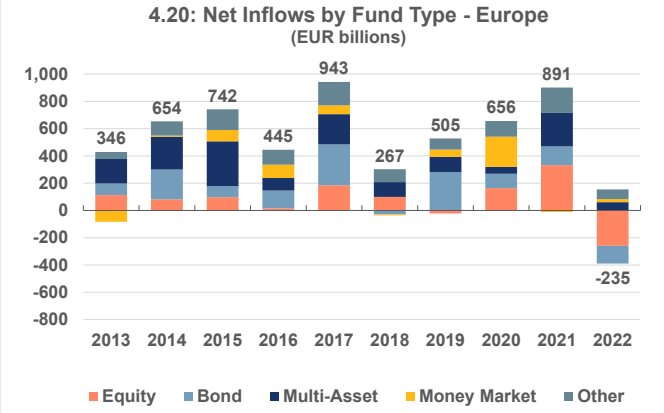
Evolution of worldwide net sales. Starting in 2018, when geopolitical uncertainty dampened global net sales, net fund flows have grown steadily in all regions. Global fund sales reached their highest level of the decade in 2021, only to turn negative in 2022 as rapidly rising interest rates and the war in Ukraine weighed adversely on investor sentiment.



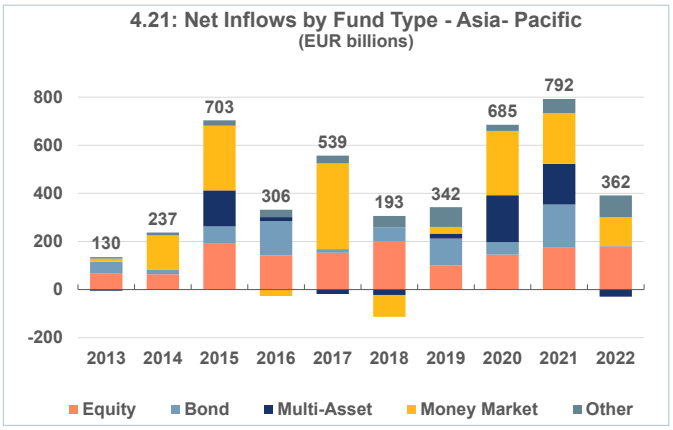
Net sales in the United States. Fund flows in the US were negative in 2022 (EUR 163 billion), the first net outflows of the decade. This was a stark contrast to the all-time record net sales of 2021 (EUR 1,398 billion). Bond funds accounted for the bulk of net outflows in 2022 (EUR 204 billion), a direct result of the Federal Reserve aggressively increasing interest rates throughout 2022 to combat inflation. Multi-asset fund flows were also negative in 2022 (EUR 57 billion). Equity funds, however, ended the year in positive territory (EUR 76 billion), primarily due to strong net inflows in Q1 2022. MMFs recorded net inflows over full year 2022 (EUR 26 billion); however, net inflows were much lower than the previous year (EUR 362 billion).



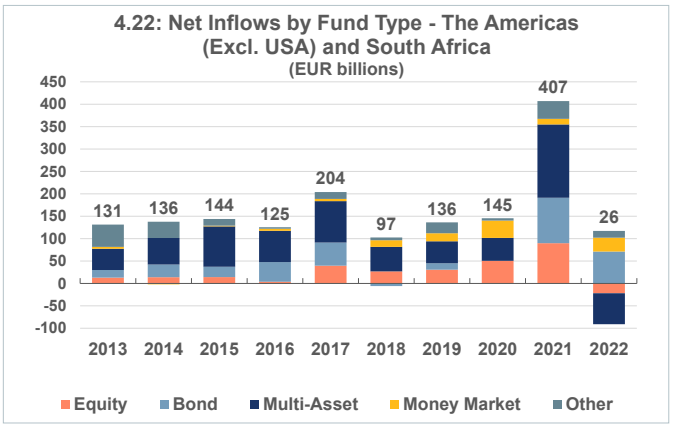
Net sales in Europe. Net sales of European funds in 2022 were negative for the first time this decade. These overall net outflows were driven by equity funds (EUR 259 billion) and bond funds (EUR 130 billion), while multi-asset funds, 'other' funds and MMFs registered net inflows of EUR 61 billion, EUR 71 billion and EUR 23 billion, respectively.



Net sales in the Asia-Pacific region. Net fund sales in Asia-Pacific were positive in 2022 (EUR 362 billion), thanks to robust net inflows into equity funds (EUR 179 billion), MMFs (EUR 118 billion) and 'other' funds (EUR 89 billion). Net bond flows were close to zero (EUR 4 billion), while multi-asset fund flows were negative (EUR 29 billion). The majority of the net inflows into equity funds in 2022 were in Japanese funds (EUR 95 billion), traditionally a strong equity fund market. Chinese equity funds accounted for EUR 56 billion and Indian for EUR 19 billion. These robust equity fund inflows, the largest since 2018, were rather surprising, given the overall negative performances of Japanese and Chinese stock markets over the year. MMF inflows in 2022 were predominantly a result of continued net inflows in China (EUR 117 billion); the Chinese MMF market is well-developed, as many households in China use MMFs as a direct substitute for deposits.



Net sales in the Americas. In the Americas (excluding the US), 2022 fund sales went against the trend, as it was mainly bond funds that registered net inflows (EUR 71 billion), the only region to record net inflows last year. MMF and other funds flows were also positive, at EUR 31 billion and EUR 15 billion, respectively. Equity and multi-asset funds accounted for the net outflows. Brazil, the largest fund market in this region, had a significant impact on 2022 net sales. Bond funds were the top-selling category in the Brazilian market (EUR 61 billion), as most Brazilian bonds are now offering double-digit yields and investors were not expecting any imminent rate hikes. At the same time, net outflows were recorded in equity funds (EUR 39 billion) and multi-asset funds (EUR 57 billion).



Net sales – regional and country breakdown. The following table highlights the net 2022 sales of investment funds in the four above-mentioned regions, broken down by main fund type. It also provides data on the net fund sales among the larger countries in the Asia-Pacific and Americas regions.

4.23: Net Sales of Investment Funds in 2022 by Region, Country and Fund Type
(EUR billions)

	Long-Term				Money Market	Total
	Equity	Bond	Multi-Asset	Other [1]		
USA	76	-204	-57	-4	26	-163
Europe	-259	-130	61	71	23	-235
Asia-Pacific	179	4	-29	89	118	362
of which ➤ China	56	47	-25	5	117	199
➤ India	19	-27	-1	20	1	12
➤ Japan	95	-7	-	2	0	90
➤ Korea	6	-6.5	-4	38	2	36
The Americas (Excl. USA) and South Africa	-22	71	-69	15	31	26
of which ➤ Brazil	-39	61	-57	13	7	-14
➤ Canada	21	8	-14	3	13	30
➤ Mexico	-4	0	0	-2	10	4
➤ South Africa	1	1	5	0	1	7
World	**-26**	**-258**	**-95**	**172**	**198**	**-10**

(1) Includes real estate, guaranteed funds, funds that fall under a different category, or funds for which information is not available.

Notes

i We are grateful to EFAMA's Economics and Research Standing Committee for the valuable discussions on the issues addressed in this part. The views expressed here do not necessarily represent those of the committee, and any potential errors are ours.

ii The AIFMD was transposed into Member State law in July 2013, therefore non-UCITS data have been used to cover 2012 and 2013.

iii Data for UCITS funds domiciled in the Netherlands are only included from 2015 onwards, due to the unavailability of data.

iv Based on the subset of funds for which this type of data is available and sourced from Morningstar.

v Funds domiciled in Switzerland, Turkey and the United Kingdom that fulfill the UCITS criteria are classified as UCITS.

vi See Turkish stocks soar as local investors seek refuge from blistering inflation, Financial Times, 30 DEC 2022.

vii Based on the subset of funds for which this type of asset allocation information is available and sourced from Morningstar.

viii Based on the subset of funds for which this type of asset allocation information is available and sourced from Morningstar.

ix Based on the subset of funds for which this type of asset allocation information is available and sourced from Morningstar.

x Based on the subset of funds for which this type of fixed income asset allocation information is available and sourced from Morningstar.

xi Based on subset of funds for which this type of equity asset allocation information is available and sourced from Morningstar.

xii Based on the subset of funds for which this type of asset allocation information is available and sourced from Morningstar.

xiii Based on the subset of funds for which this type of asset allocation information is available and sourced from Morningstar.

xiv Data for 2012-2013 are non-UCITS data.

xv Data for real estate AIFs domiciled in the Netherlands are only included from 2015 onwards, due to the lack of availability of data. The year-on-year asset growth is calculated excluding Dutch data for the 2012-2015 period, and including Dutch data from 2016 onwards.

xvi Data for the net sales of UCITS and AIFs domiciled in the Netherlands are only included from 2015 onwards, due to the unavailability of data.

xvii This chapter is based on data from the ECB, which covers Member States of the European Union, including the three Baltic countries - Estonia, Latvia and Lithuania. Five EFAMA member countries that are not part of the EU (Liechtenstein, Norway, Switzerland, Turkey and the United Kingdom) are not covered in this chapter.

xviii Assuming that all foreign funds being held in a European country are domiciled in other European countries and not outside of the EU.

xix Sourced from ECB data based on the European System of Accounts (ESA 2010) and available via the ECB statistical data warehouse. The European aggregate covers all countries from the European Union, including the three Baltic countries - Estonia, Latvia and Lithuania - who are not EFAMA members.

xx Monetary financial institutions are mainly deposit-taking corporations such as commercial banks, but also include central banks, other deposit-taking corporations and money market funds.

xxi Remaining financial intermediaries consist of all other financial corporations or quasi-corporations that are principally engaged in financial intermediation by incurring liabilities in forms other than deposits, as well as those entities engaged primarily in long-term financing. Financial intermediaries listed explicitly as other types of investors: insurers and pension funds, long-term funds and MFIs are excluded. This category mainly consists of financial vehicle corporations, security and derivative dealers, financial auxiliaries, such as central counterparties and stock exchanges as well as captive financial institutions, such as holding companies or money lenders.

xxii The analysis focuses on those financial assets that are freely transferrable on the financial markets and widely available to households, i.e. currency and deposits, debt securities, quoted shares, investment funds, life insurance and pension products. Other categories of household financial assets, mainly unlisted shares and loans, are excluded because they are managed on the basis of criteria not directly related to savings management activities.

xxiii The Asia-Pacific region is a part of the world that generally includes East Asia, South Asia, Southeast Asia and Oceania. Data is only available for those countries of the region that are IIFA members. The following countries are included: Australia, China, Chinese Taipei (Taiwan) India, Japan, Korea, New Zealand, Pakistan and the Philippines.

xxiv The Americas is an area of the world that includes the totality of North and South America. Despite being geographically in The Americas, the US is not included in the region but is treated as a region in its own right. South Africa is, from a geographical sense, not a part of the Americas, but in this regional breakdown it was included with The Americas region. It is the only African country for which data is available and, in terms of net fund assets, Africa would be too small to be treated as a separate region. Data is only available for the countries of the region that are IIFA members. The following countries are included: Argentina, Brazil, Canada, Chile, Costa Rica, Mexico, Trinidad & Tobago and South Africa.

xxv To allow for easy comparability across countries, only substantially regulated, open-ended investment funds are included.

PART 2

COUNTRY REPORTS

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AUSTRIA COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Austria (EUR billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	172.9	194.1	201.5	229.6	198.7
Funds domiciled abroad and promoted by national providers					
Total AuM	172.9	194.1	201.5	229.6	198.7

Table 2: Net Sales of Investment Funds in Austria (EUR million)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	-42.4	4,295.1	6,125.7	15,226.9	-500.9
Funds domiciled abroad and promoted by national providers					
Total net sales	-42.4	4,295.1	6,125.7	15,226.9	-500.9

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	14.9	18.7	20.3	27.2	23.9
Bond funds	37.2	37.4	36.8	37.4	30.3
Multi-asset funds	21.1	27.7	31.5	39.8	35.0
Money market funds	0.03				
Guaranteed/protected funds	0.3	0.2	0.1	0.04	
Absolute Return Innovative Strategies (ARIS) funds	2.0	2.0	1.2	1.3	1.2
Other funds	0.1	0.2	0.2	0.2	0.2
Total	75.6	86.3	89.9	106.0	90.6
of which ➤ ETFs					
➤ Funds of funds	16.2	18.9	19.7	21.9	17.7

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	-416.4	429.0	1,339.3	2,641.9	1,321.1
Bond funds	-3,057.4	-711.8	-739.2	955.5	-2,368.4
Multi-asset funds	2,083.3	3,084.4	2,588.7	5,623.5	1,110.0
Money market funds	-3.1				
Guaranteed/protected funds	-179.6	-43.9	-33.8	-11.3	-32.5
Absolute Return Innovative Strategies (ARIS) funds	-272.3	-206.7	-209.1	72.5	145.5
Other funds	-11.9	67.6	7.8	24.2	-20.0
Total	-1,857.4	2,618.7	2,953.6	9,306.2	155.7
of which ➤ ETFs					
➤ Funds of funds	718.7	605.1	266.6	1,250.3	28.5

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	11.0	14.2	13.4	16.9	12.5
Bond funds	28.2	30.0	30.8	30.6	26.6
Multi-asset funds	46.1	50.9	55.1	62.8	55.2
Money market funds					
Guaranteed/protected funds	0.6	0.4	0.2	0.2	0.2
Absolute Return Innovative Strategies (ARIS) funds	2.9	2.9	2.3	2.1	2.3
Real estate funds	8.3	9.2	9.6	10.7	11.0
Other funds	0.1	0.1	0.1	0.1	0.2
Total	97.3	107.7	111.5	123.5	108.0
of which ➤ ETFs					
➤ Funds of funds	12.6	13.1	11.6	12.0	9.3
➤ Institutional funds	85.5	95.2	98.8	108.8	93.6

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	387.2	424.9	-163.3	669.8	-718.0
Bond funds	214.3	-86.8	384.0	305.7	43.8
Multi-asset funds	616.1	934.9	2,993.8	4,310.6	-475.7
Money market funds					
Guaranteed/protected funds	-87.0	-116.4	-151.0	-24.3	-20.9
Absolute Return Innovative Strategies (ARIS) funds	-73.6	-164.0	-215.5	-304.5	418.9
Real estate funds	766.5	680.0	340.0	969.6	98.9
Other funds	-8.4	3.8	-16.0	11.7	14.3
Total	1,815.0	1,676.4	3,172.1	5,938.5	-638.7
of which ➤ ETFs					
➤ Funds of funds	-857.8	-188.2	314.2	-671.3	-576.8
➤ Institutional funds	1,720.5	1,095.0	2,878.1	4,498.1	-879.8

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS	974	905	901	898	869
Home-domiciled AIFs	1,045	1,036	1,057	1,081	1,112
Foreign funds registered for sales	8,466	8,858	9,352	9,744	10,624
➤ By national promoters					
➤ By foreign promoters					
Fund launches	54	53	70	76	68
Fund liquidations	221	279	217	298	129
Fund mergers & acquisitions	191	304	206	186	183

5. REGULATORY DEVELOPMENTS

5.1. UCITS/AIFMD

European regulatory developments have been fully transposed into national law. The Austrian Financial Market Authority is the designated competent authority for supervising conformity with SFDR according to Art 143 para 1a Investment Fund Act (Law Gazette No. I 2022/36). Delegated Directive 2021/1270 on sustainability risks has been implemented by Law Gazette No. I 2022/112.

Concerning ESMA's inquiry into **undue costs**, the annual market study conducted by the Austrian Financial Market Authority did not raise any significant concerns.

However, the application of ESMA Guidelines, Q&A and other instruments show that the Austrian Financial Market Authority is diverging in certain respects:

The Austrian Financial Market Authority interprets **ESMA Q&A** - UCITS Directive Section I Question 6a (UCITS investing in other UCITS with different investment policies) as follows:

The Austrian Financial Market Authority specifies that if a (fund of) fund(s) excludes speculative derivates, but wants to invest in a sub-fund with the mere legal possibility of investing in speculative derivatives, this has to be

included in the fund rules or such and investment cannot be made. This applies even if it does not actually exercise that right. The factual situation is thus irrelevant. The fund rules must therefore be supplemented in such cases in which the (fund of) fund(s) excludes speculative derivatives but invests in sub-funds that are legally allowed to invest in speculative derivatives, even if they do not actually do so.

The additional clarification for the existing exclusion of investment in speculative derivatives at (fund of) fund(s) level could, for example, read "investments may, however, be made in sub-funds that are permitted to invest in speculative derivatives". The prospectus should contain further supplementary explanations. For example, the statement that "it is not legally excluded that sub-funds may invest in speculative derivatives".

National guidelines have been issued that both incorporate and extend the **ESMA Guidelines on sound remuneration policies**. Stricter national requirements apply to payments within delegates or the remuneration committee.

The Austrian Financial Market Authority has approved **side pockets** in the context of the Ukraine crisis. Austrian law already provides for side pockets, according to Art 65 of the Investment Fund Act. Management companies may segregate elements of fund assets of a UCITS that have become illiquid due to unpredictable events into a newly formed 'in liquidation' UCITS. Under the procedure, the management company has to file the planned segregation with the authority, who has four weeks to decide. The application has to contain the following elements: 1) a description of the segregated assets, 2) the reasons for segregation, 3) confirmation of illiquidity by an auditor, 4) information on cross-border fund distribution. Following approval by the authority, the supervisory board and the custodian bank, the division has to be publicly announced.

On the topic of supervisory reporting, the Austrian Association of Investment Management Companies and the Austrian Financial Market Authority are cooperating continuously on assessing the effectiveness of specific reporting requirements.

5.2. MiFID II

There are no specificities of national implementation in relation to MiFID.

The EET is widely used, however, the wording of the EET (chosen by FinDatEx) is sometimes not in line with legislation - e.g. the use of the word 'mandatory' without an actual legal obligation, which might cause some confusion.

5.3. CSDR

Operationalisation has been a major topic in Austria. We think there is no single model applied in the country. There were discussions that the processing of cash penalties will have to follow the principle of causality.

5.4. EMIR

There were no notable developments in this area during 2022.

5.5. PRIIPs

The Austrian legislator has guaranteed impunity from the national rules of the UCITS KIID when publishing a PRIIP KID.

However, the national legislator has chosen a somewhat ambiguous solution, which leaves considerable room for interpretation. In particular, it is unclear whether the PRIIP KID replaces the UCITS KIID formally upon its publication (in terms of content and thus granting impunity from not publishing a UCITS KIID). Or whether it comes to a replacement in terms of substantive 'succession' (i.e., the PRIIP KID replaces the UCITS KIID even when only the UCITS KIID is referred to in the same national law). The Austrian Association of Investment Management Companies interprets the rules as a purely formal grant of impunity from the UCITS KIID rules when publishing a PRIIP KID (the PRIIPs Regulation sets out all obligations and is directly applicable after all.)

5.6. ELTIF

There were no notable developments in this area during 2022.

5.7. Sustainable finance

The Austrian market participants have made great efforts to implement Level 2 of the SFDR. A fundamental exchange with the NCA on Level 2 has not yet taken place.
However, with regard to Level 1, the Austrian NCA published an implementation check on the consideration of sustainability risks on the Austrian financial market, as well as some expectations, in January 2023.

5.8. Stewardship

COVID-19 exemptions on shareholders meetings still apply, meaning that online shareholders meetings will continue until the end of June 2023. There are discussions about implementing online shareholders meetings permanently, but no agreement on a legal text has been reached to date.

5.9. Benchmarks

There have been no noteworthy significant regulatory developments on Benchmarks in Austria in 2022.

5.10. Anti-Money Laundering Directive

The Austrian Association of Investment Management Companies is concerned by the inclusion of CIUs (trusts and legal arrangements) within beneficial ownership identification. This would require the management company to examine the entire depositary chain to identify investors. Due to legal (bank) secrecy, it would be impossible for the management company to obtain that information; practically it is not feasible. In addition, the inclusion of funds neglects the fact that funds are indirectly included anyway: Depositary institutions are subject to AML rules and therefore AML compliance is ensured.

5.11. Digital finance

There were no notable developments in this area during 2022.

5.12. Other regulatory developments

The IRR/IFD-Package was late in being implemented into Austrian Law. The Law on Investment Firms and the related changes to the Investment Fund Act (on own funds) and Alternative Investment Fund Managers Act entered into force in February 2023 (Law Gazette No. I 2022/237).

6. PENSIONS & PEPP

There have been no new developments in 2022, except for the fact that the Austrian Financial Market Authority has been declared responsible for supervising PEPP regulation in Austria (BGBl I 74/2022).

7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

Annual tax package

In 2022, legislation was effected for new tax reporting requirements for client accounts (Abgabenänderungsgesetz 2022). Such accounts are primarily held by Austrian banks. In order to organise the declaration of a possible individual income statement, Austrian banks are required to prepare details on income received on client accounts. This consists of direct and indirect investment income, and also includes netting of ordinary income and capital losses. The regulation should enter into force in 2024. In addition, taxation of cryptoassets came into effect in Austria (27% WHT).

Reclaim of Austrian WHT

Following an Austrian High Court decision (VwGH 28.6. 2022, Ro 2022/13/0002), the Ministry of Finance has issued guidelines that stipulate that persons can reclaim WHT taxes if they own Austrian shares the day before the general assembly of a company declaring a dividend. This decision has massive negative implications for the current WHT

procedure in Austria. As Austrian banks are also responsible for processing WHT for their clients - including the netting of dividends with potential securities transaction losses – this decision has massive negative implications for the current WHT procedure in Austria (beyond the WHT reclaims of foreigners).

There are discussions underway for legal changes to dividend attribution of shares in Austria. The record date (one day after the ex-dividend payment) could be the day on which economic ownership will be presumed. The record date is internationally known and applied by CSDs for settlement purposes (t+2). To be eligible for WHT reclaims, the owner should have bought the shares at least one day before the ex-dividend payment date (t-2).
Also, it is envisaged that there will be a misconduct rule for transactions around the record date where economic risk is not simultaneously transferred.

VAT
The ECJ has decided on the Austrian VAT cases mid 2021 (C-58/20 and C-59/20) in a very principle based manner. The ECJ has transferred the final and concrete decision of the so called 'Austrian cases' to the National Court. The Austrian Court released its decisions on 10 and 14 February 2022, based on the principles of the ECJ judgement (see appendices). It confirmed that certain services consisting in the preparation of tax reports used in the preparation of investors' tax returns could be VAT exempt. This is based on article 135.1. g of the VAT Directive, insofar as they are intended to meet tax obligations imposed only on taxpayers investing in investment funds eligible for the exemption provided for in the article (case 'K'). At the same time, this exemption could also be applied to the licence granted for risk-management software developed for the specific needs of a management company and used only for services rendered to investment funds eligible for the exemption provided for in the article ('DBKAG' case).

The Ministry of Finance has already transposed the decision into the annual release of the VAT guidelines for 2022. We also understand that the Austrian Court and the administration consider that the criteria of specificity for both reporting and IT services should be considered at the level of the beneficiary of the services, not that of the service provider.

8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

Austria has implemented a national financial literacy strategy to promote financial education and literacy among its citizens. The strategy aims to improve financial management skills and increase the financial knowledge of individuals, households and businesses. Austria's national financial literacy strategy has therefore implemented a range of initiatives. Promoting financial education in schools, including integrating financial education into the national curriculum, is one of these key initiatives.

The Austrian Association of Investment Management Companies understands the value of investing in financial education as a means of both improving the stability of financial markets and helping people to develop the skills and knowledge they need to manage their finances effectively. Against this background, we are committed to improving financial literacy among investors and the wider community. To achieve this, we are working on several initiatives. First, we are planning to offer financial education quizzes and presentations. These resources cover topics such as saving, investing and retirement planning and are tailored to different age groups' needs. In addition, VÖIG published the 'DIDI's Investmentfonds leicht gemacht' brochure. This publication is intended to provide basic and easy-to-read information for retail investors on the concept and structure of investment funds as well as their use. Furthermore, VÖIG actively provides academic/professional training on investment fund-related topics. Against that background, VÖIG staff regularly participates as speakers in seminars and conferences on fund-related subjects.

9. OTHER ACTIVITIES OF THE ASSOCIATION

- **Publications (reports, newsletters, surveys, research):**
  The Austrian Association of Investment Management Companies is undertaking academic research and collaborating closely with scientific institutions. We publish in scientific journals on a regular basis, in particular in the (Austrian) Journal of Financial Market Law (Zeitschrift für Finanzmarktrecht)

- **(Tele) conferences**
  On 19 April 2022, as part of 'World Fund Day' various initiatives were organised for the ninth consecutive year in Austria. This marks an important highlight in the calendar of the Austrian investment funds industry.

- **Seminars**
  The so-called 'VÖIG Lehrgang', an initiative launched in 1996 in cooperation with the Austrian Society for Bank Research was also continued in 2022. This aims to enhance the professionalisation of the investment fund business through sustainable further education and advanced training courses, and remains a key pillar of the educational efforts in this area. Furthermore, VÖIG staff regularly participate in seminars and conferences on fund-related subjects as speakers. Moreover, VÖIG has continued offering its 'fit&proper' and 'investment funds compact' seminar series, reflecting the increasing demands from the industry in this area.

- **Videos/podcasts**
  VÖIG is an active member of the FundsXML organisation. As part of this, it is creating short-format video tutorials as a vehicle for introducing the FundsXML format to interested parties.

BELGIUM COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Belgium (EUR billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs (1)	93.0	105.3	107.2	132.0	113.6
Funds domiciled abroad and promoted by national providers	94.3	114.3	124.5	143.4	123.5
Total net assets	187.3	219.6	231.7	275.4	237.1

(1) Net assets of nationally domiciled funds sold abroad are not included.

Table 2: Net Sales of Investment Funds in Belgium (EUR million)					
	2018	2019	2020	2021	2022(2)
Home-domiciled UCITS & AIFs (3)	5,016.1	-1,653.0	4,959.8	9,639.5	4,195.2
Funds domiciled abroad and promoted by national providers	408.4	2,040.5	6,416.2	7,141.1	3,107.9
Total net sales	5,424.5	387.5	11,376.0	16,780.6	7,303.1

(2) 2021 data are estimates

(3) Net sales of nationally domiciled funds sold abroad are not included.

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	33.7	51.5	54.7	76.3	60.7
Bond funds	9.5	11.4	12.1	12.9	11.7
Multi-asset funds	66.9	78.4	87.4	111.7	97.1
Money market funds	9.6	2.8	3.5	4.2	8.9
Guaranteed/protected funds	3.4	4.1	3.4	2.9	2.6
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	0.4	0.3	0.5	0.6	0.3
Total	123.4	148.5	161.7	208.5	181.3
of which ➤ ETFs	1.3	1.4	1.2	1.2	0.9
➤ Funds of funds	57.4	62.8	69.6	83.1	75.6

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	-5,589.1	7,935.1	2,590.8	6,985.7	1,533.9
Bond funds	-1,223.5	-464.9	732.9	997.3	485.9
Multi-asset funds	-454.7	851.8	741.8	2,584.1	1,861.8
Money market funds	7,533.5	-9,196.1	918.9	751.5	353.6
Guaranteed/protected funds	-1,003.9	-539.3	-755.7	-1,397.4	-47.5
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	-255.6	-101.8	-79.8	-67.7	-26.8
Total	-993.2	-1,515.4	4,148.9	9,853.5	4,160.8
of which ➤ ETFs	-10.7	-14.4	34.4	91.4	20.2
➤ Funds of funds	1,750.8	-1,394.6	1,971.6	5,850.9	2,628.3

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	0.4	0.3	0.3	0.5	0.4
Bond funds	2.1	0.01	0.01	0.01	0.004
Multi-asset funds	5.2	2.5	2.1	1.8	1.3
Money market funds	2.3				
Guaranteed/protected funds	2.0	1.0	0.04	0.01	
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds					
Other funds	11.5	8.9	7.1	0.5	0.4
Total	23.5	12.7	9.6	2.8	2.1
of which ➤ ETFs					
➤ Funds of funds	5.3	2.7	2.8	2.2	1.7
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	-81.7	45.6	17.5	41.9	10.0
Bond funds	-298.4	-0.6	0.6	0.6	0.2
Multi-asset funds	-229.1	27.0	14.4	55.5	26.4
Money market funds	1,764.0				
Guaranteed/protected funds	-584.6	-127.5	-41.7	-4.3	
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds					
Other funds	29.4	73.7	-29.7		-2.2
Total	599.5	18.2	-38.9	93.7	34.4
of which ➤ ETFs					
➤ Funds of funds	173.2	-60.2	69.5	181.0	58.9
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS	710	736	721	670	633
Home-domiciled AIFs	222	76	37	20	19
Foreign funds registered for sales					
➤ By national promoters	4,758	4,923	4,955	5,045	5,170
➤ By foreign promoters					
Fund launches	663	586	456	414	376
Fund liquidations					
Fund mergers & acquisitions					

5. MARKET DEVELOPMENTS IN 2022

Investment funds commercialised in Belgium (cf. tables 1 and 2)

At year-end 2022, the investment funds commercialised in the Belgian market totalled EUR 237.1 billion (net assets corrected for double counting). Of these net assets of funds distributed in Belgium, 47.9% can be attributed to investment funds under Belgian law, whereas the remaining 52.1% is accounted for by the investment funds under foreign law.

Over the whole of 2022, net assets declined by EUR 38.3 billion (i.e. -13.9%), although there were net sales of EUR 7.3 billion. The decline is thus fully attributable to the negative market effect, which accounts for EUR 45.6 billion.

Compared to net outflows during the years 2012-2013, the Belgian investment funds market has witnessed significant net inflows since 2014, with 2021 being the top year.

▲ *In Belgium, the importance of foreign investment funds has been gradually increasing over time.*

Investment funds according to Belgian law (cf. tables 3, 4, 5 and 6)

The Belgian UCITS investment funds industry totalled EUR 181.3 billion at the end of 2022, and decreased by 13.0% - or EUR 27.2 billion - during 2022, although there were net sales of EUR 4.1 billion. The decline is thus fully attributable to the negative market effect, which accounts for EUR 31.3 billion.

- *Funds of funds are important amongst Belgian UCITS funds and seemed to have stabilised at around 40-42% of total net assets.*

The Belgian AIF investment funds industry totalled EUR 2.1 billion at the end of 2022, and decreased by 23.9% - or EUR 0.7 billion - during 2022.

- *The trend of decreasing number of AIF funds has been ongoing for a few years now, and is driven by the fact that, year after year, multiple AIF funds changed their legal investment type into UCITS funds, while and almost no new Belgian AIF funds have been created.*
- *Until 2020, the AIF category classified as 'other funds' represented the largest type amongst the AIF funds, due to the fact that this category was mainly made up of AIF pension-saving funds. In the meantime, almost all pension-saving funds have become UCITS funds.*

The number of Belgian investment funds has been decreasing year-on-year, whereas the number of foreign funds registered for sale in Belgium is continuing to grow.

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

On 2 February 2022, the Belgian Financial Services & Markets Authority (FSMA) adopted (in NL/FR) the ESMA Guidelines of 2 August 2021 on marketing communications under the Regulation on cross-border distribution of funds (ESMA34-45-1272) (NL/FR). This Communication was updated on 12 December 2022.

As a consequence of the European Regulation (EU) 2019/1156 of 20 June 2019 on facilitating cross-border distribution of collective investment undertakings, the FSMA reviewed its existing regulatory framework for **national marketing requirements for UCITS and AIFs.**
On 25 January 2022, the FSMA published its Communication FSMA_2022_05 on national marketing requirement for UCITS and AIFs.[1] On 12 December 2022, the FSMA published its **reviewed Q&A** (NL/FR) on marketing communications for undertakings of collective investment. This applies to all marketing communications for Belgian and foreign UCITS and AIF being offered in Belgium. The applicable rules find their origin in both European regulation (i.e. the above-mentioned EU Regulation on cross-border distribution) and in applicable national rules.

6.2. MiFID II

Since 2012, the FSMA requires investment firms to provide various MiFID-related data on an annual basis. This is referred to as the '**MiFID Cartography'**, and serves as a tool for the regulator to supervise compliance with the MiFID conduct rules.

Since 2013, this Cartography has remained unchanged. Since MiFID II entered into effect in 2018, and taking into account various other requirements since, the FSMA deemed it useful to update the MiFID Cartography requirements.
Hence, on 15 February 2022, the FSMA issued a Communication FSMA_2022_13 (NL / FR) detailing the reviewed expectations.
A first communication of the data over 2021 was expected to be delivered by no later than 20 June 2022.

1 This Communication was subsequently updated on 2 January 2023.

On 12 April 2022, ESMA published its Guidelines on various aspects of the MiFID II **appropriateness and execution-only requirements**. These were adopted by the FSMA on 22 June 2022, by way of a Communication FSMA_2022_20 (NL / FR).

The **European ESG Template** (EET) is a generally accepted template used by the Belgian asset management industry to provide data to the relevant stakeholders.

6.3. CSDR

There were no notable developments in this area during 2022.

6.4. EMIR

There were no notable developments in this area during 2022.

6.5. PRIIPs

The abolition of the KIID for undertakings UCIs, paired with the obligation of a PRIIPs KID for retail investors, came into effect on 1 January 2023.

The technical add-ons and amendments related to the PRIIPs KID of the Belgian UCITS *Law of 3 August 2012 on undertakings for collective investment that meet the conditions of the Directive 2009/65/EC* and of the AIF *Law of 19 April 2014 on alternative undertakings for collective investment and their managers* have been incorporated via a *Law of 5 July 2022 containing various dispositions*.

This law also specifies that the PRIIPS KID should be notified to the Belgian regulator FSMA. BEAMA entered into discussions with the FSMA to clarify the extent of the notification requirement. For existing funds, a simple notification in accordance with the (technical) modalities prescribed in the 2017 Royal Decree and an FSMA Communication is sufficient (as opposed to the prior approval requirement that existed for the KIIDs). However, it should be noted that – provided that the PRIIPS KID concerns pre-contractual information for the retail investor – the FSMA will see to it that it complies with the PRIIPS Regulation and that it remains consistent with other fund documentation, such as the prospectus and marketing materials.

For newly launched funds, a prior approval process remains in place to allow the regulator to verify the consistency with other legally required documents.

On 29 November 2022, the FSMA published an update of its Communication FSMA_2022_19 on technical modalities for notification of certain documents, including the PRIIPS KID (NL/FR).

6.6. ELTIF

The Law of 21 January 2022 on various tax provisions, published in the Belgian Official Gazette of 28 January 2022, introduced, amongst other items, the tax regime applicable to ELTIFs. The aim of the legal provisions is to make them more accessible in Belgium and to create a level playing field with our neighbouring countries.

Until now, no domestic Belgian ELTIF have been launched, mainly due to the obstacles and shortcomings identified in the initial ELTIF regulatory framework (which eventually led to a review of the ELTIF Regulation - 'ELTIF 2.0'). As such, a review was published on 20 March 2023, and it is expected that interest in this vehicle may steadily increase.

6.7. Sustainable finance

Belgium has over 20 year's history in sustainable and responsible investment. BEAMA formulated its first principles in April 2001 for funds with a profile of ethical investing.

As of 2013, the Belgian Financial Sector Federation (Febelfin), of which BEAMA is a founding member, upgraded the BEAMA's sustainability methodology to cover all financial products marketed in Belgium.

Over the subsequent years, the methodology was further updated, which resulted in the publication of a quality standard for sustainable financial products in 2019 under the independent supervision of the Central Labelling Agency (CLA). Products adhering to this standard can obtain the 'Towards Sustainability label (for more information: https://www.towardssustainability.be/en).

By the end of 2022, more than 700 products from over 100 different institutions have obtained the 'Towards Sustainability label, thereby making it one of the most comprehensive sustainability labels in the world. The label is also mentioned in the European ESG Template (EET) as being an accepted ESG label.

By the end of 2022, more than 70% of the Belgian funds (weighted by assets) are either SFDR article 8 or 9 products. In numbers, this represents around 250 Belgian funds.
An similar figure is derived when the calculation is performed on the funds commercialised on the Belgian market. Over 70% of the assets of funds commercialised in Belgium are either SFDR article 8 or 9 funds, and the investor has a choice of more than 750 sustainable funds.
The 21 pension savings funds on the Belgian market are all SFDR article 8 funds. In other words, all third pillar pension funds savers in Belgium are invested in a sustainable manner.

6.8. Stewardship

There were no notable developments in this area during 2022.

6.9. Benchmarks

Up until the end of 2021, the European Money Markets Institute (EMMI) - an international non-for-profit association governed by the provisions of the Belgian Code for Companies and Associations) - published two critical benchmarks, namely the EONIA and the Euribor - under the supervision of the FSMA.
As of January 2022, ESMA has taken over supervisory control of EMMI.

- As of 3 January 2022, the publication of the EONIA was discontinued as - since October 2019 - it was simply calculated via a reformed methodology tracking the €STR.
- The Euribor is still published on every target day by EMMI for the following periods/ frequency: 1 weekly, monthly, quarterly, half-yearly and annually.
- In mid-2022, EMMI developed a new benchmark, the Efterm. This is a forward-looking €STR-based term benchmark calculated for the five Euribor periods/ frequency Efterm serves as a fallback rate for Euribor, in the event it materially changes or ceases to exist. Efterm is published every TARGET2 day, at or shortly after 11:15 CET for each of its tenors.

6.10. Anti-Money Laundering Directive

On 2 May 2022, the FSMA issued Circular FSMA_2022_15 (NL / FR) on the requirements for periodic AML reporting to the regulator. This was followed, on 15 June 2022, by an updated version of the Communication FSMA_2020_12 (NL / FR). This concerned the annual AMLCO report, in which the FSMA clarified that the report should be provided no later than 15 May following the preceding calendar year.

The FSMA also confirmed (NL/FR) that it will apply the ESA Guidelines on the role of the AML/CFT Compliance Officers in its supervision on supervised entities. The Guidelines are effective as of 1 December 2022. Following this, the FSMA has published a letter (NL / FR) on 21 December 2022 to further address its expectations in this regard. An earlier letter informing AMLCOs of recent developments regarding AML/CFT was published on 18 June 2022.

A number of rather minor modifications have been made to the Belgian Law of 18 September 2017 on the prevention of money laundering and terrorism financing and the use of cash.

6.11. Digital finance

There were no notable developments in this area during 2022.

6.12. Other regulatory developments

There were no notable developments in this area during 2022.

7. PENSIONS & PEPP

Third pillar pension saving funds under Belgian law are collective investment vehicles available for Belgian residents or residents of another Member State of the European Economic Area who has a Belgian employment contract. BEAMA is convinced that collective pension savings products of the third pillar should be encouraged.
In Belgium, there are two ceiling amounts on pension savings for which an annual tax benefit in personal income tax applies: 990 EUR, for which the tax reduction amounts to 30%, and deposits higher than 990 EUR and up to a yearly maximum of 1270 EUR, for which a tax reduction of 25% is granted. At the end of 2020, the Federal Government decided not to index a number of tax ceilings for the income years 2020-2023. The maximum amounts for tax reduction remain the same as in 2019.

To promote the sustainable financing of the economy, BEAMA supports the Pan-European Personal Pension Product (PEPP). This is in addition to the statutory pension of the first pillar, the work-related pension of the second pillar and the individual third pillar pension saving products. The PEPP was launched on 22 March 2022.
Until now, however, no domestic Belgian PEPP has been launched. This is mainly due to the doubts in the Belgian sector about the feasibility of a fee cap of 1% in combination with the complexity of setting up an equivalent tax regime for new pension products in both a Belgian and European context.
Equivalent tax treatments for the PEPP and for national pension savings products within the EU national borders is considered vital to the success of the PEPP. This way, there should be no discrimination based on tax considerations. Furthermore, the current Belgian political goals for pension reform and the federal budget deficit leave little room for new pension product initiatives under the third pillar.

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

BEAMA's general principle is that a level playing field between the different nationalities of UCIs and between the investment types of UCIs, should ensure that investors can invest in those UCIs that best fit their needs and risk profile, irrespective of tax considerations.

Tax Rules: Belgian implementation of taxation
The Royal Decree of 5 July 2022, amending the Royal Decree/Income Tax Code 1992 on withholding tax, aims to adjust the withholding tax regime applicable to ELTIFs.

The programme law of 26 December 2022 includes, among other things, a limit on the deduction of the annual tax on credit institutions, UCIs and insurance companies. 80 percent of the annual tax on UCIs no longer constitutes a deductible professional expense for corporate income tax purposes. It concerns the annual taxes due from 1 January 2023.

Belgian tax on securities accounts
On 27 October 2022, the Constitutional Court published its judgment on the (un)constitutional nature of the annual tax on securities accounts introduced by the law of 17 February 2021.

The Court decided to abolish the special anti-abuse provisions on (1) the splitting of a securities account into several securities accounts held with the same intermediary and (2) the conversion of financial instruments held in a securities account into registered financial instruments.

In addition, the Court also judged that the retroactive effect of the general anti-abuse provision for the period prior to the entry into force of the law - from 30 October 2020 to 26 February 2021 - should be abolished. All other provisions remain legally valid.

First phase of the broader tax reform of the Belgian Government
At the beginning of March 2023, the Belgian Finance Minister publicly launched his proposal for a first phase in the Belgian tax reform, which proposes a tax shift.
The tax reform proposal comprises various measures aimed at realising a reduction in the taxation of work-related income. This would, among other things, be funded via the introduction of the global minimum tax in Belgium (Pillar 2), an increase in the Belgian tax on securities accounts and changes to VAT rates. The proposed reform also seems to integrate additional tax incentives for green investments.
BEAMA notes the possible tax reform plans in the context of funds and asset management. In the first half of 2023, this proposal will go enter the legislative process.

VAT rules
There were no notable developments in this area during 2022.

Double tax treaties
There were no notable developments in this area during 2022.

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

Initiatives providing information to potential investors are important for improving financial literacy and enable citizens to make sound decisions in managing their savings. In asset management, BEAMA contributes to various seminars and accompanying press communications on the benefits of savings and investment instruments, such as pension savings and investment funds. BEAMA promotes investing as a judicious way to manage personal finances. In the coming years, BEAMA will focus on empowering end investors in their financial decisions.

As a constituent association of Febelfin, BEAMA has contributed to certain educational websites targeted at prospective retail investors. The most recent major contribution has been to 'Club Invest, a web platform informing new investors, with both a French and a Dutch version. The focus of the website and the campaign is 'start to invest'. Club Invest explains the basics of investing clearly, and provides an overview of possible investment options. Another website aimed at youngsters focuses on materials to guide them in better managing their finances. This website, 'My finances and me', was refurbished in 2022 and is also available in French and Dutch.

The EFAMA brochure 'Investing for a better future – 5 tips to do more with your savings' (NL/FR) became available on the BEAMA website in 2022. Given the importance of the brochure, it has been further promoted via several social media in Belgium in order to reach and inform the target group of young professionals.

Also, given the volatile market circumstances of 2022, BEAMA has issued further guidance (NL/FR) for long term pension savings investors.

To this end, BEAMA has refurbished its own website, adding a specific section on financial education (NL/FR). This provides an overview of the various initiatives and available materials, as well as containing useful links.

The FSMA has a coordinating role on financial literacy in Belgium and has already launched several projects to promote financial literacy in schools. As of 2020, the educational system included financial literacy as an attainment target, meaning that children from first to sixth grade in secondary school receive financial training as part of their main curriculum.

The FSMA also launched the so called 'Wikifin programme', which is made up of three distinct pillars:

- Wikifin.be for the general public, where consumers can find a treasury of neutral, reliable and practical information on money-related matters.
- Wikifin School for students, offering a wide range of free material and training courses for to teachers to support them in their financial education efforts.
- Wikifin Lab, the new interactive experience centre for financial education of secondary school students in the buildings of the FSMA in Brussels. Students can experience a wide range of financial situations on-site that they will encounter in daily life.

During the week of 20 March 2023 ('The Week Of Money'), Wikifin celebrated its 10th anniversary. For this occasion, an event was organised where BEAMA was could present the educational themes it has been working on. This took place at the Wikifin Lab in the presence of the FSMA President, the State Secretary for budget and consumer protection and numerous organisations working on financial education in Belgium.

10. OTHER ACTIVITIES OF THE ASSOCIATION

BEAMA provides on its website (NL / FR), on a quarterly basis, in-depth statistics on the asset management industry in Belgium.

During 2022, BEAMA also published two editions of its bi-annual newsletter '**Glance**' (Summer and Winter edition). This provides an overview of the recent developments in the Belgian Asset Management sector, as well as a brief overview of the most relevant topics handled by its various working groups and committees. The newsletter also provides an overview of the most relevant regulatory initiatives at both European and local level.

For its members, BEAMA also organised a Seminar on the ELTIF Regulation in April 2022, as well as a Webinar on the ELTIF 2.0 developments in March 2023.

BULGARIA COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Bulgaria (EUR billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	0.7	0.8	0.8	1.3	1.3
Funds domiciled abroad and promoted by national providers	0.3	0.5	0.5	0.8	0.7
Total net assets	1.1	1.4	1.3	2.0	2.0

Table 2: Net Sales of Investment Funds in Bulgaria (EUR million)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	51.1	79.1	23.5	289.5	27.6
Funds domiciled abroad and promoted by national providers					
Total net sales	51.1	79.1	23.5	289.5	27.6

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	0.2	0.2	0.2	0.2	0.2
Bond funds	0.1	0.1	0.1	0.1	0.1
Multi-asset funds	0.5	0.5	0.6	0.9	0.9
Money market funds	0.0003				
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	0.001	0.001	0.001	0.002	0.002
Other funds	0.01	0.01	0.01	0.01	0.02
Total	0.7	0.8	0.8	1.2	1.2
of which ➤ ETFs	0.01	0.02	0.02	0.01	0.06
➤ Funds of funds	0.003	0.003	0.003	0.003	0.003

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	6.8	18.4	5.7	5.3	0.7
Bond funds	0.3	17.6	-9.0	4.6	-13.7
Multi-asset funds	45.0	43.2	26.4	239.8	15.7
Money market funds	-1.6				
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	1.2	0.2	-0.2	0.6	0.4
Other funds	-0.7	-0.3	0.7	1.4	0.6
Total	51.1	79.1	23.5	251.6	3.9
of which ➤ ETFs	1.0	4.6	-0.3	-3.9	3.2
➤ Funds of funds		-0.01		-0.1	0.1

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds			0.01	0.1	0.1
Bond funds					
Multi-asset funds	0.01	0.01	0.002	0.01	0.04
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds					
Other funds					
Total	0.01	0.01	0.01	0.1	0.1
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds				33.5	
Bond funds					
Multi-asset funds				4.4	23.7
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds					
Other funds					
Total				37.9	23.7
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS	124	122	119	127	132
Home-domiciled AIFs	2	2	2	5	5
Foreign funds registered for sales					
➤ By national promoters					
➤ By foreign promoters					
Fund launches					
Fund liquidations					
Fund mergers & acquisitions					

5. REGULATORY DEVELOPMENTS

5.1. UCITS/AIFMD

In June 2022, the Bulgarian Association of Asset Management Companies (BAAMC) submitted proposals to the Financial Supervision (FSC) in relation to the FSC draft ordinance amending Ordinance No. 44 on the Requirements Applicable to the Activity of Collective Investment Schemes, Management Companies, National Investment Funds, Alternative Investment Funds and Alternative Investment Funds Managers.

BAAMC stated that it was important that the policies and procedures for performing liquidity stress tests (LST) of collective investment schemes or CIS (the UCITS types of investment funds in Bulgaria) were not included in the content of the internal risk management rules of the nor as an element of the structure of Article 37, para. 1 of Ordinance No. 44. The Association maintained that the policies and procedures for carrying out LSTs were a relatively independent element of the architecture of internal organisational acts of the CIS. It was proposed that - given their specific nature, periods of execution, strategic direction and use of special methodologies, scenarios and models adapted to the needs of conducting LST - they be regulated as an independent document of the CIS, outside of the risk management rules. Furthermore, due to their strategic nature, they were defined precisely as policies and procedures, rather than rules, which emphasised their independent nature. The regulator was informed that since they would be a new element of the operations of management companies and CIS, considerable additional setup would be required, changes to those policies and procedures would likely be required after each test run. National

legislation would require administrative approval involving new burden for management companies and CIS, while the Guidelines on Liquidity Stress Testing in UCITS and AIFs of the European Securities and Markets Authority (the 'Guidelines' - 16/07/2020 | ESMA34-39-897) did not require LST policies and procedures to be part of the risk management rules, and emphasising their specific strategic importance (item 24 of the Guidelines).

The FSC accepted the proposal of BAAMC and the policy for the conduct of LST is regulated as an independent and stand-alone set of rules.

Many other BAAMC proposals were approved by the regulator and included in the final text of the amending ordinance. More specifically, proposals concerning the valuation of CIS assets, the use and dissemination of marketing communications, relations with the depositary bank of CIS and the opening of accounts in other banks, the content of the orders for the sale and redemption of CIS units, treatment of clients and acceptance of proxies and others were introduced in Ordinance No. 44.

In January 2023, BAAMC also filed a letter with the FSC concerning the contracts for depositary services with the depositary banks and whether such amendments to such contracts had to be approved by the FSC in connection with the requirement of Art. 35a, para 3, item 7 of the Law on the Activity of Collective Investment Schemes and of Other Undertakings for Collective Investment (LACISOUCI). LACISOUCI obligates CIS depositaries to verify whether the management company has adopted and introduced procedures for conducting LSTs.
The letter stated that the requirement in question was not provided as a specific (mandatory) element of the content of the contract for depositary services according to Commission Delegated Regulation (EU) 2016/438 of 17 December 2015 supplementing Directive 2009/65/EC of the European Parliament and of the Council on obligations of depositaries ('Regulation 2016/438'). The opinion expressed by BAAMC was that was no need to make amendments and additions to the contracts for depository services, by signing annexes or any other acts with legally binding content. Correspondingly, depositaries were not entitled to increase their remuneration under the contracts.

Due to the various interpretations and positions expressed by different depositary institutions of CIS, the FSC was asked whether fulfilling the obligation under Art. 35a, para. 3, item 7 of the LACISOUCI required corresponding changes in the contracts for depositary services. In a letter dated 6 February 2023, the FSC stated that the relationships between the management company and the depositary institution (in Bulgaria this can be a bank or an investment firm) were based on the general regime of contractual freedom. Regulation 2016/438 outlined the mandatory elements of depositary contracts. The rights and obligations of the contractual parties were mandatory, and introducing a new obligation required that it be regulated and its performance thus ensured. However, the FSC specifically pointed out that the new obligation under Art. 35a, para. 3, item 7 of the LACISOUCI did not warrant amendments to the contractual clauses of the contracts for depositary services regulating **the remuneration of the depositary institution** and no annexes to that effect had led to changes in the amount of the remuneration.

BAAMC also sent a letter to the FSC asking the regulator for clarification of certain texts included in Regulation (EU) 2019/1156 on Facilitating Cross-border Distribution of Collective Investment Undertakings and Amending Regulations (EU) No 345/2013, (EU) No 346/2013 and (EU) No 1286/2014 ('Regulation 2019/1156') and in the ESMA Guidelines on marketing communications under the Regulation on cross-border distribution of funds (02/08/202 ESMA 34-45-1272).

One of the questions raised was on issuing of factsheets presenting objective information on the funds, targeting mostly existing unit holders/shareholders and whether such factsheets could be considered marketing communications. The FSC's response stated that these could be considered marketing communications where they referred to specific CIS and AIFs. The FSC gave examples of materials that could not be considered marketing communications such as general publications including analyses, expert opinions and certain forecasts.

The FSC also provided other useful insights on how the Guidelines were to be interpreted and applied by the management companies.

The legal framework defining the regime of Alternative Investment Funds Managers (AIFMs) is included as integral part of the LACISOUCI. There are currently 27 AIFMs registered with the FSC. Eleven of them are MCs (10 are members of BAAMC) that have also been registered with the FSC as AIFMs, each of them managing national investment funds (NIF). NIFs are a specific type of AIF modelled on UCITS but with a less restrictive regime for eligible instruments of the portfolio, diversification and concentration requirements, use of leverage and management structure (they can also be self-governed). Currently, there are only 14 such NIFs. Two of those are former closed-end investment companies organised as JSC and both are former privatisation funds. NIFs are regulated in detail with the inclusion of a special chapter of LACISOUCI, and their legal regime makes them eligible for retail investors and they can be offered to the public through public offering of securities (increase of capital or continuous offering of units and shares). NIFs are marketed within Bulgaria only and they cannot be offered on a cross-border basis. The preferential tax regime applicable to UCITS applies to NIFs. Foreign AIFs, if sold in Bulgaria, however, will not be able to profit from such preferential tax regime which might be a barrier for their distribution.

In connection with a draft law amending the Law on Public Offering of Securities (LPOS) discussed in the National Assembly, BAAMC wrote to the Parliament in June 2022 on the NIF regime. The Association proposed that closed-end NIFs be allowed to invest a larger portion of their assets in financial instruments that were not publicly offered and for which there was no obligation to be admitted to trading on a regulated market. The proposed cap on the total amount investment was 80% of the assets of the closed-end NIF (up from the effective threshold of 50%). BAAMC also proposed that, subject to the principle of risk distribution, closed-end NIFs apply the standard investment limits only at the time of acquisition of the financial instruments from the closed-end NIF.
The letter to Parliament argued that the proposed amendment of the investment limits provided for in Art. 187, para. 1, item 3 of LACISOUCI for closed-end NIFs would create greater flexibility on the construction of their investment strategy, which ultimately were AIFs and not UCITS. The proposed amendment would have helped their regime be more-fine-tuned and more in line with their nature as AIFs. The proposed change to the investment limits of NIFs was aimed at strengthening their competitiveness, making them comparable to public companies.
The proposed amendments would have also created conditions for closed-end NIFs to gradually increase their assets invested in certain financial instruments as a result of business growth, capitalisation of profit, increase of capital, issuance of new shares, registration of rights, mergers and acquisitions. Again, it was stressed that closed-end NIFs were not UCITS funds and such were not under pressure to purchase back shares/units issued by them at the request of unitholders. For such funds it was not necessary to sell off assets to comply with the investment caps limiting the percentage of investments in certain instruments in their portfolio, in the case where such assets had increased in value through active management and/or because of relevant corporate actions.
However, Parliament was dissolved before the parliamentary Budget and Finance Committee could assess and vote the proposed amendment.

5.2. MiFID II

There were no notable developments in this area during 2022.

5.3. CSDR

The FSC through Decision No 203-CD of 15 March 2022 approved amendments to the Rules for the Activity of the Central Securities Depositary bringing the national legal framework in line with the requirements of Delegated Regulation (EU) 2018/1229 supplementing Regulation (EU) No 909/2014 with regard to regulatory technical standards on settlement discipline as well as of Delegated Regulation (EU) 2017/389 supplementing Regulation (EU) No 909/2014 as regards the parameters for the calculation of cash penalties for settlement fails and the operations of CSDs in host Member States.
The amendments of the Rules of the CSD became effective on 30 March 2022.
The provision of Art. 30 of the Rules has transposed the requirements of Regulation 2017/389 for the calculation of cash penalties for failed settlement. Sanctions would be calculated, imposed, collected, and distributed in accordance with the requirements of Section 2 of Regulation 2018/1229. The sums of the sanctions imposed for belated transactions in financial instruments are distributed *ex officio* by the CSD to the accounts of the participants in the clearing and settlement system (CSS) of the CSD affected by the failed settlement. On the same day, the CSD must notify the participants in the CSS of the imposed sanctions.

According to an instruction from the FSC (consulted with BNB), when calculating the cash penalties under Article 30, Paragraph 1 Item 2, l. 'a' of the rules of the CSD, a provisional approach will be applied. Specifically, this will be an alternative interest rate proposed by the BNB; the basic interest rate announced pursuant to Art. 35 of the Law on the BNB, plus the difference between the interest rate on the marginal credit facility of the ECB and the interest rate on the main refinancing operations of the ECB. The indicated approach will be applied until the European Commission's position on the interest rate proposed by the BNB is finally specified, after which additional information will be provided.

According to Art. 137 of the rules of the CSD, the depositary institution will publish the failed settlement cases on its website, in accordance with Art. 14 and 15 of Regulation 2018/1229.

As of 1 September 2022, the Central Depository started to collect the sums representing cash penalties for late settlement transactions from the cash settlement accounts of the participants in the CSS that caused the delay.
It should be added that the rules of the CSD included detailed provision for calculating the sums of the penalties in the general case of failed settlement of transactions in shares of public companies traded on liquid and on illiquid markets. There are separate provisions for calculating penalties for late settlement of debt securities, government bonds, equities and debt securities traded on growth markets, with the amounts depending on the type of failure and whether such failure is due to shortage of financial instruments or cash.

It should be noted that in October 2022, the CSD and ECB signed a framework agreement to join TARGET2-Securities (T2S). Internal evaluations are currently underway to determine an appropriate date to migrate to the platform, most probably in September 2023.

5.4. EMIR

There were no notable developments in this area during 2022.

5.5. PRIIPs

In 2022–23, the BAAMC Investment Committee held several meetings on the application of PRIIPs. The six sections of the PRIIPs Regulation and the texts - particularly the seven annexes of Delegated Regulation (EU) 2017/653 on Key Information Documents (KIDs) for Packaged Retail and Insurance-Based Investment Products (PRIIPs) by Laying Down Regulatory Technical Standards with regard to the Presentation, Content, Review and Revision of Key Information Documents and the Conditions for Fulfilling the Requirement to Provide Such Documents ('Regulation 2017/653') - were examined in detail. The concrete steps for transferring the methodology of the regulation to the specific KIDs were outlined. The content and presentation of the main performance scenarios and how they find a place in the KID were analysed. At the meetings, it was explained how the methodology for calculating and classifying costs should be applied.

Questions were sent to the FSC on the content and presentation of information in the PRIIPs KID, the timing for the calculation of costs and for updating the KID, use of financial statements and reports for that purpose, the methodology for calculation in the cases where the CIS invested in ETFs, calculation and presentation of performance fees, the interpretation of the terms 'without undue delay' and 'significant part'. The FSC replied promptly, in October 2022, which was used by the management companies in migrating to the new KID.

5.6. ELTIF

There were no notable developments in this area during 2022.

5.7. Sustainable finance

There were no notable developments in this area during 2022.

5.8. Stewardship

There were no notable developments in this area during 2022.

5.9. Benchmarks

There were no notable developments in this area during 2022.

5.10. Anti-Money Laundering Directive

There were no notable developments in this area during 2022.

5.11. Digital finance

There were no notable developments in this area during 2022.

5.12. Other regulatory developments

BAAMC participates in a working group (WG) with the FSC, which is charged with the task of drafting a bill for introducing the Euro. This should be submitted to Parliament for adoption into law. At the preliminary stages, after a concept for the law was drawn up and provided to the participants of the WG, BAAMC offered numerous notes and proposals, drawing the attention of the regulator - for the purpose of comparative analysis - to existing pieces of legislation in EU Member States that had already joined the Eurozone (Slovakia, Slovenia, Czechia, Latvia, Lithuania, Cyprus and Estonia) or were about to join (Croatia). Based on the WG discussions, the FSC drew up a draft law for the introduction of the Euro, to which BAAMC made several proposals.

One of the notes concerned the conversion of values from BGN to EUR in articles of association, bylaws, rules and other internal documents of commercial companies, and more specifically of supervised entities. BAAMC supported the draft law provision decreeing that no approval by a government body would be needed in the case where the amendments in bylaws and rules were limited only to the conversion to the Euro. However, BAAMC noted that - in addition to regimes requiring approval by government bodies of the document of the supervised financial institutions - there were regimes requiring the regulator to be notified. BAAMC proposed that texts were included treating the issue of such notification (as to relevant deadlines and format.

BAAMC also suggested that only the nominal value of the financial instruments should be registered in the CSD, and that an obligation be included for the trading venues to announce the market prices of financial instruments in Euros, upon opening on the day the Euro is accepted as a legal tender.

6. PENSIONS & PEPP

There were no notable developments in this area during 2022.

7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

The main features of the tax regime in Bulgaria have overall remained unchanged:

- **The rate of income tax applying to commercial companies is 10%** (a flat tax, which is among the lowest in Europe).
- **The rate of the personal income tax applying to individuals is also fixed at a flat 10%.**
- **Capital gains** from transactions in shares of public companies and traded rights in such shares realised on a regulated Bulgarian stock market are tax exempt. **Capital gains** from transactions in units of collective investment schemes (irrespective of whether they are traded on a regulated market or their shares or units are sold/redeemed through other channels of distribution) are also not taxed. The disposal of financial instruments during a tender offer procedure are not subject to taxation. The same tax regime is applicable to the newly introduced in Bulgarian legislation national investment funds (NIFs), regardless of their legal form. Income from disposal (redemption) of their units in case of open-end NIF is tax-exempt. The liquidation proceeds received by the investor upon winding up of a closed-end NIF are also tax exempt.

- UCITS (Bulgarian, as well as UCITS funds registered in EU Member States and offered and sold in Bulgaria through a branch or based on the freedom to provide services) **are not subject to taxation and are exempt from corporate income tax**. The same regime also applies to the NIFs (as of March 2023, there are 14 such NIFs, 13 of which are managed by BAAMC members, and one is a self-governed, closed-end investment company former privatisation fund).

- **Dividends are subject to taxation at a rate of 5% withheld at source** (UCITS themselves rarely distribute dividends, even although their constitutive acts mean that they might be a distributive type of investment funds, paying dividend to unitholders).

- Dividends and liquidation proceeds payable by Bulgarian residents to foreign legal entities are subject to a 5% final withholding tax at the source (Art. 200 (1) with reference to Art. 194 of the Corporate Income Tax Act /CITA/).

- Bulgarian-source income of foreign entities, realised without a business seat in the country, is subject to a 10% final withholding tax at source. If the foreign entities have a resident representation, then the respective resident entity is subject to taxation (Art. 200 /2/ with reference to Art. 195 of the CITA).

- Accordingly, legal entities can adjust their taxable base by adding losses to and subtracting capital gains from it when such losses have been incurred and gains that have been generated from trade in listed securities or CIS units. It must be noted that withholding tax rates could differ depending on the provisions in Double Taxation Agreements between Bulgaria and other countries.

- The VAT rate remained largely unchanged at 20%. A temporary reduction of the VAT rate was introduced for certain products and services. such as restaurateur services. The reduced rates of 9% for restaurateur and catering services, and 0% for bread and flour were extended until 31 December 2023. The lower rate of 9% will permanently apply to books, textbooks and periodicals, baby food and diapers. **Financial services are exempt from VAT.**

- The VAT registration threshold, which was increased from BGN 50,000 to **BGN 100,000 as of July 2022, and will remain the same during 2023**.

  The special measure will apply until the 31 December 2024 – the date by which EU Member States must transpose Council Directive (EC) 2020/285. It is stipulated that as of 1 January 2025, the threshold will be EUR 85,000 or the equivalent in national currency.

- **Management (i.e. the management fees of MCs) of UCITS and NIFs is explicitly exempt from VAT. The same regime was applied to the management of AIFs.**

  The scope of the exempted provision of financial services was expanded, **by adding the management of AIFs defined as special investment funds, according to the criteria defined in European law**. Thus the management of AIFs also has become exempt from VAT tax.

  In relation with that amendment to the Law on VAT BAAMC - in a letter dated 12 July 2022 to the Chairman of the Budget and Finance Committee of Parliament and the Ministry of Finance - expressed its support for the exemption of the management of AIFs from VAT. It also made an additional proposal on the tax treatment of individual portfolio management, suggesting that it also be exempted from VAT.

- Capital gains on corporate bonds are generally tax exempt, even although the Law on the Income Tax of Natural Persons (LITNP) does not explicitly provide for tax exemption, on the other hand, the LITNP explicitly stipulates that interest from bonds, debentures and other debt instruments is tax exempt, interest accrued being one of the forms of generating capital gains.

- As for the CITA, the interest and capital gains as well as losses from trade in bonds participate in the calculation of the taxable base, from which the profit from the sale of financial instruments is deducted and the losses from sale of financial instruments are added as a negative value.

- **Tax Relief for Trade in Financial Instruments on Growth Markets.**

  Through § 77 of the Transitional and Concluding Provisions of the Law Amending the Law on VAT (published in the State Gazette, issue No. 104 of 2020), **until the 31st of December, 2025**, disposal of financial instruments for the purposes of Art. 44 and 196 of the CITA would be tax exempt in the case of transactions in units and shares of collective investment schemes and of national investment funds, shares, rights and government securities, **performed on a growth market** within the meaning of Art. 122, para. 1 of the MiFIA. The special SME Growth Market **BEAM** is organised by the Bulgarian Stock Exchange (BSE), and allows small- and medium-sized companies in Bulgaria to access financing. The objective of the **BEAM** market is to provide SMEs with the opportunity to raise funds on easier terms than those on the regulated market, while at the same time providing them with similar advantages as those of public companies.

  Also, until 31 December 2025, no withholding tax under Art. 195, para. 6 of the CITA would be levied on:
  (i) The income from interest on bonds or other debt securities issued by a local legal entity, by the state and by the municipalities and admitted to trading on a growth market in the country or in a EU or EEA Member State.
  (ii) The income from interest on a loan, provided by a foreign issuer of bonds or other debt securities, when the bonds or other debt securities are admitted to trading on a growth market in the country or in a EU or EEA Member State, and meet the conditions of Art. 195, para. 6, item 2, letters 'a' and 'b' of the CITA.

  For the period of relief, capital gains realised on the **BEAM** market from the disposal of shares are not subject to taxation (for individuals). A reduction of the financial tax result is provided for legal entities in regard to the profit made by such entities from the disposal of financial instruments, realised on this market.

  The government fee charged for the filing of annual financial statements, consolidated annual financial statements and annual activity reports with the Registry Agency (the government agency administering the Bulgarian Trade Register) has been abolished since the beginning of the year 2022.

8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

BAAMC is the main organisation working with the FSC, engaging in the preparation, organisation and conduct of courses for brokers and investment consultants, including the preparation of exam syllabuses and the conduct of internal assessment of candidates (the so-called 'Mock exam').

In 2022, BAAMC and the Bulgarian Association of Licensed Investment Firms (BALIF) and BALIP organised, for the thirteenth year in a row, courses to prepare candidates seeking to pass exams for brokers and investment consultants before the FSC. The courses started on 26 March 2022, and continued until 15 May 2022. Employees of BAAMC and BALIF members participate in these courses, with fee discounts of 25%-30%. Mock exams are held to check the level of preparation of the students.

The training is conducted by lecturers, some of whom are or have been managers/employees of BAAMC and/or BALIF members.

In order to improve the organisation and conduct of the course, and to achieve better results in the examinations, lecturers and experts from the FSC involved in the organisation and conduct of the exams met before the start of the course. Measures were identified to optimise the learning process and achieve better results, and changes were introduced to the syllabuses for the exams and the respective topics.

Some 32 participants were enrolled for the 2022 courses, a higher number than usual.

On 28-29 May 2022, the real exams for brokers and investment consultants before the FSC were held, with the results being announced on 7 June 2022. The vast majority of candidates who passed the exam were students of BAAMC and BALIF. From the group of successful candidates for broker certificates, eight students from the 2022 Course and one from the 2021 Course; 9 out of 11 who sat the exam were our students. From the group of investment consultants, five candidates out of 12 passed the exam, and all five were our students from the 2022 Course. In other words, of the 16 participants who passed the exams, 14 were students enrolled in the training course of BAAMC.

BAAMC is also a participant in the Working Group (WG) in the field of financial literacy, organised by the Ministry of Finance to help prepare a national strategy and activity plan for financial literacy. A National Strategy for Financial Literacy (NSFL) of the Republic of Bulgaria (2021-2025), as well as an Action Plan (an integral part from the Strategy and specifies the measures, activities and initiatives that will help to realise the NSFG) have been adopted by the Council of Ministers.

BAAMC organised series of seminars and trainings for its members. These covered a number to topics including anti-money laundering and combatting financing of terrorism; financial sustainability and ensuring compliance with the Sustainable Finance Disclosure Regulation (SFDR) and DORA. Lecturers came from the Ministry of Finance, the FSC, Bloomberg, Ernst & Young, Eversheds and Sutherland and others.

BAAMC provided feedback on the establishment by the MF of a portal for financial literacy and is ready to provide content for the investment section of the portal. There will also be a link on the landing page on BAAMC's website containing investor education materials created in connection with an advertising campaign of BAAMC promoting the investment management business and the operation of the collective investment schemes in Bulgaria. BAAMC made proposals on the structure and the content on the investment section of the portal of MF. More specifically BAAMC proposed subsections such as planning for the future, savings, investments, drafting of an investment plan, different types of investments, structuring of an investment portfolio, investment in different types of investment funds and individual portfolios.

In mid-2022, following a decision at the BAAMC General Meeting, the Association signed a contract for conducting an advertising campaign to provide more information for the public on the activities of management companies and investment funds.

It includes creative concepts for a series of videos and clips, a landing page, profiles in social media, preparing monthly content for social networks and digital channels, placing ads on Facebook, LinkedIn, YouTube, publishing articles in magazines and periodicals, creating a banner campaign and other advertising tools.
The campaign is scheduled to start in April–May 2023.

CROATIA COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Croatia (EUR billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	3.1	3.6	3.0	3.5	2.8
Funds domiciled abroad and promoted by national providers					
Total net assets	3.1	3.6	3.0	3.5	2.8

Table 2: Net Sales of Investment Funds in Croatia (EUR million)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	92.4	271.2	-651.6	398.3	-455.8
Funds domiciled abroad and promoted by national providers					
Total net sales	92.4	271.2	-651.6	398.3	-455.8

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	0.2	0.2	0.2	0.3	0.3
Bond funds	1.2	2.5	1.9	2.0	1.4
Multi-asset funds	0.1	0.1	0.1	0.2	0.1
Money market funds	1.0	0.001			
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	0.1	0.2	0.2	0.3	0.4
Total	2.6	3.0	2.4	2.9	2.2
of which ➤ ETFs					
➤ Funds of funds					

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	-24.0	-11.6	-6.6	60.6	-17.9
Bond funds	326.4	330.2	-661.5	149.1	-507.6
Multi-asset funds	4.5	7.8	-3.3	56.4	-27.1
Money market funds	-223.3	-72.2	-0.2		
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	8.8	17.0	20.1	132.2	96.6
Total	92.4	271.2	-651.6	398.3	-455.8
of which ➤ ETFs					
➤ Funds of funds					

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds					
Bond funds					
Multi-asset funds					
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	0.01				
Other funds	0.5	0.6	0.6	0.7	0.7
Total	0.5	0.6	0.6	0.7	0.7
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 6: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS	96	99	96	93	100
Home-domiciled AIFs	36	36	39	34	35
Foreign funds registered for sales					
➤ By national promoters					
➤ By foreign promoters	133	150	106	334	383
Fund launches	8	10	13	10	20
Fund liquidations	3		2	8	8
Fund mergers & acquisitions	6	5	11	8	1

5. REGULATORY DEVELOPMENTS

5.1. UCITS/AIFMD

UCITS:

- Revised ordinance on the contents and manner of maintaining the register of UCITS and UCITS management companies (March 2022).
- Revised ordinance on the criteria for assessing the conditions for membership of the management and supervisory board of the UCITS Fund Management Company (July 2022).
- Ordinance on fees and costs charged by the management company (July 2022).
- Revised ordinance on organisational requirements for UCITS management companies (July 2022).
- Act on amendments to the Act on open-ended investment funds with a public offering (July 2022).
- Ordinance on the regulatory capital of the UCITS fund management company (November 2022)
- Revised ordinance on compensation for damages to investors in UCITS funds and/or to UCITS funds (December 2022).
- Revised ordinance on the determination of the net asset value and the unit price of UCITS (December 2022).
- Revised ordinance on the structure and contents of annual and semi-annual reports and other reports by UCITS (December 2022).
- Revised ordinance on the structure and contents of financial reports and other reports by UCITS management company (December 2022).
- Revised CFSSA guidelines on the application of the proportionality principle in relation to the remuneration policy of investment fund management companies and the exemption for small receipts (December 2022).
- Revised CFSSA guidelines for implementing the audit of the information system of the subjects of supervision by auditing companies (December 2022).
- Revised CFSSA guidelines for appropriate risk management of the information systems of supervised entities (December 2022).

AIFMD

- Revised ordinance on the contents and manner of maintaining the register of AIFMs and AIFs (March 2022).
- Revised ordinance on issuing approval for the work of AIFM (August 2022).
- Revised ordinance on compensation for damages to investors in AIFs and/or to AIFs (December 2022).
- Revised ordinance on determination of the net asset value and the unit price of AIF (December 2022).
- Revised ordinance on the structure and contents of annual and semi-annual reports and other reports by AIF (December 2022).
- Ordinance on the structure and contents of annual and semi-annual reports and other reports by AIF management companies (December 2022).
- Revised ordinance on performance of AIF depository duties (August 2022)
- Revised ordinance on the criteria for assessing the conditions for membership in the management board and supervisory board of a UAIF and in the supervisory board of a closed AIF with an external manager (July 2022).
- Ordinance on issuing approval for the establishment and management of AIFs (March 2022).
- Revised ordinance about types of AIFs (December 2022).
- Ordinance on costs and fees that can be paid directly from the assets of AIFs with a public offering (July 2022).
- Ordinance on the acquisition and increase of qualified shares in small and medium-sized UAIF (August 2022).
- Ordinance on the regulatory capital of AIF management companies (November 2022).
- Revised CFSSA guidelines on the application of the proportionality principle in relation to the remuneration policy of investment fund management companies and the exemption for small receipts (December 2022).
- Revised CFSSA guidelines for implementing the audit of the information system of the subjects of supervision by auditing companies (December 2022).
- Revised CFSSA guidelines for appropriate risk management of information systems of supervised entities (December 2022).

5.2. MiFID II

MiFID II Act has applied since 27 January 2019; quality enhancement requirements are implemented on the basis of additional service provided (for example investment advisory and/or e-/m-banking availability...), NCA did start in 2022. Revision and supervision of quality enhancements (i.e. one-time advice vs continuous advice).

Act on Amendments to the Capital Market Act (December 2022).

ESMA guidelines (ESMA 70-156-4263) as a whole are in force.

The EMT is distributed and it is used directly or as a basis for communication between fund managers and distributors, but it is still not widely used by all participants.

The EET is not yet in use, but with the emergence of Article 8 funds, this may change.

5.3 CSDR

There were no notable developments in this area during 2022.

5.4. EMIR

The current situation is that all management companies have outsourced reporting to counterparties (specifically banks).

5.5. PRIIPs

Workshops with NCA and discussions within the association on finding the best solutions for performance and costs disclosure took place.

5.6. ELTIF

There are currently no ELTIFs in Croatia.

Highly specialised and very long-term strategy funds still cannot attract sufficient AuM from investors in Croatia.

There were no national initiatives undertaken to increase interest in such long-term investments.

5.7. Sustainable finance

Close communication between the association and with NCA on the development and understanding of regulatory requirements (meetings and workshops).

Only a few management companies have local funds that promote environmental and social characteristics (Article 8. disclosure requirements)

Few management companies have master-feeder structures with Article 8./9 master funds.

The issue for implementation is insufficient issuers data; the NCA has initiated actions to encourage local issuers to begin disclosing data as soon as possible

5.8. Stewardship

No relevant developments in UCITS; AIFMDs are - based on their investment policy - more engaged in corporate governance of investee companies.

The association has begun revising its Codex.

The Company's Act was amended in 2022.

There are no specific obstacles to exercising voting rights.

5.9. Benchmarks

There are no benchmark providers in Croatia.

5.10. Anti-Money Laundering Directive

During 2022, representatives of all members of the association attended the annual training on AML and TFs organised by the Croatian Chamber of Economy, in cooperation with supervisory authorities.

The Association cooperated with NCA through Q&As.

The Association has finished activities on the revision of common Indicators for AML&TF.

The Act on Amendments to the Act on prevention of money laundering and terrorist financing (December 2022)

5.11. Digital finance

The NCA held meetings with the subjects of supervision, where they were presented with information about obligations for certain subjects in the financial sector. They were also provided with updates on the drafting of accompanying by-laws (changes to the relevant sector regulations are expected).

The NCA has announced certain activities to be implemented during 2023, which concern the collection of data on external service providers and the implementation of an initial gap analysis on current compliance with DORA. Ongoing talks on finding the best solution for managing operational risks arising from the use of digital technologies. In cooperation with NCA and within the association.

Small and mid-sized AIF managers are not subject to DORA requirements.

5.12. Other regulatory developments

As of 1 January 2023, the euro is the official currency of the Republic of Croatia. The financial services sector, including investment funds, successfully introduced the euro.

The association was one of the stakeholders in the process of drafting the law on the introduction of the euro as the official currency in the Republic of Croatia and took part in all activities.

In order to inform clients about the introduction of the euro, the association published a joint announcement in national print media.

Law on the introduction of the euro as the official currency in the Republic of Croatia (May 2022)

6. PENSIONS & PEPP

The association was one of the stakeholders in the drafting of the PEPP Law within Working Group of the Ministry of Finance. The law was adopted in December 2022.

A Slovak company was the first to offer a pan-European personal pension product (PEPP) to the Croatian market in February 2023.

7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

On 8 December 2022, the United States and Croatia signed their first convention for avoiding double taxation and preventing tax evasion with respect to taxes on income.

8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

The Government of the Republic of Croatia has adopted the national strategic framework for consumer financial literacy for the period 2021-2026 (The first document was for the period 2015-2020). The activities of the association are part of this document, which includes participation in the campaign as a part of:

- The Global and European Money Week in March (Project 'The More We Know; The Better We Understand' - education for pupils in high schools and students).
- World Savings Day in October (round table, statements and articles in the media, social media posts).
- World Investor Week in October (round table, statements and articles in the media, social media posts).

As a part of the celebration of World Investment Fund Day, on 19 April, the association holds an annual 'Top Of The Funds' award for the most successful UCITSs and the best investment fund management company in 2021, including education for students.

- Website link: **Top of the Funds 2022**

A workshop on private equity end venture capital funds for SMEs was held.

9. OTHER ACTIVITIES OF THE ASSOCIATION

The Association cooperates with the governmental authorities (the Ministry of Finance, Tax Authority, Croatian Financial Services Supervisory Agency, Croatian National Bank and other institutions). It is involved in all activities on developing the legal framework important for the fund industry and the capital market, reporting, education and AML (meetings, seminars, working groups) and development of the financial literacy, particularly young people.

CYPRUS COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Cyprus (EUR billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	4.0	5.2	4.9	7.7	7.7
Funds domiciled abroad and promoted by national providers					
Total net assets	4.0	5.2	4.9	7.7	7.7

Table 2: Net Sales of Investment Funds in Cyprus (EUR million)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	1,344.0	441.0	-322.0	2,166.0	-219.0
Funds domiciled abroad and promoted by national providers					
Total net sales	1,344.0	441.0	-322.0	2,166.0	-219.0

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	0.1	0.2	0.2	0.3	0.3
Bond funds	0.1	0.1	0.1	0.1	0.1
Multi-asset funds	0.1	0.1	0.1	0.1	0.05
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds					
Total	0.2	0.4	0.4	0.5	0.5
of which ➤ ETFs					
➤ Funds of funds					

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	27.0	80.0	52.0	11.0	
Bond funds		45.0	17.0	3.0	-18.0
Multi-asset funds	1.0	-4.0	4.0	-8.0	-6.0
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds					
Total	28.0	121.0	73.0	6.0	-24.0
of which ➤ ETFs					
➤ Funds of funds					

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	1.1	1.5	1.1	2.1	2.3
Bond funds	0.1	0.1	0.1	0.1	0.1
Multi-asset funds	0.4	0.6	0.5	1.0	0.9
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	0.4	0.5	0.7	0.6	0.6
Other funds	1.8	2.2	2.1	3.4	3.1
Total	3.8	4.9	4.5	7.2	6.9
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	4.0	-4.0	-411.0	720.0	-21.0
Bond funds	-3.0	-15.0	-17.0	11.0	3.0
Multi-asset funds	82.0	34.0	-69.0	576.0	-73.0
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	997.0	27.0	127.0	40.0	-56.0
Other funds	236.0	278.0	-25.0	813.0	-48.0
Total	1,316.0	320.0	-395.0	2,160.0	-195.0
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS	28	28	32	32	31
Home-domiciled AIFs	268	310	367	411	401
Foreign funds registered for sales	28	40	37		
➤ By national promoters	26	28	26		
➤ By foreign promoters	5	21	17		
Fund launches	65	70	104		
Fund liquidations	16	28	43		
Fund mergers & acquisitions					

5. MARKET DEVELOPMENTS IN 2022

Based on the statistics for Q3 2022, CySEC has, in total, 333 management companies and Undertakings of Collective Investments (UCIs) under its supervision. The total number of companies includes 212 externally managed UCIs, 43 internally managed UCIs and 78 external fund managers. The total number of management companies includes, amongst others, 46 AIFMs, 65 sub-threshold AIFMs, four UCITS management companies and six dual license entities (AIFMs and UCITS management companies).

The total Assets Under Management (AUM) for Q3 2022 reached EUR 9.9 billion, recording a 7.2% decrease since Q2 2022, and the UCI, managed by the management companies had a Net Asset Value (NAV) of EUR 8.9 billion. The 62% of the AUM relate to assets managed by the AIFMs, 12% by the sub-threshold AIFMs, 17% by the AIFMs and UCITS management companies, 8% by the UCITS management companies and only 1% by the regulated UCIs managed by foreign fund managers.

UCITS invest heavily in transferable securities (81.7%), followed by investments in bank deposits (11.0%) and investments in UCITS and UCIs (5.9%). AIFs, AIFLNPs and RAIFs invest mainly in private equity (42.7%), while the investments in hedge funds represent 8.7% of the AUM.

The 85% of the total AUM relates to 188 UCIs domiciled in Cyprus (13 UCITS, 56 AIF, 54 AIFLNP and 65 RAIF).

On the categorisation of the unit holders, for UCITS these are mainly retail investors (98.8%), while for AIFs, AIFNLPs and RAIFs, 21.3% of them are professional investors, 65.8% well-informed investors and only 12.9% retail investors.

The steady growth in both AUMs and in the number of fund structures licensed and active in Cyprus have underlined the strength and appeal of the novice domicile. AUMs have increased drastically from EUR 2.7 billion in 2016 to EUR 9.9 billion in Q3 2022.

Even during the most unstable of times following the pandemic, soaring inflation and the wide-ranging effects of the Ukraine war, the investment funds sector in Cyprus has shown remarkable resilience and has continued to develop across the board. Although Cyprus has secured some UCITS business, its approach has been to specialise in the structuring of alternative assets in those sectors where it already has a strong global presence, such as shipping, energy, real estate and wealth management.

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

- An amendment to UCITS Law has been introduced (namely Law 154(I)/2022), transposing EU Directive 2021/2261 on the use of key information documents by UCITS management companies.
- No amendments to the AIFM framework have been made.
- No developments have been made related to the proposed revision of the AIFMD/UCITS Directive.
- Paragraph 42(2) of the Cyprus Securities and Exchange Commission (CySEC) Categorisation Directive states the following:
  - "Subject to the rules of this Directive applicable to Venture Capital AIFs, Loan AIFs and Real Estate AIFs, AIFs shall not grant loans or act as guarantor on behalf of third parties. This is without prejudice to the right of the AIF:
    - to acquire debt securities, or
    - to acquire securities which are not fully paid, or
    - from entering into bridge financing arrangements where the financing extended to the AIF is backed by sufficiently legally binding commitments to discharge the financing within a time period determined by the at lease simultaneous triggering of obligations on unitholders to make capital contributions which they are previously contractually committed to making at the time the bridge financing is entered into."
  - Paragraphs 77-80 of the same Directive provide for specific investment restrictions for Loan AIFs.
- Following a review of UCITS fees to meet ESMA requirements, the local regulatory authority shared the results of the review with management companies. The review included reference to identified weaknesses and requested corrective actions.
- Circular C521 was issued by CySEC to inform management companies of the publication of the revised ESMA Guidelines on stress test scenarios under the MMF Regulation.

6.2. MiFID II

Commission Circular C504 was issued on the ESMA publication of its guidelines on certain aspects of the MiFID II appropriateness and execution-only requirements (the 'Guidelines), which are applicable from 13 October 2022. Specifically, affected entities should, among other actions:

- Inform their clients, by using clear and simple language, about the appropriateness assessment and its purpose, which is to enable the entity to act in the client's best interest, in good time and before the provision of non-advised services.
- Ensure that their policies and procedures aim to allow collection of all information required to conduct the appropriateness assessment of the specific product types offered or requested.
- Take account of the type and characteristics of investment products or services to be considered and the nature of the client in determining the extent of the information requested on the client's or potential client's knowledge and experience.
- Take reasonable steps to ensure that the information provided by clients is reliable and consistent, without unduly relying on clients' self-assessment,

- When relying on information collected previously on clients' knowledge and experience, establish procedures for defining the frequency of updating such information to ensure that it remains up to date and is accurate and complete for the purpose of the appropriateness assessment.
- Have in place a policy defining - on an ex-ante basis - how to conduct the appropriateness assessment in situations where a client is a legal person or a group of two or more natural persons, or where one or more natural persons is represented by another natural person.
- Ensure that the staff involved in the appropriateness assessment understand their role and have an adequate level of skills, knowledge and expertise, including that of the relevant regulatory requirements and procedures to discharge their responsibilities.

6.3. CSDR

The Regulatory and Supervisory Authorities in Cyprus strictly follow EU legislation regarding Central Securities Depositories Regulation (CSDR). Currently, there are no additional national regulatory developments that have taken effect.

6.4. EMIR

There were no notable developments in this area during 2022.

6.5. PRIIPs

During 2022, Law 154 (I) 2022 on PRIIPs implementation was affected and incorporated into the basic UCITS law. As of 1 January 2023, all UCITS fund are required to have a PRIIP like KID following the end of the transition period.

The Commission Delegated Regulation (EU) 2021/2268 becomes effective from 1 January 2023. The Regulation amends the regulatory technical standards in for, among other things, the presentation and content of the PRIIPs KID, including the methodologies for calculating and presenting risks, rewards and costs.

6.6. ELTIF

Currently, the Cyprus market is heavily invested in Alternative Investment Funds (AIFs) and Registered Alternative Investment Funds (RAIFs), with little to no participation ELTIFs. Based on the latest rules, we do not dismiss the possibility for increased investments in ELTIFs with greater participation by retail investors.

6.7. Sustainable finance

The Commission Delegated Regulation (EU) 2021/1255 on sustainability risks and sustainability factors to be considered by AIFMs applies from 1 August 2022. It imposes obligations on AIFMs to:

- Integrate sustainability risks in the fund management.
- Include in their consideration of any conflicts arising from the integration of sustainability risks as part of their conflicts of interest procedures.
- Consider:
  1. sustainability risks
  2. where relevant, the principal adverse impacts of investment decisions on sustainability factors, as part of the due diligence in the selection and ongoing monitoring of investments
- Capture details of procedures to manage sustainability risks in their risk management policy.

The Delegated Regulation is designed to complement the obligations on sustainability-related disclosures in the financial services sector and forms part of the European Commission's ambitious and comprehensive package of measures to help improve the flow of money towards sustainable activities across the EU.

6.8. Stewardship

Circular C538 was issued by CySEC to remind AIFMs, among others, of the obligation of AIFs/RAIFs (the "Funds) to raise, within 12 months from the date of their authorisation/registration, the minimum amount of capital required under Articles 14(1)(a), 129(1)(a) and 136 of the AIF Law. More specifically, to demonstrate compliance with the above obligation, AIFMs are expected to keep for each managed fund:

- A shareholder/unitholder/limited partners registry.
- Audited financial statements for the year end of when capital was raised, clearly showing the amount of minimum capital raised in exchange for issued and fully paid redeemable shares (if available).
- In the event the amount raised is in cash, a bank statement of the subscriptions account in the name of the fund, clearly showing the deposit(s)/transfer(s) made by investors.
- In the event the amount raised is in assets:
  - Confirmation letter that the assets are owned by the fund issued by a competent party (e.g. the depository).
  - Valuation report of the assets contributed to the fund prepared by an independent valuer. The date of the valuation report should be prior to the date of, but reasonably close to, the contribution of the assets to the fund,
  - Confirmation letter issued by a relevant party (e.g. the fund's risk manager) that the assets are in line with the investment policy of the fund,
  - Confirmation letter, issued by a competent party (e.g. the depositary), that the assets are free of any liens at the time of the contribution to the fund.

The circular further noted that, when compliance of a fund is achieved with the minimum capital requirements, the AIFMs are expected to notify the Commission by completing and submitting Form 124-00-02 (the 'Form'), in line with the provisions of Circular C321. The Form must be fully completed, signed by an executive director of the AIFM, and must be accompanied by all the supporting documents.

The European Banking Authority (EBA) published guidelines, on 15 March 2022, on the internal governance for Cyprus Investment Firms (CIFs) with the intention of further harmonising their internal governance arrangements, processes and mechanisms. The guidelines, which entered into force on 30 April 2022, have been adopted by CySEC by incorporating them into its supervisory practices and regulatory approach.

These guidelines have been developed based on section 20 of the Prudential Supervision of Investment Firms Law ('Law') of 2021. Under this, CIFs are required to have robust governance arrangements, including a clear organisational structure with well-defined, transparent and consistent lines of responsibility, processes and mechanisms.

In particular, the guidelines provide further details on how the IFD governance provisions should be applied, specifying the tasks, responsibilities and organisation of the management body and the organisation of CIFs, including the need to create transparent structures allowing supervision of all their activities. The guidelines also specify the requirements for ensuring the sound management of risk across all three lines of defence, particularly the compliance function and independent risk management (second line of defence), and the internal audit function (third line of defence), where applicable.

These guidelines apply to national competent authorities (NCAs) and CIFs that:

- do not fall under section 3(3) of the Law,
- do not meet all the conditions for qualifying as small and non-interconnected investment firms under Article 12(1) of Regulation (EU) 2019/20332

6.9. Benchmarks

There have been no new regulatory developments.

6.10. Anti-Money Laundering Directive

Given that the regulatory landscape continues to expand, and as a result is driving up operational costs, the asset management sector has not been able to focus as much as it would like on financial crime compliance. This also underlines the need for all the players within the market to have resilient end-to-end digital solutions (including digitalised onboarding models in place, such as eKYC, automated screening solutions and transaction monitoring systems). The COVID-19 pandemic created a sense of urgency for intensifying the digital transformation; in many instances, however, the current regulatory framework lacks the necessary provisions to facilitate and aid this digital transformation. The sector is also missing clear implementation guidelines from the authorities in charge.

The asset management sector must fully integrate and harmonise their systems to reduce manual activities and subsequently costs. Eliminating the information silos, merging customers' commercial information and automating the entire compliance management process will be the first step towards a centralised approach that allows the asset management sector to build more-effective monitoring frameworks.

As part of its efforts to strengthen its anti-money laundering (AML) and counter-financing of terrorism (CFT) framework, the EU is looking to implement a number of legislative measures. Amongst the proposals is a plan to establish an EU-wide Anti Money Laundering Authority (AMLA) as a centralised supervisory body.

An AMLA is expected to be in full force within 2023-24. It will have a supervisory role and, as part of its mandate, is expected to carry out periodic reviews of the financial authorities that it supervises. It will also monitor and support financial institutions and ensure the harmonised application of EU AML/CFT regulations.

AMLA will exert its regulatory power using a risk-based approach

An AMLA's key objectives will include; overseeing the activities of national and regional financial regulations; helping financial intelligence units boost their actions; coordinating peer reviews of supervisory standards and practices; and enhancing the overall European AML-CFT supervision.

6.11. Digital finance

As the Digital Operational Resilience Act ("DORA") was adopted on 28 November 2022, supervisory authorities are now developing the relevant supporting Regulatory Technical Standards (RTS) expected to be delivered to the European Commission 12-18 months after it comes into force.

These standards on ICT risk management will establish thorough rules on security policies, firm governance and event detection procedures, while also specifying the required content of business continuity plans. Further RTS for classifying ICT-related incidents and cyber threats, ICT incident reporting, advanced digital operational resilience testing and third-party risk management will also be drafted.

All financial entities will be expected to be DORA compliant by 17 January 2025.

CySEC issued Circular C512, requesting Regulated Entities to report any cybersecurity attacks (both successful and unsuccessful) that could generate disruptions.

6.12. Other regulatory developments

A significant development is the introduction of the Markets in Crypto-Assets (MiCA) Regulation. This is expected to resolve many issues in the crypto assets market, a market that is directly and indirectly related to the fund industry:

- The EU is expected to vote on adopting MiCA in February 2023. It is the first regulation applicable to crypto assets. With MiCA, the EU aims to regulate crypto assets service providers and pave the way for other authorities.
- The main purpose of MiCA is to regulate the issuance, offer to the public and trading of crypto assets. MiCA is expected to define a comprehensive framework, setting out requirements for the operation and governance of major crypto-asset issuers and service providers (CASPs). It will also set out detailed protections for holders of crypto-assets and other clients of service providers,
- CASPs view the adoption of MiCA as a positive development, as it will offer them greater credibility and legitimacy,
- MiCA will be applicable for all CASPs operating in the EU and Stablecoin issuers that will be subject to liquidity requirements.

The Parliament of the Republic of Cyprus is in the process of passing a legislative act on the supervision and regulation of the Fund Administration services profession. The aim is to provide a legal framework for authorising and operating fund administrators in line with other EU jurisdictions. It will set high standards within the fund administration profession and provide an extra layer of comfort for fund managers and investors.

CySEC issued Circular C528 as a reminder to regulated entities that:

- Pursuant to Article 370 IE paragraph (2), an existing VCIC must, within twelve (12) months from the effective date of N. 150(I)/2021, submit to the Registrar of Companies a special resolution together with the amended Memorandum and Articles of Association,
- Pursuant to Article 370 Θ (2), each company that has amended the terms of its Memorandum in relation to its share capital, to become a VCIC, must within one (1) month from the said amendment, submit to the Registrar of Companies the relevant ordinary resolution, together with form HE16 and, if they so wish, the amended Memorandum presenting the new share structure of the company.

National Reform Programme 2022

- The National Reform Programme (NRP) for 2022 is based on the Guidelines issued by the European Commission in December 2021 and reflects government's reform and investment priorities. The aim is to strengthen the economy's resilience, and to enhance its long-term sustainable growth potential while contributing to achieving the EU's goals for the green and digital transitions.
- The NRP takes into account the priorities set out in the 2022 Annual Sustainable Growth Survey, as well as the Commission Staff Working Document on the Analysis of the Recovery and Resilience Plan of the Republic of Cyprus. These identify the Commission's assessment of the main economic and social challenges for Cyprus and its macroeconomic imbalances. The NRP sets out the response to these challenges, as well as the national policy priorities, by presenting the progress of the measures being taken as well as the planned actions.
- The measures set out in the NRP describe the holistic approach for boosting growth and investment, achieving a competitive and diversified economy, maintaining macroeconomic stability and addressing the challenges identified in the context of the European Semester. Succinctly, the main reform priorities presented relate to:
  - improving the business environment
  - enhancing R&I to support productivity growth
  - promoting economic diversification
  - safeguarding the robustness of the banking system and financial stability
  - addressing challenges and inefficiencies in the public sector
  - addressing the labour market, education, skills and social challenges
  - strengthening the resilience and capacity of the health system
  - facilitating the green and digital transitions.

7. PENSIONS & PEPP

There have been no new regulatory developments in 2022.

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

During 2022, there were no changes in tax rates/treatments that could impact fund and/or asset management. In December 2021, a tax treaty for the avoidance of double taxation was signed with Jordan. This came into force on 11 April 2022 and is effective from 1 January 2023.

As from 31 December 2022, withholding taxes ('WHT') were introduced on the payments/distributions of dividends and interest to companies in jurisdictions included in the EU Blacklist of non-cooperative jurisdictions ('EU Blacklist'), as follows:

Dividends

- WHT at 17% applies to certain dividends paid by a Cyprus tax resident company to companies that:
  - are resident, incorporated or registered in jurisdictions included in the EU Backlist and not tax resident in any other jurisdiction
  - hold directly - either alone or jointly with associated companies - over 50% of the capital, voting rights or are entitled to receive more than 50% of the profits in the company paying the dividends.
- The WHT does not apply in the case of dividend payments on shares listed on a recognised stock exchange.

Interest

- WHT at 30% applies on interest paid by a Cyprus tax resident company to companies that are:
  - are resident, incorporated or registered in jurisdictions included in the EU Backlist and not tax resident in any other jurisdiction
- The WHT does not apply in the case of:
  - interest payments on securities listed on a recognised stock exchange.
  - interest payments made by individuals.

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

The Cyprus Investment Funds Association (CIFA) has taken a significant step towards addressing the issue of financial literacy in Cyprus by signing an MoU with the University of Nicosia.

CIFA is aiming to take a leading role in the collective effort to promote financial literacy in Cyprus. In early 2023, the association will organise joint seminars and trainings with the leading Cyprus universities.

The importance of financial literacy for individual and social financial wellbeing is well understood and promoted within the fund Industry.

Public awareness of financial literacy through tailored campaigns is equally important, as this will facilitate the impact of a national strategy for financial education.

The HR and Training Committee of CIFA is active in both promoting financial literacy in Cyprus and further educating industry professionals.

The HR and Training Committee of CIFA has prepared a clear and holistic strategy for promoting financial literacy and developing financial education in Cyprus.

10. OTHER ACTIVITIES OF THE ASSOCIATION

As in previous years, CIFA organised and took part in a significant number of local and global events. With the cooperation of Invest Cyprus and the support by other global and local institutions, CIFA welcomed leading fund managers and fund administration specialists from around the world to discuss the evolving regulatory and increasingly competitive landscape in the global asset management sector. The key events are listed below:

- New York Mediterranean Business Summit, May 2202
- The Economist Cyprus Summit, October 2022
- 8th Cyprus International Compliance Forum, October 2022
- AmCham Cyprus Event: Cyprus Vision 2035, November 2022
- International Fund Summit and Expo, Nicosia November 2022

An important milestone for the Investment Funds Industry in Cyprus materialised when the country was chosen to host the Annual Conference of the International Investment Funds association (IIFA), which will take place in October 2023. It is expected to attract delegates from around the world, including G10 Countries

CIFA publishes various articles through social media and some local and international magazines and newspapers. It also publishes a quarterly newsletter that is sent to its members, as well as an annual review that is distributed throughout the investment industry.

CZECH REPUBLIC COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Czech Republic (EUR billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	11.8	14.6	15.2	18.3	21.3
Funds domiciled abroad and promoted by national providers	7.6	8.1	8.2	10.8	10.5
Total net assets	19.4	22.7	23.4	29.0	31.8

Table 2: Net Sales of Investment Funds in Czech Republic (EUR million)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	828.4	1,500.3	525.5	1,685.3	3,015.3
Funds domiciled abroad and promoted by national providers					
Total net sales	828.4	1,500.3	525.5	1,685.3	3,015.3

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	1.7	2.1	3.2	4.2	4.1
Bond funds	2.8	4.0	4.1	4.3	7.4
Multi-asset funds	4.8	5.2	6.2	7.7	7.1
Money market funds	0.3	0.6			0.1
Guaranteed/protected funds	0.01	0.03	0.03	0.03	0.03
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	1.0	1.2			
Total	10.6	13.1	13.5	16.2	18.8
of which ➤ ETFs					
➤ Funds of funds	1.0	1.2			

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	220.0	32.8	133.1	233.4	173.8
Bond funds	-378.3	1,162.7	-444.5	51.2	2,735.8
Multi-asset funds	405.9	-297.2	559.2	1,147.4	-159.0
Money market funds	296.1	316.1	104.0		81.2
Guaranteed/protected funds	-8.8	17.4	8.2	-0.3	34.9
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	84.2	31.3	16.2		
Total	619.0	1,263.0	376.2	1,431.6	2,866.7
of which ➤ ETFs					
➤ Funds of funds	84.1	31.3	16.2		

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds					
Bond funds					
Multi-asset funds					
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	1.2	1.5	1.7	2.1	2.5
Other funds					
Total	1.2	1.5	1.7	2.1	2.5
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds					
Bond funds					
Multi-asset funds					
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	209.5	237.2	149.3	253.7	148.7
Other funds					
Total	209.5	237.2	149.3	253.7	148.7
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS	170	175	166	179	197
Home-domiciled AIFs	4	7	11	11	14
Foreign funds registered for sales	1,666	1,761	1,836	1,934	2,118
➤ By national promoters					
➤ By foreign promoters					
Fund launches					
Fund liquidations					
Fund mergers & acquisitions					

5. REGULATORY DEVELOPMENTS

5.1. UCITS/AIFMD

There have been no recent developments related to UCITS or AIFs in 2022. Certain minor technical regulatory changes have been proposed for UCITS funds; however, the implementing law should be adopted later in 2023.

5.2. MiFID II

MiFID II / MiFIR represents the most important piece of the capital market legislation implemented in the Czech Republic. Since its implementation in January 2018, we see that the most significant impact has been in the area of the cost transparency and inducements, along with product governance process enhancement. It has also influenced the area of costs relating to the implementation of MiFID II rules, mainly through changes in IT systems deployed by investment services providers.

MiFID II has also a significant impact on fund management companies that are also authorised to provide investment services. According to local law, such management companies have to comply with almost all MiFID II rules for investment firms. This issue is being discussed by AKAT with the Czech regulator (the Czech National Bank). There is also an interpretation enforced by the Czech regulator that where a management company distributes units of a fund managed by another management company or where a management company is a delegated manager of assets of a fund primarily managed by another management company. In both cases, the management company

provides investment services to another management company and should obtain MiFID II authorisation and also comply with all MiFID II requirements. It is clear that there are different interpretations of these rules by EU regulators. AKAT supports efforts to minimise divergence in implementation and application of fully harmonised EU laws by promoting a single harmonised interpretation process at the EU level.

Distribution of funds in the Czech Republic is mostly through the banking system, but the market share of independent distribution networks is continuously growing. Most foreign investment funds (in terms of numbers) are distributed by independent distributors, however investment funds distributed by banks represent the majority of the total volume.

In practice, the EMT (European MiFID Template) and EFT (European MiFID Feedback Template) are used by a proportion of foreign investment funds distributed in the Czech Republic, however these do not cover all the funds locally marketed.

The Czech NCA usually fully follows the ESMA Guidelines. AKAT has been discussing MiFID II and related guidelines with the Czech Ministry of Finance and the Czech National Bank. However, certain issues remain open, such as the relationship between UCITS/AIFMD rules and MiFID II rules, AIFs asset valuations or the extensive scope of phone calls with clients to be recorded by the investment services providers.

The CNB has communicated the set of guidelines on MiFID II/MIFIR market data obligations to local trading venues – the Prague Stock Exchange (part of the Wiena Borse Group) and RM-System.

5.3. CSDR

There were no notable developments in this area during 2022.

5.4. EMIR

There were no notable developments in this area during 2022.

5.5. PRIIPs

So far, there have been no recent local developments in the transition from the UCITS KIID to the PRIIP KID in 2023. The postponement has been discussed with the regulator with regards to the impact on local retail funds. The EU regulation has been fully implemented.

5.6. ELTIF

ELTIFs are not an issue in the Czech Republic, as there are none on the local market. Investors and corporations as well as state authorities instead use well-tested local solution, so-called Qualified Investors´ Funds (QIFs). These fully accommodate the needs of local investors, including experienced retail investors. There are no specific suggestions for the ELTIF regulation for local market.

5.7. Sustainable finance

There is no local label development for sustainable finance in the Czech Republic so far. Currently, most of the initiatives are linked to the EU Regulation. However, this topic is gradually being discussed and gaining more attention, as certain market participants, particularly those belonging to the international financial groups, start to stress the sustainability issue. We expect a gradual growth in SRI funds offered on the local market.

On SFDR, markets participants welcome the approach of the local regulator, who chose not to adopt local methodology for the direct applicability of the European Regulation. A similar approach would be appreciated by market participants in the future. Nevertheless, certain implementation questions are currently being discussed with the local regulator. Market participants would appreciate greater clarity from the EU regulators´ perspective.

With regards to retail customers, there is still low demand for an Ecolabel, where investors do not distinguish and appreciate sustainability in their investment decisions. However the demand for sustainable investments is slowly growing mostly amongst young investors.

5.8. Stewardship

There have been no major developments in the regulatory and/or self-regulatory corporate governance environment in the Czech Republic recently. The Czech Institute of Directors issued an update of the Corporate Governance Code for corporations as well as implementation guidelines in 2021.

Following the implementation of amended shareholders' rights Directive, no major issues have been identified on the local market. The electronic communication had been already widely used and COVID-19 expanded this. All local institutions as well as the Commercial Register are fully accessible in electronic form, and legislation facilitating electronic communication voting is already in place and functioning. All corporations are required to make prescribed fillings in the electronic format, as well facilitating direct access to the company resolutions and other information.

AKAT members – investment and management companies – are adhering to corporate governance principles for financial institutions and investee companies. On the implementation of the Revised Shareholder Rights Directive, management companies had to adjust the voting rights policies for funds and individual portfolios managed. There must be a policy published and available to investors on the website. AKAT did not identify any local obstacles to exercising shareholders rights.

5.9. Benchmarks

There have been no recent local developments in the area of benchmarks.

5.10. Anti-Money Laundering Directive

AMLD V implementation was adopted by the Czech Parliament at the end of 2020. Following adoption, level 2 legislation was being discussed with the local regulator and Financial Analytical Unit in 2021. There was a focus on practical issues following implementation of amended AML rules, such as the client country of origin or the beneficial ownership issues.

5.11. Digital finance

There are no local developments in the area of digital finance. The Ministry of Finance and the Czech National Bank expect moves on this topic following the EU legislation.

5.12. Other regulatory developments

Currently, technical regulatory changes have been proposed for investment funds, however the law should be adopted later in 2023. Also, certain structural market issues will be discussed by AKAT with authorities, such as investments for retirement (see chapter 7). Regulatory technical standards for the SFDR and Taxonomy are one of the most important issues currently discussed.

6. PENSIONS & PEPP

Currently, there are two individual pension products with a state support available, in addition to the 3rd pillar pension funds and private life insurance. However, also investment funds regular investment schemes are also currently popular among individual investors as a retirement savings option, despite no tax incentive or other promotion by the state. AKAT is active in discussions on the future of the pension system.

As a result of these discussions, a new pension product is currently being discussed with the Ministry of Finance. The so-called 'Long-term Investment Account' will bring a new opportunity for local households to enjoy the tax deductibility when investing into long-term investment products for retirement. This new product should be adopted by the Parliament by end of 2023.

National implementation of PEPP took place in the Czech Republic in 2022. Both level 1 and level 2 legislation were adopted. PEPP will benefit from tax incentives when complying with the detailed rules set for the individual pension products in the Czech Republic.

7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

In the Czech Republic, the concept of preferential 5% corporate income tax for investment funds is applied (compared to 19 % for other corporations). However, it is granted only to funds that are either listed on a stock exchange (further specific rules apply), in a form of a mutual fund or that invest more than 90 % of assets into eligible instruments as defined by the tax law. On application of the concept of 5% tax rate on foreign funds, certain other conditions must be fulfilled, such as the income of the fund is not being attributed to any other person.

As to retail investor taxation, retail investors benefit from an exemption on taxation of revenues upon redemption/ sale after a three-year holding period. The current WHT rates on dividends / interest in the Czech Republic is 15%. For the residents of a country where no double tax treaty / no agreement on tax information exchange with the Czech Republic is in place, the WHT rate is 35%.

Currently, individual investment funds established in the Czech Republic are treated as a taxable person by the VAT rules. However, the majority of the financial activities are VAT-exempt without entitlement to tax deduction.

The Czech Ministry of Finance, together with the Czech National Bank, has already expressed their negative opinion on the Financial Transactions Tax several times. There is therefore currently no FTT in the Czech Republic nor there is a proposal to implement one.

Czech Republic has a significant double-tax treaty network, covering more than 80 countries, with others are being negotiated or ratified. On access of foreign investment funds to double tax treaties benefits, these needs to be assessed on an ad hoc basis.

In 2022, the proposal of windfall tax has been adopted, affecting the taxation of banks and certain energy companies.

8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

AKAT is active in delivering comment to the local media on the most recent or important developments in the investment sector, including the inclusion of women, financial education, pension planning and economy growth. In 2022, no new financial education initiatives were initiated by the authorities. However, banks launched a highly successful digital safety campaign in 2022.

9. OTHER ACTIVITIES OF THE ASSOCIATION

AKAT is heavily involved in the development of the Czech capital market while activities of the association are mostly focused on new legislation and regulatory actions in this field, taxation of investment funds and environment of fund business. Currently, AKAT is involved in various activities concerning the legal framework of fund industry in the Czech Republic in order to enhance the quality of the Czech fund regulatory framework. Amongst these activities, there have been various events with regulators to clarify issues arising from the new regulation.

By reshaping the regulatory landscape towards more-developed fund jurisdictions, the Czech Republic aims to attract fund managers seeking European Union offices. For this aim, it has some important attractions: Czech credit ratings are the highest among the EU's post-communist members and the Czech banking industry is among the best-capitalised in Europe. Furthermore, the Czech National Bank is a respected and strong regulator.

AKAT actively cooperates with the Czech National Bank on cultivating the market and promoting fund investments and asset management industry. These efforts result regularly in the proposal of new legislation and regulatory opinions on diverse issues relevant to the capital market in the Czech Republic.

Fund regulation and taxation issues are also among the most frequent topics of conferences and seminars organised by AKAT, through the 12th annual Czech and Slovak conference co-organised by AKAT and the Slovak association SASS - Next Steps in Asset Management. In addition, AKAT takes part in various conferences and seminars both for financial institutions and institutional investor and for retail investors and general public. It also cooperates with academic institutions such as the regularly held Conference Development and Innovations of financial products, organised by the University of Economics in Prague.

The aim of further market development saw cooperation between the CFA Society Czech Republic, providing for a closer relationship between both associations to promote the financial education in the Czech Republic, amongst other goals.

Together with discussion on the Capital Markets Union, AKAT - in cooperation with the Czech Ministry of Finance and other capital market representatives - launched an initiative to adopt a Czech Capital Market Development Strategy, adopted by the Czech Government in 2019. This aims to define the role of the capital market for the Czech real economy and the measures required to better deploy the capital market for the growth of real economy. Currently, the legislation implementing the Strategy is being discussed by the Czech Parliament.

DENMARK COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Denmark (EUR billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	273.2	315.6	328.8	367.0	282.4
Funds domiciled abroad and promoted by national providers					
Total net assets	273.2	315.6	328.8	367.0	282.4

Table 2: Net Sales of Investment Funds in Denmark (EUR million)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	-11,172.2	2,173.8	5,344.9	4,725.0	-32,703.0
Funds domiciled abroad and promoted by national providers					
Total net sales	-11,172.2	2,173.8	5,344.9	4,725.0	-32,703.0

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	48.1	58.9	64.9	84.4	67.3
Bond funds	57.4	61.0	64.3	66.9	56.9
Multi-asset funds	18.2	23.0	27.2	33.5	31.8
Money market funds	0.03	0.03			
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	1.2	1.2	1.4	1.7	1.4
Total	124.9	144.2	157.8	186.5	157.4
of which ➤ ETFs					
➤ Funds of funds	5.6	9.6	13.4	18.3	20.0

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	3,904.5	54.4	4,156.1	4,422.3	-79.8
Bond funds	1,351.4	1,352.1	2,836.9	3,506.5	-1,877.6
Multi-asset funds	1,650.9	2,772.1	3,782.0	3,597.8	523.5
Money market funds	-3.1	0.4	-33.0		
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	14.4	-15.6	-10.4	42.7	365.1
Total	6,918.0	4,163.4	10,731.6	11,569.3	-1,068.8
of which ➤ ETFs					
➤ Funds of funds	1,372.3	1,594.9	2,191.7	3,176.2	1,520.4

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	60.3	74.2	70.2	83.5	48.0
Bond funds	58.7	64.3	63.7	59.3	47.8
Multi-asset funds	23.6	26.2	29.1	27.4	19.3
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	1.2	0.9	0.6	0.6	0.8
Real estate funds	0.3	0.9	1.4	2.0	2.5
Other funds	4.2	5.0	6.1	7.7	6.7
Total	148.3	171.4	171.0	180.5	125.0
of which ➤ ETFs					
➤ Funds of funds	22.2	23.7	28.0	27.9	20.3
➤ Institutional funds	136.4	155.8	152.5	161.2	112.0

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	-6,597.1	-3,099.5	-8,225.7	-178.1	-25,780.5
Bond funds	-11,227.4	2,174.6	265.1	-2,635.2	-4,819.0
Multi-asset funds	-590.9	-2,084.5	1,274.0	-4,269.0	-1,146.2
Money market funds	-6.6				
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	-152.5	-283.3	-367.2		
Real estate funds	272.7	633.2	278.0	342.3	421.1
Other funds	211.5	669.9	1,389.0	-104.2	-309.5
Total	-18,090.3	-1,989.6	-5,386.7	-6,844.2	-31,634.2
of which ➤ ETFs					
➤ Funds of funds	-206.5	-1,729.0	3,356.2	-4,058.4	-797.9
➤ Institutional funds	-18,862.6	-3,011.5	-3,639.4	-5,259.1	-31,496.0

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS	500	522	544	553	558
Home-domiciled AIFs	369	369	375	380	358
Foreign funds registered for sales					
➤ By national promoters					
➤ By foreign promoters					
Fund launches	89	75	90	20	34
Fund liquidations			29	15	23
Fund mergers & acquisitions					
Number of unit holders		774,609	784,992	844,644	785,000

5. REGULATORY DEVELOPMENTS

5.1. UCITS/AIFMD

We have not seen any significant national regulatory development on removal of cross-border barriers to fund distribution in 2022.

The Danish FSA published a warning about misleading information from AIF managers and discouraged retail investors from investing in AIFs without having thorough assessed the pertaining risks. The Danish FSA announced that it would look at potential changes to the regulation and supervision of investor protection of retail clients in AIFs, with a special focus on funds with complex structures and with high risks or illiquid assets.

5.2. MiFID II

ESG preferences in the advisory process were implemented in August 2022 and in product governance by November 2022. The implementation had some legal uncertainties due to the different timing of the legislative acts coming into force as well as late guidance from ESMA. The latter resulted in dual implementation in some areas of the framework.

Based on findings from 2022, the Danish FSA published a survey on ex-post cost and charges disclosures in January 2023 as a part of the ESMA common supervisory action. The Danish FSA found that the banks surveyed should strengthen their internal processes and controls and enhance transparency through better explanations of the cost terminologies and better illustrations of the effect of costs on expected returns. Based on the survey, the Danish FSA published a report on best practices in the area and related observations.

The ESG template is anticipated as playing an important role in the overall distribution and disclosure process once regulatory uncertainty decreases over its future usage.

5.3. CSDR

There were no notable developments on this issue in 2022.

5.4. EMIR

Denmark has established a focused EMIR REFIT sector working group to go through the EMIR RTS on derivatives trade reporting. We expect this to be ready by April 2024, but it will require a great deal of coordination between market participants and detailed discussions on most of the fields in the reporting regime to make sure that all have a common understanding of, and know how to populate, each field.

The main concerns are whether a common market practise can be reached and if trade repositories can harmonise their reporting regimes sufficiently to avoid breaks in cross TR reporting.

5.5. PRIIPs

PRIIPS has been implemented for funds. Information on how retail investors can access and understand the new PRIIPs information has been developed by the sector, in collaboration with the Danish FSA and the Danish Shareholders' Association. Furthermore, the Danish FSA has developed a Q&A site on PRIIPs.

5.6. ELTIF

At this moment, there are no ELTIFs domiciled in Denmark. Hopefully, the new rules will encourage investments in ELTIFs in Denmark.

5.7. Sustainable finance

The implementation of level 2 SFDR rules has been challenging. With the late final adoption of the Delegated Act and a continuous flow of FAQs and guidance, it has been characterised by uncertainty and changing interpretation of key elements of the RTS.

Based on input and questions from the members, the Danish Investment Association has been in dialogue with the Danish FSA, particularly over questions related to PAI statements, PAI indicators and the templates. Furthermore, the Danish FSA undertook a thematic review of sustainability disclosures for funds having sustainable investments as an objective, based on the level 1 text. The results - including individual statements - were made public in February 2023. The FSA concluded that the funds provided overly generic disclosures on sustainability issues and that the information in some cases was either unclear, inconsistent or incomplete. For further information, please see the press release here.

Around six Danish asset managers will be within the scope of CSRD, but as part of a larger financial groups.

5.8. Stewardship

There were no national legislative due diligence requirements introduced in 2022, but in 2021 the Danish government formed an action plan against deforestation, also aimed at the financial sector. In 2022, the government followed up on the action plan, continuing to encourage the financial sector to voluntarily increase its due diligence efforts in this area.

5.9. Benchmarks

In November 2020, Danmarks Nationalbank (the central bank of Denmark) assumed responsibility for the new reference rate Denmark Short-Term Rate, DESTR. Reference rates are used in a wide range of financial contracts, including loans, mortgage bonds and interest-rate swaps. It is therefore important for the financial system in Denmark that a short-term transaction-based reference rate, in line with international standards, is introduced for Danish kroner. Danmarks Nationalbank started to publish DESTR on 4 April 2022.

Furthermore, the Tom/Next rate (published today by Danish Financial Benchmark Facility, DFBF) has been fixed to DESTR with a spread of 19bp and will cease by 1 January 2026.

It has also been decided that the CITA methodology will be changed on 1 February 2023, so that panel banks' submissions are based on DESTR OIS plus a spread of 19bp. After 1 January 2026, the CITA methodology will be changed in a final step, so that panel banks' submissions are still based on DESTR OIS, but without adding the spread.

Regarding sustainability, asset managers have had difficulties to ascertain whether a financial product with a passive investment strategy using a Paris-Aligned Benchmark or a Climate Transition Benchmark fulfills the conditions of Article 9(3) SFDR. This uncertainty is reflected in Question 6 of the 'List of additional SFDR queries requiring the interpretation of Union law' dated 9 September 2022.

5.10. Anti-Money Laundering Directive

There were no notable developments on this issue in 2022.

5.11. Digital finance

There were no notable developments on this issue in 2022.

5.12. Other regulatory developments

There were no notable developments on this issue in 2022.

6. PENSIONS & PEPP

There were no notable developments on this issue in 2022.

7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

The Danish Tax Agency has published some new draft guidelines implementing consequences of the CJEU cases, C-231/19, Blackrock and C-58/20, K and C-59/20, DBKAG. Final guidelines are not published yet.

8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

No extraordinary measures as such have been introduced by public authorities, but schools and higher education institutions are seeing increasing interest in financial and investment matters.

Jointly, Finance Denmark and the Danish Investment Association are promoting one of the major annual events, 'Pengeuge' (the 'Money Week; see here). During this, local schools are offered tutorial material, lectures and so forth, provided and undertaken by practitioners from both organisations. Also, both organisations are increasingly incorporating educational material and information for young people on their websites.

9. OTHER ACTIVITIES OF THE ASSOCIATION

The Danish financial sector has made an industry-wide framework for carbon accounting, with the first version published in 2020. The Danish framework has been revised annually based on industry experience and is being aligned with the international development. It is inspired by PCAF's standard for carbon accounting but is adjusted

and expanded where needed to cover as much of the Danish financial sector as possible. As an example, the Danish framework includes specific methods for measuring financed emissions of covered bonds and house lending. The framework is available in English here.

In its annual sustainability report, Finance Denmark - together with the Danish Investment Association - describes how the financial sector, together with customers, supports the sustainable transition of the society. The second sustainability report was published in March 2022 and concluded that the financial sector is well underway in implementing the recommendations of the Forum for Sustainable Finance. The sustainability report is available in English here and includes an update on the status of the Danish Invest Association's 2030 climate target for investments.

FINLAND COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Finland (EUR billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	110.0	124.7	132.4	159.0	137.7
Funds domiciled abroad and promoted by national providers	10.3	12.8	16.7	18.3	8.9
Total net assets	120.4	137.5	149.1	177.2	146.6

Table 2: Net Sales of Investment Funds in Finland (EUR million)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	-1,023.2	524.9	2,830.9	9,580.2	-3,839.0
Funds domiciled abroad and promoted by national providers					-0.9
Total net sales	-1,023.2	524.9	2,830.9	9,580.2	-3,840.0

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	37.6	43.4	48.1	61.0	52.0
Bond funds	40.3	45.1	45.2	50.0	41.1
Multi-asset funds	17.4	20.6	22.9	27.9	24.7
Money market funds	1.3	0.2	0.2	0.2	0.2
Guaranteed/protected funds		0.1	0.1	0.1	0.1
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	0.5	0.4	0.4	0.4	0.2
Total	97.0	109.9	116.9	139.6	118.2
of which ➤ ETFs	0.2	0.3	0.3	0.5	0.4
➤ Funds of funds	20.7	24.9	27.4	30.7	26.5

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	-400.4	-4,182.4	952.6	1,591.4	72.0
Bond funds	-572.3	3,116.4	-461.1	4,152.7	-4,765.8
Multi-asset funds	-65.0	883.5	1,837.5	2,231.5	407.7
Money market funds	-39.5	11.1	-12.2	-32.5	29.5
Guaranteed/protected funds		46.9	37.6	25.0	-8.0
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	-35.2	-86.6	-29.0	-49.8	-68.5
Total	-1,112.4	-211.2	2,325.4	7,918.2	-4,333.1
of which ➤ ETFs	-7.8	0.6	21.6	59.7	-72.3
➤ Funds of funds	0.01	1,186.9	1,594.0	934.0	-151.1

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	2.3	2.0	2.2	2.8	2.1
Bond funds	1.4	1.7	1.2	1.2	1.2
Multi-asset funds	4.5	5.0	4.8	5.6	5.0
Money market funds	0.3				
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	0.01	0.01			9.2
Other funds	4.5	6.2	7.3	9.8	2.1
Total	13.0	14.9	15.5	19.4	19.5
of which ➤ ETFs					
➤ Funds of funds	2.0	1.8	1.6	1.8	1.6
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	4.8	-378.0	45.6	235.1	-178.7
Bond funds	-25.7	-27.4	-214.1	18.1	-20.5
Multi-asset funds	-57.2	-167.8	-107.6	158.3	-102.9
Money market funds	10.8	-61.3			
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	-0.03	-5.2	-3.8		248.9
Other funds	156.6	1,375.7	785.4	1,250.5	547.4
Total	89.2	736.1	505.6	1,662.0	494.1
of which ➤ ETFs					
➤ Funds of funds	-28.0	-228.4	-117.6	142.2	-36.0
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS	392	386	397	380	371
Home-domiciled AIFs	102	94	97	104	106
Foreign funds registered for sales					569
➤ By national promoters	63	64	64	54	42
➤ By foreign promoters	470	419	399	385	527
Fund launches	233	77	76	73	
Fund liquidations	132	77	99	26	
Fund mergers & acquisitions	57	53	35	41	32

5. MARKET DEVELOPMENTS IN 2022

Total net asset declined in 2022 due to net outflows as well as declines in market values.

Total net outflows were high (down EUR 3.8 billion), but still much less than inflows on 2021 (EUR 9.6 billion). Outflows were not evenly distributed between asset classes. The greatest outflows were in short-term interest rate funds and equity funds. Bond funds also saw outflows. At the same time, balanced funds and alternative funds had inflows. Compared to the relative size of fund classes, the greatest inflows by far were in alternative funds.

Interest in alternative funds has continued over the recent years. In the Finnish market, this refers particularly to real estate funds (commercial property as well as housing) as well as real assets like forests. In our market, these funds are typically 'semi-open', available to both institutional and retail clients.

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

Year 2022 saw no specific national changes to either UCITS or AIFMD legislation, except for implementing the transition from the UCITS KIID to the PRIIP KID.

On the proposed revision of the AIFMD/UCITS Directive, there was discussion on the Finnish position on the changes. In general, the proposed changes were viewed positively. It should be noted that on liquidity management tools, the current Regulation in Finland already allows all proposed tool with the exception of side pockets. On loan origination, there are a few registered funds, which are closed-end type and aimed at professional clients. The industry would welcome the proposed harmonised rules.

6.2. MiFID II

No major changes took place in 2022. The regulatory focus has been on the European negotiations for changes to MiFID/R.
The EET (European ESG Template) is welcomed and is widely used by market participants.

6.3. CSDR

There were no notable developments in this area during 2022.

6.4. EMIR

There were no notable developments in this area during 2022.

6.5. PRIIPs

The laws implementing transition from the UCITS KIID to the PRIIP KID were approved on 10 November 2022 and entered into force on 1 January 2023.

6.6. ELTIF

Currently, there are no ELTIFs registered in Finland due to overly prescriptive and restrictive rules. Members have opted for 'regular' AIFs instead. There is, however, growing interest in the new ELTIF regime, particularly in facilitating retail participation as well as cross-border distribution.

6.7. Sustainable finance

There were no notable developments in this area during 2022.

6.8. Stewardship

There have been no regulatory changes. On self-regulation, a takeover code, published by Securities Market Association, was revised in September 2022.

6.9. Benchmarks

There were no notable developments in this area during 2022.

6.10 Anti-Money Laundering Directive

There were no notable developments in this area during 2022.

6.11. Digital finance

There were no notable developments in this area during 2022.

6.12. Other regulatory developments

There were no notable developments in this area during 2022.

7. PENSIONS & PEPP

The EU PEPP regulation did not receive any attention in our market. The situation is the same with our national voluntary pension products. The ultimate reason is tax treatment, which sets the age limit at 68-70 years - higher than the statutory pension age.

Our goal is to revitalise voluntary pension products (which include both insurance and securities-based options) by linking the age limit to the statutory pension age.

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

The current government had planned to change tax rules for real estate funds. The aim was to facilitate taxation of foreign real estate investments in a similar way, regardless of whether such investment was direct or through real estate funds. The fund industry found the planned rules overly complex and burdensome. The plan was finally dropped, mainly for reasons of lack of time due to forthcoming elections.

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

We have been contributing to increasing financial literacy in Finland. At a general level, we support the idea of having a national strategy for financial literacy in line with the proposal issued by the Bank of Finland.

In our own efforts, we influence curricula and study materials through the Ministry of Education and Culture. The aim is to have schools and educational institutions equip people with the basic skills to manage their personal finances and understand risk.

We supply comprehensive schools with learning materials that they for teaching about personal finance. www.Zaldo.fi is a gamified learning environment for comprehensive schools that also includes a national competition. Zaldo is Finland's contribution to European Money Week – an international campaign aimed at improving financial literacy throughout Europe.

The national Economic Guru (https://www.talousguru.net/, in Finnish and Swedish only) competition is aimed at students in Finnish upper-secondary schools. The competition has two elements: the first seeks to focus on the importance of economics in schools, and the second gives the floor to young talent at the final event.

'Talous tutuksi' ('Getting to know the economy') is a series of seminars aimed at social studies teachers. These consist of topical talks on various aspects of the economy.

10. OTHER ACTIVITIES OF THE ASSOCIATION

A lot of our efforts were focused on the upcoming elections, which took place in April 2023. We agreed and published our objectives for the programme of the next government.

One of our key topics was to encourage savings and investment. We propose changes to the fund laws in order to improve the competitiveness of Finnish funds in two areas; further improving the fund unit register (improved nominee registration) and facilitating the variable capital model (SICAV).

Another topic was to improve the conditions for voluntary pension savings (as described in point 7).

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FRANCE COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in France (EUR billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	1,821.9	1,966.7	2,088.2	2,267.7	2,096.4
Funds domiciled abroad and promoted by national providers	494.4	564.5	710.0	871.7	793.2
Total net assets	2,316.3	2,531.2	2,798.2	3,139.4	2,889.6

Table 2: Net Sales of Investment Funds in France (EUR million)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	-17,600.0	-36,100.0	71,400.0	-8,200.0	-48,509.0
Funds domiciled abroad and promoted by national providers					
Total net sales	-17,600.0	-36,100.0	71,400.0	-8,200.0	-48,509.0

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	199.8	223.1	230.2	279.4	219.4
Bond funds	143.3	143.4	128.9	141.5	122.7
Multi-asset funds	150.7	157.7	159.9	170.5	138.5
Money market funds	287.1	296.7	371.5	361.2	347.8
Guaranteed/protected funds	2.5	1.9	1.3	1.1	7.7
Absolute Return Innovative Strategies (ARIS) funds					
Other funds					
Total	783.5	822.8	891.8	953.7	836.2
of which ➤ ETFs	38.6	36.0	32.8	38.9	34.8
➤ Funds of funds					

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	7,400.0	-15,500.0	3,100.0	-5,600.0	-14,640.0
Bond funds	4,700.0	-5,700.0	-15,200.0	9,500.0	-2,900.0
Multi-asset funds	-3,200.0	-8,100.0	-7,900.0	200.0	387.0
Money market funds	-11,100.0	10,800.0	76,000.0	-8,700.0	-17,967.0
Guaranteed/protected funds	-2,400.0	-800.0	-500.0	-200.0	-447.0
Absolute Return Innovative Strategies (ARIS) funds					
Other funds					
Total	-4,600.0	-19,300.0	55,500.0	-4,800.0	-35,567.0
of which ➤ ETFs	-43,023.0	-10,667.0	-1,971.0	-1,000.0	3,154.0
➤ Funds of funds					

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	91.5	106.7	111.6	128.4	115.3
Bond funds	126.5	141.5	160.1	155.7	148.7
Multi-asset funds	165.9	188.2	191.0	202.4	158.4
Money market funds	39.3	16.9	20.9	16.1	11.8
Guaranteed/protected funds	18.4	17.4	15.7	13.5	6.0
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	154.0	178.6	201.6	229.5	230.9
Other funds	442.9	494.7	495.4	568.4	589.0
Total	1,038.4	1,143.9	1,196.4	1,314.0	1,260.2
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	2,300.0	-6,300.0	400.0	-100.0	-2,120.0
Bond funds	-2,400.0	14,100.0	16,400.0	-1,900.0	793.0
Multi-asset funds	-7,200.0	600.0	-3,400.0	5,500.0	-8,172.0
Money market funds	-5,500.0	-22,400.0	4,000.0	-4,000.0	-1,043.0
Guaranteed/protected funds	-200.0	-2,800.0	-1,500.0	-2,900.0	-2,400.0
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds					
Other funds					
Total	-13,000.0	-16,800.0	15,900.0	-3,400.0	-12,942.0
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS	3,098	3,024	3,012	2,984	3,075
Home-domiciled AIFs	7,758	7,691	7,790	7,931	7,922
Asset management companies	633	657	680	708	702
Foreign funds registered for sales					
➤ By national promoters					
➤ By foreign promoters					
Fund launches					
Fund liquidations					
Fund mergers & acquisitions					

5. MARKET DEVELOPMENTS IN 2022

Total assets under management in France (mandates and investment funds) fell by 5.8% over the year to nearly EUR 4,600 billion. Over the long term - since the crisis of 2008 - the annualised growth rate of assets under management has been at the high level of +4.9%.

More specifically, net assets managed through discretionary mandates amounted to EUR 1,710 billion. These are catering both for retail investors looking for tailored services- often to develop their personal wealth - and for institutional investors seeking to partly delegate the management of their financial investments. Assets managed in France through foreign funds exceeds EUR 790 billion, a fourfold increase over the past 10 years. This trend is due to the increasing distribution to non-resident clients by a growing number of asset management companies, both subsidiaries of a group and independents.

French investment funds reached EUR 2,096 billion, down 7.5% in 2022. In more detail, assets managed through UCITS amounted to EUR 836 billion (down 12.3%) and those managed through AIFs (Alternative Investment Funds as defined by the AIFM Directive) to EUR 1,260 billion (down 4.1 %).

As a result of the sharp decline in equity markets in 2022, assets managed through equity investment funds fell over the year by 17.9% (vs an increase of 18.8% in 2021) to EUR 335 billion. Assets managed through multi-asset funds also fell by 20.4%, driven by negative net flows of EUR 7.8 billion. Negative performance in the bond markets in 2022 led to a 8.7% decline in assets managed through bond funds. Despite a positive second half to the year, money market funds experienced an outflow of EUR 19 billion over the entire year.

Among the funds in the 'Other' category, private equity, infrastructure and real estate funds remained highly attractive to both retail and institutional investors. Assets managed through real estate funds open to retail investors (SCPI and OPCIs for the public) reached EUR 110 billion, an increase of 10.5% in 2022, with net inflows of EUR 10.7 billion (following EUR 7.6 billion in 2021). Assets managed through employee savings plans amounted to EUR 162 billion, including EUR 25.4 billion for PER / PERCO funds, benefiting a growing number of employees covered by this type of scheme (PEE and PERCO). For these employee savings plans, inflows excluding employee shareholding amounted to EUR 2.8 billion in 2022, including EUR 2.1 billion for funds held in PERs and PERCOs.

The number of asset management companies (AMCs) remains stable at 702 at the end of 2022. The number of new AMCs has slowed this year (there were 31 new AMCs, following more than 40 AMCs created in each of the previous three years). The positive trend over this period, in addition to the Brexit effect, can be explained by the dynamic creation of structures focused on alternative asset management in the broad sense (such as real estate and private equity). Along with this, as competition intensifies and margins are squeezed, in the past few years there has also been a tendency towards consolidation and mergers for entrepreneurial asset management companies or subsidiaries of financial groups.

6. REGULATORY DEVELOPMENTS

6.1. UCITS/ AIFMD

The percentage of French funds equipped with gates and/or swing pricing is currently low (10%) compared with other European countries such as Germany or Luxembourg.

In order to enhance this percentage, in 2022 the French regulator (AMF) decided to establish a one-year period where the introduction of three LMTs (gates, swing pricing and anti-dilution levy) is facilitated.

During this period, the release of new prospectuses introducing those LMTs are automatically approved, and some related mandatory constraints are suspended (individual warning, three-month period-free exit).

6.2. MiFID II

There were no notable developments in this area during 2022.

6.3. CSDR

Four models have been defined to allocate the penalties by members:

- The portfolio receives debit and credit penalties. The debits are reimbursed by the ManCo, which will initiate a market claim where necessary.
- The portfolio receives the net amount of the debit and credit penalties. If the balance is in debit, the ManCo will reimburse the portfolio and will reserve the right to initiate a market claim. This model is still being strongly challenged by French NCA, who considers that netting should be applied to concatenated operations only issued of a same trade.
- Crediting penalties are allocated to the portfolio. Debit penalties are allocated to the ManCo.
- All penalties - credits and debits - are allocated to the ManCo account. All will pass through the ManCo account; however, this model has been rejected by French NCA.

6.4. EMIR

We are concerned by the article 7(b) of the new EC proposal published 7 December on EMIR 3.0. The proposed extensive reporting obligations will result in significant additional costs and burden for industry. Should this additional reporting be required, it should take into account any existing reporting we already perform under EMIR (particularly the new RTS on reporting).
Whether this reporting concerns the buy-side also requires clarification. We consider that this new reporting is only addressed to clearing members as well as their clients who provide clearing services.

6.5. PRIIPs

Update of regulations and AMF doctrine to take into account the possibility for funds to set up a PRIIPS and keep the KIID for funds intended for professional clients.

6.6. ELTIF

The review of the ELTIF regulation saw major improvements in the distribution to retail investors, in particular the removal of the entry ticket. It also led to significant improvements in asset composition, which enlarge the scope of eligible assets and make it possible to have greater diversification:

- reduction in the minimum ratio of eligible assets (from 70% to 55%)
- greater possibilities to structure a fund-of-fund ELTIF
- removal of the minimum value (EUR 10m) for real assets to be eligible
- increase of the maximum market cap for listed securities, etc.

As a result, AFG considers that ELTIF 2.0 is likely to attract greater investments from retail investors, provided that ESMAs RTS are flexible enough to allow the possibility of structuring open-ended ELTIFs

6.7. Sustainable finance

During 2022, the focus was on understanding the level 2 requirements, in order to try to implement the new changes from January 2023.

To help French asset managers, AFG along with two other French associations (ASPIM and France Invest) organised two webinars with the AMF (French Market Authority) to clarify on the implementation of SFDR Level 2. During the year, the AMF also provided some clarifications over their supervisory expectations.

In 2024, four French asset managers will exceed the CSRD thresholds. Please note that two of those may be subject to the 'subsidiary exemption'.

6.8. Stewardship

AFG strongly encourages its members to exercise their right to vote. In order to help them create a policy on the exercise of voting rights as shareholders of listed companies, AFG updates regularly its recommendations on corporate governance. The **latest version**, published at the beginning of 2023, is available on the AFG website.

There are no specific obstacles to exercising voting rights compared to other European countries.

6.9. Benchmarks

There were no notable developments in this area during 2022.

6.10. Anti-Money Laundering Directive

AFG is concerned by the possibility - introduced in the European AMLR project - for lowering the thresholds for beneficial owner of a legal entity (currently set at 25% of its capital or voting rights). Such a reduction would create a gap between European regulations and international standards. The notion of 'beneficial owner' of an entity - key to AML/CFT - is based on the notion of ultimate control, direct or indirect is precisely aimed at preventing a natural person from exercising effective control while hiding behind a complex chain of corporate names. It is therefore a question of effective control, rather than that of holding a minority stake that does not allow any decision by the

legal person concerned. Lowering the threshold would put an end to the risk-based approach, a key pillar in the fight against money laundering.

To be noted is the positive nature of the FATF's assessment of French asset management.

Beyond the positive aspects that may arise from establishing a new pan-European authority, it seems – as concerns the direct monitoring envisaged for the AMLA - that the main criterion for designating the establishments concerned must be exposure to risk. For example, a cryptocurrency provider that is present in three countries could have a significantly higher risk exposure than a traditional establishment present in 10 countries. It seems useful to also integrate the type of customers and commercial relations concerned.

6.11. Digital finance

AFG released its third White Paper on technological innovations in February 2023, following those published in 2017 on 'SGP 3.0' and 'Innovation for Investors'. This new online publication is intended to be both operational and forward looking. It is based on use cases and is designed to help asset management companies in their strategic thinking and their digitalisation processes. The result of collaborative work within the Technological Innovations Commission, it is based both on testimonials from professionals involved in digital transformation within asset management companies and on other numerous contributions.

Themes explored:

- organisational strategies and technological innovations
- adaptation of human capital and managing change
- data, the fuel at the heart of an AMC's reactor
- protection of systems against cyber-attacks
- technological innovations to enhance the customer experience
- new uses for technology in the investment cycle
- improved efficiency of support functions
- introduction to crypto assets, to blockchain (DLT) and to decentralised finance (DeFi)
- impacts of blockchain on business processes
- investment management offer in cryptoassets
- a 5–10-year vision of the asset management industry in France.

This White Paper contains ten recommendations, divided into two categories of actions:

- support actions for AMCs: competitiveness, information awareness/training, human capital, digital sobriety and client-oriented organisations
- regulatory actions: services and investment activities in crypto-assets, decentralised finance and a euro central bank digital currency.

You can read the Executive Summary here.

6.12. Other regulatory developments

There were no notable developments in this area during 2022.

7. PENSIONS & PEPP

There were no notable developments in this area during 2022.

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

Double tax treaties:

France and Denmark signed a new tax treaty in 2022. The first tax treaty signed between France and Denmark was cancelled in 2008 as the result of a disagreement.

Colombia and France completed the exchange-of-letters procedure on 23 December 2021, confirming that they signed a double tax treaty. The treaty entered in force on 1 January 2022, but most of its provisions (including those reducing income tax withholding in the state of source) entered in force on 1 January 2023.

VAT regime and practices:

France will introduce mandatory e-invoicing and e-reporting in a phased approach, starting 1 July 2024. All French business (asset management companies included) will need to be able to accept e-invoices from their suppliers from this date. There is also a mandatory e-reporting of transactional data for all the transactions.
At this stage, AFG is discussing the terms of this legislation for the unincorporated mutual funds that do not have a SIREN number (unique French business identification), as the supplier needs to include the SIREN of his customer to be able to send a digital invoice.

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

AFG is a member of the Strategic Committee on Financial Education. This is the driving force for the national strategy for economic, budgetary and financial education, under the aegis of the Ministry of the Economy, Finance and Recovery.

After publishing its 12 principles for saving and investing guide, AFG stepped up its efforts by deploying the 'Être acteur de mon épargne' campaign. Launched via social networks, this aims to raise awareness and engage retail investors (such as young graduates, young working people, young families and future homeowners, as well as those seeking to anticipate their retirement preparation) through edutainment content.

During the fifth edition of Global Investor Week, AFG - in collaboration with EFAMA - produced a new educational tool for investors entitled 'Investing for a better future - five tips to do more with your savings'.

In July 2022, AFG teams took part in financial education workshops for high school students as part of the Universal National Service. Conducted in partnership with the Banque de France, these activities took the form of educational games entitled 'Sur la piste de Mathieu' ('On the trail of Mathieu').

In 2023, a financial education guide on employee savings will be released. Employee savings and retirement schemes allow employees to build up financial assets and realise their personal projects.
The aim of the guide is to:

- help employees better understand the benefits of employee savings and retirement schemes
- acquire the necessary knowledge to take a methodical approach to managing their financial investments
- enable them to avoid certain pitfalls and behavioural errors in seeking to achieve their medium and long-term objectives.

10. OTHER ACTIVITIES OF THE ASSOCIATION

Publications:

AFG's publications are available, mainly in French.

AFG's quarterly newsletter 'Gestion Info':

- Gestion info printemps 2022 - Spring 2022
- Gestion info été 2022 - Summer 2022
- Gestion info automne 2022 - Autumn 2022
- Gestion info Hiver 2022 - Winter 2022

Activity Report 2022 - Rapport d'activité 2021

Annual studies and surveys:

- **Annual Overview of the Asset Management Market** (available in English)
- **Responsible Investment Management** - La gestion Investissement Responsable – Données d'enquête 2021) (available in English).

Employee savings plans and group company pension plans - Survey data at the end of 2022 - L'épargne salariale et l'épargne retraite d'entreprise collective – Données d'enquête à fin 2022.

Exercise of voting rights by management companies - Exercice des droits de vote par les sociétés de gestion – Données 2022.

French investment funds monthly statistics:

Each month, the 'OPC Stats' sheet, available in French and English, presents statistics on funds governed by French law, including:

- The breakdown of outstandings by AMF category and their changes over a month and since the beginning of the year.
- The breakdown of outstandings according to the UCITS and AIF distinction.
- Net subscriptions by fund category over a month and since the beginning of the year.

Other studies:

Gender diversity in asset management companies - Mixité au sein des sociétés de gestion – Données d'enquête 2021

Equality of opportunity in working life - Diversités – Vecteur de compétitivité – Egalité des chances - 6 octobre 2022

How to understand and promote disability inclusion in asset management companies - Comprendre et favoriser l'inclusion handicap dans les sociétés de gestion - Données d'enquête 2021

Best practices guide 'Acting for gender diversity' - Guide des bonnes pratiques « Agir pour la mixité »

White Paper on Technological innovations:

AFG's third white paper on technological innovations, following those of 2017 on 'SGP 3.0' and 'Innovation for Investors' has been published. This new online publication is intended to be both operational and forward looking. It is based on use cases and is designed to help asset management companies in their strategic thinking and their digitalisation processes. The result of collaborative work within the Technological Innovations Commission, it is based both on testimonials from professionals involved in digital transformation within asset management companies and on other numerous contributions.

All the strategic challenges of digital transformation (such as the evolution of organisations, investment in human capital and deployment of new technologies across the entire value chain) are addressed, as well as the perspectives offered by blockchain and cryptoasset technologies. This digital white paper also devotes a large section to data and its control and proper use, which - in an increasingly competitive environment - offers real opportunities for AMCs.

White Paper on 'Technological innovations'
Livre blanc - Innovations technologiques
Executive summary (in English).

Seminars

16 members-only webinars and three conferences were organised.

Videos/podcasts

A members-only library of videos of AFG's seminars is available.

Replay of conferences open to all:

- **Impact finance: practices and challenges of SGP in France** - Point Sur » Finance à impact : pratiques et défis des SGP en France - 20 January 2022
- **ESG prospective Morning - Introduction and survey results** -ESG prospective Morning – Introduction et résultats des enquêtes - 6 October 2022.

GREECE COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Greece (EUR billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	8.0	8.8	9.7	12.5	13.2
Funds domiciled abroad and promoted by national providers	1.5	1.8	1.9	3.0	2.7
Total net assets	9.5	10.6	11.6	15.5	15.9

Table 2: Net Sales of Investment Funds in Greece (EUR million)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	-74.2	479.5	114.6	1,459.6	632.0
Funds domiciled abroad and promoted by national providers	-155.3	101.0	41.6	1033.8	-21.3
Total net sales	-229.5	580.5	156.2	2,493.4	610.7

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	1.0	1.4	1.3	1.8	1.8
Bond funds	1.6	2.4	2.4	2.7	2.5
Multi-asset funds	1.5	2.0	2.1	3.1	3.3
Money market funds	0.5	0.3	0.4	0.4	0.4
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	0.01	0.0003	0.02	0.1	0.3
Total	4.6	6.1	6.2	8.1	8.2
of which ➤ ETFs	0.01	0.02	0.02	0.02	0.02
➤ Funds of funds	0.4	0.5	0.5	1.0	0.9

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	5.9	97.0	20.4	207.8	-23.0
Bond funds	-36.1	518.5	-58.0	335.8	83.1
Multi-asset funds	57.1	68.5	103.3	861.9	335.5
Money market funds	-79.2	-193.1	28.9	-3.9	42.1
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	-21.9	-11.4	20.0	58.0	194.3
Total	-74.2	479.5	114.6	1,459.6	632.0
of which ➤ ETFs		3.9	0.7	0.6	0.5
➤ Funds of funds	7.8	-19.4	30.9	438.0	14.0

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds					
Bond funds					
Multi-asset funds					
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	3.4	2.8	3.5	4.4	5.0
Other funds					
Total	3.4	2.8	3.5	4.4	5.0
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 6: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS	207	210	221	226	235
Home-domiciled AIFs	6	5	6	7	9
Foreign funds registered for sales ➤ By national promoters ➤ By foreign promoters	110	117	122	126	117
Fund launches	49	16	19	13	24
Fund liquidations	2	1		3	1
Fund mergers & acquisitions	10	6	2	6	21

5. MARKET DEVELOPMENTS IN 2022

What marked 2022 was Russia's invasion of Ukraine, an energy crisis and a sharp rise in inflation. This difficult political and economic environment at international level also affected the Greek fund industry.

In Q1 2022, UCITS capital flows returned to negative territory following seven consecutive quarters of capital inflows. Over the next three quarters, capital inflows gradually returned and ended with total inflows of EUR 611 million in 2022.

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

Directive (EU) 2019/1160 on cross-border funds distribution implemented in April 2022 into Greek law. Nothing to report so far.

6.2. MiFID II

There were no notable developments in this area during 2022.

6.3. CSDR

In Greece, we only have one Central Securities Depository at the Athens Stock Exchange. ATHEXCSD calculates and applies cash penalties for each settlement instruction that fails to settle, and informs its participants. To the best of our knowledge, participants are passing the information to the account holder of the safekeeping account involved in the failed settlement instructions. There is a single model for passing on the penalties (credits/debits) from ATHEXCSD to the ATHEXCSD participants (custodians), but there may be variations in the way participants are passing the penalties to Mancos and perhaps to individual funds. It appears that they mostly pass the information to the individual funds.

6.4. EMIR

There were no notable developments in this area during 2022.

6.5. PRIIPs

No particular details to report on the transition from the UCITS KIID to the PRIIP KID on 1 January 2023. The transition was effected smoothly and - in cooperation with our regulator - we are working on improving various minor points in the streamlining of the document.

6.6. ELTIF

Offering ELTIF products in Greece depends

- on the removal of minimum investment amounts which will allow retail investors to participate
- on the possibility for intermediary redemptions of units, and
- on the taxation of these products.

6.7. Sustainable finance

There were no notable developments in this area during 2022.

6.8. Stewardship

We are active participants in the Hellenic Corporate Governance Council (HCGC), together with the Athens Stock Exchange, the Hellenic Federation of Enterprises and the Hellenic Banking Association.

Following the 2021 publication of the Corporate Governance Code for companies listed on the Athens Stock Exchange, the HCGC is now working on a Corporate Governance Code for unlisted companies.

Together with the Athens Stock Exchange and the National Kapodistrian University of Athens, we are committed to the improvement and the yearly updating of the ATHEX ESG benchmark.

6.9. Benchmarks

There were no notable developments in this area during 2022.

6.10. Anti-Money Laundering Directive

The AML Directive and Regulation have been implemented without any problems for the asset management sector.

6.11. Digital finance

The Ministry of Finance has commissioned a legal working group, which is already working on implementing the Digital Ledger Technology. This features representatives of both national regulators for banking, capital markets and asset management (the Hellenic Capital Market Commission and the Bank of Greece), the Athens Stock Exchange and trade associations (HeFAMA, the Hellenic Banking Association, the Association of Members of the Stock Exchange. The Regulation to address digital operational risks (DORA), and the issues arising from it, will be addressed in the same way as the input of the market participants during the implementation into national law.

6.12. Other regulatory developments

Implementation of:

- Directive (EU) 2019/2162, on the issue of covered bonds and covered bond public supervision.
- Directive (EU) 2019/1153, laying down rules facilitating the use of financial and other information for the prevention, detection, investigation or prosecution of certain criminal offences.

7. PENSIONS & PEPP

The draft law on the implementation of the PEPP Regulation is currently passing through the Greek parliament.

There have been no new legal developments in pension fund regulation.

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

Since April 2022, the carried interest earned by the individuals who are members of the managers of the Venture Capital Mutual Funds (AKES) of Law 2992/2002, are taxed as capital gains at a fixed 15% rate.

No other new tax rules relevant to asset management have been introduced in Greece in 2022.

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

Discussions have been initiated at government level for initiatives to develop a national financial education strategy. Our association has committed to play an active part through MoUs with major education institutions.

10. OTHER ACTIVITIES OF THE ASSOCIATION

Provider of funds data information

- Interactive fund database, updated daily, on our Association website for Greek UCITS, cross-border UCITS managed by Greek asset managers, AIFs data, REICS data
- Daily data of foreign UCITS marketed in Greece
- Daily data of unit linked funds marketed in Greece

Regular presentations of Athens Stock Exchange Listed firms to Asset Managers and Market Analysts at the Athens Stock Exchange offices and/or via teleconference.

Webinars for our Members on current regulatory topics.

Publications

Publication of quarterly statistical reports for Mutual Funds, Portfolio Investment Companies, Asset Management and Real Estate Investment Companies.

HUNGARY COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Hungary (EUR billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	19.2	19.6	19.0	21.3	23.2
Funds domiciled abroad and promoted by national providers					
Total net assets	19.2	19.6	19.0	21.3	23.2

Table 2: Net Sales of Investment Funds in Hungary (EUR million)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	293.9	-429.6	596.8	2,006.8	3,037.5
Funds domiciled abroad and promoted by national providers					
Total net sales	293.9	-429.6	596.8	2,006.8	3,037.5

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	0.2	0.2	0.3	0.4	0.3
Bond funds	0.4	0.4	0.4	0.4	0.3
Multi-asset funds	0.3	0.3	0.3	0.4	0.4
Money market funds				0.02	0.03
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	0.4	0.3	0.3	0.2	0.2
Other funds	0.1	0.1	0.1	0.1	
Total	1.3	1.3	1.3	1.5	1.3
of which ➤ ETFs					
➤ Funds of funds					

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	6.8	-1.7	44.0	52.8	-28.2
Bond funds	-86.1	-21.2	11.7	-20.3	-66.8
Multi-asset funds	45.0	12.3	5.8	48.5	-39.2
Money market funds				-0.1	8.3
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	-104.9	-115.9	-54.0	-6.0	-36.9
Other funds	-15.1	-23.6	-15.9	-1.7	-7.0
Total	-154.2	-150.1	-8.3	73.2	-169.8
of which ➤ ETFs					
➤ Funds of funds					

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	1.2	1.4	1.6	2.3	1.7
Bond funds	2.5	4.0	3.8	4.0	6.3
Multi-asset funds	2.8	3.4	3.5	4.6	3.9
Money market funds	1.9	0.2	0.1	0.1	0.8
Guaranteed/protected funds	0.3	0.3	0.2	0.4	0.6
Absolute Return Innovative Strategies (ARIS) funds	3.1	2.8	2.3	2.4	2.3
Real estate funds	5.1	5.4	5.3	5.4	5.6
Other funds	1.0	0.7	0.7	0.7	0.7
Total	17.9	18.3	17.6	19.7	22.0
of which ➤ ETFs	0.005	0.01	0.01	0.01	0.01
➤ Funds of funds	3.9	4.2	4.4	5.8	5.3
➤ Institutional funds	1.2	1.8	1.8	2.3	2.7

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	57.3	5.3	267.9	426.1	-151.2
Bond funds	-660.0	1,453.0	131.3	280.8	2,517.5
Multi-asset funds	50.5	484.8	255.2	956.7	-107.8
Money market funds	-78.1	-1,633.4	-64.5	-67.2	738.8
Guaranteed/protected funds	-175.9	11.6	-135.1	185.3	229.5
Absolute Return Innovative Strategies (ARIS) funds	-384.7	-470.9	-56.1	224.6	-66.8
Real estate funds	1,310.5	177.3	214.4	35.5	96.3
Other funds	328.7	-307.1	-8.0	-108.1	-49.1
Total	448.1	-279.5	605.1	1,933.7	3,207.3
of which ➤ ETFs	-0.5		0.8	0.3	1.1
➤ Funds of funds	243.3	36.8	364.9	1,260.3	75.2
➤ Institutional funds	245.7	512.6	72.3	451.7	422.5

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS	28	29	34	34	34
Home-domiciled AIFs	543	526	521	525	534
Foreign funds registered for sales	3,665	4,065	4,030	4,215	4,496
➤ By national promoters					
➤ By foreign promoters	3,665	4,065	4,030	4,215	4,496
Fund launches	49	42	41	48	43
Fund liquidations	48	48	35	37	25
Fund mergers & acquisitions	10	10	6	5	7

5. MARKET DEVELOPMENTS IN 2022

During 2022, the assets of mutual funds increased by 18.3 percent in HUF, however, this growth is only 9.1 percent in EUR. The changes within the fund types is much more apparent. The two extremes are money market funds and derivative funds. While the former showed an increase of 986% in asset over the year, the latter showed a decrease of 57%. (The data are calculated in HUF.)

Money market funds went through a hectic development, since they had been the largest category. However, they later became marginalised, becoming the smallest. Over the past year, however, they still outstripped three other categories.

Although bond funds was only the third-most substantial category a year ago, this has been able to attain the largest asset size from August 2022. This is due primarily to the capital inflow starting that began in May, subsequently becoming increasingly dynamic.

It is also worth mentioning that the inflation rate in Hungary increased by 14.5% during 2022.

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

There have been no notable developments in this area during 2022.

Most of the proposed liquidity management tools are already in use in our regulation, so no significant changes are expected.

It is currently forbidden by Hungarian regulation to originate loans, except when private equity, venture capital or real estate funds are financing their own investee companies through lending.

6.2. MiFID II

There were prolonged discussions with the Supervisory Authority on the proper implementation of the new Regulation on inducements. The market participants have tried to adapt to the new requirements with partial changes to the distribution contracts. This issue now seems to have settled down, but some uncertainty among market players prevails.

The implementation of the EMT had been discussed among our members; as far as we are aware, it is used mainly by third-party distributors.

6.3. CSDR

There have been no notable developments in this area during 2022.

6.4. EMIR

No specific challenges are foreseen so far.

Our members are facing considerable difficulties in launching new products, as it is proving difficult to comply with the specific requirements during the licensing process, aiming to avoid greenwashing, given the lack of sufficient reliable ESG data.

6.5. PRIIPs

Our members have successfully adopted the new PRIIP KID, the open issues having been discussed internally within the association. No regulatory cooperation was required.

6.6. ELTIF

Although private equity funds have a considerable market share of the fund business in Hungary, these serve typically the needs of domestic investors and have remained under the “domestic” regulation; thus there has been no need for ELTIFs until now. More-flexible distribution opportunities would definitely enhance the popularity of the product, particularly for institutional investors, but we do not foresee considerable demand from the retail segment.

6.7. Sustainable finance

There is no relevant information available on any experience with the Level 2 implementation of SFDR from market participants.

No Hungarian asset managers will fall under the scope of the Corporate Sustainability Reporting Directive (CSRD).

6.8. Stewardship

There have been no notable developments in this area during 2022.

6.9. Benchmarks

There have been no notable developments in this area during 2022.

6.10. Anti-Money Laundering Directive

There have been no notable developments in this area during 2022.

6.11. Digital finance

There have been no specific requirements or other regulatory developments as yet.

6.12. Other regulatory developments

There have been no notable developments in this area during 2022.

7. PENSIONS & PEPP

There have been no notable developments in this area during 2022.

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

There have been no notable developments in this area during 2022.

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

There is a foundation in Hungary, founded and financed by the National Bank and other relevant financial associations, that plays a leading role in promoting financial literacy in Hungary, particularly among students (age 12-18). The main activities of the foundation are:

- publishing books and other learning materials for basic and secondary schools
- training teachers
- organising educational events (such as 'money week'), competitions and games.

10. OTHER ACTIVITIES OF THE ASSOCIATION

THE BAMOSZ website publishes daily updated database of all publicly offered domestic investment funds. This comprehensive database free to access for any interested user. Investors can compare the returns of different investment funds, helping them to choose the most suitable one.

IRELAND COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Ireland (EUR billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	2,421.5	3,048.4	3,324.2	4,067.8	3,655.5
Funds domiciled abroad and promoted by national providers					
Total net assets	2,421.5	3,048.4	3,324.2	4,067.8	3,655.5

Table 2: Net Sales of Investment Funds in Ireland (EUR million)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	93,754.6	284,334.8	235,281.0	310,275.0	90,238.0
Funds domiciled abroad and promoted by national providers					
Total net sales	93,754.6	284,334.8	235,281.0	310,275.0	90,238.0

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	637.7	838.1	958.0	1,330.6	1,168.4
Bond funds	526.5	712.6	747.1	850.8	718.6
Multi-asset funds	114.5	152.8	153.8	200.4	172.2
Money market funds	483.4	557.3	611.0	637.7	688.4
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	48.7	54.7	58.2	76.3	66.4
Total	1,810.8	2,315.5	2,528.1	3,095.8	2,814.1
of which ➤ ETFs	365.0	539.9	628.0	892.2	855.0
➤ Funds of funds					

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	36,190.7	37,605.4	68,273.0	134,504.0	37,275.0
Bond funds	-2,676.4	138,461.7	50,317.0	74,593.0	-39,301.0
Multi-asset funds	15,648.0	21,205.8	2,933.0	29,141.0	1,107.0
Money market funds	-3,931.5	56,148.0	88,321.0	-9,121.0	47,797.0
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	2,185.5	629.8	3,936.0	8,533.0	-7,425.0
Total	47,416.3	254,050.7	213,780.0	237,650.0	39,453.0
of which ➤ ETFs	31,206.1	97,289.9	76,778.0	131,282.0	80,642.0
➤ Funds of funds					

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds		79.7	81.7	94.7	74.5
Bond funds		110.5	106.7	125.5	102.5
Multi-asset funds		152.3	163.0	177.6	134.0
Money market funds	4.6	5.5	4.9	4.3	3.5
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	14.2	17.3	19.0	20.4	22.0
Other funds	591.8	367.6	420.9	549.6	504.9
Total	610.6	732.9	796.1	972.1	841.4
of which ➤ ETFs		0.04	0.1	0.1	0.1
➤ Funds of funds					
➤ Institutional funds	534.2	697.9	761.1	934.0	810.5

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds		-3,858.0	-3,021.0	-7,120.0	-8,009.0
Bond funds		2,923.0	-2,650.0	15,771.0	5,212.0
Multi-asset funds		4,759.0	-356.0	-7,746.0	4,513.0
Money market funds	-927.5	702.0	-203.0	-1,014.0	-861.0
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	759.8	1,845.6	2,283.0	733.0	1,023.0
Other funds	46,506.0	23,912.5	25,448.0	72,001.0	48,907.0
Total	46,338.3	30,284.1	21,501.0	72,625.0	50,785.0
of which ➤ ETFs		14.0	54.0	-9.0	-8.0
➤ Funds of funds					
➤ Institutional funds	40,637.0	26,709.7	29,905.0	74,916.0	52,330.0

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS	4,508	4,684	4,843	5,076	5,324
Home-domiciled AIFs	2,777	2,962	3,105	3,287	3,365
Foreign funds registered for sales					
➤ By national promoters					
➤ By foreign promoters					
Fund launches	1,117	801	716	786	608
Fund liquidations	663	440	400	362	338
Fund mergers & acquisitions					

5. MARKET DEVELOPMENTS IN 2022

In 2022, the Irish Funds industry experienced turbulence from a variety of factors affecting the global market. These included ongoing concerns over the pandemic as well as geopolitical and economic instability in various parts of the world.

As a result, the net assets of Irish funds decreased from EUR 4.1 trillion in 2021 to EUR 3.7 trillion in 2022. This reduction in net assets was due in part to increased volatility in financial markets, which led to a decline in the value of equity, bond and multi-asset funds. However, net sales for equity funds and multi-asset funds did increase during 2022, to EUR 29,266 million and EUR 5,620 million, respectively. As of 31 December 2022, the net assets of bond funds were the lowest since 2019 at EUR 821.1 billion, while net sales for bond funds were EUR 34,089.

Overall, the number of fund launches continued to increase despite market volatility with a 4.9% growth to 5324 UCITs and a 2.4% increase to 3365 AIFs.

Despite these challenges, the Irish funds industry remained resilient, with several positive developments in Q4 2022, including large inflows for MMFs, equities and real estate funds. MMFs increased in value by 7.8% and experienced positive net inflows of EUR 46,936 million. There were generally steady returns in the real estate and ETF space, which also helped to mitigate some of the impact of the broader market turbulence.

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

In 2022, there were several significant regulatory developments relating to UCITS in Ireland. Here are some of the most notable ones:

- There were two Statutory Instruments enacted in 2022
  1. 31 May 2022: UCITS now qualify as packaged retail investment and insurance products (PRIIPs) and, from January 2023, they will have to provide a KID as set out in the PRIIPs Regulation (EU) No 1286/2014. The UCITS key investor information and the KID required by the PRIIPs Regulation cover essentially the same information requirements. For investors other than retail investors, investment companies and management companies should continue to draw up key investor information in accordance with Directive 2009/65/EC, unless they decide to draw up a KID as set out in Regulation (EU) No 1286/2014. The amendments to the UCITS Directive, as provided for in these Regulations, aim to avoid duplicating requirements to provide both documents for the same financial product.
  2. 9 September 2022: The obligation for investment companies and management companies to integrate sustainability risks in managing UCITS came into operation on 12 September 2022.

- Additionally, on 20 December 2021, the Central Bank of Ireland (CBI) issued the 36th edition of its UCITS Q&A, which included two new Q&As.
  1. The first new Q&A set out the CBI's expectations that multi-manager UCITS will comply with ESMA's Q&A of July 2021 on performance fees. It confirms that existing multi-manager UCITS must make their performance fee methodologies compliant by 1 January 2023.
  2. The second new Q&A addressed the circumstances of establishing a new multi-manager UCITS utilising a performance fee. It notes that those wishing to establish a new multi-manager UCITS with a performance fee must do so in compliance with ESMA's Q&A of July 2021 on performance fees in multi-manager UCITS.

These developments reflect the CBI's ongoing efforts to ensure that UCITS are managed in a manner consistent with best practice and that protects the interests of investors.

Ireland is one of the leading countries in the EU for alternative investment fund management. The country has robustly implemented the AIFMD and has developed a comprehensive regulatory framework to protect investors and ensure the stability of the financial system.

- The CBI issued the 44th to 46th editions of its AIFMD Q&A between December 2021 and December 2022 which included six new Q&As. On 20 December 2021, the CBI issued three new Q&As:
  1. The first Q&A set out the CBI's expectations for an arrangement involving a non-discretionary investment advisor providing services to a QIAIF. The Q&A affirms the CBI's expectation that the investment advisor is performing a role that is advisory in nature, and the AIFM must be able to evidence this upon request from the CBI.
  2. The second Q&A set out the CBI's expectations that multi-manager Retail Investor AIFs (RIAIFs) will comply with ESMA's Q&A of July 2021 on performance fees in multi-manager AIFs. It confirms that existing multi-manager RIAIFs must bring their performance fee methodologies into compliance by 1 January 2023.
  3. The third Q&A addresses the circumstances of establishment of a new multi-manager RIAIF using a performance fee. It notes that those wishing to establish a new multi-manager RIAIF with a performance fee must comply with ESMAs (European Securities and Markets Authority) Q&A of July 2021 on performance fees in multi-manager AIFs.

- On 5 October 2022, the CBI issued a Q&A relating to QIAIFs that invest more than 50% of net assets in another investment fund and the circumstances where the reference to 'net assets' can be understood to refer to committed capital.

- The CBI also issued Q&A on the leverage limits for loan-originating QIAIFs and addresses the circumstance where reference to 'net asset value' can be understood to refer to committed capital.

- On 21 December 2022, the CBI issued a Q&A update that considers if AIFs within the scope of the PRIIPs Regulation are required to file KIDs with the CBI. The Q&A sets out the CBI's requirement that RIAIFs producing PRIIPs KIDs shall file these on an ex-post basis. This will include periodic updates to existing KIDs. The first annual reporting of such KIDs will take place in January 2024.

Overall, Ireland is well-positioned to continue its role as a leading centre for alternative investment fund management in 2022 and beyond. The CBI's commitment to enhancing the regulatory framework for alternative investment funds is likely to ensure that Ireland remains a safe and attractive place for investors to place their money.

In June 2022, the European Council published the Presidency's Compromise Text, which introduced targeted amendments to AIFMD and UCITS Directive. These focused on delegation reporting, loan origination, liquidity management tools and depositories.

Irish Funds has established focused working groups in multiple areas to focus on these and other key areas within the AIFMD Review.

On 24 November 2022, the CBI published its Macroprudential Policy Framework for Irish Property Funds (the Policy), introducing new limits on leverage and guidance for limiting liquidity mismatch in property funds.

This follows ESMA's formal advice on the same day, which confirmed that it considered the leverage limit proposal that the CBI had notified it of was "appropriate to address the concerns relating to the stability and integrity of the financial system".

Ireland has a strong governance framework (CP86) that supports delegation. There is a proposed CBI CP86 consultation expected during 2023 that will further refine and enhance the governance framework.

Likewise, we expect engagement from the CBI in 2023 in relation to Liquidity management.

The Irish regulations relating to loan origination by AIFs are largely consistent with the European legislation in this area. It is defined in the Irish regulations as "the arranging, structuring, marketing or managing of a loan, or the making of a loan or other financial accommodation, for the benefit of a third party or a connected party, including by way of advice". They require AIFs to be authorised by the CBI and to comply with the relevant requirements of the AIFMD, as well as any specific requirements related to loan origination.

The CBI has also issued guidance on loan origination to AIFs, which sets out the requirements that must be met to engage in this business activity. At this stage, we do not believe there will be any obstacles to the national implementation and application of any new pan-European rules on loan origination, as proposed by the Commission in November 2021. However, we expect the CBI to revisit their existing loan origination requirements once the amendments currently being finalised by the EU institutions are settled/completed.

Any changes to the Irish regulations will need to be assessed in the context of the current requirements to ensure compliance with the relevant European legislation.

The CBI engaged with ESMA during the peer review report on post-Brexit relocation, and subsequently completed their thematic review.

The CBI stated that it is closely monitoring Brexit-related developments and will consider any necessary changes to its supervisory approach in line with the outcomes of the peer review report. We expect some refinements following the peer review and these will possibly be the subject of consultation with industry.

6.2. MiFID II

In 2022, there were several regulatory developments related to MiFID in Ireland. Here are some of the most notable:

In April 2022, The CBI wrote to industry to advise that a series of targeted reviews, of Structured Retail Products (SRP) manufactured and distributed by a sample of Investment Firms, had been conducted. The letter set out the findings of the SRP reviews and details the CBI's expectations of regulated entities when implementing the relevant MiFID II requirements. The expectations outlined seek to enhance the standard of investor protection afforded to retail clients by regulated entities. Supervisory guidance is expected in 2023.

In December 2022, The CBI released Consultation Paper 152, where the Bank considers it appropriate and timely to review and update the own funds requirement applicable to UCITS Management Companies and AIFMs, to allow for continued alignment between the own funds requirement applicable to investment firms providing similar services. The proposal seeks to establish a level playing field between investment firms and management companies (UCITS and AIFMs) with additional MiFID permissions that provide the same type of discretionary portfolio management services and other additional non-core services.

No assessment by our NCA on the Guidelines on MiFID II/MIFIR market data obligations has been provided as yet. However, the CBI has published guidance on MiFID II/MIFIR market data requirements, which can be found on the CBI website.

The EET plays an important role in the overall distribution and disclosure processes in Ireland. It provides a standardised approach to ESG reporting and disclosure, helping ensure transparency and consistency across the market. The EET is used to report and disclose ESG data to the CBI, the SFDR, the European Securities and Markets Authority, and the Irish Stock Exchange. It also enables investors to better understand and assess the ESG aspects of investments and helps them make informed decisions and ensure their portfolios are aligned with their ESG objectives.

6.3. CSDR

The Irish market has experienced the operationalisation of cash penalties under the Settlement Discipline Regime in a variety of ways. One approach adopted by some market participants is to pass through credits/debits from the Central Securities Depository (CSD) to custodians and ManCos and then to individual funds. This approach is generally preferred for those looking for a more efficient, automated solution for passing through cash penalties. There are also a few other models being used, such as passing through credits/debits directly from the CSD to the Manco or individual funds. Ultimately, the approach used varies and is largely dependent on the needs and preferences of the market participants.

6.4. EMIR

The CBI has issued guidelines to help firms prepare; these outline the reporting obligations and provide advice on implementation. There are likely to be some challenges in implementing the new reporting obligations, including the need for firms to update their IT systems and processes to ensure compliance with the new requirements.

In May 2022, the Irish Funds' Middle Office Working Group also produced a thought leadership paper to examine details of the trade reporting requirements and the methods by which entities might discharge their obligations.

It is likely that the disclosure requirements of MiFID II will prompt Irish firms to review their sustainability-related offerings and make the necessary changes to ensure compliance. Additionally, some Irish firms may begin to offer more sustainable investment products in response to MiFID II.

6.5. PRIIPs

The CBI has taken a proactive approach. In March 2018, the CBI issued a Consultation Paper on its proposed changes to its Product Governance Regulations. This set out the CBI's plans to transition from the UCITS KIID to the PRIIP KID on 1 January 2023. The CBI has also published a detailed guide to the PRIIP KID in its 'Retail Investor Product Governance' document. This provides a comprehensive overview of the PRIIP KID and outlines

the various requirements firms will need to meet in order to comply with the new rules. The CBI has also held several workshops and webinars to inform market participants of the upcoming changes and to offer an opportunity to discuss the practical implications of the transition. The CBI has also worked closely with European regulators to ensure a consistent approach to the transition across the EU. Finally, the CBI has set up a PRIIP KID working group to facilitate a dialogue between the CBI and industry stakeholders regarding the transition.

Please also note the legislative and CBI Q&A guidance updates noted in the UCITS and AIFMD response relate to PRIIP KID.

6.6. ELTIF

The ELTIF review is expected to have a positive impact, as the new rules are designed to reduce the risk to retail investors while increasing the potential returns on their investments.

Irish Funds has conducted a capability review and will establish a targeted working group in 2023 to focus on ELTIF implementation.

6.7. Sustainable finance

During 2022, The CBI established a Climate Risk and Sustainable Finance Forum to advance the financial sector's response to the risks and opportunities presented by climate change and published a Sustainable Investment Charter.

The CBI has been involved in the Level 2 implementation of SFDR since it became effective in March 2021. It has taken a proactive approach to ensuring that the SFDR requirements are implemented effectively by market participants in Ireland, including establishing a dedicated SFDR unit. The CBI has published several guidance documents outlining the SFDR requirements and providing practical advice for funds and service providers.

In October 2022, the CBI published 'Process clarifications for UCITs and AIFs pre-contractual documentation updates in relation to the Level 2 measures in relation to SFD,' to provide guidance on the approach to implementation. To facilitate this, the CBI has established a streamlined filing process for pre-contractual document updates based on the SFDR Level 2 requirements. Under this, both UCITS management companies and AIFMs ('Managers') will be required to certify compliance with the requirements via an attestation.

In November 2022, the CBI published 'Sustainable finance and the asset management sector: Disclosures, investment processes & risk management' (available on the CBI website). This sets out the findings of a gatekeeper review of investment fund disclosures, highlights expectations around the implementation of the SFDR and the Taxonomy Regulation and provides a roadmap for how the CBI will supervise these requirements in the future. The aim was to assist market participants by informing them of the main disclosure issues encountered and outline the risks that the CBI has observed in terms of potential greenwashing or areas where there has been a lack of transparency or clarity. The paper also outlines areas of good practice identified and sets out the CBI's expectations generally.

The CBI has also published several Q&As on SFDR and has hosted webinars to provide further guidance and support to market participants. The CBI has also established a supervisory framework for implementing SFDR, which includes a risk-based approach to monitoring and enforcement and has identified potential areas of non-compliance and has taken enforcement action where appropriate. The CBI has also set up a dedicated SFDR page on its website that provides up-to-date information on the implementation of SFDR in Ireland.

Irish Funds has established multiple working groups dedicated to Sustainable Finance initiatives as the topic is of key strategic importance in Ireland.

The exact number of asset managers that will now have to report under the Corporate Sustainability Reporting Directive (CSRD)is not known. The Directive applies to asset managers who manage portfolios consisting of at least €500 million of assets under management (AuM).

6.8. Stewardship

In June 2022, the CBI conducted an industry survey to assess how the governance, structure, and resources available to Fund Management Companies had evolved as a result of the actions taken on foot of the CBI's letter of October 2020, which served to assess compliance with the CBI's Fund Management Framework. The survey indicated good progress in terms of compliance while noting that more work can be done.

In 2023, The CBI will continue to prioritise best practice corporate governance with the implementation of the new Individual Accountability Framework.

The Irish Modern Slavery Act 2018 includes a number of measures to enhance due diligence requirements, reduce the risk of improper use of natural resources and ban forced labour. This includes an obligation for certain organisations to publish a slavery and human trafficking statement each year, outlining what steps they have taken to prevent modern slavery in their own operations and that of their supply chain. It also requires organisations to carry out risk assessments to identify any potential risks of modern slavery in their operations and supply chain and to take measures to address any such risks. The Act also bans the use of forced labour in Ireland and prohibits the illegal extraction of natural resources in conflict zones.

6.9. Benchmarks

There were no significant developments on this topic. The CBI has published a key facts document to provide guidance in terms of compliance.

6.10. Anti-Money Laundering Directive

In July 2022, the CBI released a bulletin on the Virtual Asset Service Provider sector that provided an overview of the legislative framework, engagement, levy information, key issues with registrations received and CBI expectations. It highlighted a number of recurring issues where legislative and regulatory requirements were not being met in terms of policies and procedures.

More generally in November 2021, the CBI stated that it had conducted supervisory engagements with Funds and Fund Management Companies where they identified areas where firms must introduce enhancements to sufficiently demonstrate compliance with requirements including corporate governance, business risk assessments, outsourced activities and customer due diligence.

The Irish Funds AML Working Group published three papers in 2022 (available on the Irish Funds member's portal) to provide additional guidance to members, including the treatment of Financial Intermediaries, the Beneficial Ownership register and Transaction monitoring.

Given the ongoing situation in Ukraine, there was a focus on Financial Sanctions throughout 2022. In response to the EU's swift adoption of sanctions, the CBI has placed a dedicated Russian/Ukraine Regulations page on its website. This sets out important information including details on the sanctions adopted; financial sanctions requirements; what to do if a match or 'hit' of a sanction occurs and how to apply for authorisations/derogations.

In addition, Irish Funds delivered regular bulletins, FAQs, and updates to member firms.

In light of the Commission's July 2021 proposal to establish an Anti-Money Laundering Authority, please highlight any obstacles faced in the enforcement of AML obligations in your country which may be resolved/addressed by the establishment of this new pan-European authority.

The establishment of the AMLA could address a number of obstacles faced in the enforcement of AML obligations. First, it could provide a more streamlined approach to AML regulation and enforcement. Currently, AML enforcement in Ireland is carried out by a number of different agencies, including the CBI, the Financial Intelligence Unit, the Data Protection Commissioner and the Department of Justice. Creating a single body with a remit of overseeing AML obligations across the EU would make it easier for Irish enforcement agencies to coordinate their efforts and ensure that AML regulations are consistently applied in all Member States.

Second, the AMLA could provide a more unified approach to AML compliance. Currently, each Member State has different requirements and regulations for AML compliance. This can be confusing for firms operating throughout the EU and can make it difficult for them to ensure they are compliant with all relevant regulations. The AMLA could provide a single set of harmonised rules and regulations, simplifying compliance requirements and making it easier for firms to ensure they are compliant with AML obligations. Finally, it could help to ensure that AML enforcement is more effective and efficient.

6.11. Digital finance

The CBI has not yet issued any specific guidance or regulations on managing operational risks arising from the use of digital technologies. However, it has stated that it is monitoring developments in this area, which is of key strategic importance in 2023, and will assess the need for any regulatory action. The CBI's current guidelines require firms to identify, assess and manage any operational risks posed by introducing new technologies. They also require firms to develop and maintain policies, procedures and controls to mitigate potential risks associated with the use of digital technologies. Moreover, the CBI has announced its commitment to ensuring that firms can effectively manage the operational risks posed by digital technologies and will continue to monitor developments in this area.

The CBI has also begun preparation for the implementation of MiCA and has established a cross-sectoral team to integrate MiCA into the Central Bank's supervisory and authorisation processes and methodologies. The CBI has advised that it will continue to monitor developments related to cryptoassets in order to assess any risks to consumer protection and financial stability.

Irish Funds has established working groups to support the industry, members and the CBI.

6.12. Other regulatory developments

In November 2022, due to market volatility, the CBI issued guidance and additional requirements regarding GBP Liability Driven Investment Funds, noting that such funds must establish clear policies and procedures to increase resilience in the event of further market volatility.

In July 2022, The CBI released guidelines on stress-test scenarios under the MMF Regulation.

7. PENSIONS & PEPP

No new developments, however the Irish Government is currently reforming the existing pension system to ensure that it provides better value and security for individuals. This includes introducing a new system of auto-enrolment, an increase in the state pension age and a new 100,000 EUR cap on the tax relief that individuals can receive on pension contributions. These changes are expected to come into effect in 2023.

8.TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

In May 2022, the Office of the Revenue Commissioners in Ireland (Revenue) published guidance on the VAT treatment of depository services and global custody services.

The Irish Funds VAT working group submitted a response to Revenue and we anticipate further focus on this topic in 2023.

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

In 2022, Irish Funds successfully launched the Irish Funds Transition Year Financial Literacy Programme. This aims to build Financial Services literacy for secondary level students.

The CBI also runs a successful Generation €uro Students' award for Transition year students.

The Institute of Bankers continues to establish accredited financial service programmes in multiple topics such as funds, governance, risk management, sustainability, ESG and digital and innovation.

As above, the Irish Funds Transition Year Financial Literacy Programme is targeted at 16-17-year-old school students. The goal is to build financial literacy in school age students and to foster and develop an interest in the funds and financial services industry. The content is delivered in multiple schools across the country.

10. OTHER ACTIVITIES OF THE ASSOCIATION

Irish Funds issued 19 publications in 2022, on topics including distribution, fintech, technology skills needs and digital assets. Our public materials are available on our website .

We held 40 events (15 in-person and 25 webinars), including our Annual Global Funds Conference in May and our UK Symposium in November. These events were attended by over 5,000 people with further distribution via our video channel on Vimeo and the Irish Funds podcast channel. All our public events are published at: https://www.irishfunds.ie/events.

ITALY COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets of the Fund Industry in Italy (EUR billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	313.9	332.8	340.4	358.3	340.6
Funds domiciled abroad and promoted by national providers	289.8	306.5	329.6	369.8	306.5
Foreign-domiciled funds promoted by foreign providers	376.4	425.4	455.6	526.6	445.3
Total net assets	980.0	1,064.7	1,125.5	1,254.7	1,092.3

Table 2: Net Sales of Investment Funds in Italy (EUR million)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	5,631.4	-7,629.9	4,698.2	6,776.3	606.2
Funds domiciled abroad and promoted by national providers	1,019.2	9,620.3	14,958.8	22,410.3	9,240.9
Foreign-domiciled funds promoted by foreign providers	-1,276.2	-8.2	5,776.2	29,920.4	-2,127.9
Total net sales	5,374.4	1,982.2	25,433.2	59,106.9	7,719.2

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	19.5	23.1	23.3	30.2	29.3
Bond funds	46.2	46.3	48.3	47.3	41.7
Multi-asset funds	100.8	109.3	118.0	141.0	127.9
Money market funds	3.2	1.8	1.9	1.9	3.1
Guaranteed/protected funds	0.05	0.03	0.02	0.02	
Absolute Return Innovative Strategies (ARIS) funds	67.5	64.0	49.6	38.1	26.3
Other funds					
Total	237.2	244.5	241.2	258.5	228.3
of which ➤ ETFs					
➤ Funds of funds	31.3	32.0	30.1	30.5	26.3

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	-98.8	-1,133.1	7.1	1,207.2	3,400.5
Bond funds	-3,561.1	-141.9	1,607.6	-489.6	-254.2
Multi-asset funds	12,338.0	7,796.0	5,488.0	17,457.6	4,737.8
Money market funds	-658.0	-362.6	308.8	-4.8	1,157.5
Guaranteed/protected funds	-29.6	-3.8	-2.9	-5.2	-7.1
Absolute Return Innovative Strategies (ARIS) funds	-10,887.7	-16,918.1	-12,545.5	-12,224.8	-8,547.5
Other funds					
Total	-2,897.2	-10,763.5	-5,136.9	5,940.3	487.1
of which ➤ ETFs					
➤ Funds of funds	-5,450.3	-2,001.2	-2,867.7	-904.6	-3,114.2

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds					
Bond funds					
Multi-asset funds					
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	56.1	64.8	72.1	72.1	79.6
Other funds	20.5	23.5	27.1	27.8	32.6
Total	76.6	88.3	99.2	99.9	112.2
of which ➤ ETFs					
➤ Funds of funds	1.7	1.2	1.2	1.0	0.8
➤ Institutional funds	74.2	85.7	95.9	95.8	105.8

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds					
Bond funds					
Multi-asset funds					
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	-75.8				
Real estate funds	7,446.0	2,581.0	5,814.0		
Other funds	1,158.3	552.6	4,021.1	835.9	119.1
Total	8,528.6	3,133.6	9,835.1	835.9	119.1
of which ➤ ETFs					
➤ Funds of funds	-216.2	-549.2	-109.0	-1.8	-59.7
➤ Institutional funds	8,707.4	2,921.6	9,257.6	-36.7	-138.2

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS	1,095	1,177	1,162	1,155	1,112
Home-domiciled AIFs	807	900	991	1,000	996
Foreign funds registered for sales					
➤ By national promoters	1,021	1,045	1,032	1,044	915
➤ By foreign promoters	2,789	2,828	3,291	3,306	3495
Fund launches	144	171	134	109	151
Fund liquidations					
Fund mergers & acquisitions					

5. MARKET DEVELOPMENTS IN 2022

Home-domiciled funds represent one-third of the total fund assets in the hands of Italian investors. Adding the assets of foreign funds promoted by local providers (round-trip), Italian promoted products reach a 60% share. The remaining 40% is managed by cross-border providers who distribute their funds through banks and financial advisors (tied agents) operating in the country.

In 2022, a year characterised by dramatic geopolitical events as well as by deep and widespread market downturns, fund net flows - the main indicator of investor sentiments - remained positive but declined compared with previous years. During the same period, the overall mark-to-market showed a remarkable 13% drop (tables 1 and 2).

This general trend is in stark contrast with previous periods of crisis, such as 2007-2008 and 2011, when investors reacted much more abruptly to the worsening market conditions, removing a huge amount of money out of the fund system (EUR 200 billion in the two-year period around the global financial crisis, EUR 33 billion four years later). The general view is that this time, most of fund shareholders - in particular, retail investors - having learned the lessons of the past, reacted in a more rational and profitable way. They kept most of their money invested and avoiding the counterproductive temptation of redeeming during downward market periods.

Even if tables 3 and 4 only focus on home-domiciled UCITS, these trends are similar to those of the wider Italian fund market. In 2022, stock levels declined by more than 11%, mostly as a consequence of mark-to-market. While

looking at flow data, equity and bond funds showed opposing trends. The first category recorded large inflows (EUR 3.4 billion), a clear sign that a not-so-small subset of investors decided to enter rather than leave the equity market, disregarding volatility and profiting from discounted prices.

The fixed income sector saw the opposite: where inflationary pressures and the response of the monetary authorities in increasing rates hit the sector, they led to large outflows. This is something that local-domiciled fund figures (EUR 250 million) tend to under-represent.

The alternative fund sector (tables 5 and 6) is still dominated by closed real estate funds, almost totally dedicated to institutional investors. However, a new breed of closed-end products, investing in other illiquid assets, such as unlisted companies and SMEs, is growing ('other funds', a 17% increase in NAV).

This is a clear sign of the increasing interest of the investors, both retail and institutional, in differentiating out of public markets, trying to benefit from the opportunities that lie in the so-called 'real economy' space. This is made of a large number of unlisted companies that could benefit from more market-based financing solutions. This trend is clearly in the direction of deepening the contribution of the asset management sector to develop the Italian (and European) economy, in the spirit of the CMU.

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

From January 2022, reserved funds rules have been updated, lowering the thresholds of access for retail investors (physical persons).

6.2. MiFID II

Consob complies with ESMA Guidelines on MIFID II/MiFIR market data obligations. At the time of writing, the NCA does not provide any public assessment of the degree of compliance by trading venues.

While it is too soon to draw conclusions on the incorporation of ESG preferences into the adequacy assessment, anecdotal evidence suggests that it has promoted the awareness of ESG issues among distributors and investors. The EET is a useful tool for integrating ESG information into the process, despite the many ambiguities still marring SFDR interpretation.

6.3. CSDR

Assogestioni focused on the implementation of the new penalty regime as envisaged by the CSDR delegated Regulations. A working group has framed the provisions of the CSDR with respect to the sectoral discipline and the provisions of the Regulation on collective asset management of the Bank of Italy. To the best of our knowledge, there is a single model for the allocation of penalties in retail funds, which is also based on the outcome of preliminary and informal discussions with NCAs.

6.4. EMIR

There were no notable developments in this area during 2022.

6.5. PRIIPs

During 2022, the Association, through an ongoing productive dialogue with its members and with Consob, followed the transition from the UCITS KIID to the PRIIP KID closely. Here, Assogestioni has brought some operational needs and requests for an orderly transition to the attention of the competent offices of Consob.

PRIIPs manufacturers are required to make both the KIDs (in PDF format) and the related structured data (in XML format) available to Consob before the start of marketing and in the event of any updates.

In mid-October, Consob informed the market of the revision to their procedure for acquiring KIDs and updated the operating manual for the filing of CIS offering documentation (DEPROF system).

Assogestioni also responded to the Consob Consultation of 17 October 2022 on the Issuers' Regulation. This highlighted some critical profiles, which were largely accepted by the Authority with Resolution no. 22551 of 21 December 2022 and further clarified by the Association with a circular.

6.6. ELTIF

There were no notable developments in this area during 2022.

6.7. Sustainable finance

SFDR Level 2 implementation has made the clarification of a number of issues regarding the interpretation and the implementation of regulatory requirements more urgent. These were already apparent when level 1 entered into force, in particular the ambiguities and inconsistencies in the reporting obligations, but also in broader issues such as the definition of minimum requirements and obligations for art. 8 and art. 9 products. Assogestioni has worked with the Italian NCA Consob to clarify some of the outstanding issues, although some key aspects have still to be clarified at European level.

Following the entry into force of the delegated acts for integrating ESG risks and sustainability criteria in UCITS and AIFMD, and after having launched a survey on the state of implementation of the regulatory requests, the Bank of Italy has asked financial market participants to submit a plan for aligning asset managers with the Bank's expectations. These should address the integration of ESG and sustainability consideration into the strategy, processes and governance of the asset managers and the ESG risk evaluation in its risk managements procedures. The plans are expected to show a path which, over the next three years, will fully align asset managers practice with supervisory expectations.

On the application of the CSRD, in 2023 only a few Italian asset managers fall directly within the scope of application of the Directive. The entry into force of the 'new' threshold will create a significant increase of the number of asset managers falling directly within its scope.

6.8. Stewardship

With the adoption, in October 2022, of the so-called 'Post-Trading Regulation' - on transmission of information along the investment chain - the process of implementation of Directive (EU) 2017/828 ("Shareholder Rights Directive II") into Italian domestic law has been completed. The Association has taken part in the debate on national and supranational levels. This includes having one representative among the 12 members of the European Commission's expert group on technical aspects of corporate governance processes, which were selected in August 2017 with a view to supporting the EU Commission in the implementation phase.

The Italian Stewardship Principles already covered many of the provisions included in the Shareholder Rights Directive II, thus best practice in Italy can be considered to already be aligned with the spirit and views of the Directive. Since 2020, a further round of internal revision of the Stewardship Principles is ongoing, with the aim of completing alignment with the new legal and regulatory framework.

Assogestioni, with the technical assistance of AISCA (the Italian association of board secretaries) and a Legal Panel, in July 2022 developed and published the Italian Shareholder-Director Exchange (I-SDX). This aims to encourage the adoption of good practices of dialogue between investors and boards of directors, as well as harmonising existing standards in the Italian market. The I-SDX relates to the specific modality of shareholder-director engagement, which complements other forms of engagement (more traditionally conducted by the competent corporate functions). The document is intended to provide investors and issuers with a framework for organising and managing effective and mutually beneficial shareholder-director engagements. The goal is to contribute to sustainable value creation, and has also been made available also with a view to developing issuers' engagement policies.

Concerning proxy advisors' self-regulation, since 2020 one representative of Assogestioni serves as a member of the Oversight Committee of the Best Practice Principles Group (BPPG). The BPPG was formed in February 2013 to promote greater understanding of corporate governance and of ESG research and support services provided by proxy advisors to professional investors and other capital markets participants. The Oversight Committee's task is to undertake an independent annual review of the public reports of signatories to the Principles and to provide guidance and advice to the BPPG on the operation and evolution of the Principles. In October 2022, Assogestioni hosted the Annual Forum of the Oversight Committee (BPP OC Annual Forum), the first of four days of events on corporate governance, stewardship ang engagement that the Association organised in Rome.

As in previous years, during last AGM season Assogestioni provided its technical and operational support for the presentation of minority slates by institutional investors for the election of candidates to the board of directors and the board of statutory auditors of Italian listed companies, according to the slate voting ('voto di lista') mechanism.

6.9. Benchmarks

There were no notable developments in this area during 2022.

6.10 Anti-Money Laundering Directive

There were no notable developments in this area during 2022.

6.11. Digital finance

There were no notable developments in this area during 2022.

6.12. Other regulatory developments

In February 2022, the Italian Ministry of Economy and Finance published and submitted for consultation the Green Paper entitled 'The competitiveness of Italian financial markets in support of growth'. This collects the outcomes of the work of the Task Force 'Finance for Growth 2.0' - in which Assogestioni took part - which sought to identify those areas of regulation/supervisory practices that appear particularly critical for the purposes of the competitiveness of national markets. In the context of the possible enhancing of multiple voting rights, the Association firmly reiterated the fundamental nature of the 'one-share, one-vote' principle and the need to safeguard the rights of minorities with appropriate protections when dealing with control enhancing mechanism.

7. PENSIONS & PEPP

There were no notable developments in this area during 2022.

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

There were no notable developments in this area during 2022.

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

There were no notable developments in this area during 2022.

10. OTHER ACTIVITIES OF THE ASSOCIATION

Italian Corporate Governance Code: Having approved the new Corporate Governance Code in January 2020, the Italian Corporate Governance Committee (composed of issuers and investors associations - ABI, ANIA, Assonime, Confindustria, Assogestioni - as well as the Italian Stock Exchange - Borsa Italiana S.p.A.) focused on adapting the annual report on the compliance with the Code during 2022. It also continued an in-depth study on a possible review of the collection of Q&As relating to the new Code.

Catch-Up Programme: Since 2019, Assogestioni has organised a series of workshops on governance and sustainability issues, aimed at offering independent directors and statutory auditors opportunities for updating and

socializing. Each session involves representatives of the institutions and leading experts on the issues addressed, and provides ideal networking opportunities. The idea is to create a community where directors can develop and share their know-how and experiences. The programme is also open to the corporate secretary, chief governance officer and investor relator functions of Italian companies.

Board Academy: Since 2021, in collaboration with Luiss Business School, Assogestioni has developed and started the Board Academy programme, a university specialisation course aimed at training future directors and improving the effectiveness of the boards and corporate governance structures of listed and unlisted companies. Following the first two editions, the third kicked off in October 2022.

Series of seminars organised by the Italian National Council for Economics and Labour and Assogestioni: During 2022, the Italian National Council for Economics and Labour (CNEL) and Assogestioni continued their collaboration – started in 2021 - on a series of seminars entitled 'Investments, capital market and corporate governance' These aim to provide discussion opportunities on investment management flows, the development of capital markets and corporate governance, with focus on the role of independent directors and minority shareholders. Following the first two seminars in 2021, another two were held in 2022.

Digital finance: The digital finance committee has discussed, at length, the relationship between finance and digital technology. A number of benefits, opportunities and barriers have been identified and a White Paper is being published for the benefit of members. Other ongoing initiatives include a pilot project on DLT technology in the asset management sector (in collaboration with PwC and the Politecnico di Milano).

LIECHTENSTEIN COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Liechtenstein (EUR billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	44.3	53.9	55.0	68.0	70.1
Funds domiciled abroad and promoted by national providers					
Total net assets	44.3	53.9	55.0	68.0	70.1

Table 2: Net Sales of Investment Funds in Liechtenstein (EUR million)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	951.9	3,532.7	1,316.1	4,291.3	5,820.2
Funds domiciled abroad and promoted by national providers					
Total net sales	951.9	3,532.7	1,316.1	4,291.3	5,820.2

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	8.1	9.6	10.1	13.0	12.7
Bond funds	8.0	7.8	7.8	8.1	7.9
Multi-asset funds	5.2	5.5	5.4	6.1	4.9
Money market funds	3.1	3.5	2.7	2.6	3.1
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	0.01	0.01	0.02	0.02	0.01
Other funds	2.5	2.7	2.6	3.2	3.1
Total	26.8	29.1	28.6	32.9	31.7
of which ➤ ETFs					
➤ Funds of funds	0.2	0.2	0.1	0.1	0.03

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	-188.1	-388.2	307.9	82.5	2,167.9
Bond funds	16.3	-370.6	219.3	-75.5	459.3
Multi-asset funds	-214.0	-380.2	-135.2	107.7	-428.2
Money market funds	817.0	346.9	-533.6	-101.2	319.0
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	0.7	0.8	0.3	-1.2	-0.4
Other funds	-128.4	67.1	-142.7	461.9	180.0
Total	303.6	-724.2	-284.1	474.2	2,697.5
of which ➤ ETFs					
➤ Funds of funds	-26.1	-23.0	-20.8	1.8	-0.6

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	1.0	1.7	1.7	2.0	1.8
Bond funds	1.0	2.6	2.0	2.2	2.9
Multi-asset funds	10.4	12.3	12.8	16.8	17.8
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	0.1	0.1	0.2	0.3	0.2
Real estate funds	0.1	0.2	0.3	0.3	0.3
Other funds	4.9	7.8	9.4	13.5	15.4
Total	17.5	24.8	26.4	35.1	38.4
of which ➤ ETFs					
➤ Funds of funds	0.2	0.2	0.2	0.2	0.1
➤ Institutional funds		0.01	0.02	0.04	0.1

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	-153.7	477.3	-10.6	305.6	49.1
Bond funds	-112.5	1,310.1	-78.0	372.9	503.5
Multi-asset funds	448.9	617.5	8.1	1,592.1	2,102.4
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	14.9	11.2	20.1	35.6	14.7
Real estate funds	89.1	70.0	104.3	10.3	-9.5
Other funds	361.6	1,770.8	1,556.3	1,500.6	462.4
Total	648.3	4,256.8	1,600.2	3,817.1	3,122.7
of which ➤ ETFs					
➤ Funds of funds		-6.5	-6.0	-9.3	-26.9
➤ Institutional funds		14.7	-0.6	20.9	-0.1

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS	930	883	888	1,024	1,194
Home-domiciled AIFs	669	870	1,032	1,188	1,273
Foreign funds registered for sales	382	453	572	707	927
➤ By national promoters					
➤ By foreign promoters					
Fund launches					
Fund liquidations					
Fund mergers & acquisitions					

5. REGULATORY DEVELOPMENTS

5.1. UCITS/AIFMD

UCITS Transition from UCITS to PRIIPs

In Liechtenstein, the so-called 'UCITS Quick Fix' rules on the conversion from the UCITS KIID to the PRIIPs KID have been implemented by their adoption in the UCITS Act. This amendment was prepared during 2022 and will enter into force on 1 May 2023. Due to their strategic importance, the Quick Fix rules are transposed into Liechtenstein law ahead of their formal integration in the EEA agreement using a special mechanism (*Vorabumsetzung*).

There was also a speedy adoption of the PRIIPs Quick Fix rules , likewise via the *Vorabumsetzung* mechanism. The enactment of these provisions in national law takes place within the framework of the Liechtenstein PRIIPs Implementing Regulation and led to their entry into force from 1 January 2023.

In terms of content, it is relevant that the PRIIPs Level 2 Regulation EU 2017/653, revised in accordance with the Amendment Regulation EU 2021/2268, is now also implemented in the Liechtenstein PRIIPS Implementing Regulation, entering into force on 1 January 2023. This means that the technical regulatory standards, the RTS, with their content adjustments now constitute applicable Liechtenstein law, and the corresponding adjustments must be included in the PRIIP documents.

NCA Guidance for UCITS and AIF

During 2022, the Liechtenstein NCA (Finanzmarktaufsicht Liechtenstein, FMA) enacted a number of elements of regulatory guidance. These included an amended notice on the application of decisions and guidelines issued by ESMA for which the FMA has declared 'comply' or 'intend to comply', an amended communication on electronic commerce (e-Services), an ICT guideline and guidance on cross-border fund distribution and changes to fund notifications.

5.2. MiFID II

Restructuring of national MiFID II, asset management and banking regulation

In 2022, the Liechtenstein government started a comprehensive restructuring project on the national frameworks pertaining to the MiFID II, asset management and banking regulation.

The implementation of the new EU prudential supervisory framework for investment firms (IFD, IFR) into the existing Liechtenstein framework for investment firms (*Vermögensverwaltergesetz*, VVG-Act) was the first regulatory step in this redesign project. While the VVG-A is to be retained, outside the VVG-A, the new structure is primarily aimed at a separation of prudential supervision from conduct of business and market supervision. A separation of the provisions for banks and for investment firms is also foreseen.

To this end, the Banking Act (Bank-A) will undergo a complete overhaul and in future will contain only provisions on the prudential supervision of banks. The regulatory content originating from Directive 2014/65/EU3 (MiFID II) - previously contained in the Bank-A - will be placed into two new Securities Services frameworks (WertpapierdienstleistungsG and WertpapierfirmenG). These will also implement the provisions of the IFD addressed at investment firms not being asset management companies. In addition, a separate Markets Act (MärkteG) will be created.

5.3. Sustainable finance

Liechtenstein implementation of EU sustainable finance package

Liechtenstein views the EU rules and regulations in the area of sustainable finance as strategic. Therefore, in a number of cases, a special mechanism is used to implement these rules early where a timely integration into the EEA agreement – a standard intermediary step for the incorporation of EU law in EEA jurisdictions – is unlikely. This special procedure is termed 'Vorabumsetzung'.

Activities and experiences in the area of sustainable finance

The LAFV supports its members in their endeavours to implement the new rules and regulations in the area of sustainable finance. With respect to the first adaptations of fund documentation. as well as the process with the NCA (FMA Liechtenstein). LAFV sought an exchange with FMA to establish standard solutions in some areas and to introduce a fast-track process for the more basic standard changes to prospectuses.

More generally, LAFV members found the shortcomings in consistency and specifications of the EU rules, as well as the lack of useful data for establishing characteristics of 'greenness' and 'taxonomy alignment' challenging. The hope is that the current efforts by the EU institutions and ESMA to clarify the new obligations will continue, and even be stepped up, to alleviate the situation for market participants keen to enter the green transition as soon as possible.

In July 2022, the 3rd Sustainable Finance Workshop was held for members on the current status of developments in the area of sustainability, including implementation matters. At the event, the current 'construction sites' were placed in a larger context and the most-important upcoming stages of the further development and implementation of the Sustainable Finance Package were highlighted. Themes of the workshop comprised the Disclosure Regulation (SFDR) Level 2 provisions including product-specific disclosure requirements in connection with the EU taxonomy, MiFID/advisory processes, the ESG Template (EET), specific implementation requirements in Switzerland and Luxembourg (conduct rules by AMAS and CSSF) and corporate reporting standards in Europe (CSRD, ESRS) as well as globally (ISSB, SEC).

5.4. Anti-Money Laundering

MONEYVAL Country Assessment

Since 1999, Liechtenstein has been a member state of MONEYVAL, a regional body modelled on the FATF with its headquarters at the Council of Europe in Strasbourg. MONEYVAL regularly reviews the national regulations of its member states for implementing the 40 FATF recommendations and assesses the effectiveness of the national system for combating money laundering and terrorist financing. In June 2022, MONEYVAL published the fifth country report on Liechtenstein. The report is the result of a comprehensive review carried out during 2022, which included a two-week onsite visit and detailed discussions with representatives of various agencies as well as the financial centre. It contains an up-to-date assessment of the country's status in combating money laundering and terrorist financing. In this, MONEYVAL concludes that the country is highly effective in identifying and combating money laundering and terrorism risks. Liechtenstein performs very well in comparison to other audited countries and due to the positive report is one of the few that will not be subject to the 'Enhanced follow up' but rather to the 'Regular follow up'.

Q&A on the newest changes to the Liechtenstein AML rules

Concerning the handling of a number of central provisions in the Liechtenstein AML-Act and NCA guidance, which had been changed during the preceding year, problem areas or issues were identified and discussed with the FMA. In order to provide greater clarity on the various application issues, the LAFV prepared a Q&A document. This was coordinated with the FMA and then made available to the members of the association.

Additional tools for the exchange of relevant information between fund companies and depositaries

At the initiative of the Liechtenstein banking association and the LAFV, management companies and depositaries exchanged information on how they would carry out audits and information exchange processes in future. This took into account the expanded scope of application and stricter due diligence requirements in the fund area as well as certain new requirements for business profiles and, in particular, risk assessments.

5.5. Digital finance

At the end of 2019, Liechtenstein created one of the world's first comprehensive legal frameworks for the token economy, through its Token and Trusted Technologies Service Providers Act (*Token und VT-Dienstleister-Gesetz* -TVTG).

This innovative regulation has enabled a wide variety of 'trusted technology' (VT-) service providers to offer their services in a regulated environment. At the same time, it has established protection for users of these services in terms of their legal disposition of tokens and the use of professional service providers.

Since the TVTG's entry into force on 1 October 2020, 24 companies with a wide range of roles have registered as 'trusted technology' (VT-) service providers in Liechtenstein.

In the meantime the EU Commission has published the proposal for a Regulation on markets for cryptoassets (*markets in crypto assets Regulation*, MiCAR), which lays out the path to a harmonised EEA internal market. Now that the legislative process at EU level is about to be finalised and, in order to prepare Liechtenstein VT-service providers for the new EU MiCAR framework as early as possible, the Liechtenstein government has started a consultation on adjustments to be made to the TVTG. In addition, the experience of the past two years in applying the TVTG in Liechtenstein has yielded various findings to be taken up as part of a continuous optimisation process to strengthen supervision and thus customer protection, while still ensuring efficient handling of the law for companies. Therefore, the bill also makes adjustments that reflect these experiences (for example, with reference to the optimal application of civil and supervisory regulations and the legal function of a so-called 'tokenisation label').

Liechtenstein will undertake a separate legislative procedure as soon as the final version of MiCAR is available. This will lay down special rules on the authority jurisdiction (designating the Liechtenstein NCA as the competent

authority for MiCAR). A further adaptation of the TVTG in accommodating the final MiCAR contents will also be required.

6. PENSIONS & PEPP

There were no notable developments in this area during 2022.

7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

Peer Review of the Automatic Exchange of Financial Account Information 2022

As an early adopter, Liechtenstein was one of the first countries to introduce the then-new OECD standard for transparency and exchange of information in tax matters ('Automatic Exchange of Information, AEOI') in 2016.

From 2020 to 2022, the 'Global Forum' subjected Liechtenstein - in addition to all other AEOI countries - to a peer review procedure. The 'Global Forum on Transparency and Exchange of Information for Tax Purposes', as a body of the OECD, has the task of promoting the worldwide implementation of the AEOI standard and reviewing its compliance in the respective participating countries.

Liechtenstein achieved an excellent result in the AEOI peer review - the OECD has recognised that Liechtenstein fully complies with the international OECD standard both in the implementation of the legal framework and in the effective implementation of the AEOI in practice. Consequently, Liechtenstein has received the top assessment ('in place').

The recognition of the standard-compliant implementation of the AEOI, as well as its effective implementation, is a result of the consistent implementation of Liechtenstein's financial centre strategy, to which all financial market participants in Liechtenstein are fully committed. Through an effective exchange of information, Liechtenstein makes an important contribution to combating cross-border tax crimes. The peer review report shows that this clear orientation of Liechtenstein and its financial centre is internationally recognised.

New Developments in the area of Double Tax Treaties

During 2022, two additional changes to the Liechtenstein double tax treaty network were made.

- First, on 10 November, a double taxation agreement (DTA) between Liechtenstein and Romania was signed.
- Second, the DTA between Liechtenstein and the Netherlands, signed in 2020, entered into force.

8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

There were no notable developments in this area during 2022.

9. OTHER ACTIVITIES OF THE ASSOCIATION

Publications

LAFV produces a number of publications, some intended for the exclusive use of its members and some addressed to a wider public. For LAFV members, a regulatory newsletter is provided on a quarterly basis, containing an overview of Liechtenstein as well as European regulatory developments. Alongside this another update format exists, which serves as a repository of all legal acts at European and national levels relating to the fund sector.

Steering committees and cooperation with authorities

A financial marketplace steering committee deals with European Regulation and the specific implications of the process of integrating EU law into the EEA-agreement. In this group - chaired by the Liechtenstein EEA Coordination Unit, a government agency – all financial sectors are represented. The work undertaken in this group is concerned with a more prospective look at incoming EU Regulation. It also often takes a strategic approach to the positioning of the Liechtenstein financial marketplace and the environment for market participants from the various financial sectors.

A similar steering committee is organised by the Liechtenstein tax administration. This focuses on the further development of the Liechtenstein double tax treaty network and related matters of international tax law.

LAFV holds quarterly meetings with the Liechtenstein NCA (FMA) to discuss practical questions on the implementation of regulations as well as general market developments. Other discussions have a more specific focus, sometimes in the format of a continuing exchange on certain topics.

Cross-border activities

As a cross-border marketplace, Liechtenstein stays in close contact with organisations and actors of other jurisdictions. Exchanges and meetings take place at various levels, sometimes involving representatives of a number of Liechtenstein financial sectors, sometimes focusing on the funds sector, such as events organised by LAFV.

In addition, a number of conferences organised in Liechtenstein attract a wider public from other countries – primarily German-speaking – such as the Liechtenstein Finance Forum or the Digital Finance Forum Liechtenstein.

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LUXEMBOURG COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Luxembourg (EUR billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	4,064.6	4,718.9	4,973.8	5,859.5	5,028.5
Funds domiciled abroad and promoted by national providers					
Total net assets	4,064.6	4,718.9	4,973.8	5,859.5	5,028.5

Table 2: Net Sales of Investment Funds in Luxembourg (EUR million)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	92,417.0	133,748.0	149,621.0	394,226.0	-167,942.0
Funds domiciled abroad and promoted by national providers					
Total net sales	92,417.0	133,748.0	149,621.0	394,226.0	-167,942.0

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	1,112.6	1,350.1	1,541.8	2,013.9	1,591.6
Bond funds	1,085.8	1,295.6	1,305.1	1,369.1	1,108.9
Multi-asset funds	713.7	786.2	772.1	931.7	798.7
Money market funds	316.0	342.0	387.2	419.1	414.4
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	132.4	146.9	152.2	190.7	164.2
Total	3,360.5	3,920.8	4,158.4	4,924.5	4,077.7
of which ➤ ETFs	163.4	220.8	237.5	322.8	280.2
➤ Funds of funds	122.4	136.6	142.4	177.6	153.4

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	60,987.0	-30,598.0	71,151.0	185,327.0	-73,613.0
Bond funds	-20,904.0	125,832.0	25,018.0	46,277.0	-109,857.0
Multi-asset funds	22,108.0	-289.0	-8,911.0	82,455.0	-17,384.0
Money market funds	3,556.0	9,144.0	49,924.0	12,439.0	-13,644.0
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	-4,167.0	1,198.0	2,527.0	21,203.0	-4,185.0
Total	61,580.0	105,287.0	139,709.0	347,701.0	-218,683.0
of which ➤ ETFs	30,335.0	23,796.3	17,191.3	29,616.0	1,695.1
➤ Funds of funds	-3,641.0	1,921.0	2,635.0	19,401.0	-615.0

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	63.1	78.9	77.3	87.2	72.6
Bond funds	105.8	115.3	107.8	106.0	90.3
Multi-asset funds	174.6	195.0	191.9	210.2	197.7
Money market funds	18.9	21.3	27.2	24.4	21.1
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	71.9	84.2	93.5	110.8	137.4
Other funds	269.8	303.4	317.5	396.4	431.6
Total	704.2	798.1	815.4	935.0	950.7
of which ➤ ETFs					
➤ Funds of funds	112.9	134.0	140.9	176.7	185.5
➤ Institutional funds	514.2	589.5	610.5	698.6	715.8

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	827.0	3,861.0	470.0	-1,457.0	-6,636.0
Bond funds	-2,277.0	-2,332.0	-4,919.0	-4,678.0	3,986.0
Multi-asset funds	3,388.0	4,505.0	-7,692.0	780.0	9,918.0
Money market funds	-1,290.0	1,838.0	2,373.0	-4,044.0	-3,574.0
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	12,926.0	10,293.0	8,425.0	12,389.0	20,563.0
Other funds	17,263.0	10,296.0	11,255.0	43,535.0	26,484.0
Total	30,837.0	28,461.0	9,912.0	46,525.0	50,741.0
of which ➤ ETFs					
➤ Funds of funds	4,852.0	8,944.0	756.0	23,359.0	15,666.0
➤ Institutional funds	35,748.0	29,877.0	8,266.0	42,078.0	54,145.0

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS (*)	10,328	10,364	10,163	10,142	10,130
Home-domiciled AIFs	4,570	4,444	4,427	4,303	4,192
Foreign funds registered for sales	1,609 (1)	1,677 (2)	1,850 (3)	2,110 (4)	2,390 (5)
➤ By national promoters					
➤ By foreign promoters					
Fund launches	136	130	116	107	75
Fund liquidations	272	292	251	226	190
Fund mergers & acquisitions					

(*) in terms of fund units (number of sub-funds in umbrella structures + single funds)
(1) As of March 2019
(2) As of January 2020
(3) As of March 2021
(4) As of March 2022
(5) As of March 2023

5. REGULATORY DEVELOPMENTS

5.1. UCITS/AIFMD

Marketing communications

On 31 January 2022, the CSSF issued Circular 22/795 on applying the Guidelines of the European Securities and Market Authority (ESMA) on marketing communications under Regulation (EU) 2019/1156 on facilitating cross-border distribution of collective investment undertakings ('CBDF Regulation'). This Circular, which applies to all IFMs incorporated under Luxembourg law confirms that the CSSF applies the Guidelines of ESMA on marketing communications and has integrated them into its administrative practices and regulatory approach. All investment fund managers within scope of the Circular are expected to comply with ESMA's Guidelines and provide information on marketing communications. It is up to the IFMs to assess, on the basis of the examples mentioned in the Guidelines, whether a certain message or communication addressed to investors or potential investors qualifies as

a 'marketing communication'. The CSSF confirmed its intention to perform testing to verify the compliance of IFMs with the applicable requirements under Article 4 of the CBDF Regulation and the related ESMA Guidelines.

Furthermore, on 20 September, 2022 CSSF issued an FAQ document on the cross-border distribution of funds with a focus on marketing communications. The FAQ clarifies the scope of application of the aforementioned requirements, underlining that marketing communications targeting professional investors are also subject to these rules. It also details the extent to which IFMs can be involved in preparation and validation processes of marketing communications, how they may take into account transversal or specific skills within their group or third parties in this context, and under which conditions they can delegate the preparation of such communications. It should be noted that any non-compliance with the requirements of article 4 and the ESMA Guidelines as adopted by the CSSF via Circular 22/795 is considered as a breach of article 4 of the CBDF regulation. Finally, the FAQ provides clarification on the information on marketing communications to be provided upon request by IFMs to the CSSF, including on communications related with services of discretionary portfolio management and investment advice.

New CSSF eDesk module on performance fees

On 22 September 2022, the CSSF invited Investment Fund Managers (IFMs) to declare - via a new dedicated eDesk application- the performance fee models applicable to Luxembourg UCITS or AIF that they manage. This exercise aims at ensuring compliance with the ESMA Guidelines on performance fees, in terms of proper disclosures and collecting standardised key information in relation to performance fees.
After the initial declaration and in the event of changes (such as, for example, the introduction of a performance fee for the first time after that date or changes in performance fee models), the IFM is also responsible to ensure that performance fee declarations are kept up to date.

Standardised Model Prospectus

On 17 November, CSSF released its proposal for a Standardised Model Prospectus that applicants can use when applying for a new UCITS project. The intention is to serve as a guidance and good practice in achieving reduced overall processing times. This template is designed to facilitate the drafting of a conventional prospectus for a UCITS SICAV Fund of average complexity with several sub-funds, and managed by Lux ManCo or by a ManCo in another EU Member State (in line with the freedom to provide cross-border services).

CSSF communiqué on eligible entities for the opening of cash accounts in relation to Luxembourg AIFs

On 18 October 2022, the Luxembourg supervisory authority CSSF published a communique concerning eligible entities for opening of cash accounts in relation to Luxembourg alternative investment funds (AIFs).

The CSSF reminded practitioners that all cash of an AIF has to be booked in cash accounts opened in the name of the relevant AIF, in the name of their Alternative Investment Fund Manager (AIFM) acting on behalf of the relevant AIF, or in the name of the depositary acting on behalf of the relevant AIF with an entity as specified under Article 19(7) of the Law of 12 July 2013 ('AIFM Law').

AIFs that have appointed a professional depositary of assets other than financial instruments (PDAOFI) under Article 26-1 of the Law of 5 April 1993 on the financial sector, as amended, none of the AIF's cash can be held directly by the PDAOFI itself. Only central banks, EU-authorised credit institutions and third country authorised banks (each an 'Eligible Entity') - as further clarified in Article 86(a) of the Commission Delegated Regulation (EU) 231/2013 and in points (a), (b) and (c) of Article 18(1) of the Directive 2006/73/EC to which it refers - may qualify as Eligible Entities for the purpose of holding cash accounts in the relevant market where cash accounts are required for the purposes of the AIF's operations.

In light of the above, for AIFs where an electronic money institution (EMI) or a payment institution (PI) has been appointed to hold cash accounts, the CSSF provides that their designated AIFM or the appointed depositary should analyse the cash account set-up in order to ensure that, as soon as possible and by no later than 30 June 2023:

- a depositary within the meaning of Article 19(3)(i) is appointed
- an Eligible Entity as defined above is appointed for the opening of cash accounts for such AIFs.

For the avoidance of doubt, the CSSF adds that any new AIF must ensure that the cash accounts will be held by an Eligible Entity. No new sub-funds can be set up within AIFs where the cash accounts are currently held by an EMI or a PI.

5.2. MiFID II

Circular 22/817 integrating the ESMA Guidelines on certain aspects of the MiFID II appropriateness and execution-only requirement

On 27 June 2022, the CSSF published Circular 22/817 to inform that the CSSF will apply the Guidelines of the European Securities and Markets Authority (ESMA) on certain aspects of the MiFID II appropriateness and execution-only requirements - ESMA35-43-3006 – (dated 12 April 2022) (the "Guidelines") from 12 October 2022 onwards.

The Guidelines cover the following:

- Information to clients about the purpose of the appropriateness assessment and execution-only.
- Know your client and know your product.
- Matching clients with appropriate products.
- Other related requirements.

Investment firms: third-country equivalence

On 25 July 2022, the CSSF published Regulation No 22-04 of 20 July 2022 (only available in French) amending CSSF Regulation No 20-02 of 29 June 2020 on the equivalence of certain third countries with respect to supervision and authorisation rules for the purpose of providing investment services or performing investment activities and ancillary services by third-country firms, as amended by CSSF Regulation No 20-09 of 14 December 2020.

Article 2 of the CSSF Regulation No 20-02 provides that the countries listed in its annex are considered to apply to undertakings that have their central administration or statutory seat in the respective third county a supervision and admission rules that are equivalent to the requirements of the Luxembourg law on the financial sector, as amended (Loi du 5 avril 1993 relative au secteur financier).

Both the People's Republic of China and Australia have now been added to the list of countries.

In its circular 21/783, the CSSF has transposed the ESMA Final Guidelines on the MiFID II/MiFIR obligations on market data issued on 18 August 2021 (ESMA70-156-4263). We are not aware of any specific assessment.

5.3. CSDR

The allocation of penalties to end-clients was disturbed by issues encountered upstream in the process by CSDs, as most of them are not able to assess the penalties in a streamlined manner.

Is there a single model for passing through credits/debits from CSD to custodian to Manco and perhaps individual funds?

In line with its guidance paper published in December 2021, ahead of the SDR kick-off, the ALFI preferred model is an allocation of both credits and debits at fund level.

Or do approaches vary?

We have not observed any substantial variation, and would not in any case represent a material monetary difference.

5.4. EMIR

It is too early to determine if firms are prepared for the new EMIR RTS, one year before the deadline.

The main challenge in implementing the new reporting obligations is organisational. Asset managers can upgrade an in-house reporting solution, or pay an additional fee to a reporting service provider with regard to the usage of the new reporting framework.

5.5. PRIIPs

UCITS KIID/PRIIPs KID quick fix

On 3 March 2022, the law of 25 February 2022 was published in the Luxembourg official journal (N° 82 du 3 mars 2022). It implements the 'UCITS KIID/PRIIPs KID quick fix' into national law and prepares for the application of several EU regulations concerning:

- The pan-European personal pension product.
- The supervisory and investigative powers of the CSSF and CAA for performing their functions within the limits defined by the SFDR and Taxonomy Regulation, as well as provisions on related administrative sanctions.
- The general framework for securitisation and creating a specific framework for simple, transparent and standardised (STS) securitisation to help the recovery from the COVID-19 crisis.

Updated CSSF FAQs on the UCITS KIID and PRIIPs KID

In view of the transition from the UCITS KIID to the PRIIPs KID on 1 January 2023, the CSSF published updated versions of several FAQ documents that deal with the two disclosure documents:

- FAQ on the Luxembourg Law of 17 December 2010 relating to undertakings for collective investment", version 15
- FAQ on the Luxembourg Law of 12 July 2013 on alternative investment fund managers", version 20
- FAQ on KIID, version 3
- FAQ concerning SIFs and SICARs that do not qualify as AIFs", version 5

In particular, the CSSF clarified that it would allow filings of PRIIPs KIDs replacing UCITS KIIDs by 31 January 2023 at the latest.

5.6. ELTIF

The industry welcomes the ELTIF changes.

ALFI is updating its ELTIF documents (FAQ and ELTIF Brochure).

We understand that the ELTIF review has created a large amount of interest and that managers with to launch the new ELTIF.

As regards the question on "more investment from retail investors", we know that existing Luxembourg ELTIF have been set-up for retail investors and not only for professional investors. ALFI believes that we will continue to see retail and professional ELTIFs being launched.

5.7. Sustainable finance

CSSF Communiqué on SFDR RTS confirmation letter

On 6 September 2022, the CSSF published a Communication concerning the SFDR RTS (Commission Delegated Regulation (EU) 2022/1288)) related confirmation letter, which was announced in their Communiqué of 27 July 2022. The confirmation letter should accompany the filing of a prospectus/issuing document to support the update on sustainability-related disclosures on the SFDR RTS. This letter is available on the CSSF website.
In addition, the CSSF highlights about the conditions under which practitioners may benefit from an accelerated examination and visa stamping of the prospectus, including the sequential process that must be followed.
The CSSF further informs that this accelerated examination and processing is available until 31 October 2022. Any transmission following the said process after that date can only be considered on a 'best effort' basis.
Moreover, the CSSF clarifies that prospectuses/issuing documents updated for SFDR RTS, along with other material changes to the prospectus/issuing document, must be filed through the ordinary amendments procedure and will be examined by the CSSF on a 'best effort' basis.

CSSF Communiqué on requirements according to SFDR and SFDR RTS

On 27 July 2022, the CSSF published a Communiqué to the investment fund industry on regulatory requirements for Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR) and upcoming entry into force of the SFDR Level 2 provisions (SFDR RTS; cf. also ALFI special newsflash of 25 July 2022).
The CSSF in particular highlights the deadline of 1 January 2023 for specific updates of UCITS and AIFs precontractual and periodic documents. In addition, the Communiqué contains further information on

- the filing of updated pre-contractual documents and periodic reports
- regulatory developments
- an upcoming data collection exercise.

We are not aware of any official statistics that detail how many asset managers will have to report will have now to report under the Corporate Sustainability Reporting Directive (CSRD).

SFDR

Further to the publication of the updated supervisory statement on the application of the Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR) by the three European Supervisory Authorities EBA, EIOPA and ESMA (ESAs) on 25 March 2022, the CSSF issued a related Communiqué. In line with the ESA statement, the CSSF encourages financial market participants and financial advisers to use the draft Regulatory Technical Standards (RTS) on the content, methodologies and presentation of sustainability-related disclosures as a reference for applying the provisions of art. 2a, 4, 8, 9, 10 and 11 of the SFDR and art. 5 and 6 of the Taxonomy Regulation in the interim period until RTS are adopted by the European Commission. In the ESA supervisory statement, it further details relevant application dates and outlines the supervisory expectation during the interim period to comply with art. 5 first subparagraph point (b) of the Taxonomy Regulation. The updated supervisory statement replaces the initial joint supervisory statement, which was released in February 2021.

CSSF informs about the publication of Regulation No 22-05 of 27 July 2022 amending CSSF Regulation No 10-04 of 20 December 2010 in the JO

On 29 July 2022, the CSSF notified on the publication of Regulation No 22-05 of 27 July 2022, amending CSSF Regulation No 10-04 of 20 December 2010, in the Journal Officiel du Grand-Duché de Luxembourg. The amendments relate to the implementation of the Commission Delegated Directive (EU) 2021/1270 of 21 April 2021, amending Directive 2010/43/EU as regards the sustainability risks and sustainability factors to be taken into account for UCITS.

5.8. Stewardship

ALFI updated the ALFI Code of Conduct in 2022

5.9. Benchmarks

CSSF Circular 22/796 was issued on 31 January 2022, confirming that the supervisory authority would apply the related ESMA Guidelines on the methodology, oversight function and record keeping under the Benchmarks Regulation as of 1 May 2022.

5.10. Anti-Money Laundering Directive

In February 2022, the Ministry of Justice finalised its first ML/TF vertical risk assessment on legal persons and legal arrangements, which complements the national risk assessment updated in 2020.

On 31 May 2022, the CSSF released its update of the Collective Investment Sub-Sector Risk Assessment (SSRA) published in 2020. This illustrates the understanding of the inherent risks faced by the Collective Investment Sector, the strengths and effectiveness of the current AML/CFT regime and areas where mitigating measures could be further developed. The CSSF expects the supervised entities involved in the collective investment sector to reflect the findings and conclusions in this update into their frameworks to ensure that they remain appropriate for effectively mitigating ML/FT risks.

In June 2022, the vertical risk assessment on terrorist financing - carried out under the guidance of the Ministry of Justice - was published.

On 12 August 2022, the law of 29 July 2022 entered into force, amending the Law of 12 November 2004 on the fight against money laundering and terrorist financing. It transposed Directive 2001/97/EC of the European Parliament and of the Council of 4 December 2001 amending Council Directive 91/308/EEC on prevention of the use of the financial system for the purpose of money laundering. The amendments mainly related to clarifications of the requirements, particularly in relation to the limits of the risk-based approach, documentation and record-keeping, as well as cases where enhanced due diligence must be applied. The law also slightly amended the act of 10 July 2020 establishing a Register of Fiducies and Trusts on record-keeping requirements.

Following the suspension of the public access to the Register of Beneficial Owners (RBE), made necessary due to the recent ruling of the Court of Justice of the European Union of 22 November 2022, the Ministry of Justice confirmed, on 21 December 2022, that the access to the RBE was again granted to journalists (through their professional association) and professionals as defined in Art. 2 of the amended AML Law of 2004. As for AML professionals, they have to follow the process described in Circular LBR 22/01 of 19 December 2022 available on the LBR website in order to gain access. At a later stage, persons with a legitimate interest in relation to AML will also be able to access the register.

On 20 December 2022, the CSSF published guidance on the risks of the money laundering and terrorist financing to which payment agents and electronic money distributors are exposed. This emphasises professional obligations of the AML/CFT framework and provides recommendations on how the sub-sector should act in mitigating those risks.

5.11. Digital finance

Distributed ledger technologies & blockchain

On 24 January 2022, the CSSF published a White Paper on Distributed Ledger Technologies ("DLT") & Blockchain, with a specific focus on technological risk. While the White Paper is a non-binding document, it provides guidance on the practical assessment of the risks and benefits associated with DLT applications (projects) within the financial sector.

- First, the White Paper provides key features to characterise DLT (including access rights, validation rights, consensus methods and data structure) and a roadmap of participants roles and responsibilities.
- Second, suggestions on the risk identification are provided in the form of questions to be considered addressing the different types of DLT.
- The White Paper gives detailed and concrete illustrations of the applications of DLT within the financial industry.

Bill: Blockchain III

- EU DLT Regulation was published in the Official Journal on 2 June 2022. It entered into force on 22 June 2022, with an implementation date of 23 March 2023.
- On 9 March 2023, the Parliament adopted the bill of law 8055 implementing the European DLT Pilot Regime Regulation (EU Regulation 2022/858). The four articles of the bill propose:
- Clarifying that the definition of 'financial instrument' encompasses instruments issued relying on the distributed ledger technology ('DLT'), modifying Laws of 5 April 1993 and 30 May 2018.
- Aligning the domestic definition of DLT to the one provided in the European DLT Pilot Regime Regulation.
- Establishing explicitly the possibility of DLT financial instruments entering financial collateral arrangements (modifying the Law of 5 August 2005).

5.12. Other regulatory developments

Circular 22/811 on UCI administrators

On 16 May 2022, the CSSF released the long-waited circular 22/811 on the authorisation and organisation of entities acting as UCI administrator.

This circular replaces Chapter D of Circular IML 91/75 taking into account the legislative developments, changes in technology and market evolution on the activity of UCI administration.
Regarding the scope of application, the circular mentions that UCI administration may be performed by:

- IFMs established in Luxembourg, as well as foreign IFMs carrying out the activity of UCI administrator for UCIs established in Luxembourg
- external service providers set up under the law of 5 April 1993, such as licenced credit institutions, registrar agents, client communication agents and administrative agents
- regulated Luxembourg UCIs; the latter may only act as UCI administrator for themselves; they are not allowed to offer those services to other UCIs.

On internal organisation, the circular provides particular requirements in relation to the following documentation of the processes, sufficient resources including ICT aspects, independence with the depositary, set-up and monitoring of delegation.

The circular entered into force with immediate effect. The requirement of authorisation set out in section 2.2.1 of this circular does not apply to entities already acting as UCI administrator.

A grandfathering period, in order to comply with the remaining provisions of the present circular, is granted to such entities already acting as UCI administrators at the date of entry in force of this circular until 30 June 2023.

The CSSF also issued a Communiqué drawing the attention of those entities within the scope of Circular 22/811 and, where applicable to Circular 22/806 on outsourcing arrangements to a notification template to be used as of 24 August, 2022 by such entities when delegating a critical or important task relating to UCI administration. This template replaces the previous application form "Application in case of outsourcing of administration tasks for UCI" and will no longer be available in French.

The use of such a template is required in advance of the following cases.

- Planned, new critical or important outsourcing arrangements.
- Material changes to existing critical or important outsourcing arrangements.
- Changes to outsourcing arrangements that lead to an outsourced function becoming critical or important.

The Communiqué underlines that IFMs are not in scope of Circular 22/806 when outsourcing critical or important functions other than ICT and should only fill out sections 1, 2, 3, 4.1-4.4, 5, 6.1-6.4, 7, 8, 9 and 11, of the template where applicable.

The CSSF also reminded that the prior notification should be done.

Liquidity Risk Management

On 31 March 2022, the CSSF published a FAQs entitled "Ukraine Crisis: FAQs on the application of LMTs by investment funds". The purpose of these FAQs is to provide some guidance to investment funds (UCITS and AIFs) on the different options which they may consider to deal with assets which have become illiquid/non-tradeable as a consequence of the Ukraine crisis.

On June 2022, the CSSF published a working paper co-authored with the Bank of International Settlement (BIS) entitled 'An assessment of Investment Funds' Liquidity Management Tool'. This empirical investigation relies on public and CSSF data to provide insights into liquidity risk management practices pertaining to:

(1) the active management of the portfolio, including cash and liquid assets
(2) passing costs of trading in securities due to redemptions and subscriptions to transacting investors
(3) restricting investor access to their capital under exceptional circumstances.

The horizon of the study captures the COVID-19 market turbulence and describes the use of liquidity management tools during this specific period.

6. PENSIONS & PEPP

There were no notable developments in this area during 2022.

7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

On 7 June 2022, Luxembourg signed a new double tax treaty with the United Kingdom of Great Britain and Northern Ireland. The treaty will have to be ratified before it enters into force. The treaty covers investment funds.

8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

'Woch vun de Suen'

During the week of 21-25 March 2022, ALFI joined forces with the ABBL Foundation to contribute to the 'Woch vun de Suen' ('Global Money Week'), a well-established project supported by the Ministry of Education, Children and Youth. Members of ABBL, ALFI and employees of the CSSF delivered informal training sessions for young pupils aged 10-12 in 57 schools of Luxembourg.

9. OTHER ACTIVITIES OF THE ASSOCIATION

Publications:

- A Q&A document on the reduced subscription tax for European taxonomy-compliant investment funds
- A document on interpretating and understanding the requirements for establishing the manager of funds covered by the Regulation (EU) No 345/2013 of the European Parliament and of the Council of 17 April 2013 on European venture capital funds.
- ALFI considerations on marketing and distribution and related Q&A document.
- Key Principles and Common Practices for the organisation of an independent risk function of an investment fund manager.
- Third edition of the ALFI Swing Pricing Brochure.
- New edition of Q&As on the KID for PRIIPs.
- New flyer entitled: 10 reasons for a Luxembourg special limited partnership.
- A real estate investment funds survey.

(Tele)conferences:

- ALFI EAM (March 2022).
- ALFI Global Distribution Conference (September 2022).
- ALFI Private assets Conference (November 2022).
- Tax Conference (October 2022).

Seminars:

- Expert briefing on PRIIPs (January 2022).
- AIFMD/ELTIF (March 2022).
- EET Webinar (May 2022).
- Tax Expert Briefing (June 2022).
- Risk Management Conference (June 2022).
- European Sustainable Investment Funds (June 2022) Hedge Funds and Liquid Alternatives (September 2022).
- Virtual assets (December 2022).

Videos/podcasts:

- ALFI NextGen speaks up
- Trends to watch in the distribution of funds.
- Fund flows likely to be lower, for longer.
- European Sustainable Investment Funds Study.
- Why set up your fund business in Luxembourg.

MALTA COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Malta (EUR billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	14.2	15.9	15.0	21.0	19.8
Funds domiciled abroad and promoted by national providers					
Total net assets	14.2	15.9	15.0	21.0	19.8

Table 2: Net Sales of Investment Funds in Malta (EUR million)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	2,204.6	1,080.4	-13.0	3,097.0	-229.4
Funds domiciled abroad and promoted by national providers					
Total net sales	2,204.6	1,080.4	-13.0	3,097.0	-229.4

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	0.3	0.3	0.4	0.5	0.4
Bond funds	1.1	1.4	1.2	1.5	1.2
Multi-asset funds	0.7	0.7	0.4	0.4	0.3
Money market funds	0.05	0.04			
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	0.004	0.01	0.01	0.01	0.003
Other funds	0.6	0.7	0.7	0.9	0.8
Total	2.7	3.1	2.7	3.4	2.8
of which ➤ ETFs					
➤ Funds of funds	0.01	0.01	0.01	0.02	0.02

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	53.7	21.7	41.7	52.9	2.6
Bond funds	66.3	134.6	-20.2	35.0	-102.1
Multi-asset funds	9.4	-31.4	-58.9	23.4	-58.9
Money market funds	-13.0	-9.4	-13.3		
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	1.1	0.7	-0.4	0.9	-3.2
Other funds	85.3	38.9	2.2	59.1	-10.8
Total	202.9	155.1	-48.8	171.4	-172.4
of which ➤ ETFs					
➤ Funds of funds	0.4	2.9	1.5	13.6	-3.3

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	2.2	2.3	2.2	3.4	3.1
Bond funds	0.7	0.6	0.8	1.2	1.2
Multi-asset funds	0.3	0.4	0.3	0.4	0.5
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	0.01	0.01	0.005		
Real estate funds	0.5	0.7	0.7	0.9	1.0
Other funds	7.8	8.8	8.3	11.8	11.2
Total	11.5	12.8	12.3	17.6	17.0
of which ➤ ETFs					
➤ Funds of funds	2.0	2.3	3.1	6.1	6.0
➤ Institutional funds	11.2	12.4	11.8	16.2	15.1

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	264.4	-69.7	-155.4	1,191.4	77.5
Bond funds	-10.1	-102.0	145.4	-6.5	125.4
Multi-asset funds	4.0	46.5	68.8	92.2	152.9
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	0.1	0.5	-3.2		
Real estate funds	92.5	226.1	-1.7	184.9	2.0
Other funds	1,650.8	823.8	-18.1	1,463.7	-414.8
Total	2,001.7	925.3	35.7	2,925.6	-57.0
of which ➤ ETFs					
➤ Funds of funds	323.5	908.7	59.5	1,504.4	-293.5
➤ Institutional funds	1,784.8	792.2	-48.1	2,031.8	-862.9

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS	118	106	109	117	114
Home-domiciled AIFs	569	547	476	478	443
Foreign funds registered for sales					
➤ By national promoters					
➤ By foreign promoters					
Fund launches	81	77	49	85	48
Fund liquidations	91	111	119	75	86
Fund mergers & acquisitions					

5. MARKET DEVELOPMENTS IN 2022

Malta domiciled funds registered net assets of EUR 19.8 billion in 2022, a decline of 5.6% compared on the previous year. Net assets of UCITS funds declined by 18.4%, from EUR 3.4 billion in 2021 to EUR 2.8 billion in 2022. Similarly, non-UCITS funds experienced a fall in net assets -albeit to a lesser extent - of 3.2% from EUR 17.6 billion in 2021 to EUR 17 billion in 2022. Net sales of Malta-domiciled funds dropped from net inflows of EUR 3.1 billion in 2021 to net outflows of EUR 229.4 million in 2022.

UCITS Assets and Net Sales

All types of UCITS funds saw a decline in net assets compared to the previous year. Bond funds registered the highest losses at 20.3%, from EUR 1.5 billion in 2021 to EUR 1.2 billion in 2022. Equity funds registered the second-highest fall in net assets at 17.5%, from EUR 0.5 billion in 2021 to EUR 0.4 billion in 2022.

Overall, UCITS funds registered net outflows amounting to EUR 172.4 million during 2022, compared to net inflows of EUR 171.4 million in 2021. Bond funds registered the largest net outflows - EUR 102.1 million during 2022 - compared to net inflows of EUR 35 million during 2021.

Non-UCITS Assets and Net Sales

Net assets of non-UCITS funds decreased by 3.4%, from EUR 17.6 billion in 2021 to EUR 17 billion in 2022. By the end of 2022, 'Other' non-UCITS were the predominant fund type (66%), followed by equity funds (18%) and bond funds (7%).

Non UCITS funds reported net outflows of EUR 57 million in 2022. This contrasts with the previous year, where net inflows of EUR 2.9 billion were recorded in 2021. 'Other' non-UCITS funds were the only fund strategy that experienced net outflows, of EUR 414.8 million. This counterbalanced the net inflows registered by the rest of the fund strategies.

Number of funds

The number of Malta-domiciled funds declined from 595 at the end of 2021 to 557 in 2022. As at the end of 2022, there were 114 UCITS funds and 443 non-UCITS funds. In 2022, there were 48 newly issued funds, while 86 funds were liquidated.

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

During April 2022, the Malta Financial Services Authority (MFSA) gathered responses and evidence from a number of UCITS managers through a common questionnaire and conducted further supervisory analyses through follow-up questions and thematic compliance inspections to assess whether the pricing framework of each UCITS manager is compliant with the supervisory expectations enshrined in ESMA's briefing on the supervision of costs. The MFSA suggested that UCITS management companies adopt and document a formal pricing policy and process, to allow a more transparent identification and qualification of all costs while also establishing a clear decision-making process behind the pricing process. Furthermore, the MFSA suggests that UCITS managers periodically review and monitor their costs and fees in order to ensure that no undue costs are being charged to the UCITS. The Authority also encourages efforts to have directors with adequate knowledge of issues relating to UCITS costs and fees. This includes the types of information that they may request when they review costs and fees, and the techniques available to evaluate the information that they receive.

Furthermore, UCITS Management Companies were encouraged to include expected returns to investors in the pricing of the UCITS, focusing on how costs and fees affect investor returns while taking into account the UCITS' size, risks and volatility to ensure said fees and charges do not undermine final returns. This can be done by carrying out adequate documented assessments of the specific characteristics, risk profile and target market of the UCITS in order to set its pricing.

On conflict of interests, it was noted by the NCA that the conflict of interest policy did not always include specific internal controls to mitigate conflicts of interest, including those arising from inducements, such as commissions and third-party payments. Here, the NCA highlights the importance of adequate controls through additional reviews and oversight of independent directors. Additionally, records should be kept at all times on any relevant assessments and evaluations made.

The NCA refers also to the costs and fees requirement in efficient portfolio management techniques, focusing on the reduction of risk. The NCA requested UCITS managers to provide their internal policies and procedures on such matters, in order to be able to understand how they assess and manage risks arising from such transactions. After careful consideration, the MFSA suggested that all UCITS managers cover EPM techniques in their execution policy and have sufficiently robust and comprehensive processes in place to ensure that the UCITS obtains the best possible result, in particular to any interest rates, FX forward legs and underlying EPM transactions. Processes should also be in place to ensure any costs/fees charged to the UCITS when executing such transactions are based on an arm's length transaction and in line with market prices.

The Authority shall continue its supervisory work in this area in future supervisory interactions to assess compliance of UCITS Managers with the applicable requirements and guidelines, particularly to assess whether the indicated

shortcomings and guidance provided. The Authority does not exclude the possibility of appropriate regulatory action where any significant lack of progress by UCITS managers to put in place adequate controls and governance arrangements.

AIFMD

The MFSA issued a circular informing Fund Managers of important changes in the submission of the Annex IV and Annex 5 AIFMD returns. Part of the MFSA's objective was to advance full digitalisation of information.

6.2. MiFID II

The MFSA issued a circular on the Markets in Financial Instruments Directive ("MiFID II") and Markets in Financial Instruments Regulation (MiFIR) on 28 July 2022. The purpose was to inform market participants of the opinion issued by ESMA clarifying how third-country financial entities should be classified in the weekly position reports on commodity derivatives and emission allowances derivatives under MiFID II.

The circular was addressed to investment firms, credit institutions providing investment services and/or performing investment activities and market operators, including any trading venues in which they operate.

The MFSA issued a circular on the Markets in Financial Instruments Directive (MiFID II) and MiFIR on 6 September 2022. The purpose was to inform the public of the updated ESMA Q&A document on transparency topics under MiFID and MiFIR. The intention was to promote common supervisory approaches and practices in applying MiFID II and MiFIR in relation to transparency topics.

The circular was addressed to investment firms, credit institutions providing investment services and/or performing investment activities and market operators, including any trading venues in which they operate.

The MFSA issued a circular on MiFID II and MiFIR on 7 September 2022. The purpose was to inform the public that ESMA shall maintain a Public Register whose purpose will be to inform market participants on the trading obligation for derivatives.

The circular was addressed to investment firms, credit institutions providing investment services and/or performing investment activities and market operators, including any trading venues in which they operate.

The MFSA issued a circular on the MiFID II and MiFIR on 21 December 2022. The purpose was to clarify that an investment firm acting as a single liquidity provider on a Regulated Market and/or a Multilateral Trading Facility can operate a systemic internalise but only if the two activities are fully separated.

The circular was addressed to investment firms, credit institutions providing investment services and/or performing investment activities and market operators, including any trading venues in which they operate.

No assessmentby the NCA of theGuidelines on MiFID II/MIFIR market data obligations has been carried out as yet. Although the EET template has not been used by many manufacturers/distributors, we do foresee that it will be used in the near future; however, it is naturally in the process of being implemented.

The Maltese industry fully supports the FinDatEx initiatives that operationalise regulatory-driven data exchange in standardised formats.

6.3. CSDR

Under the Malta Stock Exchange bylaws, the Malta CSD may impose penalties on the participant (typically the broker used by the custodian or sub-custodian) for settlement delays or other breaches. We are not aware of a single model having developed locally for passing on credits/debits upwards in the custody chain.

6.4. EMIR

The MFSA issued multiple circulars throughout 2022 on the EMIR Regulation. The MFSA refers to the Technical Standards that have been published in the Official Journal of the European Union, highlighting the importance of such regulation. The Authority provided various information on the new standards and new reporting obligations that need to be implemented in the next two years, to ensure that all market participants are aware of the changes which need to be in place as of 29 April 2024. Additionally, MFSA officials have also undertook supervisory inspections concerning the EMIR Regulation, identifying a number of issues. The main challenges highlighted were:

1. whether to calculate their positions in OTC derivative contracts against the clearing thresholds
2. to ensure that all entities have appropriate risk mitigation techniques in place to mitigate the risks encountered when entering into OTC derivative contracts.

6.5. PRIIPs

The MFSA issued a circular to ensure that the transitional arrangement within the PRIIP regulation is provided to retail investors for their consideration. At the end of the year, the MFSA published another circular to stakeholders to ensure all retail investors are provided with the updated PRIIP arrangements, and such KIDs are provided to the authority within an agreed delegated timeframe.

6.6. ELTIF

The ELTIF review is bound to have a positive impact on Malta as a fund domicile. The review will render ELTIFs more attractive for investors and will be facilitating the access of retail investors to long-term investment opportunities. The removal of hurdles and the expansion of the investment horizons for retail and professional investors, as well as the added protection to investors, will positively impact the attractiveness of the vehicle to investors. To date, ELTIFs have not been amongst the most-sought-after platforms within the EU, yet the aforementioned measures are likely to give it a boost.

Malta's regulatory infrastructure under the AIFMD, which comprises the fast-tracked Notified AIFs, coupled with Malta's committed strategy of establishing itself as a hub for European Green Bonds (which the ELTIF's review also places in scope), positions it as an ideal location to set up such vehicles.

The widening of the eligible asset classes is again aimed at giving ELTIFs the necessary flexibility to render it as the go-to fund structure for long term investments.

The revised ELTIF rules are expected to come into force in the first quarter of 2024. However, from the effective date of the revised ELTIF rules, scheduled for April 2023, it will be possible to opt into the new regime. Malta is gearing itself up to be at the forefront for this imminent development.

6.7. Sustainable finance

The Implementation of the Sustainable Finance Disclosure Regulation (SFDR) – following the NCA's notification on the process to be adopted and on the updating of pre contractual documentation to be in line with SFDR Regulation. Throughout 2022, the NCA published several updates on the supervision of sustainability-related disclosures and integration of sustainability risks. The overall goal is to promote common supervisory approaches and practices among NCAs and further to increase transparency for investors as well as avoiding the practice of 'greenwashing'.

The NCA also highlighted the increasing demand for sustainability-related products and the rapidly evolving legislative regimes that triggered the need to better understand those areas more prone to greenwashing risks. The NCA stems the importance of greenwashing and states that it may occur outside the domain of the current legislation. It took action on this by issuing a call for evidence to seek to collect information and potential practices on greenwashing risks and occurrences arising in the financial sector which may ultimately affect the financial services sector.

In addition, on 25 November 2022, the MFSA published a Q&A on the SFDR Delegated Regulation, providing clarifications on the disclosures on principal adverse impacts and taxonomy-alignment in precontractual documents, website information and periodic reporting. The following sections were tackled in the document published by the MFSA.

(i) PAI and Taxonomy aligned disclosures
(ii) PAI disclosures
(iii) financial product disclosures
(iv) multi-option products
(v) taxonomy alignment investment disclosure
(vi) financial advisers and execution.

On 20 December 2022, the MFSA also issued a letter outlining their expectations on the environmental, social and governance elements (ESG) requirements. According to an exercise undertaken by the MFSA, it seems that the majority of local investment funds still fall within the category of Article 6 products, with only a small proportion of the local population of investment funds being classified as Article 8 or Article 9. Moreover, the MFSA is currently conducting a desk-based examination of the disclosures made on the websites used by fund managers, and will be providing a set of high-level remarks on the findings. The MFSA will then turn its attention to product-level disclosures by adopting a risk-based approach. The Authority stresses how it expects fund managers to strive towards transitioning to a green, embracing sustainable finance and integrating this in governance, risk management and investment policies.

6.8. Stewardship

On 5 August 2022, the MFSA introduced its new cross-sectoral Corporate Governance Code ('Code') for all persons authorised by the MFSA. The purpose of the Code is to is to enhance corporate governance practices within the Maltese financial services sector.

Through the Code, the MFSA strives to reinforce governance structures by creating a culture of strong corporate governance and, in turn to enhance stakeholders trust, guide board members and practitioners in taking decisions in the best interest of all parties involved and integrate ESG into their respective strategies. The MFSAs intention is to:

(i) Set out best practices in corporate governance for those entities falling within the MFSA's regulatory remit
(ii) Enhance governance structures, improve relations, and strengthen trust with stakeholders
(iii) Ensure effective operation of authorised entities boards and management;
(iv) Assist directors and senior management in fulfilling their duties, including in advancing the growth and development of the entities they direct and manage
(v) Ensure that authorised entities have adequate, effective internal controls and procedures to discharge their responsibilities and monitor outcomes
(vi) Enhance stakeholder and public confidence in the financial services sector in general
(vii) Assist entities in putting in place improved governance standards to achieve enhanced resilience and sustainable operations in future, as well as ensuring ethical behaviour.

The Code is divided into four sections:

(i) The effective board
(ii) Internal controls
(iii) Stakeholder engagement
(iv) Corporate culture, CSR and ESG.

The Code is to be applied on a 'best efforts' basis, and shall not apply to listed entities that fall within the Capital Markets Rules.

There are no specific obstacles when exercising shareholder rights in Malta.

The Environment and Resources Authority of Malta (ERA) has put together a holistic National Strategy (NSE) 2050. This proposal has recently been launched for consultation. Over the years, Malta's natural environment has faced numerous challenges, ranging from widespread construction and natural resource exploitation to environmental degradation.

The NSE sets eight strategic goals that tackle traditional environmental facets while focusing on key environmental challenges and provides a plan for the required transformative changes. Through the proposal, the NSE's goals inter alia include attaining better air quality, zero waste and flourishing seas to encurage biodiversity.

Ban on Forced Labour

On 14 September 2022, the European Commission released a proposal for a forced labour ban, which would apply across the EU. The final version of the proposal is yet to be agreed with the European Parliament and the EU Council; once agreed there will be a two-year preparation period before the law becomes effective and begins to apply to businesses.

6.9. Benchmarks

During 2022, the Malta Financial Services Authority issued a number of circulars and consultation papers in relation to the Benchmarks Regulation. These covered various areas, namely:

- Guidelines on methodology, oversight function and record keeping requirements
- The rules for recognition under the Benchmarks Regulation
- An information gathering exercise relating to the use of benchmarks was also carried out towards the end of the year
- The Standards for benchmark administrator applications as per final ESMA publication.

The impact on the local market is yet to be seen.

6.10. Anti-Money Laundering Directive

Beneficial ownership requirements remain one of the main challenges faced by the asset management sector in Malta and, we understand, within all EU Member States. The reasons for this are multiple, including the absence of any specific provisions at EU level taking into account the particular nature of collective investment undertakings and the manner in which units in any such undertaking are held. It therefore becomes difficult for the collective investment undertaking as an obliged entity to comply with the said obligations. These difficulties are amplified for those obliged entities that are to service collective investment schemes and have themselves to comply with beneficial ownership requirements, given the absence of any public records as to who are the unit holders. While an understanding has been reached with domestic AML/CFT authorities on how to comply, which should also be reflected in guidance to the sector, there is the need for a uniform solution at EU level. The proposal put forward by the Council for collective investment undertakings set up as trusts is a step in the right direction, albeit one somewhat limited in scope as it addresses only a particular set-up and not the wider underlying issues.

The proposed enforcement mechanism advanced in the AMLA Regulation allows for an understanding of the mechanics behind any determination by its Executive Board to impose an administrative penalty and the quantum of the same. At national level, the AML/CFT authority has made information publicly available as on how it makes its determination, but this is not as detailed as that contained in the draft AMLA Regulation. We do note that the domestic AML/CFT authority has set itself a target as part of its four-year strategy to become more transparent about its own processes, and therefore we expect that more information on this will be made publicly available.

6.11. Digital finance

The impacted institutions are currently working to ensure that the implementation requirements will be completed in time, with a particular focus on how to mitigate risks for third parties, material and non-material outsourcing and enhanced security controls.

6.12. Other regulatory developments

A consultation paper was issued by the MFSA in 2022 on the Notified Professional Investor Funds. The Regulation should come into force by the end of Q2 2023. If approved, the alternative space in Malta will see a development of the PIF regime (which has been around since 2000) and which caters for demininis AIFMs (thus below threshold managers).

This is an important segment in Malta's fund industry, which has positioned itself as an ideal domicile for small- to medium-sized funds and fund managers, and who are out of scope in terms of the full impact of the AIFMD.

The Notified PIFs will provide the below-threshold operators with a fast track process for launching funds through a notification process, as opposed to a licensing procedure. This will ensure that funds may be launched within a few days of notifying the regulator.

7. PENSIONS & PEPP

Around mid-2022, MFSA issued a circular on the amendments effected on the pension rules for occupational retirement schemes, pension rules for personal retirement schemes, pension rules for service providers and the pension rules for retirement funds. This followed the issuance of a consultation document on the proposed amendments to the rules in the Retirement Pensions Act.

With respect to the pan-European Personal Pension Product Regulation, MFSA issued a Circular on the implementation of Regulation that came into force in March 2022. The purpose of this notify the market on the salient features of this Regulation and to gauge market interest in distributing or manufacturing the pan-European Personal Product. This product targets the younger generation and mobile workers and will help facilitate the right of EU citizens to live and work across the Union.

Meanwhile, the regulator issued yet another circular on the implementation of Regulation on Pan-European Personal Pension Product (PEPP), informing the local market of the changes amending the Regulations. New fees were introduced. MFSA also provided information on the pre-application process, and the conditions for to the accumulation and decumulation phase.

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

There have been no major tax developments in the areas mentioned in 2022. However, in November 2022, Malta enacted Transfer Pricing Rules regulating cross-border transactions between associated enterprises. The rules apply for arrangements entered into on or after 1 January 2024, and for those arrangements entered into before that date but that are materially altered after that date

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

For the second consecutive year, the Malta Financial Services Authority took part in the annual World Investor Week, which was organised by the International Organisation of Securities Commissions (IOSCO). Emily Benson, the MFSA's Head of Conduct Supervision, commented that they are again taking part in such a campaign to raise awareness on investor protection and financial literacy. This year's campaign focused on investor resilience and sustainable finance, complementing previous IOSCO World Investor Week editions that addressed fraud and scam prevention, as well as crypto asset investments. Through the campaign, the MFSA's aimed to make investors aware of the types and level of risk associated with particular investments or asset class, and how these can be mitigated through diversification.

The MFSA referred to the benefits of implementing an effective budgeting strategy, which can help manage any unexpected shocks and risks, such as the market volatility brought about by the war in Ukraine or the outbreak of COVID-19. Such events require adequate emergency funds. A crucial part of improving investor resilience

entails conducting sufficient research before taking a financial decision, taking into account factors such as the environmental and social impact of the business model or activities of the investment they are considering.

In line with the MFSA's commitment to protect and educate consumers of the financial services sector, the MFSA conducted an information campaign on insurance-based investment products (IBIP). The campaign was aimed to provide consumers with essential information on how these products work and what they should look out for before investing in these products.

Through a series of explainer videos on its website and social media feeds, the MFSA introduced the different types of IBIPs available, as well as the tools at their disposal to help take informed decisions, one of these being the Key Information Document (KID). The Authority also carried out inspections at insurance companies that construct IBIPs, focusing on their product oversight and governance arrangements, particularly when it comes to establishing the target market for each of their products and their monitoring of whether they were sold to that market.

The MFSA remains committed to its mission of ensuring that consumers participating in the financial markets can make informed decisions and are adequately protected.

10. OTHER ACTIVITIES OF THE ASSOCIATION

During FY 2022, MASA continued discussion with the Financial Intelligence Analysis Unit, MFSA and the Malta Business registry to address issues impacting its members. Areas covered include new regulatory regimes, discussions in relation to licensing procedures, AML-related guidance and regulations and UBO reporting for funds. MASA also organises seminars - as required by the industry - including on fund operations.

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NETHERLANDS COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Netherlands (EUR billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	827.5	947.5	998.7	1,036.1	773.0
Funds domiciled abroad and promoted by national providers					
Total net assets	827.5	947.5	998.7	1,036.1	773.0

Table 2: Net Sales of Investment Funds in Netherlands (EUR million)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	-20,414.0	-34,882.0	10,242.0	-156,716.0	-181,337.6
Funds domiciled abroad and promoted by national providers					
Total net sales	-20,414.0	-34,882.0	10,242.0	-156,716.0	-181,337.6

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	20.5	28.2	23.9	32.0	48.7
Bond funds	10.9	11.0	10.3	8.7	18.5
Multi-asset funds	2.2	4.0	4.8	6.4	0.3
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	0.1	0.1	0.8	0.7	3.4
Total	33.8	43.2	39.7	47.8	70.9
of which ➤ ETFs	1.7	1.8	0.8	1.7	1.4
➤ Funds of funds	1.6	1.9	2.0	2.1	

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	479.0	957.0	-5,158.0	70.0	-2,560.2
Bond funds	-2,791.0	-1,247.0	-991.0	-1,342.0	2,197.4
Multi-asset funds	170.0	1,181.0	466.0	1,198.0	50.1
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	-2.0	366.0	435.0	242.0	240.9
Total	-2,144.0	1,257.0	-5,248.0	168.0	-71.7
of which ➤ ETFs	403.0	-171.0	-727.0	325.0	76.0
➤ Funds of funds	-156.0	-39.0	-26.0	-113.0	

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	291.1	364.3	386.8	417.2	184.9
Bond funds	214.8	190.1	175.4	135.1	84.3
Multi-asset funds	14.5	21.5	40.0	48.8	50.4
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	113.0	129.1	126.0	136.9	122.8
Other funds	160.4	199.3	230.9	250.2	259.7
Total	793.8	904.3	959.1	988.3	702.1
of which ➤ ETFs	0.1	0.3			
➤ Funds of funds	147.4	183.1	203.9	264.6	
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	-13,258.0	-7,114.0	-5,522.0	-70,025.0	-164,874.8
Bond funds	-5,327.0	-44,099.0	-13,973.0	-55,093.0	-21,682.8
Multi-asset funds	-407.0	1,375.0	16,023.0	1,907.0	8,676.3
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	1,220.0	-792.0	7,967.0	-15,410.0	-12,466.3
Other funds	-498.0	14,491.0	10,995.0	-18,263.0	9,081.7
Total	-18,270.0	-36,139.0	15,490.0	-156,884.0	-181,265.8
of which ➤ ETFs	23.0	154.0	-170.0	21.0	
➤ Funds of funds	-6,724.0	5,428.0	5,061.0	9,708.0	
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS	94	93	93	82	102
Home-domiciled AIFs	1,618	1,655	1,666	1,418	1,509
Foreign funds registered for sales					
➤ By national promoters					
➤ By foreign promoters					
Fund launches	102	176			
Fund liquidations	189	158			
Fund mergers & acquisitions					

5. REGULATORY DEVELOPMENTS

5.1. UCITS and AIFMD

In 2022, no changes to the implementation of the UCITS Directive and AIFMD have taken place. Developments regarding the AIFMD/UCITS Directive review are being closely monitored. In particular, the provisions on Loan Originating Funds (LOFs) as proposed by the European Commission (EC) warrant extra attention, as they could have a disastrous impact on Dutch micro-finance and green funds. As these are the funds that are (already) implementing the most important Capital Markets Union (CMU) and Sustainable Finance objectives, and have already been doing so for some years, the EC's proposal could prove highly counterproductive.

5.2. MiFID II

MiFID quick fix

In the Netherlands, the MiFID quick fix that supposed to enter into force in February 2022, has not yet been transposed into national legislation. A legislative proposal relating to the implementation of the MiFID quick fix (Implementatiewet richtlijn herstelpakket beleggingsondernemingen) was submitted to the parliament (Tweede Kamer) in July 2022, approved in February 2023, but is yet to be adopted by the Senate (Eerste Kamer).

PFOF

In 2022, the AFM issued in March a report on 'Assessing the quality of executions on trading venues: The 'Comparative Pricing Model''. This related to the debate on the risks and presumed benefits of the practice of Payment For Order Flow (PFOF). The AFM developed a method, the Comparative Pricing Model, which provides better insight into the impact of PFOF. The results of the AFM's analysis showed "that the PFOF trading venues structurally offered worse execution prices compared to real transactions happening at a similar time on multiple other trading venues". Whilst ESMA warned about these risks, in the Netherlands PFOF is currently prohibited.

Implementation of MiFID sustainability preferences

In the Netherlands in August, the EU legislation implementing MiFID sustainability preferences into the advisory and portfolio management services entered into force. Since then, in the Dutch market the EET (European ESG Template) has played an important role in the overall distribution and disclosure processes. However, due to the lack of ESG data, the majority of EETs could not fully be completed.

5.3. CSDR

There were no notable developments in this area during 2022.

5.4. EMIR

There were no notable developments in this area during 2022.

5.5. PRIIPs

Asset managers active in the Dutch market prepared for PRIIPs implementation on 1 January 2023. The exemption for UCITS funds managers to make available a PRIIPs KID expired 31 December 2022. This also applies to AIFM fund managers that offer their funds to retail investors, but were not yet subject to the PRIIPs KID obligation. For the Dutch market, the transition to the PRIIPs KID by UCITS fund managers was implemented without any significant issues. Almost every asset manager published their new PRIIPs KIDs on their website by 1 January 2023. As per that date PRIIPs KIDs have not always been made available by asset managers via the appropriate distribution channels. However, this had been solved by the beginning of 2023.

5.6. ELTIF

Currently, there are no ELTIFs active in the Netherlands, mostly due to the possibilities of creating funds under existing regulation. We therefore anticipate that the ELTIF review may have no effect on investments in ELTIFs from retail investors.

5.7. Sustainable finance

In 2022, sustainable finance remained an important focus area. This included all developments and consultations arising from the EU Sustainable Finance Action Plan and developments in reporting frameworks and other national initiatives.

SFDR

Throughout 2022, the Dutch market prepared the Sustainable Finance Disclosure Regulation (SFDR) level 2 disclosures with the implementation date of 1 January 2023 on the horizon. Where necessary, fund classification and strategies were adjusted to comply with new SFDR interpretations and prudently handle regulatory uncertainty. The AFM also published a follow-up report on the level 1 implementation in November 2022: 'SFDR in de praktijk: blijvende aandacht nodig'. This showed that Dutch asset managers have further improved the transparency of their products' sustainability characteristics compared to 2021. AFM notes that there is room for improving the quality of disclosed information on the integration of sustainability risks in investment processes and remuneration policies. The report also highlights the reclassification of funds and that due to a lack of data, the vast majority of funds do not have taxonomy-aligned investments.

Dutch Climate Commitment financial sector

In summer 2019, over 50 financial institutions within the Dutch financial sector (banking, pension funds, insurers and asset managers) agreed to commit to the goals for the reduction of CO_2 emissions, as formulated in the Dutch Climate Commitment for the financial sector. In line with this commitment, the sector will report on the climate impact of financing and investments as of 2020, and the sector has published their action plans in 2022. The sector thus contributes to achieving the Paris climate objectives. In the commitment, DUFAS explained how asset managers will help realise the climate goals.

- Asset managers support their clients in achieving their ambitions and commitments on climate impact by actively engaging with them, by using our knowledge and by making proposals for how investments can contribute to implementing the National Climate Agreement.
- Asset managers help clients with reports on their investments, which make the climate impact transparent and measurable on the basis of global or European standards. These standards need to be developed; the Dutch asset manager sector, as a global leader in the field of ESG integration, sees a key role for itself.
- Asset managers work on investment strategies for clients that contribute to the goals of the National Climate Agreement.

A second progress report prepared and facilitated by KPMG, working as an independent expert, was finalised by the end of 2022 and submitted to the Dutch Minister of Finance, who then offered this to the Dutch Parliament (Tweede kamer) in connection with reporting on the Climate Commitment. The report shows that the Dutch financial sector has taken clear steps to put the agreements from the Climate Commitment into practice. The framework aims to steer, report and monitor the climate impact of the financial sector. In particular, it sets out to gain better insight into CO2 emissions. Insight into these was intended to improve in the second progress report, as a consequence of the publication of the 'Guidance note on relevant financing, investments and action plans' established and published by the trade associations - including DUFAS - in October 2022. This Guidance note aims to address reporting differences between the signatories to the Climate Commitment on the relevant assets. In 2022, all signatories delivered their action plans, as agreed in the Climate Commitment. For further information visit: www.klimaatcommitment.nl

CSRD

The CSRD covers large listed and private companies as well as listed SMEs. The majority of Dutch asset managers are part of larger corporate groups that will be covered by CSRD.

5.8. Stewardship

Dutch CSDDD

On 1 November 2022, a coalition of Dutch members of parliament resubmitted the proposal: 'Wet verantwoord en duurzaam international ondernemen'. This legislation would cover similar topics to the EC proposal for a Corporate Sustainability Due Diligence Directive (CSDDD) and replace the proposed Child Labour Due Diligence Law. The requirements would be applicable to Dutch and international companies operating in the Netherlands, but are not harmonised with the CSDDD, which are currently being discussed by the European Council and European Parliament.

DUFAS Code Vermogensbeheer

In January 2022, the Board of DUFAS decided to abolish the 'Code Vermogensbeheerders' due to the limited relevance of the Code. Until that point, DUFAS had maintained the code of conduct entitled 'Code Vermogensbeheerders'. Following the financial crisis in 2008, the DUFAS Asset Manager Code was one of the concrete action points undertaken by the asset management industry to help restore public trust in the sector. The Code was designed to achieve this both by its content (clear principles presented in easy-to-understand language) and by its meaning (a quality mark for the conduct of prudent asset managers). In recent years, most of the elements of the Code had already been implemented in legislation. This resulted in limited added value of the Code.

5.9. Benchmarks

There were no notable developments in this area during 2022.

5.10. Anti-Money Laundering Directive

UBO registration for trusts and similar legal arrangements

At the end of 2021, the implementation act on the registration of ultimate beneficial owners (UBOs) of trusts and similar legal arrangements ('Implementatiewet registratie uiteindelijk belanghebbenden van trusts en soortgelijke juridische constructies') was adopted and published. Based on this act, the UBOs of trusts and similar legal entities must be entered in a UBO register maintained by the Dutch Chamber of Commerce. These 'similar legal constructions' include participants in investment funds for joint accounts ('fonds voor gemene rekening' – FGR).
After much discussion over the level playing field with funds not structured as a FGR, the implementation decree was published on 2 May 2022. This contains provisions for the implementation that are important for FGRs and the registration of their participants. The manager, legal owner and the participants of a FGR at minimum must be registered as an UBO. If the FGR is offered to at least 150 participants and is managed by a manager with a license, the group of participants can be registered, rather than all individual participants.

Accessibility UBO register

On 22 November, the European Court of Justice issued a ruling on the UBO register. The Court concluded that the provision in the fifth European Anti-Money Laundering Directive, which requires Member States to ensure that information on UBOs of entities is publicly accessible in all cases, is invalid.

On the same day, the Dutch Minister of Finance informed the House of Representatives that the Chamber of Commerce (which maintains the UBO register) has been asked to temporarily stop providing information from the register. The Minister has also made clear that the ruling does not affect the obligation for legal entities to register UBOs. In 2023, there will be greater clarity provided over access to the UBO register.

Plan of action to prevent money laundering

In October 2022, the Dutch legislative proposal on the plan of action to prevent money laundering (Wetsvoorstel plan van aanpak witwassen) was published. This I aims to improve the approach to money laundering and should lead to a better and more complete overview of criminal money flows. It contains three main measures. The first concerns a ban on cash payments from 3000 EUR. The second makes it easier for banks - which have a legal obligation to monitor transactions - to exchange data. The third ensures that financial institutions can share information when their clients show signs of integrity risks.

The legislative proposal has been widely criticised, in particular by the Dutch privacy regulator, who fears that the law could lead to mass surveillance and possible discrimination.

5.11. Digital finance

DORA

In 2022 there were no significant national regulatory developments related to DORA. Of course, 2022 was the year when the trialogue between the European Parliament and the Council began (25 January 2022) and the one in which a provisional agreement was reached. The sector is busy preparing for DORA.

Data mobility

In September, the supervisory authorities De Nederlandsche Bank (DNB) and the Netherlands Financial Markets Authority (AFM) published a discussion paper containing a preliminary policy vision for data mobility in the financial sector. It concluded that a broader ability to share data can provide benefits, but should be combined with enhanced focus on the privacy and interests of data holders, including a greater responsibility on data users to consider data holders' interests. Stakeholders were invited to respond to this preliminary policy vision.

5.12. Other regulatory developments

In The Netherlands, there were no other new regulatory developments with a direct or indirect impact on the fund and/or asset management.

6. PENSIONS & PEPP

The Netherlands has built up considerable expertise in retirement provisions since 1948, when state, industry and corporate pension schemes were first introduced. The Dutch pension schemes are among the largest in the world, investing worldwide and deploying a wide range of modern investment techniques. The Dutch skills in the area of retirement provisions include services on solvency and fiduciary management, liability-driven investments, asset-liability matching, actuarial techniques, pension scheme management, administration and pension communication. In 2020, the government, employee- and employer organisations have, after long negotiations, agreed to adapt the pension scheme. The new pension contract should be less complex and more transparent. The changes will be implemented by the Future Pensions Act (Wet toekomst pensioenen - Wtp). The Wtp was adopted by the Dutch parliament (Tweede Kamer) on 22 December 2022. The new rules are intended to take effect on 1 July 2023. The social partners (employers' associations and trade unions) and pension providers will have until 1 January 2027 to adjust their schemes. It is a very large (administrative) transition for most pension funds and most of them expect to require the full implementation period until 2027.

7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

The Netherlands has a highly developed tax climate, which is attractive to both Dutch and foreign companies and investment vehicles. The advantages are:

- An extensive network of bilateral tax treaties all over the world with all major countries.
- A corporate tax rate of 15.0%-25.8% in 2022.
- In general, a tax credit or exemption applies for foreign withholding tax (interest, dividends, royalties).
- Tax exemption for (in)direct holdings of 5% or more in active companies, meaning that any profits, losses, dividends and stock price gains can, in general, be received without Dutch withholding tax.
- Tax neutral fund solutions: *Fiscale beleggingsinstelling* (FBI), the premium pension institution (PPI) and the *Vrijgestelde Beleggingsinstelling* (VBI).
- Tax incentives for foreign employees (30% arrangement).

The Corporate Income Tax Act (*Wet op de vennootschapsbelasting 1969*) has two special regulations for investment institutions, one for the fiscal investment institution (FBI) and one for the exempt investment institution (VBI). The aim of these schemes is to facilitate collective investment by avoiding additional taxation compared to a direct investment.

In 2022, the Ministry of Finance commissioned SEO economic research to investigate the extent to which the FBI regime and the VBI regime are effective and efficient. Effectiveness is the extent to which the policy objective is achieved, while efficiency is the extent to which the intended effect is achieved at the lowest possible cost and undesirable effects.

The results of the evaluation of the regulations for the FBI and VBI have been shared in a letter with the Dutch parliament (*Tweede Kamer*). This letter already introduced various lines of thought for amendments to the legislation, which will be further elaborated and publicly consulted in 2023. For example, the letter states that the VBI regime will be reduced, with the aim of limiting the VBI regime to investment institutions that have a license and are subject to AFM and DNB supervision. The VBI regime will therefore no longer be available for wealthy individuals and families.

8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

There were no notable developments in this area during 2022.

9. OTHER ACTIVITIES OF THE ASSOCIATION

DUFAS is in close contact with the government, mainly the Ministry of Finance, supervisors and the regulators - DNB and AFM in particular. The topics of discussion vary from technical implementation to the (international) positioning of the Dutch investment industry.

Via committees, expert groups, regulatory update calls, newsletters, conferences, webinars, LinkedIn and our website, DUFAS keeps its members informed on all relevant developments in the asset management industry.

In 2022, the association organised numerous webinars both for and with members. Topics were mainly focused on sustainable finance. DUFAS organised a webinar on CSRD together with KPMG and a webinar with EY on sustainable investing from a MiFID angle. In anticipation of the SFDR level 2 implementation, together with Solutional and Sustainalytics, DUFAS organized a hands-on SFDR seminar on the completion of level 2 templates. DUFAS also set up events on specific fund regulation topics, such as the Cross-border Distribution of Funds webinar and the FGR event 'What's going on and what's up next?' on investment funds set up as a fund for a joint account. Both were organised jointly with Loyens & Loeff.

NORWAY COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Norway (EUR billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	113.5	134.6	142.6	181.1	157.9
Funds domiciled abroad and promoted by national providers	22.0	24.0	28.0	35.0	40.0
Total net assets	135.5	158.6	170.6	216.1	197.9

Table 2: Net Sales of Investment Funds in Norway (EUR million)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	3,308.9	4,789.6	5,022.6	13,737.3	361.1
Funds domiciled abroad and promoted by national providers					
Total net sales	3,308.9	4,789.6	5,022.6	13,737.3	361.1

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	56.0	68.7	74.1	103.8	90.3
Bond funds	39.3	46.5	49.0	53.1	46.1
Multi-asset funds	6.5	7.9	7.8	9.7	8.3
Money market funds	10.5	10.5	10.6	13.0	12.0
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	1.1	1.1	1.1	1.5	1.2
Total	113.5	134.6	142.6	181.1	157.9
of which ➤ ETFs					
➤ Funds of funds					

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	941.3	-27.5	1,314.2	7,932.8	2,027.4
Bond funds	1,845.8	4,910.6	3,013.9	3,080.4	-911.4
Multi-asset funds	-55.1	86.2	-32.1	627.9	-374.5
Money market funds	570.9	-158.2	766.2	1,925.8	-421.3
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	6.0	-21.5	-39.6	170.5	40.8
Total	3,308.9	4,789.6	5,022.6	13,737.3	361.1
of which ➤ ETFs					
➤ Funds of funds					

3. TRENDS IN THE NUMBER OF FUNDS

Table 5: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS	865	1,047	836	836	836
Home-domiciled AIFs					
Foreign funds registered for sales	1,100	1,100	1,100	1,100	1,100
➤ By national promoters					
➤ By foreign promoters					
Fund launches					
Fund liquidations					
Fund mergers & acquisitions					

4. MARKET DEVELOPMENTS IN 2022

After several years of high net sales, the figures of 2022 turned out the lowest yearly net sales since the financial crisis of 2008. Net sales in equity funds were positive, but the overall figures were slowed by negative numbers in the net sales of fixed income funds. This was primarily as a result of the activity in the institutional part of the market, which showed negative figures for net sales both in equity and fixed income funds in 2022.

Global financial markets were down in 2022, something mirrored by AuM In Norway. Total AuM for home-domiciled funds fell from EUR billion 181.1 to EUR 157.9 billion during 2022. This was mainly as a result of the decline in the financial markets, but also due to low net sales figures in 2022.

5. REGULATORY DEVELOPMENTS

5.1. UCITS/AIFMD

The Norwegian association has been discussing fee rebate arrangements with the Financial Supervisory Authority (FSA) of Norway (Finanstilsynet). The backdrop for this dialogue is the European Commission's statement of November 2021 on this topic in ESMAs Q&A about UCITS. The updated Q&A sparked debate with the FSA over the opportunity space for such agreements, as the Commission's statement leaves room for such agreements, provided that certain conditions are satisfied. The Norwegian FSA finally concluded, in February 2023, that side letters with institutional investors that imply that a fund management company pays fees from its own resources is not permittable for a Norwegian fund management company, due to constraints in the Norwegian Investment fund act. In its final response to the association, the FSA refers to the use of share classes as the sole solution should a

fund management company wants to differentiate the management fee for different groups of investors. After the FSA announced its supervisory practice, Norwegian asset managers have established several new share classes in 2022 and 2023. Several management companies started this process in 2022.

There are no new regulatory developments to report for 2022 related to AIFMD.

There are no new national developments to report for 2022 related to the Commission's proposed revision of the AIFMD/UCITS Directive

Loan origination by AIFs are not regulated in Norwegian applicable law.

5.2. MiFID II

The Norwegian FSA has adopted a strict interpretation of the MiFID II inducement rules when it comes to the provision of quality enhancement services and "proportionality". For this reason, over the last couple of years MiFID II has had a significant impact on business models for fund distribution in Norway. According to a survey conducted by the Norwegian FSA in 2021, around 70 percent of Norwegian distributors had changed or adapted their business models following the introduction of MiFID II. Passing commissions on to the end investor, while at the same time charging the end investor a platform fee, has become the most widespread business model for distributors in Norway. Also, we note that clean share classes have become more widespread in Norway.

This 'new', and by now widespread, business model in Norway, which implies charging the retail client a platform fee for distribution and at the same time passing on the commission to the same client, has not gone unnoticed by the FSA. The FSA claims that this approach makes it "very difficult" for retail clients to compare prices between distributors and makes the funds market less transparent. In August 2022, the Ministry of Finance launched a public consultation on a proposal for a ban on commissions in Norway. In particular, the proposal particularly aims at making the market for investment products more transparent for retail investments. The proposed ban covers the provision of all MIFID-investment services (even 'execution only' services) offered to non-professional investors located in Norway. The proposal also implies a ban for fund management companies paying commissions to distributors in relation to the marketing and sales of investment funds to non-professional clients located in Norway. The consultation closed on 18 November 2022. It has received mixed reactions from Norwegian financial market participants.

The Norwegian FSA published the guidelines on its website on 13 October 2021, together with a statement stating that it expects companies to comply with the guidelines. We do not know of any assessment made by the FSA on the level of compliance.

The EMT and EET have been distributed in Norway. EMTs are distributed by Norwegian Fund Management companies, but we are unsure of the importance of the EET.

5.3. CSDR

The introduction of penalties has proceeded quite smoothly in Norway, although custodians and depositaries did report some minor operational issues in the initial phase, shortly after February 2022. Generally, penalties are reported as being small, often almost negligible amounts. Allegedly, penalties have come to appear more seldom since their introduction, suggesting that they may have a positive effect on failed trades. We believe that models for passing on the penalties from depositaries to funds vary somewhat between service providers. Fund management companies in Norway report that they receive a (small) net income from penalties, as one might expect.

5.4. EMIR

National implementation of EMIR is lagging the EU, due to the fact that Norway is still awaits incorporation of the EMIR Refit into the EEA agreement. However, member companies affected by EMIR have begun preparing for the new reporting requirements.

The MiFID II sustainability rules on investment advice and product governance (target market) both came into force in Norway on 5 January 2023, making it premature to comment on any trends. However, the association produced statistics as of 31 December 2022 showing that 65% of total assets under management by Norwegian asset managers are in funds that promote environmental or social characteristics with reference to article 8 of SFDR. Meanwhile, some 4% cent of total assets under management are funds that have sustainable investments as its objective, with reference to article 9 of SFDR.

5.5. PRIIPs

PRIIPs is still awaiting national implementation, but Norwegian implementation is expected in 2023. The Norwegian Fund and Asset Management association has prepared guidelines for the preparation of PRIIPs KID for our members. Most Norwegian fund management companies are prepared for PRIIPs, as many of them already distribute funds in the EU and thus have to comply with the new KID.

5.6. ELTIF

ELTIF came into force in Norway on 1 January 2023 and, to our knowledge, ELTIFs have yet to be established in Norway. We are optimistic that the ELTIF review will have a positive impact on both the offer and uptake of ELTIFs.

5.7. Sustainable finance

The SFDR level 1 came into force in Norway on 1 January 2023, although the level 2 rules have not yet come into force. The Norwegian FSA has encouraged financial market participants to report according to the level 2 provisions when fulfilling the reporting obligations in SFDR level 1.

We estimate that around one to three Norwegian asset managers - part of a larger financial group - will have to report under CSRD on the various implementation dates for the differing categories of undertakings within the scope of the reporting obligation.

5.8. Stewardship

There were no notable developments in this area during 2022.

5.9. Benchmarks

Following implementation of Regulation (EU) 2016/1368, the Norwegian Interbank Offered Rate (NIBOR) was added to the list of critical benchmarks used in financial markets established pursuant to Regulation (EU) 2016/1011. NIBOR is administrated by NoRe, which is authorised by the Norwegian Financial Supervisory Authority, pursuant to Article 34 of the BMR, and is as such included in the register ESMA publishes in accordance with Article 36 of the BMR.

Nowa (Norwegian Overnight Weighted Average) has been established as an alternative interest rate benchmark. Nowa is administered by the Central Bank of Norway (Norges Bank) and has so far mainly been used as a fall back to NIBOR.

5.10. Anti-Money Laundering Directive

The Norwegian Financial Supervisory Authority published new guidelines on the Norwegian AML regulation in November 2022, replacing its previous 2019 guidelines.

5.11. Digital finance

There were no notable developments in this area during 2022.

5.12. Other regulatory developments

There were no notable developments in this area during 2022.

6. PENSIONS & PEPP

There were no notable developments in this area during 2022.

7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

In 2022, the government increased the effective tax rate on equity gains and dividend income from 35.2% to 37.84% The effective rate for interest income remains at 22.0%. The new rates will come into effect for the income/fiscal year 2023.

8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

We are unaware of any new national public initiatives.

The association has co-sponsored the production of a series of eight short documentaries. These explain, in a simple context, how the financial markets work and what role they play in the economy. The documentaries explain how and why companies raise capital through share issues (IPOs) and bond issues, the role of a well-functioning second-hand market (what is a stock exchange?),and how retail investors can participate in the capital market and benefit from this participation via, for example, investment funds. The short documentaries mainly target high school and university level students and seek to reach all high schools in Norway. The documentaries will be published during 2023.

The association is continuing with its website named 'Den lille fondshåndboken' ('The little handbook for mutual funds investing '), which is a retail investor-oriented handbook on how to get started with long-term investing in mutual funds. The handbook covers a broad range of topics such as 'What is a mutual fund', types of funds, risk, return, costs, tax, and recommended holding periods.

9. OTHER ACTIVITIES OF THE ASSOCIATION

In 2022 the association published:

- 30 newsletters for members only
- 16 newsletters – available to anyone with an interest in funds
- quarterly reports on the association's activities (for members only)
- four factsheets on different surveys and research, such as regular savings plans, geographical survey, half-yearly and yearly market statistics
- monthly statistics on fund flows and statistics for Individual Pension Savings (IPS) and Equity Investment Accounts (ASK)
- a gender survey on the proportion of women and men among employees in the member companies
- the yearly survey on investment funds and investment behaviour, expectations and motivations for saving for Norwegian households.

In 2022, the association arranged the following seminars and conferences:

- A course for new employees in fund management companies.
- A webinar focusing on marketing rules for funds, with a particular focus on sustainability.
- In March 2022, the association arranged its annual Investment funds conference, attended by nearly 300 participants from the funds industry.
- In October 2022, the association held its annual seminar on compliance and risk, attended by 80 participants.

POLAND COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Poland (EUR billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	59.7	63.0	61.5	65.6	56.8
Funds domiciled abroad and promoted by national providers					
Total net assets	59.7	63.0	61.5	65.6	56.8

Table 2: Net Sales of Investment Funds in Poland (EUR million)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	-2,797.0	-129.7	78.0	2,210.4	-4,936.1
Funds domiciled abroad and promoted by national providers					
Total net sales	-2,797.0	-129.7	78.0	2,210.4	-4,936.1

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	4.7	5.0	4.8	6.6	4.8
Bond funds	5.4	18.9	18.0	15.9	12.2
Multi-asset funds	4.1	4.0	4.0	4.6	3.3
Money market funds	10.9				
Guaranteed/protected funds	0.04				
Absolute Return Innovative Strategies (ARIS) funds	0.1	0.04	0.04	0.03	0.02
Other funds	0.1	0.2	0.1	0.2	0.2
Total	25.5	28.1	27.0	27.3	20.5
of which ➤ ETFs					
➤ Funds of funds	0.1	0.7	0.5	0.7	0.5

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	-547.0	-477.6	-192.0	912.3	-388.4
Bond funds	-76.4	1,529.8	7.1	-1,447.9	-3,045.4
Multi-asset funds	-426.1	-370.0	45.4	482.8	-671.1
Money market funds	2,339.1				
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	-186.0	-31.9	4.5	-8.7	-1.4
Other funds	-15.9	8.1	48.8	97.7	12.5
Total	1,087.8	658.4	-86.2	36.1	-4,093.8
of which ➤ ETFs					
➤ Funds of funds	-36.5	9.5	-21.3	72.3	-101.7

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	1.4	1.0	1.3	2.1	1.5
Bond funds	5.0	7.7	6.7	6.2	5.5
Multi-asset funds	2.6	2.9	3.6	5.1	5.6
Money market funds	2.6				
Guaranteed/protected funds	0.4	0.04	0.04	0.03	0.01
Absolute Return Innovative Strategies (ARIS) funds	1.5	1.3	1.1	1.4	1.0
Real estate funds	0.5	0.5	0.5	0.1	0.1
Other funds	20.3	21.4	21.3	23.5	22.7
Total	34.2	34.8	34.5	38.3	36.4
of which ➤ ETFs					
➤ Funds of funds	1.0	1.5	1.8	2.8	2.1
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	-282.6	-69.9	113.4	649.6	-165.3
Bond funds	-525.3	-102.2	-616.5	-317.5	-1,283.4
Multi-asset funds	34.2	56.0	737.9	1,611.9	990.8
Money market funds	711.3				
Guaranteed/protected funds		-5.0	-2.8	-2.6	-21.3
Absolute Return Innovative Strategies (ARIS) funds	-817.7	-343.9	-36.8	190.1	-229.6
Real estate funds	-34.3	-67.8	-28.4	-8.6	-3.2
Other funds	-2,970.4	-255.3	-2.7	51.2	-134.2
Total	-3,884.8	-788.1	164.2	2,174.2	-846.3
of which ➤ ETFs					
➤ Funds of funds	-223.9	-10.3	277.9	968.7	-395.5
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS	318	340	302	303	273
Home-domiciled AIFs	727	767	813	818	776
Foreign funds registered for sales					
➤ By national promoters					
➤ By foreign promoters					
Fund launches	87	166	126	65	28
Fund liquidations	118	100	148	54	74
Fund mergers & acquisitions					

5. MARKET DEVELOPMENTS IN 2022

In 2022, the AUM of domestic investment funds in Poland decreased by 12% (in local currency), and their value at the end-of-year was EUR 56.79 billion.

The net asset value of the funds fell by EUR 7.7 billion, of which EUR 4.9 billion was attributable to negative net sales.

On an annual basis, EUR 4.3 billion was withdrawn from bond funds, which accounted for almost 90% of the negative sales of the entire market.

The only fund category with positive sales was target-date funds, which raised EUR 1.01 billion.

Strong sales of target-date funds were due to Capital Employee Plans, which attracted EUR 0.96 billion.

EUR 0.55 billion was withdrawn from equity funds during 2022.

Sales of mixed funds also closed negative, with EUR 0.71 billion withdrawn from them.

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

The following primary national regulatory developments have been identified throughout 2022:

There is an ongoing legislative procedure - which began in 2021 - on the draft act. This will amend several acts regulating how the financial market functions in Poland. Its aim is to help develop the financial market and to protect investors (hereinafter the 'Deregulatory act'). The Deregulatory act is not yet binding, as for most of 2022 it has been the subject of a consultation by the Ministry of Finance. However, due to the upcoming elections in Poland and the rule of discontinuity of its works, the bill would have to be adopted by autumn 2023. The aforementioned Deregulatory act contains important changes for funds' industry in Poland

These include, but are not limited to:

- A new regulation for payments made to distributors of investment funds' units by the management companies. This aims to provide a clear legal ground for fees due for the provision of elementary services. This regime for payments is meant to exist simultaneously with rules on inducements introduced during the implementation of MiFID II regime. The legislation introduces a new term – 'distribution service'. This change follows the lifting of some of the obligations introduced in this area, which were later recognised as gold-plating.

- Changes to the rules on ETFs, which aim to promote such passive investments on the Polish market.

- An extension to the possibility of merging AIFs operating on the Polish market as 'closed investment funds' with those not subject to public offer (currently this possibility exists only for closed investment funds investing in private assets)

Another legislative procedure amending the Act on Investment Funds began in 2022 and is still ongoing. Its aim is to implement provisions of the Directive (EU) 2021/2261 of the European Parliament and of the Council of 15 December 2021 on the use of key information documents by management companies of undertakings for collective investment in transferable securities (UCITS). The management companies are to be granted a right to decide whether UCITS will prepare two kinds of informative documents, i.e. the UCITS KIID (in order to provide non-retail investors with it) and PRIIPS KID (in order to provide retail investors with it) or PRIIPS KID only in order to provide all their investors with it independently on their status.

The Act on Investment Funds was also amended in September 2022 in order to allow communication between management companies and investors primarily by means of durable medium and electronic format rather than on paper.

During 2022, amendments were introduced to the Regulation of the Minister of Finance on the conduct of activity by management companies. These implemented provisions of the Commission Delegated Directive (EU) 2021/1270 of 21 April 2021 on the sustainability risks and sustainability factors to be taken into account for Undertakings for Collective Investment in Transferable Securities (UCITS).

In the area related to AIFMD, the Deregulatory act also includes:

- Clarification on the fund's entitlement to acquire new real estate even after the conclusion of the period for establishing the fund's portfolio.

- Restrictions on the right to delegate portfolio management of securitisation funds as well as those investing in real estate and private assets to third parties other than a management company or investment firm. This proposal, by the Polish Financial Supervision Authority, has been heavily criticised by market participants and it is expected to be removed from the draft act.

In 2022, the Chamber took part in an extensive consultation with the Polish Financial Supervision Authority on highly anticipated reform of the supervisory reporting regime. This reform aims to provide the Authority with all necessary data while simultaneously rationalising and minimising the burden for the management companies. This will be achieved by introducing new reports, with majority of which will be machine readable. The reform therefore includes changes to both the relevant legislation and the reporting systems.

The provisions of the Act on Investment Funds include rules for loan origination, but only to an extent. It establishes investment and concentration limits as well as an obligation to determine, in the fund's statute, the criteria to be met by the borrower. Therefore, the new provisions of the AIFMD would require implementation in the Polish legal system. However, we have not identified any obstacles within the Commission's November 2021 proposal.

Throughout the 2022, NCA did not consider nor start to review its supervisory practices in terms of authorisation and substance requirements.

6.2. MiFID II

In 2022, there were changes introduced to rules on product governance conducted by investment firms. These amendments implemented Commission Delegated Directive (EU) 2021/1269 of 21 April 2021 on the integration of sustainability factors into the product governance obligations.

The Chamber has no information on an assessment by the NCA on Guidelines on MiFID II/MIFIR market data obligations.

The EET (European ESG Template) is not currently recognised as widespread and implemented in practice.

6.3. CSDR

There were no notable developments in this area during 2022.

6.4. EMIR

The Chamber has seen considerable uncertainty among management companies, investment firms and other distributors of units on how to adopt new rules on distributing products with sustainability-related features. Among other things, questions on how elements defining sustainability preferences should be implemented in the distribution process, and how they differ from including sustainability factors in the process of identification of target markets. Given the current state of data availability and, as a consequence, the availability of products with sustainability-related features, it proved difficult to present sufficient range of products to clients with sustainability preferences or objectives that include sustainability factors.

6.5. PRIIPs

The Polish legislator did not meet the 30 June 2022 deadline for implementing amendments for the transition from the UCITS KIID to the PRIIPS KID established in Directive (EU) 2021/2261 of the European Parliament and of the Council of 15 December 2021 on the use of key information documents by companies managing undertakings for collective investment in transferable securities.

The bill implementing these provisions is still undergoing legislative proceedings. This has caused uncertainty among Polish management companies on how those two documents should be presented to investors as of 1 January 2023. Given the rationale for Directive (EU) 2021/2261, and discrepancies between both information documents, it has become common practice to present PRIIPS KID.

6.6. ELTIF

The Chamber had no information on the take-up of ELTIFs r at the time of preparing this report.

6.7. Sustainable finance

There were no notable developments in this area during 2022.

6.8. Stewardship

In 2022, the Chamber began a review of the Code of Good Practice of Institutional Investors, which had been adopted in 2006 together with the chamber of pension funds companies. It included discussions on the rules on stewardship.

6.9. Benchmarks

In July 2022, the National Working Group of benchmark reform commenced its work on replacing WIBOR and WIBID benchmarks with WIRON index. Click here for more information.

6.10. Anti-Money Laundering Directive

There were no notable developments in this area during 2022.

6.11. Digital finance

There were no notable developments in this area during 2022.

6.12 Other regulatory developments

There were several regulatory developments in 2022, including, but not limited to:

- *Draft act on Central Pension Information* – This is a national project that aims to provide better access to pension information for people assigned to pension plans. The idea is to create a single application can combine all information from public (for example, Social Insurance Institution – ZUS) as well as private entities (investment funds, bank, investment firms). The project will affect the majority of the financial market participants. The draft act should be adopted in the first half of 2023.

7. PENSIONS & PEPP

There are several regulatory developments that took place in 2022, included but not limited to:

- *Act of 7 April 2022 amending the Act on occupational pension schemes and the Act on individual pension accounts and individual pension security accounts* specifically in regard to art. 8(6) and *Regulation of the Minister of Finance on information concerning a participant in an occupational pension scheme* – This act digitalised the manner in which information on payments and withdrawals are prepared, delivered and transfered. The paper form has been abandoned.

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

No new rules regarding Tax Rules, VAT Rules and Double Tax Treaties were introduced in 2022.

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

There were no notable developments in this area during 2022.

10. OTHER ACTIVITIES OF THE ASSOCIATION

Publications

- The Annual Report of the Chamber of Asset and Fund Management for 2021. This includes information on the fund market in Poland and in Europe, against the background of the macroeconomic situation, data on the structure and net value of assets, entities functioning in the sector and changes which occurred during 2021. The report is available for download.
- The Chamber cooperated with the Jagiellonian Club Analysis Centre to release the report entitled "Where the future champions of the Polish economy will come from? The importance of the equity capital market for Poland's economic and civilizational development".

- Press releases
  In 2022, the Chamber issued 12 press releases. They regarded all important aspects of Chamber activities, such as legal regulations, legislative changes, good practices, marketing research outcomes, monthly and quarterly reports as well as other relevant issues.

(Tele) conferences

- In June 2022, the flagship event of the Chamber - the XVI Funds Forum - took place in Kazimierz Dolny. For the first time it used a longer, two-day format and was held outside Warsaw. The event was attended by representatives of the asset management market and their business environment, independent experts and representatives of state supervisory and regulatory bodies. It featured 57 speakers and moderators and attracted about 250 participants. Special guests were Tanguy van de Werve, General Director of the European Fund and Asset Management Association EFAMA) and Professor Leszek Balcerowicz.
- There were also 14 other conferences organised or co-organised by the Chamber in 2022.

Seminars

- In 2022, the Chamber of Fund and Asset Managers organised and conducted 17 online training sessions and two business breakfasts.

PORTUGAL COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Portugal (EUR billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	21.9	23.5	25.5	31.0	29.4
Funds domiciled abroad and promoted by national providers					
Total net assets	21.9	23.5	25.5	31.0	29.4

Table 2: Net Sales of Investment Funds in Portugal (EUR million)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	-599.7	954.8	1,477.4	4,260.3	-412.5
Funds domiciled abroad and promoted by national providers					
Foreign-domiciled funds promoted by foreign providers	148.8	152.6	184.9	n.a.	n.a.
Total net sales	-450.9	1,107.4	1,662.3	4,260.3	-412.5

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	1.2	1.8	1.9	3.4	3.3
Bond funds	2.3	2.7	3.0	2.9	2.6
Multi-asset funds	4.3	5.7	6.7	10.3	8.5
Money market funds	0.2	0.2	0.4	0.3	0.4
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	2.2	1.8	1.9	2.0	1.5
Total	10.2	12.3	13.9	18.9	16.3
of which ➤ ETFs					
➤ Funds of funds	3.0	3.7	4.2	6.3	5.2

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	137.8	199.0	110.2	875.6	398.9
Bond funds	-168.4	262.3	309.5	-42.7	-108.4
Multi-asset funds	418.8	1,000.3	772.4	3,190.4	-270.9
Money market funds	23.8	43.4	177.4	-83.5	79.0
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	-598.3	-388.3	64.1	145.1	-468.2
Total	-186.2	1,116.7	1,433.6	4,084.9	-369.6
of which ➤ ETFs					
➤ Funds of funds	338.7	310.8	391.5	1,868.7	-227.4

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds					
Bond funds	0.1	0.04	0.03	0.03	0.03
Multi-asset funds	0.02	0.03	0.02	0.04	0.03
Money market funds	0.2				
Guaranteed/protected funds			0.004		
Absolute Return Innovative Strategies (ARIS) funds	0.01	0.001	0.001	0.001	0.001
Real estate funds	10.6	10.5	10.8	11.1	12.2
Other funds	0.8	0.7	0.7	0.9	0.8
Total	11.7	11.2	11.6	12.0	13.0
of which ➤ ETFs					
➤ Funds of funds	0.3	0.3	0.2	0.2	0.2
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	-1.8				
Bond funds	20.4	4.9	-2.2	-2.6	-2.4
Multi-asset funds	-4.3	-2.4	3.6	18.3	0.4
Money market funds	-98.8				
Guaranteed/protected funds	-73.5		3.7		
Absolute Return Innovative Strategies (ARIS) funds	-1.4	-8.8	-0.02		-0.03
Real estate funds					
Other funds	-254.1	-155.6	38.7	159.7	-40.9
Total	-413.5	-161.9	43.8	175.4	-42.9
of which ➤ ETFs					
➤ Funds of funds	-51.6	-60.2	-56.7	-22.0	-24.7
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS	135	145	142	144	152
Home-domiciled AIFs	236	226	217	217	239
Foreign funds registered for sales	3,287	3,672	4,175	4,434	4,663
➤ By national promoters		24	27	30	31
➤ By foreign promoters		3,648	4,148	4,404	4,632
Fund launches	22	21	15	25	49
Fund liquidations	26	16	21	18	15
Fund mergers & acquisitions	5	6	6	5	4

5. MARKET DEVELOPMENTS IN 2022

The Portuguese investment fund market was negatively affected by the adverse conditions observed in 2022. The increase in inflation and in interest rates impacted the financial markets and consequently the performance of Portuguese investment funds.

Portuguese investors reacted to these new conditions by considerably reducing the subscriptions to investment funds. It should be noted, however, that the level of redemptions was similar to that observed in 2021. This meant that the net annual outflows of EUR 0.4 billion (compared with inflows of EUR 4.3 billion in 2021) are solely the result of decreased demand.

It should be highlighted the continuing demand for equity funds, with almost EUR 0.4 billion of net sales in 2022 (EUR 0.9 billion in 2021). Also worth noting is the recovery of Money Market Funds, which registered EUR 79.0 million of net sales in 2022 (net outflows of EUR 83.5 million in 2021).

The number of funds increased significantly, with 49 new funds being launched throughout 2022. Most of these are real estate funds that are enjoying increased interest from investors who already had different vehicles for investing in the Portuguese real estate market and are converting these into Real Estate Funds.

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

At the end of 2021, Decree-Law 109-F/2021 was published, which transposed into force Directive (EU) 2019/1160 on cross-border distribution of CIU. In addition, the Decree also transposed into force the Commission Delegated Directive (EU) 2021/1270, on the sustainability risks and sustainability factors to be taken into account for UCITS, which were applicable as of 1 August.

During 2022, Decree-Law 31/2022, of 6 May, also amended the General Framework for CIU ('RGOIC') came into force on 1 July 2022. The Portuguese legislator took the opportunity to introduce a new provision (article 156a), allowing - as of 1 January 2023 - the use of PRIIP KID for the purposes of complying with the national and European provisions concerning UCITS KIID.

It is important to highlight that the Portuguese Securities Market Commission (CMVM) proposed, at the end of 2021, a new legal framework governing Portuguese investment funds, launching a public consultation, which enabled several market inputs, including from APFIPP. This process saw some developments during 2022 and, at the end of the year, the Government submitted a proposal to the Parliament to be granted legislative powers in this area. The new framework is expected to come into force in the first half of 2023.

The new draft framework creates a new paradigm in terms of the supervision of investment funds and their managers, shifting from ex-ante supervision (where specific authorisation from the Portuguese regulator (CMVM) was required prior to most of the variations in the management of investment funds) to ex-post, where most of these no longer require such authorisation.

The amendments set out to simplify the regulatory framework of Portuguese investment funds and to eliminate all gold plating, thus increasing the competitiveness and the attractiveness of the Portuguese investment fund market and its players.

One of the major changes that the (draft) new legal regime referred to above introduces is the exemption foreseen in Article 3 (2) of the AIFMD for all Portuguese AIFMs.

The current regime does not include this exemption for investment fund management companies (it applies only for Venture Capital Funds / Private Equity and their managers). The proposed amendments foresee the introduction of this exemption.

Although liquidity management and supervisory reporting were two of the main areas subject to the supervision of CMVM in 2022, there were no particular developments relating to the proposed revision of the UCITS/AIMFD. Decree Law n.º 144/2019, of 23 September (link), introduced credit funds in Portugal, and was complemented with CMVM Regulation n.º 5/2020 (link). Until now, no Portuguese credit fund has been launched and APFIPP is not aware of any obstacles identified by the market for national implementation/application of the rules proposed by the Commission.

6.2. MiFID II

In addition to the entering into force of Decree-Law 109-H/2021, which approved a new regime for investment firms and also transposed European Directives (EU) 2021/338 and (EU) 2021/1269 into law, one of the main changes observed in 2022, concerned the need to take clients' sustainability preferences into account. In line with EU rules, CMVM made adjustments in its Regulation 3/2018 in order to include the sustainable finance topic in the minimum content to be mastered by financial intermediaries' employees who provide investment advice and portfolio management services on behalf of third parties or provide information to investors.

Portuguese investment funds are mainly sold by the depositary, which is usually part of the same group as the management company, thus facilitating the relationship to obtain / provide the information that needs to be disclosed under MiFID II. Nevertheless, EMT is commonly used by asset managers and distributors. There is no

indication that the EET currently plays an important role in the Portuguese market, however, there is a growing visibility among Funds Managers on the EET. We therefore expect its importance to increase in the distribution and disclosure processes.

6.3. CSDR

There were no notable developments in this area during 2022.

6.4. EMIR

The major management companies have, since March 2021 (SFDR L1 application date), been revaluating their offer and adjusting some funds in order to meet clients' sustainability preferences. Here, there are several Portuguese domiciled funds under article 8 of SFDR rules, and in May 2022 the first article 9 Funds were launched.

6.5. PRIIPs

According to CMVM, the European requirements were, in general, fulfilled in time by the Portuguese management companies. However, the supervisor is analysing the content of the disclosed PRIIP KIDs, and APFIPP is encouraging internal reflection in order to ensure a harmonised interpretation of the rules, particularly on costs and performance scenarios.

6.6. ELTIF

We have seen no particular interest among Portuguese fund managers in ELTIFs and therefore don't anticipate any take-up of Portuguese ELTIFs.

6.7. Sustainable finance

Market participants continue to struggle with the scarcity of viable and reliable data to allow compliance with the Level 2 SFRD.

CMVM also maintains the principle of not issuing specific guidance or other detailed information to the market, in line with ESMA's guidance not to advance any domestic interpretation.

Nevertheless, in 2022 CMVM focused its supervision on higher scrutiny in the authorisation process of new article 8 and 9 SFDR Funds and on development of a supervisory exercise on the compliance of SFDR framework, both at entity and product level. This culminated in the release, in early 2023, of a circular outlining the main conclusions of this initiative.

According to the available information, we believe that no Portuguese Asset Manager will have to report (directly) under CSRD.

6.8. Stewardship

We are not aware of the inclusion, in national legislation, of any proposal specifically related to these topics. Nevertheless, it is important to point out that, in Portugal, a significant part of the legislation that has been published in the area of environment has its origin in the EU law or aims to comply with EU target and objectives. On 1 January 2022, a relevant legal framework - the new Climate Framework Law (Law 98/2021 of 31 December) - entered into force. Since its publication, APFIPP has been trying to clarify with the competent authorities (namely CMVM) the scope of this new regime and its specific impact on the asset management industry.

6.9. Benchmarks

There were no notable developments in this area during 2022.

6.10. Anti-Money Laundering Directive

In 2022, CMVM carried out several on-site supervision actions relating to the duties foreseen in AML framework, with a particular focus on the venture capital sector. In December 2022, the supervisor promoted a sector meeting

with the aim of presenting the main conclusions of these actions and highlighting the need to strengthen certain procedures. CMVM also issued guidelines to financial entities on applying restrictive measures determined by the sanction's packages adopted by the EU in response to the war in Ukraine and on the decisive role and responsibility of the compliance officer.

6.11. Digital finance

There is no national regulatory development regarding DORA, although in a Circular addressed to the Asset Management sector CMVM has recently stated that it intends to contribute to the adoption of the Regulation.

6.12. Other regulatory developments

There were no notable developments in this area during 2022.

7. PENSIONS & PEPP

In relation to pensions, there are no relevant developments to report.

The Portuguese Legal Framework to complement the European Regulation PEPP has not yet been published. However, APFIPP (and other Portuguese financial sector associations) has already been consulted by the Government about the framework, which does not include tax treatment, which is being analysed separately by state departments.

APFIPP, on its own and together with other national associations of the financial sector, has been trying to put the matter on the public agenda. It is seeking to convince political parties and the Government of the importance of PEPP and of granting it favourable tax conditions that contribute to its adherence by Portuguese operators and investors.

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

Law 12/2022 of 12 June implemented the State Budget for 2022. It includes an amendment to the Personal Income Tax (IRS) that applies from 1 January 2023 onwards. This makes it mandatory for taxpayers that fall into the highest tax bracket (annual income above 78,834 EUR) to have capital gains derived from securities and held for less than one year taxed at their personal income tax rate (from 48% to 53%). Generally, capital gains are subject to autonomous taxation at 28%, although taxpayers with lower income may opt to be taxed at their personal income tax rate (minimum 14.5%).

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

In 2011, the Government established the National Plan for Financial Education (PNFF), coordinated by the three Portuguese financial supervisors. There is also collaboration with a diverse set of stakeholders, including National associations within the financial sector, such as APFIPP.

During these 11 years, extensive work has been done on implementing a national strategy for financial education. The aim is help increase the level of financial knowledge among the Portuguese population and to promote the adoption of appropriate financial behaviours. It has an integrated vision of financial education projects and, through the combination of the stakeholders' efforts, to increase the wellbeing of the population and the stability of the financial system.

The promotion of financial literacy in schools has been one of the cornerstones of the performance and strategy of the PNFF. It includes the production of workbooks aimed at basic and secondary education students, with a view to supporting teachers and students in their learning process. After the conclusion of four workbooks targeted at secondary education level, the most recent work aims to produce an education manual for pre-school. This is the result of a partnership between the financial supervisors (Bank of Portugal, the Insurance and Pension Funds

Supervisory Authority and the Securities Market Commission), the Ministry of Education (through the Directorate-General for Education) and four financial sector associations, among which is APFIPP.

To support the promotion of financial literacy, efforts continue to increase the training of new trainers in this field. With this in mind, regular training sessions have been promoted for different audiences, such as educators, employees of municipal entities or other public entities as well as associations of a social nature.

APFIPP has been teaming up with different institutions and personalities in the financial sector to increase financial literacy and awareness of saving and investment. As stated above, the Portuguese Association has an ongoing collaboration with PNFF, namely in producing of financial education workbooks for students of various ages.

In the context of PNFF, in 2022 APFIPP once again joined the Financial Training Week, between 24-31 October, organised by the Portuguese Financial Supervisors, around the World Savings Day (31 October). The aim was to raise awareness of the importance of financial training. Throughout that week, the partners of the PNFF, including APFIPP, promoted initiatives aimed at different target audiences, including students of all ages, teachers and other trainers, managers of micro and small enterprises as well as the general population. APFIPP promoted an activity for students aged 10-11 entitled 'Discovering Savings'. It also took part in an online workshop for managers of micro and small enterprises on the subject of 'Pension Funds and Retirement Savings'.

Other initiatives promoted in this area are also highlighted below.

10. OTHER ACTIVITIES OF THE ASSOCIATION

Publications

As usual, APFIPP remains the main source of statistics on the Portuguese asset and pension fund management, providing regular data on the sectors it represents, through its website and also by e-mail.

(Tele) conferences

APFIPP organised, on 29 November, a conference entitled 'What is the Future of retirement pensions in Portugal? Where do we stand? Where do we want to go?' The aim was to analyse and raise awareness of the current state of the national retirement pension system, as well as learning about the pros and cons of different models implemented in other countries. It promoted informed discussion on the challenges we face in this area,

The conference was attended by several national and international figures, as well as representatives of the sector, Government and academia.

Seminars

During World Investor Week 2022, APFIPP had the opportunity to join the Annual Conference organised by CMVM on 4 October. The event was attended by more than 670 participants, in person and online, and was dedicated to the theme of 'Saving in the Capital Market: Investing in a Sustainable Future. At this conference, the President of APFIPP, together with other representatives of the financial sector, took part in a discussion panel on 'Retirement Savings Instruments: Expectations and Alternatives'.

Videos/podcasts

To mark World Investor Week 2022, APFIPP continued its collaboration - initiated in 2020 - with Euronext Lisbon, joining forces to support a special episode of the 'MoneyLab' podcast, dedicated to the topic 'What to do with investments in a scenario of uncertainty?'[1] In this podcast, Bárbara Barroso, a financial education expert and founder of "MoneyLab", helped to understand the best practices in terms of financial planning and investment

1 - Itunes (https://podcasts.apple.com/pt/podcast/moneybar/id1471044442);
- Spotify (https://open.spotify.com/show/7sA5K4I66tkUaUJ8WmpvyJ); and
- Soundcloud (https://soundcloud.com/barbara_barroso).

management and explained how savers can better protect their savings in the current economic context. In addition to the Podcast, a video was also made available.[2]

On the promotion of financial literacy, a collaboration between APFIPP and the journalist Camilo Lourenço was initiated in the second half of 2022. This set out to periodically disseminate short videos on relevant topics in the field of Asset Management and Pension Funds, as well as other topics in the field of Personal Finance, via social media (Facebook and YouTube). These used simple language and complementary infographics. A total of eleven episodes had been published by the end of 2022.[3]

2 - https://youtu.be/lsVtMkC-DPs

3 Some episodes we would like to highlight:
- 2022.09.29 – https://youtu.be/15ze_H380IY
- 2022.10.14 – https://www.facebook.com/watch/?v=685443532630404
- 2022.11.29 – https://youtu.be/2U319bP3G9U
- 2022.11.25 – https://youtu.be/s70PUwrhjWo

ROMANIA COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Romania (EUR billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	8.4	9.6	8.4	9.9	8.4
Funds domiciled abroad and promoted by national providers	0.6	0.7	0.7	1.0	0.8
Total net assets	9.0	10.3	9.1	10.9	9.2

Table 2: Net Sales of Investment Funds in Romania (EUR million)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	-677.7	403.3	-669.1	472.5	-1,368.6
Funds domiciled abroad and promoted by national providers	72.6	15.4	6.2	183.1	-21.5
Total net sales	-605.1	418.7	-662.9	655.6	-1,390.1

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	0.1	0.1	0.2	0.4	0.4
Bond funds	1.9	3.3	2.8	2.7	1.6
Multi-asset funds	0.2	0.3	0.3	0.5	0.4
Money market funds					
Guaranteed/protected funds	0.1	0.1			
Absolute Return Innovative Strategies (ARIS) funds	0.1	0.1	0.03	0.05	0.02
Other funds	1.7	0.8	0.8	0.9	0.6
Total	4.2	4.7	4.0	4.5	3.0
of which ➤ ETFs	0.001	0.002	0.003	0.01	0.01
➤ Funds of funds					

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	1.8	17.1	29.0	153.3	-9.3
Bond funds	-498.3	366.4	-654.3	1.3	-979.2
Multi-asset funds	22.8	39.1	33.4	177.6	-87.0
Money market funds	19.9				
Guaranteed/protected funds	-23.9	-21.3	-14.4		
Absolute Return Innovative Strategies (ARIS) funds	-14.7	-23.4	-31.9	19.7	-0.2
Other funds	-259.9	32.5	-50.8	108.0	-264.5
Total	-752.2	410.4	-689.0	459.9	-1,340.2
of which ➤ ETFs	0.1	0.5	0.7	4.7	2.5
➤ Funds of funds					

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	3.9	4.6	4.1	5.0	5.1
Bond funds					
Multi-asset funds	0.03	0.04	0.03	0.04	0.04
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	0.1	0.1	0.1	0.1	0.1
Real estate funds					
Other funds	0.2	0.2	0.2	0.2	0.2
Total	4.2	4.9	4.4	5.3	5.4
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	-1.0				1.3
Bond funds					
Multi-asset funds	0.2	3.0	0.1	4.5	0.9
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	9.2	-7.8	12.0	-1.3	-0.1
Real estate funds					
Other funds	66.1	-2.4	7.8	9.5	-30.5
Total	74.5	-7.2	19.9	12.6	-28.4
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS	78	81	81	86	89
Home-domiciled AIFs	30	30	33	34	36
Foreign funds registered for sales ➤ By national promoters ➤ By foreign promoters	98	104	108	114	115
Fund launches	13	3	4	7	8
Fund liquidations	1		1	1	
Fund mergers & acquisitions		3	3	1	

5. MARKET DEVELOPMENTS IN 2022

The assets under management of UCITS funds in Romania decreased by 31% for several reasons. There were the political uncertainties generated by the war started by the Russian Federation in Ukraine at the start of the year, as well as the economic uncertainties generated by inflation and the increase in interest rates. Local bond funds suffered the most, with a decline of 40%.

Romanian investors remaining sensitive to negative returns, generating significant outflows for this particular category of funds (73% of the UCITS total). In contrast to the positive performance of 2021, this year saw outflows in every UCITS category as well as at the general level for AIFs.

On a more positive note, AUM for AIFs remained relatively stable in comparison with the previous year (an increase of 2%), while the number of investors in UCITS funds also saw a small increase (up 1%).

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

Some new provisions were adopted through *Law no. 237/2022 for the amendment and completion of the Government Emergency Ordinance no. 32/2012 regarding collective investment bodies in securities and investment*

management companies, as well as for the amendment and completion of Law no. 297/2004 on the capital market, of Law no. 74/2015 regarding AIFMs, as well as Law no. 24/2017 on issuers of financial instruments and market operations:

- Providing the FSA with appropriate information for monitoring systemic risks in the format specified in Annex IV of the Delegated Regulation (EU) No 231/2013 supplementing Directive 2011/61/EU on exemptions, general operating conditions, depositaries, leverage, transparency and supervision.
- Fully transposing the provisions of Directive (EU) 2019/1160 amending Directives 2009/65/EC and 2011/61/EU into national legislation on cross-border distribution of collective investment undertakings.
- Amending and supplementing some normative acts incidental to the collective investment undertakings (CIU) and issuers of securities. This was generated by the need to include provisions in the legislation to regulate the dysfunctional aspects revealed in the FSA practice of authorisation and supervision of CIUs or issuers and the dynamics and developments of the capital market.
- Introducing, at the level of primary legislation represented by Law 24/2017, of some provisions of Directive 2007/36/CE on exercising certain rights of shareholders in listed companies.

A new norm for applying ESMA's Guidelines on stress tests scenarios under Article 28 of the Regulation (UE) no. 1.131/2017 on money-market funds, with subsequent amendments and additions, was adopted by the Romanian NSA.

In addition, norms were adopted for applying ESMA's Guidelines on marketing communications under the Regulation (EU) 2019/1156 of the European Parliament and of the Council of 20 June 2019 on facilitating cross-border distribution of collective investment undertakings and amending Regulations (EU) No 345/2013, (EU) No 346/2013 and (EU) No 1286/2014.

6.2. MiFID II

The Romanian FSA issued the Norm no.3/2022 on full compliance with ESMA's Guidelines on MiFID II/MIFIR market data obligations by trading venues, the norm being in force starting 1 April 2022.

To our knowledge, the EET does not play a major role in the overall distribution and disclosure processes in Romania, but this may change in the future.

6.3. CSDR

It is too early to assess how Romanian market experienced the operationalisation of cash penalties under the Settlement Discipline Regime.

6.4. EMIR

It is too soon to assess the extent to which Romanian firms are prepared for the new EMIR RTS on derivatives trade reporting, which come into force in April 2024, and to list challenges in implementing the new reporting obligations.

No national trend was identified on the manufacturing and distribution of investment products with sustainability-related features, in the run-up to, and following, the entry into force of MiFID II-sustainability disclosures.

6.5. PRIIPs

There were no specific national efforts to transition from the UCITS KIID to the PRIIP KID on 1 January 2023. Existing regulation was revised to simply comply with EU Directive 2021/2261 amending Directive 2009/65/EC on the use of key information documents by UCITS management companies.

6.6. ELTIF

Based on the newest rules, we do not anticipate more investments from Romanian retail investors, as they are usually reluctant to use products that don't give them the opportunity to exit the investment in the short to medium term.

6.7. Sustainable finance

The provisions that ensure the application of EU legislation in the field of green finance at national level, either transpose the provisions of the Directives, or regulate situations such as the designation of the FSA as the competent authority for applying sanctions in the event of non-compliance.

For the application of Regulation (EU) 2019/2088 (SFDR), the detailing of the modalities for monitoring by the FSA of some requirements established by the Regulation was considered, as well as the establishment (in application of the provisions of art. 14 of the regulation) of sanctions in case of violation of the provisions of the Regulation. The national provisions were included in Law 158/2020 for amending and completing some normative acts, namely:

- Government Emergency Ordinance no. 32/2012 on collective investment bodies in securities and asset management companies, as well as for amending and completing Law no. 297/2004
- Law no. 74/2015 regarding AIFMs
- Law no. 126/2018 on financial instruments markets
- Law no. 237/2015 regarding the authorisation and supervision of insurance and reinsurance activity
- Law no. 236/2018 on insurance distribution
- Law no. 411/2004 regarding privately administered pension funds
- Law no. 204/2006 on voluntary pensions
- Law no. 1/2020 regarding occupational pensions

To ensure the proper application of Regulation (EU) 2019/2089, provisions for sanctions in the event of non-compliance with the obligations resulting from the Regulation were introduced in Law no. 158/2020, in the chapter on the amendment of Law no. 126/2018.

The transposition of the Directive 2014/95/EU was carried out through:

- FSA Norm no. 39/2015 for the approval of Accounting Regulations in accordance with International Financial Reporting Standards, applicable to entities authorised, regulated and supervised by the FSA in the Financial Instruments and Investments Sector.
- FSA Norm no. 1/2017 for the amendment and completion of the Accounting Regulations regarding the individual annual financial statements and the consolidated annual financial statements of entities carrying out insurance and/or reinsurance activity, approved by ASF Norm no. 41/2015 ;
- FSA Norm no. 2/2017 for the amendment and completion of Norm no. 14/2015 regarding the accounting regulations in accordance with the European directives applicable to the private pension system.

As listed companies, four Romanian asset managers will have to report under the Corporate Sustainability Reporting Directive (CSRD).

6.8. Stewardship

A draft law was adopted at the end of December 2022 changing the legislation on the corporate governance of state-owned companies. One of the new features is the establishment of the Agency for Monitoring and Evaluation of the Performance of Public Enterprises and a body of administrators. The changes are part of a reform assumed for joining the OECD.

6.9. Anti-Money Laundering Directive

Through the Government Ordinance 53/2022, for the reporting entities subject to the Law no. 129/2019 (transposing the AML Directive) the obligation was established to electronically notify the AML Office [Financial Information Unit of Romania] on the start/suspension/termination of an activity falling under the scope of this law. Also, a contravention was introduced for non-compliance of the entities having the obligation to notify the AML

Office, regarding the start/suspension/termination of an activity that falls under the scope of the AML law and a corresponding sanction for this contravention was established.

6.10. Benchmarks

There were no notable developments in this area during 2022.

6.11. Digital finance

In May 2022, the National Bank of Romania transposed the TIBER-EU (Threat Intelligence-based Ethical Red Teaming) framework at local level, a standard for conducting tests to determine the degree of cyber resilience developed by the European Central Bank and the other central banks in the European Union. The TIBER-RO framework, published in the Official Gazette no. 432/03.05.2022, applies to financial institutions under the supervision of the National Bank, which will have to test their cyber resistance every three years, unlike other actors of the financial ecosystem, which will not have this obligation.

7. PENSIONS & PEPP

A law project was initiated in 2022 and finalised in March 2023. This covers aspects of the PEPP Regulation that remain at the discretion of Member States, such as:

- designating of the competent national authorities
- determining their supervisory and investigative prerogatives necessary to exercise their functions under the PEPP Regulation
- providing the means to the competent national authorities to ensure an orderly development of the activities of PEPP providers and PEPP distributors throughout EU
- establishing the conditions applicable to the national sub-accounts, related to the accumulation phase and the pension payment phase
- providing rules for the appropriate administrative sanctions and other applicable measures in the event of violations of the Regulation, as well as measures necessary to ensure their implementation.

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

Government Ordinance no. 16/2022 (GO no.16/2022) introduced significant changes to the Romanian Fiscal Code. Starting 1 January 2023, the tax rate on dividends distributed/paid between Romanian legal entities, as well as on dividends distributed/paid to non-residents, increased from 5% to 8%.

Furthermore, the tax exemption for dividends distributed/paid to private pension funds and/or voluntary pension funds has been abolished. The dividend tax exemption has also been abolished for dividends paid to non-resident pension funds.

The conditions for applying the tax exemption for dividends paid internally and cross-border by a Romanian tax resident are aligned for comparable situations (for example, the conditions related to the category of entity that can benefit from the tax exemption).

As of 2023, the current income tax rate of 10% on capital gains made by individuals from the transfer of securities and from operations with derivative financial instruments made through intermediaries (Romanian tax residents or non-residents with a permanent establishment in Romania) will be reduced to:

- 1% for securities and instruments held for more than one year
- 3% for securities and instruments held for less than one year.

Registered losses in previous years not compensated by 1 January 2023 from the transfer of securities and from operations with derivative financial instruments performed by intermediary Romanian tax resident entities or non-residents with permanent establishments in Romania are not carried forward. These represent losses to the taxpayer, regardless of the date on which they were registered.

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

AAF has continued its own investor education programme, 'Economiseste inteligent!' – ('Smart Saving!'), aiming to increase level of information among citizens on important financial concepts (inflation, risk, return, diversification), the investment fund industry and specific products. It also highlights how channelling personal savings to investments can contribute to increasing financial wellbeing. In 2022, the project's strategy considered expanding the audience mix by expanding from radio and online TV to include mobile news app exposure. We believe that this initiative had an important contribution to increasing of the number of investors.

In April 2022, the National Strategy for Financial Education (NSFE) was published for public consultation. This was developed by the Ministries of Education and Finance, the FSA, the Romanian Banks Association and the National Bank of Romania with the involvement of public-private stakeholders as a result of the public consultation procedure. The estimated period for the implementation of the NSFE is 2022–26.

Improving the degree of financial education among the entire population requires a unified vision at the level of key institutions in the financial field, to develop and implement a strategy in the medium and long term, with two general objectives:

1. Increasing the degree of financial education by training in the field of financial education among children and adolescents, preparing them to become informed consumers of financial products, instruments and services.
2. Improving the knowledge and skills of the adult population to plan their own finances, to save for the future and be informed consumers of services, products and financial instruments.

Given that both the needs for financial education programmes and the means of implementation depend on socioeconomic factors (such as age, income, and educational level), specific objectives are defined for each segment of the target population as follows:

Children and young people up to 25 years

- understanding economic mechanisms
- understanding consumer rights and obligations
- understanding the importance of financial planning to protect oneself in case of unforeseen events
- ensuring a good understanding of financial risks and a correct way to manage them
- developing the necessary skills for managing financial challenges and the skills to make informed decisions on managing one's own funds.

Adult population

- understanding the available financial products and services and the importance of requesting specialised assistance when facing difficult financial situations
- understanding consumer rights and obligations
- ensuring good understanding of financial risks and the correct way to approach them
- skills training to identify, report and protect against financial fraud;
- understanding the importance of financial planning to protect oneself in case of unforeseen events
- the development of saving behaviours among the population.

Economic operators and other entities

- understanding the economic system
- increasing the level of knowledge regarding financial management and planning
- understanding financial products and services and how they can help maintain financial health
- understanding the importance of a continuity plan, including crisis management.

Key actions

Educating children and young people, particularly through the formal education system.

- Promoting financial education in schools, both through the formal curriculum and through informal activities
- Training of teaching staff in financial education
- Developing an educational resource hub in the field of financial education for teachers and students
- Increasing the motivation and confidence of teachers to teach financial education
- Increasing the number of students from vocational and technical education (VET) participating in financial education programmes.

Increasing the use of free and non-commercial information, tools and resources.

- Creating a portal with financial education information
- Increasing the number of people who access free and impartial sources of information, tools and resources, particularly among disadvantaged groups (elderly people, minorities)
- Promoting financial education programmes in the workplace

Providing quality advice and assistance.

- Promoting good practice in programmes and services providing advice and support, including to disadvantaged and/or vulnerable groups
- Improving targeted advice and support to better meet the needs of the Roma population and communities
- Developing the capacity of those non-governmental organisations offering financial education programmes to disadvantaged and/or vulnerable individuals, families and communities.

Strengthening effective coordination and partnerships.

- Facilitating the implementation of the action plan of the 2022-26 Strategy
- Improving coordination between relevant government-funded programmes and private banking and financial education providers
- Increasing opportunities to build links and share good practice within and between sectors, both nationally and internationally.

Improving research, measurement and evaluation.

- Periodic evaluations of citizens' financial skills
- Undertaking national research to contribute to the understanding of the level of financial education and the influencing factors
- Increasing access to tools and resources to support good practice in evaluation
- Encouraging good practice, by increasing access to subject matter experts and disseminating what works
- Encourage research on improving the effectiveness and impact of financial education programmes.

10. OTHER ACTIVITIES OF THE ASSOCIATION

In 2022, AAF organised its 4th *'Summit of the asset management industry'*, which aims to become a regular event where the members of the association, together with partners and guests, discuss the opportunities for growth in the asset management industry and the challenges industry faces. This year's event was hybrid with a strong in-person presence.

Research on intelligent saving was undertaken in May 2022 with the aim of analysing how Romanians relate to saving and investing, how much they know about savings and investment products, the reasons they invest and their expectations or fears when it comes to putting their money to work for them. The study was carried out on a representative sample consisting of 1241 active people, investors and non-investors, from urban areas, aged between 25-60 and with monthly incomes of over 3,500 RON.

The association's activities and our domestic lobbying activities target the following areas:

- Increasing investor confidence in the asset management industry.
- Lobbying around regulatory and tax issues on proposed legislative projects
- Reducing the taxes and fees paid by the investment funds to benefit their investors.
- Developing financial literacy in Romania.

AAF publishes monthly reports on the local investment funds industry, covering trends and offering the most relevant industry statistics.

SLOVAKIA COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Slovakia (EUR billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	6.6	7.4	7.8	9.4	8.8
Funds domiciled abroad and promoted by national providers	1.8	2.2	2.4	3.0	2.9
Total net assets	8.4	9.6	10.2	12.4	11.7

Table 2: Net Sales of Investment Funds in Slovakia (EUR million)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	220.2	314.8	274.7	1,147.3	212.1
Funds domiciled abroad and promoted by national providers	162.7	206.1	174.7	364.9	252.8
Total net sales	382.9	520.9	449.4	1,512.2	464.9

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	0.4	0.6	0.7	1.3	1.4
Bond funds	1.7	1.6	1.4	1.3	1.1
Multi-asset funds	2.8	3.2	3.6	4.2	3.5
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds					
Total	4.9	5.3	5.8	6.7	6.0
of which ➤ ETFs					
➤ Funds of funds					

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	42.9	55.3	54.9	346.3	357.8
Bond funds	-224.0	-163.2	-134.4	-145.6	-149.0
Multi-asset funds	322.5	166.3	204.8	583.5	-118.1
Money market funds	-12.8				
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds					
Total	128.6	58.3	125.4	784.1	90.7
of which ➤ ETFs					
➤ Funds of funds					

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds					
Bond funds	0.02	0.1	0.1	0.1	
Multi-asset funds	0.4	0.5	0.3	0.6	0.6
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	1.3	1.5	1.7	2.0	2.2
Other funds					
Total	1.7	2.1	2.0	2.7	2.8
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds	0.1	0.1	0.1	0.2	

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds					
Bond funds	-4.1	20.3	21.9	0.9	-11.5
Multi-asset funds	20.4	87.9	-21.4	89.5	-9.9
Money market funds	-45.5				
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	120.8	148.3	148.8	272.8	142.8
Other funds					
Total	91.6	256.5	149.3	363.2	121.4
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds	-6.4	8.3	7.4	24.4	

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS	68	72	68	68	67
Home-domiciled AIFs	18	22	22	28	30
Foreign funds registered for sales					
➤ By national promoters	567	561	556	531	528
➤ By foreign promoters				177	328
Fund launches	3	9	4	213	192
Fund liquidations	1		11	32	33
Fund mergers & acquisitions	3	1	2	23	10

5. MARKET DEVELOPMENTS IN 2022

Assets under management in open-ended mutual and investment funds of SASS members reached a value of EUR 11.7 billion by year-end 2022, a decrease of 6.5% (in absolute value by EUR 805.7 million) compared to year-end 2021.

The largest volume of assets - 41% - remained invested in mixed funds, even though their share fell by 3.5% during 2022. The second largest was equity funds, with a 24.3% share, - an increase in their share during the year. The share of real estate funds also increased to 20.2%, bond funds continued to lose, making up 9.3% of all investments. Other types of funds were only minimally represented. In terms of domicile, Slovak investors still prefer domestic funds which have a 75.4% market share, while the share of foreign funds again increased slightly.

Net sales in 2022, which reached EUR 464.9 million, were at the level of long-term averages. Compared to the record sales in 2021, we recorded a decrease in net sales of 69.3%. However, in the context of the difficult geopolitical situation and turbulence in the financial markets, the net sales results of the sector were a great success. These good sales results can largely be attributed to regular investments and higher maturity of investors, when - unlike previously - they were able to maintain balance and hold their investments. We recorded the highest net sales in equity (EUR 541 million) and real estate funds (EUR 142.6 million). Sales in other asset classes were weak or negative. We observed the largest outflow of funds in mixed funds, of EUR 102.3 million.

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

Regulatory development in UCITS was not a major problem in Slovakia in 2022. There are no cross-border barriers to fund distribution in Slovakia, Slovak collective investment market is open to foreign funds. However, most Slovak asset management companies only distribute their funds in Slovakia. Cooperation between The National Bank of Slovakia (NBS) and SASS was problem-free, including the issue of undue costs.

In Slovakia, there has been no relevant developments in 2022 related to AIFMD. Currently, we are dealing with the upcoming draft of revision of the AIFMD.

The Commission's proposed revision of the AIFMD/UCITS Directive will be a matter for 2023 in Slovakia.

The most widespread AIFs in Slovakia are real estate funds. A management company may provide a loan from the assets, held in a public special real estate fund, only to a real estate company in which it has a shareholding. Where the public special real estate fund is not a sole shareholder or sole associate in the real estate company, any loan provided to the real estate company from the assets of a public special real estate fund shall be secured. In the loan agreement, it must be stated that, in the event of the sale of the shareholding in the real estate company, the loan shall be due within six months from the date when the shareholding was terminated. We do not foresee any obstacles to national implementation and application of any new pan-European rules on loan origination, such as those contained within the Commission's November 2021 proposal.

According to our information, the NBS is not considering reviewing its supervisory practices in terms of authorisation and substance requirements in light of the ESMA's December 2022 peer review report on post-Brexit relocation.

6.2. MiFID II

In Slovakia, we expect that the NBS will publish revised MIFID II/MiFIR Q&A on the topic of inducements from third parties in Q1 2023, in addition to the legally permissible ways of improving the quality of investment services that are legitimising the receipt of inducements from third parties (in accordance with the Act on securities and investment services). The NBS also lists other services for improving the quality of investment services as well as the examples of excluded approaches.

In connection to the EU level current developments, where a ban on inducements under MiFID II is proposed for the Retail Investment Strategy (included to the Commission's agenda for May 2023), the issue was recently discussed at the level of the Slovak Banking Association. This was followed by discussion between representatives of the banks, the SBA, the Ministry of Finance of the Slovak republic and NBS. The Slovak banking sector does not support the proposal, the representatives of the MF and the NBS are aware of the fact that inducements may affect the seller when distributing a specific financial product and support the idea in theory. On the other hand, they are aware that the Slovak retail investor may not be willing to pay for investment advisory services.

To date, NBS has not provided any assessment on the Guidelines on MiFID II/MIFIR market data obligations.

EET is a market standard used in Slovakia, particularly for the exchange of ESG-related data from producers to distributors assessing the sustainability preferences of a client during the investment advisory process. However, EET is not broadly used for disclosure purposes in accordance with SFDR RTS; it is not accessible on the web page of producers.

6.3. CSDR

Since the SDR entered into force (1 February 2022) Central depository of securities of the Slovak republic (CDCP) regularly monitors the settlement fails and reports them to the supervisory body. The results show that significant proportion is created by failed settlement of trades concluded at MTS Slovakia. This is a long-term problem, also discussed with the local clearing agents (CDCP participants) who confirmed that the fails are mainly caused by

missing instructions from their clients/primary dealers, who do not adhere to the settlement procedures set by the MTS Slovakia operator and CDCP.

On CDCP, a risk arising from this situation is potential reputational damage for the CDCP due to low settlement efficiency. Because of the high fail rate, the CDCP will also have to implement a partial settlement service.

6.4. EMIR

We do not anticipate any challenges in implementing the new EMIR reporting obligations as most of asset managers in Slovakia delegate the relevant duties to brokers.

We are not aware of any national trends on the manufacturing and distribution of investment products with sustainability-related features, in the run-up to and after the entry into force of MiFID II sustainability disclosures.

6.5. PRIIPs

All asset managers in Slovakia have implemented PRIIPS KID. The implementation went relatively smoothly without further consultation with NBS. The greatest challenge was to calculate the performance scenarios and explain them to clients, particularly where they were unfavourable and stressed.

6.6. ELTIF

There are no ELTIFs in Slovakia, and we do not believe that near-final ELTIF review will change this situation.

6.7. Sustainable finance

The SFDR regulations were very ambiguous and caused a lot of questions. We also evaluate the recent February change of RTS of SFDR as very unfortunate. So far, NBS approach gives asset managers time to fine-tune the bundled requirements, and they will start to supervise it approximately in second half of 2023.

6.8. Stewardship

In Slovakia, we are not aware of any relevant corporate governance or stewardship developments in 2022.

Slovak asset managers predominantly invest in foreign companies, and their share of companies' equity is often negligible. Thus they only occasionally exercise the voting rights.

Regulation of these issues is high in Slovakia. SASS is not aware of any proposal to strengthen this Regulation.

6.9. Benchmarks

The consequence of the Benchmark Regulation is that the majority of management companies in Slovakia have stopped using benchmarks and use them only for internal comparison of fund and index performance, if at all. This does not qualify as 'benchmark use' under the Regulation.

6.10. Anti-Money Laundering Directive

For any entity that has so far met the standards in the field of AML in connection with the application of the 5th AML Directive and at the same time applied internationally recognised AML best practice. The arrival of the new AML Regulation is viewed as mainly positive by the Slovak compliance community as a way of strengthening and unifying AML/CTF standards in Member States. All relevant comments were made through the European Banking Federation standard process.

The new AML Authority is perceived mainly positively by the Slovak compliance community as a way of unifying regulatory standards for access to advisory and control activities of domestic regulatory authorities. We do not see fundamental obstacles to creating of such an EU AMLA. All relevant comments were made through the European Banking Federation standard commenting process.

6.11. Digital finance

There were no notable developments in this area during 2022.

6.12. Other regulatory developments

No other new regulatory developments in 2022.

7. PENSIONS & PEPP

PEPP regulation was implemented into Slovak legislation by the Ministry of Labour, Social Affairs and Family of the Slovak Republic - mainly the payout terms and tax issues. Currently, only one company has created PEPP in Slovakia. This company is classed as an investment firm (not an asset management company with UCITS/AIFs licence).

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

There was no change and no new tax rules in Slovakia. The main legislative effort of SASS was focused on achieving a level playing field in the taxation of comparable investment products. There is a tax exemption on all publicly traded securities held for more than one year, except mutual funds. SASS put a lot of effort into having this discrepancy removed.

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

SASS has tried to contribute to financial education, particularly in the online space. On its website it has published an interactive presentation called 'Investing for a better future', which guides people through the basics of investing in an accessible way. This was created as part of a joint initiative of European associations affiliated to EFAMA, and helps to financially educate people throughout Europe. SASS also took part in the NBS financial education programme called '5 Money', preparing a series of expert articles on investing.

10. OTHER ACTIVITIES OF THE ASSOCIATION

SASS prepares weekly and monthly reports about the development in Slovak collective investment industry. Reports are available on the SASS webpage.

SASS organised two large conferences in 2022. The spring 2022 conference, 'Next steps in Asset management', was organised in cooperation with Czech Association AKAT and held in Bratislava. SASS organised its flagship conference 'Collective investment in Slovakia' in autumn 2022. There was a live stream from the conference available on internet, as well.

SASS declares the best fund in several categories in the competition 'Top Fund Slovakia' every year. The 2021 edition was organised in virtual form in February 2022 from the studios of the Slovak economic daily newspaper.

SLOVENIA COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Slovenia (EUR billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	2.6	3.1	3.4	4.7	4.4
Funds domiciled abroad and promoted by national providers					
Total net assets	2.6	3.1	3.4	4.7	4.4

Table 2: Net Sales of Investment Funds in Slovenia (EUR million)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	-9.3	82.6	148.4	460.1	208.0
Funds domiciled abroad and promoted by national providers					
Total net sales	-9.3	82.6	148.4	460.1	208.0

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	1.5	1.9	2.1	2.9	2.6
Bond funds	0.2	0.2	0.3	0.3	0.3
Multi-asset funds	0.7	0.9	0.8	1.1	1.0
Money market funds	0.1	0.1	0.1	0.1	0.1
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	0.001	0.001	0.001	0.002	0.003
Total	2.5	3.0	3.2	4.3	3.9
of which ➤ ETFs					
➤ Funds of funds	0.1	0.1	0.1	0.1	0.1

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	-42.6	-0.1	97.9	285.9	149.3
Bond funds	-8.7	53.5	22.0	27.3	-2.1
Multi-asset funds	17.0	38.5	13.1	161.9	37.8
Money market funds	24.9	-9.5	15.0	-15.6	22.4
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds	0.1	0.2	0.3	0.7	0.7
Total	-9.3	82.6	148.4	460.1	208.0
of which ➤ ETFs					
➤ Funds of funds	0.9	5.4	-7.3	0.4	-13.9

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds					
Bond funds					
Multi-asset funds					
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	0.03	0.03	0.05	0.1	0.1
Other funds	0.1	0.1	0.1	0.3	0.4
Total	0.1	0.1	0.2	0.3	0.5
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds	0.1	0.1	0.2	0.3	0.5

4. TRENDS IN THE NUMBER OF FUNDS

Table 6: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS	100	100	82	79	78
Home-domiciled AIFs	15	34	47	60	59
Foreign funds registered for sales	168	229	257	312	400
➤ By national promoters	96	124	111	120	119
➤ By foreign promoters	72	105	146	192	281
Fund launches	2		3		6
Fund liquidations	1		2		7
Fund mergers & acquisitions	1		19	3	1

5. MARKET DEVELOPMENTS IN 2022

As a result of developments and declines in capital markets around the world, Slovenian funds ended 2022 with a 6.4% decline in net asset value.

Nevertheless, the industry has managed to maintain investor confidence, which is reflected in positive net inflows throughout 2022.

In Slovenia, the law on alternative funds was adopted in 2022 and this part of the industry has only just started to develop. There is strong hope and belief that the next few years will also see a significant increase in assets under management in this area.

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

The guidelines on marketing communications have brought a number of new developments in the area of disclosures, and companies have had to completely change their approach to preparing disclosures. Following ESMA's query on 'unjustifiable costs', companies have prepared or upgraded their Costs and Fees Policies.

The Alternative Investment Fund Forms Act (ZOAIS - Zakon o oblikah alternativnih investicijskih skladov) was adopted in July 2022.

By August 2023, NCA will adopt a new by-law pursuant to Article 106(2) and (3) of the AIFMD, pursuant to Article 237(1) of the AIFMD. We do not see any obstacles for implementation and application of new pan- European rules.

Following the withdrawal of the UK from the EU, our NCA has not received any enquiries or requests from UK-based entities to issue licences to operate in the Republic of Slovenia. Nevertheless, entities from the UK are now subject to the rules applicable to third countries. Our NCA considers that there is no need to amend the existing rules on licensing or supervisory practices in the event of any requests by entities from the UK.

6.2. MiFID II

In 2022, the obligation to take into account the sustainability aspects or preferences of clients and potential clients (Commission Delegated Regulation (EU) 2017/565) became mandatory for companies offering services regulated by MIFID II. Companies that were obliged to comply with these provisions were thus required to upgrade their internal processes and questionnaires on the suitability of (potential) clients.

Our NCA complies with the guidelines on market data obligations under MiFID 11/MiFIR and has incorporated them into its supervisory framework for the supervision of trading venues in the Republic of Slovenia. It will assess the

level of compliance of the Ljubljana Stock Exchange, with these guidelines during its regular review of its operations in 2023.

EET forms are not mandatory and therefore their use and distribution depend on the individual financial institutions. The document is useful and applicable for companies that do business with companies that require business partners to submit an EET form.

6.3. CSDR

The charging of fines has been well accepted by market participants. Our NCA has included the area of settlement discipline in its supervisory framework in its regular reviews of the CSD's operations. As regards the CSD's handling of failed settlements, the Agency notes that this is proceeding smoothly. CSD has a direct relationship only with its members and does not have specific models for individual types of members.

6.4. EMIR

Companies are expected to carry out activities to comply with the legislative requirements.

It was noticed that some companies licensed to manage financial instruments have adopted new investment policies where sustainability aspects are now taken into account. However, no major changes have been seen in the market.

6.5. PRIIPs

Common guidelines and harmonised positions on new KIDs under the PRIIPs Regulation have been developed by the Slovenian management company industry. These guidelines and positions have also been harmonised with the Supervisory Authority. In addition, the relevant adjustments have been made to the by-laws to comply with the PRIIPs Regulation.

6.6. ELTIF

No significant changes are expected in the short term.

6.7. Sustainable finance

No later than 1 January 2023, financial institutions offering products to clients under Article 8 or 9 of the SFDR have published amendments and supplements to their prospectuses incorporating the governance rules. In addition, the disclosures have been completed, as required by the applicable legislation (Commission Delegated Regulation 1288/2022).

The regulator has been informed of the amendments and supplements and -notwithstanding what is written in the Delegated Regulation - the documents provided for in the Delegated Regulation are public and thus available to the regulator at all times.

All entities that comply with the requirements of the CSRD will be required to report under the Corporate Sustainability Reporting Directive (CSRD).

6.8. Stewardship

There were no notable developments in this area during 2022.

6.9. Benchmarks

In 2022, there were no new national rules in the area of BMR regulation regarding indices used as benchmarks for investment funds.

6.10. Anti-Money Laundering Directive

Financial institutions (including management companies) have had to adapt to these guidelines. Those institutions not owned by international groups have had a challenge to adapt to these rules. Although they did not have the necessary 'know-how', they had to react quickly to adapt to the new requirements and rules.

The creation of an Anti-Money Laundering Authority will lead to faster and more effective transposition of EU rules and directives in individual Member States and more effective cooperation between financial supervisory units.

6.11. Digital finance

There were no notable developments in this area during 2022.

6.12. Other regulatory developments

There were no notable developments in this area during 2022.

7. PENSIONS & PEPP

There were no notable developments in this area during 2022.

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

In March 2022, a new Income Tax Act (ZDoh-2Z, Zakon o dohodnini) was adopted. This reduced capital gains tax from 27.5% to 25% and reduced the holding period during which tax is not payable from 20 to 15 years.

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

There have been no changes to the syllabus and/or curriculum at national and public education levels. Initiatives to improve financial literacy have come mainly from the business sector.

One of the strategic objectives of ZDU GIZ is financial literacy. This is being pursued through regularly publishing articles on our website, our LinkedIn profile, by organising free webinars as well as other activities, which we describe in more detail in point 10.

10. OTHER ACTIVITIES OF THE ASSOCIATION

- Redesigning the ZDU GIZ website, which features useful tips for investors, a glossary of the most common financial terms which has been prepared and published online, and the publication of the recordings of ZGU GIZ's past webinars.
- Free Newsletter on current market developments.
- Carrying outConducting a survey on the knowledge of financial investments and financial literacy among Slovenian citizens, which was undertaken in cooperation with a marketing agency. There was also communication and publication of the survey results.
- Organising free educational webinars on various topical issues featuring external guests and experts. The recordings of these webinars are then available free of charge on ZDU GIZ's YouTube channel and on the ZDU GIZ's website.
- Publishing of various elements of useful information, invitations and statistics on the ZGU GIZ LinkedIn profile.
- Organising and executing annual training programme and skills tests in the field of marketing of investment fund units, twice-yearly.
- Publishing analysis and graphical displays of statistics in the field of investment funds on ZDU GIZ's website and on LinkedIn posts.

- Organisation of seminars on various topical subjects:
  - Financial Industry and Sustainable Approaches, November 2022.
  - Refresher seminar on marketing mutual fund units, November 2022.
  - New Developments in the prevention of money laundering and terrorist financing in May 2022.
- Organising two press conferences (March and November 2022) to present our industry performance, survey results and our financial literacy activities.

SPAIN COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Spain (EUR billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	286.2	306.3	302.3	347.1	322.7
Funds domiciled abroad and promoted by national providers	6.5	9.0	12.0	22.0	18.0
Foreign-domiciled funds promoted by foreign providers	168.0	195.0	220.0	287.0	245
Total net assets	460.7	510.3	534.3	656.1	585.7

Table 2: Net Sales of Investment Funds in Spain (EUR million)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	8,113.0	1,773.0	1,105.0	25,726.0	17,215.0
Funds domiciled abroad and promoted by national providers					
Total net sales	8,113.0	1,773.0	1,105.0	25,726.0	17,215.0

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	72.8	81.5	79.9	124.6	117.0
Bond funds	58.9	72.9	73.1	79.9	92.2
Multi-asset funds	70.2	75.8	81.2	87.1	65.7
Money market funds	6.8	3.8	4.6	4.5	5.2
Guaranteed/protected funds	0.1	0.4	0.3	0.3	1.6
Absolute Return Innovative Strategies (ARIS) funds	14.0	11.5	7.7	7.6	7.1
Other funds					
Total	222.8	245.8	246.8	304.0	288.7
of which ➤ ETFs	0.3	0.2	0.2	0.3	0.2
➤ Funds of funds					

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	13,900.0	-1,278.0	-549.0	8,539.0	-2,313.0
Bond funds	-2,462.0	9,077.0	4,019.0	7,006.0	19,434.0
Multi-asset funds	1,262.0	763.0	166.0	10,828.0	-3,492.0
Money market funds	-348.0	-774.0	800.0	-89.0	797.0
Guaranteed/protected funds	97.0	194.0	-8.0	-18.0	1,209.0
Absolute Return Innovative Strategies (ARIS) funds	-2,102.0	-2,525.0	-1,457.0	2,199.0	9.0
Other funds					
Total	10,347.0	5,457.0	2,971.0	28,465.0	15,644.0
of which ➤ ETFs	-24.0	-102.0	40.0		-30.0
➤ Funds of funds					

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	7.5	6.9	6.4	0.8	1.2
Bond funds	13.0	10.4	8.7	8.6	8.6
Multi-asset funds	21.1	22.7	22.3	20.0	10.4
Money market funds					
Guaranteed/protected funds	18.9	17.4	15.1	10.2	9.9
Absolute Return Innovative Strategies (ARIS) funds	0.4	0.3	0.2	0.01	0.01
Real estate funds	0.3	0.3	0.3	0.3	0.3
Other funds	2.2	2.6	2.5	3.1	3.6
Total	63.4	60.5	55.4	43.1	34.0
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	256.0	-964.0	-163.0	465.0	59.0
Bond funds	-2,588.0	-2,075.0	-652.0	-378.0	987.0
Multi-asset funds	-58.0	513.0	319.0	110.0	-32.0
Money market funds					
Guaranteed/protected funds	166.0	-1,199.0	-1,198.0	-3,330.0	598.0
Absolute Return Innovative Strategies (ARIS) funds	-89.0	-102.0	-62.0	-13.0	-2.0
Real estate funds					
Other funds	79.0	143.0	-110.0	407.0	-39.0
Total	-2,234.0	-3,684.0	-1,866.0	-2,739.0	1,571.0
of which ➤ ETFs					
➤ Funds of funds					
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS	2,038	2,175	2,245	2,459	2,657
Home-domiciled AIFs	631	569	520	409	403
Foreign funds registered for sales	1,024	1,033	1,048	1,074	1,093
➤ By national promoters					
➤ By foreign promoters					
Fund launches					
Fund liquidations					
Fund mergers & acquisitions					

5. MARKET DEVELOPMENTS IN 2022

In 2022, assets under management in the collective investment industry decreased significantly by 8.6% to EUR 585.7 billion, due to the intense volatility in financial markets, in both, stocks and bonds markets. After the extraordinary returns of 2021, the inflationary tensions that began at the end of 2021 led to increases in official interest rates in the main economies during 2022. The onset of the geopolitical war, the energy crisis and fears of an economic recession lead to sharp value corrections in financial markets as a whole in 2022.

The decrease in the total AuM had a greater impact in foreign domiciled funds, around EUR 42 billion, but also the domiciled funds registered significant decrease of EUR 244 billion. Whilst domiciled funds experienced net inflows, foreign domiciled funds recorded redemptions.

At the end of 2022, domestic UCITS & AIF assets under management (AUM) reached EUR 322.7 billion, a remarkable decrease of 7.5% (EUR 24.4 billion less than in 2021). Following four consecutive years of strong growth in the UCITS market, the turmoil of 2022 led to a decrease of EUR 15.3 Billion. The behaviour of the AIF market saw the same trend as seen in the past five years, with total AUM decreasing by EUR 29.4 billion in the period 2018-2022.

As in 2020, during 2022 unitholders changed their behaviour compared to 2021 due to the market volatility, investing in less-risky options. For example, bond funds recorded net inflows of EUR 20.4 billion for both UCITS and AIF markets, whilst equity funds registered redemptions of EUR 23 billion following the outstanding net inflows

of the previous year (EUR 8.5 billion). Also, guaranteed funds recorded net inflows up to EUR 1.8 billion after three consecutive years of redemptions. In 2019-2022, bond funds recorded net inflows of EUR 37.4 billion.

The investment volume of foreign-domiciled funds marketed in Spain reached EUR 245 billion, down EUR 42 billion on 2021 (14.6%), due to both the negative performance of financial markets and the significant redemptions registered in 2022.

Domestic funds experienced net sales of EUR 17.2 million, signifying the strong confidence of investors in the financial markets during times of high volatility. As explained above, in 2022, assets with bonds exposure ended the year with the highest growth in AUM. Indeed, despite the challenging economic environment, AUM remained above the level registered in 2020.

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

Through Law 18/2022, '*de crecimiento y creación de empresas*', several transparency provisions have been harmonised to reduce cross-border barriers, such as:

1. General principle: Providing information to unit holders and shareholders by telematic means.

2. Eliminating the obligation to provide quarterly reports. If quarterly information is provided on a voluntarily basis, it must comply with the same requirements as those for half-yearly information, except for the detail of the composition of the portfolio, of which up to 30% may be provided in aggregate or by category.

3. Enabling SGIICs (Spanish Mancos) to manage other types of collective investment institutions and entities that may arise in future regulatory developments.

Law 6/2023 on the Securities Markets introduced several changes to the Spanish Collective Investment Institutions Act, mainly to better align the information obligations towards unit holders with the UCITS Directive and to reinforce the nature or separate assets of funds in case of bankruptcy of the depositary entity. It also introduced minor changes in the cross-border marketing regime to better align its wording with that of the European Directives.

The Spanish Securities and Markets Supervisor (CNMV) published, in January 2022, its Technical Guide 1/2022 on the management and control of collective investment schemes liquidity with the aim of grouping relevant supervisory criteria. It recognises the discretion of fund managers to apply a big number of liquidity management tools.

Law 18/2022, *'de crecimiento y creación de empresas'*, incorporates loan-originating funds as close-ended structures for the Regulation, with the same requirements as open-ended funds.

If a mixed open-ended and close-ended structure is finally established for loan-originating funds, due to the specificities that the registration of such structures must follow this could be an issue, including in terms of marketing.

6.2. MiFID II

The CNMV published guidance on appropriateness that apply jointly with the ESMA Guidelines.

A new Securities Legislation has been approved (Law 6/2023) that incorporates MIFID II quick-fix provisions.

6.3. CSDR

In Spain, the CNMV issued a written statement on this topic on May 2022. The approach of the CNMV is restrictive; (i) the fund must not bear any penalties (management companies are responsible for investment decisions, and they and the depositaries must establish control mechanisms to avoid settlement fails) (ii) all positive amounts must be

received by the fund (as the fund is the entity affected from delays/fails on settlement), and therefore no netting is allowed. Under this framework, there are entities that have been informally told by the supervisor - although not included in the written statement - that, on an exceptional basis, netting might be allowed for concatenate fails if they are perfectly identified and documented.

As to how amounts are passed, we have no information on the particular models used for passing-through amounts.

6.4. EMIR

There were no notable developments in this area during 2022.

6.5. PRIIPs

On 4 August, the CNMV published Circular 3/2022 of 21 July, on the prospectus of collective investment schemes and the registration of the KIID. This replaces CNMV Circular 2/2013 of 9 May in order to adapt national regulations to the PRIIPs Regulation and the UCITS Directive.

The objectives of this Circular were to delete:

- All the provisions relating to the content of the KIID included in Circular 2/2013 of 9 May, as this document is regulated within the PRIIPs Regulation.
- Certain information from the content of the prospectus that is not required by the UCITS Directive, and that must be included in the PRIIPs KIID, thus avoiding repetition.

The date of entry into force of the new Circular was 1 January 2023 (in line with the end of the temporary exemption of collective investment schemes from preparing the PRIIPs KID). However, the Circular established a one-month deadline for entities to send the PRIIPs KIID to the CNMV for registration.

6.6. ELTIF

In our opinion, the increase of retail investments in ELTIFs will depend heavily on the flexibility of ESMA's RTS.

6.7. Sustainable finance

In October 2022, the CNMV published a statement informing market participants of the establishing of a fast-track procedure for registering sustainability annexes, as required by the RTS of SFDR to Article 8 and 9 Funds.

Later, the CNMV informed INVERCO of its intention to establish another fast-track procedure to update the information on exposures to investments in gas and nuclear energy activities, as required by the RTS amendments published on 12 February 2023. However, it has not been published to date.

We understand that it will be no more than two or three Spain-based asset managers who will now have to report under the Corporate Sustainability Reporting Directive (CSRD).

6.8. Stewardship

In June, CNMV published a public consultation on the Spanish Stewardship code; its official version has been published in February 2023. This is a voluntary code, and its signatories must comply on an 'apply and explain' basis. Nevertheless, there is a three-year adaptation period, during which the signatories can benefit from a 'comply and explain' approach.

6.9. Benchmarks

There were no notable developments in this area during 2022.

6.10. Anti-Money Laundering Directive

The new EBA guidelines on compliance officers would be difficult to apply if they entail duplication of tasks within groups with unified procedures on AML.

Any provision that would oblige management companies to identify underlying clients in global accounts held by the distributor and, in general, the obligation to carry out KYC due diligence measures towards clients which make the subscription with the distributor (both in the case the client is directly registered in the fund or in a global account) poses challenges. This due to the need to ask the distributor for client information (both commercial and data protection issues arise).

Any provision that reduces the threshold to be considered the beneficial owner would also imply operational issues.

6.11. Digital finance

In its 2023 Activities Plan, CNMV has included the assessment of readiness of ESISs and Asset Managers for DORA, in order to plan for the implementation in January 2025.

With the aim of assisting the Spanish asset management industry in this task, INVERCO has set up a sectoral project with the help of Deloitte. Thanks to this, there will be an assessment at sector level, and entities will be able to compare themselves and identify the missing requirements.

6.12. Other regulatory developments

There were no notable developments in this area during 2022.

7. PENSIONS & PEPP

Law 12/2022, of 30 June, on the promotion of occupational pension plans, came into force on 2 July 2022.

This Law aims to strengthen the second pillar by creating the Public Promotion Employment Pension Funds (hereinafter by its acronym in Spanish, "FPEPP") and the Simplified Occupational Pension Plans (hereinafter by its acronym in Spanish, "Simplified PPE").

FPEPP shall be open-ended and have the following characteristics:

- The Promoting and Monitoring Commission will act as the public promoting body, as a collegiate body made up of members of the General State Administration.
- Pension plans of the defined-contribution occupational pension scheme for retirement that so stipulate in their specifications and Simplified PPE may be integrated into these funds.
- They shall be managed by a management company with the assistance of a custodian and under the supervision of a single special supervisory committee for all open public pension funds.
- The assets of the pension funds shall be invested in the exclusive interest of the members and beneficiaries, considering the profitability, risk and social impact of the investments.
- The selection process for management and depository entities shall be based on the principles of equality, transparency, and free competition through an open procedure.
- A common digital platform will be used to ensure operability between fund managers and depositaries, standardization, and quality of processes, streamlined operations and accessibility of information for companies, participants and beneficiaries.

Simplified PPE can be promoted by (i) companies covered by sectoral agreements linked to collective bargaining; (ii) public administrations and public trading companies; (iii) associations of self-employed or self-employed workers, trade unions, professional associations and mutual societies linked to them; and (iv) cooperative or labour companies, with agreements of the social or governing bodies of these companies and their representative organizations.

Regulatory development is essential for the implementation of the two new figures incorporated in the Law. In October 2022, Royal Decree 885/2022 came into force, which includes (i) the creation and functioning of the governance framework of FPEPPs, comprising the Promoter and Monitoring Committee (CPS) and the Special Control Committee (CCE) and (ii) the remuneration regime for FPEPP Management and Custodian Entities, which is less than 0.30% per annum, which is insufficient compared to other jurisdictions.

However, 8 months after the entry into force of the Law, there are still many issues to be developed, such as the development of the specificities of the PPES or the regulation of the functionalities of the common digital platform, among many others. Therefore, an amendment to the Pension Plans and Funds Regulation (RPFP) is expected to be approved in the summer of 2023.

In October 2022, the Spanish Ministry of Economic Affairs and Digital Transformation published a public consultation on a future law governing the PEPP infringement and sanctions regime in Spain.

In particular, it requested comments and proposals relating to the:

(i) development of the regime of infractions and sanctions applicable to PEPPs
(ii) identification of the infringing subjects that may incur in punishable administrative liability.
(iii) type of offenses and the statute of limitations
(iv) sanctions regime to be applied to each of the infringing types and its statute of limitations.
(v) administrative powers for the investigation and resolution of the relevant files
(vi) publication of sanctions.

INVERCO sent the Association's comments on the above in November and in December 2022 provided comments on a draft law proposed by the Spanish Pension Funds Supervisor (DGSFP). This notwithstanding, we do not expect the above legislation to be approved soon.

Law 12/2022 of 30 June provided PEPP with a tax treatment equivalent to pension plans.

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

The general rate for savings in personal income tax has been increased for amounts greater than 200,000 EUR (from 26% to 27%). A new rate has been established for amounts greater than 300,000 EUR (28%).

A temporary tax (years 2023 and 2024) for high-net-worth individuals (wealth greater than 3,000,000 EUR) has been passed, with an additional tax rate to that of the general wealth tax.
The information form (720) on assets located outside Spain had to be amended to comply with the resolution of the European Court of Justice, which established that the high sanctions applied for non-compliance with the reporting obligations were against the free movement of capital.

A ruling by the Tax Authority on the VAT treatment of the delegation by a management company of segregated activities from the administration function of investment funds and pension funds (i.e. the delegation is not of the administration function as a whole, but of particular tasks of said function identified by the entity consulting to the tax authorities on this matter) to third entities established that the VAT exemption only applies to the delegation of calculation of NAV, unitholder registry or management of unit holders, being the rest of the tasks (accounting, tax reporting or tax advisory) not VAT exempt.

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

On financial education, Inverco has contributed through:

- 'INVERCO Observatory' (http://www.observatorioinverco.com/), which spreads and explains the characteristics and advantages of investments funds and pension plans. The Observatory undertook the following activities during 2022:
  - 2nd Survey of asset managers on sustainability strategy: Perception of asset managers on different aspects of the application of the new Regulation, analysing how they are incorporating ESG strategies in their portfolios.
  - Survey of ASSET MANAGERS in relation to different aspects; the prospects for 2022, industry situation following the pandemic, the creation of new products, financial education and the profile of unit holders.
  - 2nd Survey on valuation of investment fund distribution
  - 6th knowledge of unitholders on Investment Funds
  - Report on assets invested in CIS by Spanish region.
  - Articles in press and interviews.
  - Educational sessions with the specialised financial media
- 3rd Edition of 'Rumbo a tus sueños' ('On course to your dreams'): A finance training programme for young students, where volunteers from asset management companies explain the importance of setting clear objectives and of saving and investing properly to achieve them. The goal is to explain different basic financial concepts to vocational students who do not study finance as part of their curriculum.
- 4th report on financial education initiatives carried out by asset managers. The aim of the report is to gather together the main initiatives in financial education and show their relevance to society as a whole.

10. OTHER ACTIVITIES OF THE ASSOCIATION

Publications

- 24 November – NEWSLETTER NOVIEMBRE 2022
- 22 July - NEWSLETTER JULIO 2022
- 27 May - NEWSLETTER MAYO 2022
- 10 February - NEWSLETTER FEBRERO 2022

Link to newsletters: https://www.inverco.es/archivosdb/nuevo-registro-web-febrero.pdf

SWEDEN COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1a: Net Assets by the Fund Industry in Sweden (EUR billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	333.0	421.2	479.9	610.4	495.2
Funds domiciled abroad and promoted by national providers	47.7	53.2	52.9	54.1	40.2
Total net assets	380.7	474.4	532.8	664.5	535.4

Table 1b: Total Assets by Fund Type in Sweden (domiciled home and abroad) (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	216.6	288.8	335.4	439.2	343.7
Bond funds	39.1	70.1	76.5	81.3	71.7
Multi-asset funds	94.3	110.4	116.3	166.3	113.7
Money market funds	24.7				
Other funds	6.0	5.2	4.6	5.1	6.4
Total	380.7	474.5	532.8	691.9	535.4
of which > ETFs	3.0	4.2	4.1	4.9	4.7

Table 2a: Net Sales of Investment Funds in Sweden (EUR million)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	7,385.5	14,078.5	6,595.3	20,342.5	5,343.8
Funds domiciled abroad and promoted by national providers	-1,237.0	-2,738.8	-1,082.3	-1,498.4	-3,040.4
Total net sales	6,148.5	11,339.7	5,513.0	18,844.1	2,303.4

Table 2b: Total Net Sales by Fund Type in Sweden (domiciled home and abroad) (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	-358.0	5,251.0	5,308.0	8,233.0	795.7
Bond funds	1,278.0	5,459.0	2,202.0	6,193.0	855.7
Multi-asset funds	2,502.0	1,216.0	-1,276.0	4,091.0	-823.1
Money market funds	2,398.0				
Other funds	328.0	-585.0	-721.0	327.0	1,475.0
Total	6,148.0	11,341.0	5,513.0	18,844.0	2,303.4

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	192.9	260.2	306.7	404.0	318.4
Bond funds	31.3	55.7	60.8	67.0	62.7
Multi-asset funds	68.3	82.2	87.7	108.5	88.8
Money market funds	20.2				
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	0.2	0.1	0.1	0.1	0.2
Other funds		0.02	0.02	0.1	0.2
Total	312.9	398.4	455.3	579.8	470.2
of which ➤ ETFs	2.8	4.0	3.8	4.7	4.6
➤ Funds of funds	34.6	42.5	45.4	58.1	48.3

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	885.1	6,563.7	5,662.2	8,319.5	1,699.7
Bond funds	1,706.9	5,285.4	3,087.7	7,438.2	3,450.4
Multi-asset funds	1,346.2	2,641.7	-1,077.8	2,711.7	-565.0
Money market funds	3,084.3				
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	-117.3	-17.2	-41.2	-0.2	66.3
Other funds		-0.6	1.0	8.2	20.6
Total	6,905.4	14,473.0	7,632.0	18,477.5	4,672.1
of which ➤ ETFs	142.0	533.0	-407.7	-155.5	693.2
➤ Funds of funds	2,275.6	3,268.2	253.2	3,449.0	503.7

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	6.2	7.7	10.0	13.7	9.7
Bond funds	1.2	1.7	1.6	1.5	1.2
Multi-asset funds	7.7	9.0	10.5	12.6	10.4
Money market funds	0.1				
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	1.4	1.4	1.0	0.9	0.9
Real estate funds					
Other funds	3.5	3.1	1.4	1.8	2.8
Total	20.2	22.8	24.6	30.6	25.0
of which ➤ ETFs	0.2	0.2	0.2	0.2	0.2
➤ Funds of funds	6.5	11.4	12.1	14.1	11.3
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	15.4	-185.6	525.1	930.4	-238.3
Bond funds	-221.9	346.9	-133.6	-44.5	-104.5
Multi-asset funds	-12.6	239.0	-103.1	686.4	237.6
Money market funds	-13.5				
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	46.9	-300.3	-401.0	-81.1	-62.5
Real estate funds					
Other funds	665.7	-494.6	-924.1	373.9	839.4
Total	480.1	-394.6	-1,036.7	1,865.1	671.8
of which ➤ ETFs	-20.2	16.5	55.1	14.2	10.2
➤ Funds of funds	79.6	3.6	-330.9	100.9	-136.7
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS	539	537	545	559	582
Home-domiciled AIFs	92	98	94	107	126
Foreign funds registered for sales	9,436	9,621	9,575	11,819	12,867
➤ By national promoters					
➤ By foreign promoters					
Fund launches					
Fund liquidations					
Fund mergers & acquisitions					

5. MARKET DEVELOPMENTS IN 2022

Total net assets decreased by EUR 129 billion in 202, amounting to EUR 535 billion at the end of the year. This 19% downturn was due to lower asset prices but also a sharp depreciation of the SEK/EUR exchange rate; the relatively small net inflows could not compensate for the downturn. Since year-end 2018 the total assets under management (AUM) in Sweden have increased by EUR 155 billion (41%).

All fund types, except 'Other' funds, experienced a decrease in net asset in 2022.

Total net sales of funds amounted to EUR 5.3 billion in 2022, a significantly lower figure than in 2021.

The volatile markets in 2022 contributed to other funds receiving the largest share of net sales, EUR 1,475 million. Bond funds and equity funds also saw net inflows, while multi-asset funds experienced outflows.

Mainly as a result of a negative stock market performance and a depreciating SEK/EUR exchange rate, Swedish UCITS saw a decrease (EUR 110 billion - 19%) in AUM during 2022.

Total net sales of UCITS amounted to almost EUR 5.0 billion in 2022. Bond funds recorded the largest net inflows.

Swedish AIF assets decreased in 2022 by EUR 6.0 billion. Equity funds and multi-asset funds suffered as a result of the falling stock market, while other funds increased due to large net inflows. Total net sales of AIF amounted to EUR 0.7 billion in 2022.

Both home-domiciled UCITS and AIFs grew in number in 2022. The largest growth was recorded by foreign funds, with foreign registered AIFs increasing the most.

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

The Directive (2019/1160) on cross-border distribution was implemented late in Sweden (1 April 2022). As Sweden was already liberal when it comes to cross-border marketing (for example, there are no fees when notifying funds in Sweden), the Directive has had little positive impact. Indeed, it has had a counterproductive effect when it comes to pre-marketing. Pre-marketing of funds was already allowed in Sweden in the same way as any other marketing (since it does not constitute 'fund marketing' and therefore is not subject to notification). The Directive, however, introduces a number of requirements when pre-marketing AIFs to professional investors, which has made it more burdensome to pre-market them.

There has not been much focus on 'undue costs'. This may be due to the fact that, from an EU perspective, Swedish funds are relatively cheap and that basically, fund managers are not allowed to charge the fund with costs other than the management fee.

The ESMA Q&A on fee rebate arrangements has been discussed. We believe that the legal basis is weak. The inducement rules only relate to fees and commission for investment management and administration activities, and not to distribution.

The regulatory framework has been changed in order to make it easier to divide funds that are partly invested in Russian financial instruments. As a consequence, those funds have been able to place Russian assets in a separate (still closed) fund, and the other assets in a new fund that could open up for sales and redemptions.

There is an initiative from the Swedish government to regulate the use of swing pricing.

There are no specific provisions. One obstacle is the legal uncertainty on how loan-originating funds should be treated when the AIFM is part of a group where there is also a credit institution. Were the funds to be included in

the credit institutions' consolidated situation, it would not be economically justified for the AIFM to engage in such fund activity.

6.2. MiFID II

We (SIFA) are promoting the use of EET, and our aim is to make it the dominant way of sending information to distributors. However, it is too early to say if this will be realised.

6.3. CSDR

In 2021, Euroclear Sweden put in place a new process for penalties for settlement mistakes. This enabled actors to test the processes in advance of the official implementation in February 2022.

6.4. EMIR

There were no notable developments in this area during 2022.

6.5. PRIIPs

SIFA has held numerous member meetings throughout 2021-22 on the interpretation of the Regulation, which seen a guidance document including a mock-up PRIIP KID.

6.6. ELTIF

We do not foresee ELTIFs being set up in Sweden due to the lack of a suitable national framework on fund vehicles (there is no SICAV regulation in Sweden) and the tax treatment of the funds.

6.7. Sustainable finance

Implementation is challenging due to a lack of guidance and clarification from regulators. Mistranslations, and the absence of updated writable appendices (in Swedish) to the Level 2 regulation have proved challenging and resource intensive. In October 2022, the FSA published a report containing FCA's analysis of how managers of Article 9 funds in Sweden meet the requirements on sustainability-related disclosures in the pre-contractual information. According to this, the information that must be provided by Article 9 funds, was unclear in several cases and the FCA thought that the overall information needed to be both clearer and more concrete. No further guidance has been given on the categorisation of funds.

We have seen an increase in launches of Article 9 funds. Also, many fund distributers have incorporated the possibility of filtering funds on SFDR classification.

6.8. Stewardship

There were no notable developments in this area during 2022.

6.9. Benchmarks

There were no notable developments in this area during 2022.

6.10. Anti-Money Laundering Directive

The Swedish NCA Finansinspektionen (FI) has informed the EBA that it will not comply with guidelines for compliance officers until the end of 2023. In order to be able to follow the guidelines fully, FI assesses that certain changes to FI's regulations will be required. FI has also clarified to the EBA that a member of the management team - the CEO or equivalent executive - will continue to be able to be appointed as a specially appointed executive, in accordance with the Swedish implementation of the AML regulations.

SIFA – together with other Swedish industry organisations – is active in an external reference group for identifying the necessary changes to changes to FI's regulations.

We have seen a rise in enquiries concerning the EBA guideline 16.20 on risk factors. The requests seem to come from one Member State alone. The question of the possibility of a fund company obtaining information on distributors' customers identity has been raised in several contexts. This has always been considered impossible in Sweden for bank secrecy reasons. Also, it is not commercially viable to disclose a customer register to a competitor; hence we have national laws on authorisation as registration as a nominee.

In our view, it should be sufficient to disclose specific information about CDD upon request, without disclosing the identity of the customers. Were distributors to have to disclose information about their customers to their competitors, they would effectively put an end to external fund distribution. That cannot be the intention of the EBA Guideline.

6.11. Digital finance

FI has communicated its view that it is neither effective nor efficient at present to submit detailed proposals for changes in current Swedish statutes to achieve better control over the financial companies' outsourced operations. Although DORA has been decided, FI considers that proposals for regulatory changes require an analysis of the technical standards to be prepared under the Regulation and it is currently unclear what these standards will be. Accordingly, FI believes that any amendments should only be considered when the current legislative initiatives at both national and EU levels have progressed.

6.12. Other regulatory developments

There were no notable developments in this area during 2022.

7. PENSIONS & PEPP

Sweden has adopted supplementary provisions to the PEPP regulation in order to bring its law into line with the Regulation. These lay down uniform rules for the registration, development, distribution and supervision of PEPPs and entered into force on 1 January 2023.

The Swedish national pension system has been the subject of extensive and prolonged debate. The premium pension system, where a small portion of the pillar one pensions are invested into UCITS funds, is currently subject to substantial changes.

As a first step, new legislation entered into force in 2018. New and stricter rules on marketing and distribution of premium pension products and services have been in force since 1 July 2018. As of 1 November 2018, new rules applied to UCITS funds wishing to participate in the premium pension system. The measures on fund and managers, both quantitative and qualitative requirements, aimed to reduce the risk of unprofessional fund operators within the system.

Furthermore, an independent inquiry presented a report in November 2019 with proposals for fundamentally changing the premium pension system. New legislation, involving a new procurement regulation of premium pension funds, entered into force in 2022 and is likely to be implemented in 2023. This should severely restrict the number of funds available in the system. The Association has been strongly critical of most of the changes, arguing that they will not benefit pension system end-users and risk distorting competition.

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

There were no notable developments in this area during 2022.

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

SIFA is active in the Swedish National Network on Financial Education, a set of nationwide educational initiatives on personal finances. The network - a cooperation between authorities, organisations, and financial firms - was initiated by the Swedish Ministry of Finance and is coordinated by the FSA. The goal is to improve consumer's

understanding of their finances through educational initiatives where the network trains instructors who then can spread the knowledge to others. SIFA is responsible for the fund saving element of the training.

SIFA is a co-financer of 'Ung Privatekonomi' ('Young Personal Finances'), a school information project providing personal finance and savings education for more than 35,000 young people at Sweden's upper secondary schools every year. The underlying concept is 'youth meets youth'. The talks and educational materials are made available to upper secondary schools free of charge, with the project's financed by a number of organisations, including the SIFA. It employs communicators across Sweden, of covering as many upper secondary schools as possible.

SIFA's 'Fondkollen' ('Fund Check') initiative provides a financial education website with interactive tools such as an investment calculator, 'check my fund', and 'find a new fund'. The aim of Fondkollen is to boost savers' financial self-confidence. SIFA's Savings Economist regularly shares savings tips there and promotes the website on social media.
During the year, our savings economist has also started a podcast to spread knowledge about fund investments.

10. OTHER ACTIVITIES OF THE ASSOCIATION

Publications (reports, newsletters, surveys, research)

SIFA publishes a monthly newsletter open to everyone interested in keeping up to date with the Association's activities.

A members-only newsletter was distributed to all member companies five times during the year, in Swedish and English.

An annual report on the fund savings in Sweden 2021 was published in January and was launched with a press conference.

A broad survey about the Swedes' fund saving preferences was published.

Surveys on fund preferences among men and women on sustainable savings and on savings for children.

Seminars and Videos/podcasts

The large annual conference 'Fonddagen' ('Fund Day') was held in May. The State Secretary to the Swedish Minister of Financial Markets, Therese Pelow, gave the opening speech. Karolina Ekholm, Director of the Swedish National Debt Office, spoke about Sweden's economy following the pandemic. Daniel Waldenström, Professor of Economics at the Research Institute of Industrial Economics, presented a report on how Swedish mutual fund savings are distributed in the population. There was also a debate on the EU taxonomy and about women's and men's savings. The conference was recorded in full and made available online.

SIFA also organised a major conference about how the financial sector can contribute a sustainable society, in cooperation with the Swedish Banker's Association, Insurance Sweden, and the Swedish Securities Markets Association. Swedish Minister of Financial Markets, Max Elger, opened the conference. The programme consisted of panel discussions one different aspects of sustainability. The conference was recorded in full and made available online.

A seminar about the turbulence in the Russian market, the economic sanctions against the country and how Russian funds were affected.
Seminars on cryptocurrencies and the fund market, on how EU works and the Swedish Presidency, on the new Regulatory Technical Standards (RTS) under the SFDR and on PRIIP KIDs.

Podcasts on how to start investing in mutual funds, how fund managers work, gender equality on the fund market, Asian markets, sustainability analysis, ETFs and the EU sustainability regulations.

SWITZERLAND COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Switzerland (EUR billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	488.0	612.5	660.3	777.2	755.4
Funds domiciled abroad and promoted by national providers	138.4	156.2	173.5	171.1	139.4
Total net assets	626.4	768.7	833.8	948.3	894.8

Table 2: Net Sales of Investment Funds in Switzerland (EUR million)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	14,894.4	73,853.0	29,475.1	34,946.8	56,455.2
Funds domiciled abroad and promoted by national providers	7,329.9	8,749.5	14,986.3	19,175.4	15,087.0
Total net sales	22,224.3	82,602.5	44,461.4	54,122.2	71,542.2

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	160.4	215.8	226.0	300.2	268.4
Bond funds	148.1	180.2	194.1	214.9	200.2
Multi-asset funds	37.8	47.2	51.7	68.5	87.3
Money market funds	15.5	19.5	18.7	19.6	28.5
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds					
Total	361.8	462.7	490.5	603.2	584.4
of which ➤ ETFs	3.7	5.3	6.2	8.0	7.8
➤ Funds of funds	15.3	19.8	21.7	26.2	33.8

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	1,799.6	9,646.3	-1,680.2	10,770.7	6,880.9
Bond funds	8,423.9	18,146.8	12,961.1	15,057.1	7,052.6
Multi-asset funds	4,510.8	4,622.3	6,588.1	8,260.1	29,942.8
Money market funds	-2,021.9	3,582.9	369.6	-407.8	7,755.4
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Other funds					
Total	12,712.4	35,998.3	18,238.5	33,680.1	51,631.6
of which ➤ ETFs	119.8	691.9	606.0	310.9	1,006.5
➤ Funds of funds	105.0	2,193.8	1,210.1	2,484.0	4,464.3

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds					
Bond funds					
Multi-asset funds					
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	30.6	36.1	39.5	44.6	46.7
Other funds	95.7	113.7	130.3	129.2	125.5
Total	126.3	149.8	169.8	173.8	172.2
of which ➤ ETFs	9.4	12.3	15.4	15.7	15.9
➤ Funds of funds	9.1	10.6	11.0	13.7	20.4
➤ Institutional funds	47.0	86.3	100.4	101.1	89.7

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds					
Bond funds					
Multi-asset funds					
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	249.8	367.7	1,161.4	4,741.1	-553.4
Other funds	1,932.2	37,487.1	10,075.2	-3,474.5	5,377.0
Total	2,182.0	37,854.8	11,236.5	1,266.5	4,823.6
of which ➤ ETFs	38.3	5,738.0	790.3	5,222.2	-576.3
➤ Funds of funds	1,659.7	83.9	421.3	899.3	1,142.9
➤ Institutional funds	488.9	28,024.7	6,549.7	-3,006.3	3,630.3

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS	900	931	940	1,008	1,017
Home-domiciled AIFs	160	187	186	187	182
Foreign funds registered for sales	8,098	8,172	8,133	8,357	8,578
> By national promoters					
> By foreign promoters					
Fund launches					
> Home-domiciled UCITS and AIF	178	106	120	131	57
> Foreign funds registered for sales	313	181	136	242	247
Fund liquidations					
> Home-domiciled UCITS and AIF	83	96	79	56	2
> Foreign funds registered for sales	6	107	175	18	26

5. REGULATORY DEVELOPMENTS

5.1. Sustainable finance

Free self-regulation sustainability

As part of its mission to further strengthen the core role of the Swiss asset management industry in sustainable finance, the Asset Management Association Switzerland (AMAS) is taking the lead by laying down the framework conditions for producing and managing sustainable collective investments. It has developed a set of principles-based self-regulation for this purpose. For the first time, institutions that produce and manage sustainable collective investments will be subject to binding organizational, reporting, and disclosure obligations.

The key points of the self-regulation are:

- Asset managers are required to have the necessary sustainability knowledge in the management bodies, in the control bodies and at the operational level. They must also ensure there is the infrastructure and resources to implement the sustainability requirements of the investment strategy.
- Embedded in the self-regulation is a comprehensive documentation requirement for sustainability policies and approaches, as well as for metrics, data criteria and analytical tools used in the investment strategy and process. The principles of actively practiced stewardship must also be set out.
- Exclusion or ESG integration by themselves are no longer sufficient investment approaches to allow a fund to be called sustainable.
- Firms are required to report to investors in a way that makes sustainability goals transparent, using comparable indicators.

The self-regulation was developed in a broad-based process for the members of AMAS and will enter into force on 30 September 2023. At institution and product level, it is complementary to the self-regulation of sustainability in customer advisory services introduced by the Swiss Bankers Association. This set of rules is to be attributed to the voluntary free self-regulation of AMAS.

Environmental indicators for real estate funds

Following the 2015 climate conference in Paris, a new agreement was adopted for the period post-2020, which for the first time committed all countries to reducing greenhouse gas emissions. The aim of this agreement is to limit average global warming compared to pre-industrial levels. Switzerland ratified the convention in October 2017 and - as a follow-up - the Federal Council adopted, among other things, a report and guidelines on sustainability in the financial sector in June 2020 and the benchmarks for mandatory climate reporting for large companies in August 2021. The Swiss Financial Market Authority (FINMA) specified the transparency requirements on climate risks for banks and insurance companies in May 2021 and published a guidance on preventing and combating greenwashing in November 2021.

As a consequence, AMAS has also intensified its work on the topic of sustainability, publishing the environmentally relevant key figures for real estate funds on 31 May 2022. These were developed in cooperation with the Association's Real Estate Funds Expert Committee and a working group appointed by it.

Swiss Climate Scores

The Secretariat for International Financial Matters (SIF) published the Swiss Climate Scores (SCS) on 29 June 2022. The SCS is the result of a working group led by SIF with representatives from the financial sector, academics, sustainability experts and NGOs. The Climate Scores are intended to how consistent a product is with the Paris Climate Agreement and its goal of decarbonising the economy to limit global warming to 1.5°C by 2050.

The scores allow financial assets to be compared against six indicators and are based on internationally recognised standards and aiming to increase transparency on climate sustainability on these six aspects. This reflects a multi-dimensional approach that considers both the historical and current carbon performance of the product as well as the transition efforts - such as engagement and net-zero strategies - of the underlying assets.

In order to clarify the open issues in the publication of these indicators, AMAS and Swiss Sustainable Finance (SSF) created a model in a joint working group, ensuring the standardised calculation of the various indicators and a uniform presentation of the results. Thanks to the extensive know-how of the experts in this field, AMAS and SSF have published a sample model to support Swiss stakeholders in providing comparable reports on the SCS.

This model, based on expert consensus, is available to the public and provides users with the definitions and calculations they need to better understand and report on the recommended indicators. SIF encourages financial actors to voluntarily report on these six portfolio-level indicators to populate the SCS, creating comparable data sets for stakeholders. This initial version of the model is a starting point and will further be tested by industry stakeholders.

5.2. Stewardship

Stewardship has also been addressed in the free AMAS self-regulation on sustainability. Thus, these principles of actively practiced stewardship must be set out. Stewardship will be an important part of the association's work related to sustainability for 2023.

5.3. Other regulatory developments

Financial Services Act (FinSA), Financial Institutions Act (FinIA)

The industry continued to work on implementing the FinSA and FinIA in 2022 and completed the final phase of the process. The deadline for submitting revised fund documents to FINMA expired at the end of June. The transition periods specified in the FinIA for existing licensees had expired at the end of 2020. The FinSA, meanwhile, gave financial service providers until the end of 2021 to implement its new rules. The deadlines specified in the transitional provisions for phasing out certain provisions of the old CISA also expired at the end of 2021. The transitional deadline for producing a FinSA-compliant key information document (KID) expired at the end of 2022.

Supported by a working group and the specialist committees, the Executive Board revised the Association's self-regulation materials and model documents in line with the FinSA and FinIA, the new CISA, and the related Federal Council and FINMA implementing provisions. The changes to the guidelines required FINMA's recognition, while the model documents had to be acknowledged by FINMA. In addition, the new Ordinance to the Financial Market Supervision Act (FINMASA Ordinance) stipulated further consultation procedures within the federal government in relation to FINMA's recognition of the self-regulation materials.

L-QIF

The 'Limited Qualified Investor Fund' (L-QIF) is a new category of fund that offers qualified investors an alternative to similar foreign products. The Association, which originally came up with the idea, has supported this project, the implementation of which represents an important step toward strengthening the Swiss financial sector and enhancing Switzerland's competitiveness as a location for funds and asset management.

The L-QIF project got up and running quickly by Swiss standards. The Federal Council instructed the Federal Department of Finance to draft the necessary revision of the Act on 5 September 2018. The idea also met with widespread support in parliament. The motion put
forward by Ruedi Noser of the Council of States was passed with large majorities by the Council of States in September 2018 and by the National Council in March 2019. Broad support for the idea was also expressed in the consultation opened on 26 June 2019. However, the
Federal Council's vote to adopt the dispatch was delayed by the coronavirus pandemic, finally taking place on 19 August 2020.

The draft was debated by the Council of States as the first chamber in summer 2021 and was adopted with a large majority. It was also adopted by the National Council's Economic Affairs and Taxation Committee (EATC-N) at the start of September 2021 and debated by the National Council as the second chamber in its winter 2021 session. Both councils then resolved their differences to agree on a version that was adopted in a final vote on 17 December 2021. The Association actively lobbied in favor of the draft while parliament debated it. The Executive Board was supported in this regard by a working group made up of specialists from member institutions. The consultation on the revised CISO began on 23 September 2022 and ended on 23 December 2022. AMAS submitted its response. The draft CISA and CISO can be expected to enter into force in early 2024 at the earliest.

6. PENSIONS & PEPP

The AMAS Board of Directors has identified pensions as a strategic priority for the association. The office also carried out many activities in this field during the year.

At the federal level, AMAS has campaigned strongly for the 'Safe Pensions' motion. This motion calls for a further strengthening of the investment competence of pension funds, particularly the so-called 'Prudent Investor Rule'.

Regardless of the outcome of the vote in the national parliament, AMAS will continue to advocate for optimal framework conditions for the asset side within the Swiss pension system.

Furthermore, AMAS co-founded a 'Pension Expert Board' on the second pillar in 2022. This committee is composed of pension funds, regulators, federal agencies, asset managers and pension fund investment consultants. The aim is to take a holistic view of the pension fund system in Switzerland and to determine potential convergences of interest.
Furthermore, AMAS has successfully supported the Swiss pension fund association ASIP in its efforts to establish a framework for ESG for pension funds.

7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

Reform of the withholding tax

The latest attempt to reform withholding tax was intended to strengthen the debt market and close existing loopholes. The Federal Council adopted its dispatch for the attention of the Swiss Parliament in April 2021. The dispatch put forward a solution that was more practicable than the one proposed in the consultation draft and involved largely abolishing withholding tax, albeit only for income from direct investments in bonds and not income from funds. The Federal Council had thus expressly chosen not to treat direct and indirect investments equally despite clear support for doing so in the consultation. After successful lobbying by AMAS in a hearing conducted by the National Council's Economic Affairs and Taxation Committee (EATC-N), the exemption from withholding tax was extended to income from funds, thus ensuring that the draft treated direct and indirect investments equally. The withholding tax reform was finally adopted by both chambers of the Swiss Parliament in their final votes in December 2021.

Just a few months later, the Left (the Social Democratic Party and the unions) called for a referendum on the reform in an attempt to stop it. AMAS supported the campaign in favor of the reform, publishing a position paper on 25 August 2022 entitled 'A sensible reform of withholding tax that will yield more tax revenue and jobs for Switzerland'. The referendum was held on 25 September 2022, and the reform was rejected. While the margin was much slimmer than expected, with just 52% voting against, AMAS sees this as a missed opportunity to increase Switzerland's appeal as a business location. Had the reform been accepted, it would have been possible not only to bring Swiss companies' financing back to Switzerland, but also to make financing foreign companies from Switzerland a more attractive prospect. Swiss entities would also have been able to refinance at a lower cost thanks to the absence of withholding tax on the bonds they issue. Cheaper financing would also have been available for hospitals, energy suppliers, and investments in sustainability.

8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

AMAS, together with evrlearn, launched a new offering for continuing education for investment management professionals. Evrlearn offers an overview of various training opportunities in the areas of asset management, sustainable finance, real estate, private markets, blockchain and crypto, sales and distribution, data science, innovation and fund administration.

AMAS continues its successful support of the Lucerne University of Applied Sciences and Arts (HSLU), which offers a CAS continuing education program in asset management.

For employees of its member institutes, AMAS 2022 has introduced a new knowledge transfer forum. With AMAS Meet & Eat, each month a company presents innovative topics with the aim of sharing new knowledge. In 2022, the focus was on topics such as crypto investing, on-chain fund management, decentralised finance and the ESG investment and data landscape.

9. OTHER ACTIVITIES OF THE ASSOCIATION

Publications:

Swiss Asset Management Study 2022

The Institute of Financial Services Zug IFZ - part of Lucerne University of Applied Sciences and Arts - and AMAS have produced the fifth edition of the Swiss Asset Management Study providing a comprehensive overview on asset management in the country. With sustainable investment centre stage as the most important opportunity the asset management industry in Switzerland continues to grow, despite facing headwinds. The study also highlights where the challenges for the Swiss asset management hub lie, to improve its competitiveness and performance.

Report on the third contributor

In 2022, for the first time, AMAS published a report on the third contributor (only available in German). According to this study, asset managers could earn 85 billion CHF for the Swiss pension fund system in 2021.

Setting sail for a carbon-neutral future

This study provides transparency on the status of the financial centre's voluntary commitment to net zero for the first time: 62% of the assets managed by AMAS members are pledged to the Net Zero Asset Managers (NZAM) initiative.

The Greenwashing Trap

AMAS published a booklet entitled 'How to Avoid the Greenwashing Trap'. Partnering with Swiss Sustainable Finance, this publication includes recommendations on transparency and minimum requirements for sustainable investment approaches and products.

Events

The ***Asset Management Day*** took place on 28 September 2022. Over 200 participants attended the leading national event of the Swiss asset management industry in Bern. The speeches, keynotes and insights on industry-relevant topics came from Urban Angehrn, CEO of FINMA, Petros Mavromichalis, EU Ambassador to Switzerland and Liechtenstein, Aymo Brunetti, University of Bern, Laurent Ramsey, Managing Partner of Pictet & Cie and Fiona Frick, CEO of Unigestion. All were met with great interest.

AMAS is a founding partner of the international ***Building Bridges*** Summit in Geneva and was again heavily involved in the third edition. Building Bridges is a high-level summit aiming at creating synergies, developing new initiatives and making finance a catalyst for change.

AMAS held several ***webinars about Sustainable Finance*** in 2022:

- 'Alternative Investments and the SFDR (Part 2) – Where do you stand?'
- 'Net Zero Asset Managers Initiative: What do you need to get there and why?'
- 'EU Sustainable Finance Regulation Series Webinar – MiFID II'
- 'Integrating Biodiversity in Asset Management'
- 'EU Sustainable Finance Regulation Series Webinar –EU Regulatory Technical Standards'
- 'AMAS Self-Regulation on Transparency and Disclosure for Collective Assets with Sustainability Reference'
- 'EU Sustainable Finance Regulation Series Webinar – Update on key developments related to SFDR, EU Taxonomy and MIFID II'.

The Asset Management Association Switzerland is the official country sponsor (representative office) for GIPS in Switzerland. Together with its GIPS Expert Group, it organised two webinars in 2022:

- Education Webinar for GIPS Beginners
- GIPS Q&A.

TÜRKIYE (TURKEY) COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Turkey (EUR billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	20.5	29.1	26.2	27.9	48.2
Funds domiciled abroad and promoted by national providers	0.001	0.002	0.002	0.003	0.002
Total net assets	20.5	29.1	26.2	27.9	48.2

Table 2: Net Sales of Investment Funds in Turkey (EUR million)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	-2,246.0	7,304.2	-799.1	6,462.6	14,431.7
Funds domiciled abroad and promoted by national providers					
Total net sales	-2,246.0	7,304.2	-799.1	6,462.6	14,431.7

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds	0.4	0.6	1.1	1.6	3.0
Bond funds	3.0	4.1	2.6	2.3	2.7
Multi-asset funds	0.6	1.5	1.5	1.4	1.8
Money market funds	2.1	6.0	2.9	2.7	5.0
Guaranteed/protected funds	0.1	0.1	0.1	0.1	0.02
Absolute Return Innovative Strategies (ARIS) funds	0.6	1.6	3.8	6.6	17.6
Other funds	0.6	1.5	2.4	3.3	4.0
Total	7.4	15.4	14.4	18.0	34.2
of which ➤ ETFs	0.03	0.04	0.4	0.5	0.7
➤ Funds of funds	0.2	0.4	1.0	1.7	1.5

Table 4: Net Sales of UCITS by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds	44.8	76.5	420.6	654.0	648.6
Bond funds	-1,488.3	924.2	-902.1	438.4	364.1
Multi-asset funds	-417.9	847.5	134.6	292.8	41.6
Money market funds	-585.0	3,359.9	-2,050.9	648.1	2,819.8
Guaranteed/protected funds	37.7	35.6	-2.5	-94.1	-76.5
Absolute Return Innovative Strategies (ARIS) funds	48.5	872.5	409.5	2,510.6	9,114.0
Other funds	81.3	781.6	899.7	1,558.2	466.7
Total	-2,278.9	6,897.7	-1,091.1	6,008.0	13,378.3
of which ➤ ETFs	1.2	7.8	354.5	120.8	72.8
➤ Funds of funds	-55.3	113.6	589.6	1,016.4	-255.2

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (EUR billion)					
	2018	2019	2020	2021	2022
Equity funds					
Bond funds					
Multi-asset funds					
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	12.8	13.0	10.9	8.4	11.3
Other funds	0.4	0.7	0.9	1.4	2.7
Total	13.2	13.7	11.8	9.9	14.0
of which ➤ ETFs	0.03	0.04	0.4	0.5	0.7
➤ Funds of funds	0.2	0.4	1.0	1.7	1.5
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (EUR million)					
	2018	2019	2020	2021	2022
Equity funds					
Bond funds					
Multi-asset funds					
Money market funds					
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds					
Real estate funds	25.3	356.7	171.0	134.5	508.8
Other funds	7.6	49.9	121.0	320.0	544.7
Total	32.9	406.5	292.0	454.6	1,053.5
of which ➤ ETFs	1.2	7.8	354.5	120.8	72.8
➤ Funds of funds	-55.3	113.6	589.6	1,016.4	-255.2
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS	398	401	566	795	1,152
Home-domiciled AIFs	58	108	136	219	336
Foreign funds registered for sales	10	10	9	9	9
➤ By national promoters					
➤ By foreign promoters	10	10	9	9	9
Fund launches					
Fund liquidations					
Fund mergers & acquisitions					

5. REGULATORY DEVELOPMENTS

Corporate governance – major developments

Corporate Governance Principles in Turkey were issued by CMB in June 2003. Therefore, the CMB has defined corporate governance principles that can be used by both listed companies and by joint stock companies both in the private and public sectors.

The Turkish Institutional Investment Managers' Association (TKYD) accepted the EFAMA code of conduct for investment and asset management firms. It therefore issued these principles as a guide for members. Borsa Istanbul (Istanbul Stock Exchange) is working on several international projects as part of the EU accession process.

TYKD also published 'Ethical Principles and Codes of Conducts Guide' for the Asset Management Sector in September 2021.

Fund governance

At the end of 2012, the mutual funds industry entered into new era after The New Capital Markets Law (Nr. 6362) and related regulations come into force. Investment companies and asset management companies gained a more important role with the new regulations in the capital markets. The Turkey Electronic Fund Trading Platform (TEFAS), which is one of the most important steps for the growth and widespread uptake of mutual funds, was implemented,

as was the new law allowing portfolio management companies to establish mutual funds. The ongoing process to adapt to the new rules and notifications has been completed, and the transition process ended in 2015. Portfolio management companies took over the mutual funds as founders.

Mutual funds in Turkey are established in the form of open-end investment companies. They do not have legal entity. They are operated via the rules stated in the prospectus, which includes general terms on management of the fund, custody of assets, valuation principles and the conditions for investing in the fund. Turkey is closely watching developments in the European Fund Industry and compliance of the Turkish Fund Industry with EU legislations.

The investment fund industry currently makes up 5.1% of country's GDP. The sector's growth has been strong over the last two years - TRY 305 billion in 2021 and TRY 762 billion in 2022. Higher growth is expected in the coming years as a result of changing investment behaviour in the country and investors becoming comfortable with TEFAS and comparing industry mutual funds. The total investment industry also gained momentum over the recent years, making up 10.4% of GDP in 2022.

TEFAS, which has been in operation since January 2015, has been positive for developing and supporting the mutual fund industry, particularly in 2020-21. CMB's new regulations is mandatory for investment funds traded on the platform. It is an important step for ensuring the growth of the sector and making the system operational. The Government is also studying implementing TEFAS to private pension funds. The open architecture approach created by TEFAS for delivering mutual funds to investors made a significant contribution. Product variety has increased as has investor access to different asset classes and themes, regardless of the scale of savings. Types of investment funds changed in 2016 to comply with EU standards; Debt Securities, Money Market, Mixed & Variable, Alternative, Equity, Funds of Funds, Precious Metals, Participation, ESG Funds and Exchange Traded Funds.

With the new law, capital markets are gaining new investment products and asset classes for alternative types of investment funds, such as interest-free products (Islamic products), venture capital funds and real estate investment funds, providing variety for the market. These funds came into capital markets in 2016 and have continued to grow. ESG funds, funds created for the green economy, hedge funds and equity funds become popular in the last two years as a result of the low interest rate policy of Government. The total number of open ended funds is 1512, up from 569 in 2020.

The CMB issued the related communiqués on establishing the private equity funds and real estate funds in January 2014. There are real estate investment trusts that are all closed-ended instruments in the Turkish capital markets.

The CMB's new investment funds communiqué, issued under the new Capital Markets Law, entered in to force on 1 July 2014. An Investment Funds Handbook prepared by CMB, in line with this communique, was also issued in June 2014. The latest amendments took place on 23 December 2020.

According to the communiqué published in late 2006, hedge funds in Turkey are regulated by the CMB. Along with the several funds compatible with the UCITS III Directives. Recently, hedge funds grew to TRY 440.2 billion in 2022 from TRY 352.2 billion in 2021.

Other regulatory developments

In June 2017, the Government changed the sector communiqué circulated on 15 December 2016. According to this, as of 1 January 2018, an asset management company cannot manage more than 40% of the total asset value of pension funds of a single pension company. However, the practice ended at the end of 2018 due to underperformance.

6. PENSIONS

Private Pensions and Auto Enrolment

The current pension system in Turkey is the third pillar 'voluntary system', which started in October 2003. In 2013, along with the Government Contribution which started in January 2013, the pension fund industry showed visible

growth over the last eight years. However, in 2018-19, participation in the system fell because of the new auto-enrolment system. In 2021 and 2022, the system continued to grow - by 28% in 2021 and 59% in 2022. The aim of the support is to make the pension system more attractive to pension savers. The purpose of the new regulations is to increase savings by Turkish investors, which will help improve the economic outlook and reduce Turkey's current deficit.

In Turkey, the funds used to invest are usually traditional standard instruments such as equities, bills and bonds and deposits as well as - to a degree - the futures markets. For several years, following the development of capital markets by the Capital Markets Boards of Turkey, funds began to invest both internationally and locally. The necessity for longer-term instruments is surging through the rapidly growing industry. Participation in the system continued to grow rapidly, although it is a voluntary system. Following the pandemic, the system picked up again in 2021 and 2022, with the number of participants growing to 7.8 million by the end 2022 compared to 7.0 million the previous year.

The current Turkish pension system is fund based, and pension funds are managed by the asset management companies in Turkey. The system is complementary to the national social security system on the basis of voluntary participation.

The Capital Markets Board of Turkey provided opportunities for constructing longer-term and alternative capital market instruments, such as real estate investment funds and venture capital funds. These are appropriate for longer-term investment opportunities for pension fund portfolios. Infrastructure funds are also important for long-term investments and portfolio diversification.

In 2013, the proportion of pension funds in household's investment portfolio was only 2% had grown to 5.5% in September 2022. It is clear that the Government support was successful over the last five years. It is obvious that pension system is a very important tool for improving savings.

By the end of 2012, the total amount was TRY 20 billion, while by 2022 the system had grown to TRY 351.4 billion with 7.8 million participants. Government support to the system reached to TRY 48.7 billion.

There are many different types of pension funds with differing investment strategies. In the past, the majority of assets in Turkish funds were government bonds; now participants prefer gold, variable and government external debt funds respectively. Withholding for income tax is applied when a participant leaves the system. Taxation rates differ depending on the participant's opting out period. The participant who stays 10 years in the system and retires from the system at the age of 56, pays only 5% withholding tax. On the other hand, the participant who does not remain in the system for a minimum of 10 years must pay 15% withholding tax (also for the government support) if. In addition if the participant completes 10 years in the system, and opts out before reaching 56 years of age, they pay 10% withholding tax. Finally the participant pays 5% of withholding tax if they qualify for retirement (death or becoming disabled). It is also effective for auto-enrolment system.

The Turkish Government established a further pillar; an auto-enrolment pension system to attract more participants to the system; this came in to force in 2017. In August 2016, the Private Pension and Savings Code was and employees under 45 years of age are automatically enrolled in a pension plan by the employer. The employer transfers a minimum 3% of the salary to the system. The employees can use the right of withdrawal and opt out inside two months. The new system gradually began operating in 2017. Both the government support to the voluntary pension system and auto-enrolment will add more participants to the pension system. By the end of 2022, 8.3 million participants and TRY 31.8 billion fund amount had been raised in the auto enrolment system, with TRY 1.5 billion of Government support. The auto enrolment system also has Government support; since that start of 2022, this is now 35% of contributions paid (previously 25%). If the participant does not opt out, the Government contribution is calculated TRY 1000 as a one-time profit. If the participant prefers to use the pension buying 10 year period annuity contract, 5% of the savings will be paid to the pensioner. The conditions for entitlement to Governmental support is shown at the table below:

PRIVATE PENSION SYSTEM	AUTO ENROLMENT
Amount of Governmental Support	**Amount of Governmental Support**
minimum 3 year in the system: 15%	minimum 3 year in the system: 15%
minimum 6 year in the system: 35%	minimum 6 year in the system: 35%
minimum 10 year in the system: 60%	minimum 10 year in the system: 60%
Retirement, death and disability: 100%	Retirement, death and disability: 100%

Since May 2021, the private pension and auto-enrolment participant has the right to change the distribution of the funds in a pension plan six times in a calendar year (previously 12 times a year).

At the end of May 2019, the Capital Markets Board of Turkey (CMB) added an article to the Pension Funds Guide where underperforming asset management companies will be sanctioned, with the aim of improving fund returns. If the fund underperforms two periods (one period is one year) within a three-year term, the fund will be switched to an asset management company. Meanwhile, outperformers will be awarded with extra payments.

In October 2019, the Presidency of Republic 2020 Annual Programme was published. The pension system is important for improving long-term savings and the 2020 amendments will be introduced for the sustainability of the system.

1) Governmental support will differ according to age. The aim is to attract youth to the pension system.
2) Partial withdrawal opportunities will be provided.
3) A supplementary pension system will be established. The auto-enrolment system will be restructured to enhance the longevity of participants in the system and the level of funds raised.

In June 2020, it was announced that supplementary pension system would be activate from 1 January 2022. The system has two options, one is a combined supplementary pension system and will be compulsory. The other is subject to preference of employees. In the combined supplementary system, 3% of monthly pay from employees (8.33%) will be transferred to the supplementary fund account of the employees. In the second approach, every employee will have a supplementary fund account. Employers will contribute 4% to the fund as provisions for severance pay and the Government will contribute 1%. A haircut of between 0.5-3.0% will be taken from the salaries of employees and transferred to the fund account. Employees will have right to opt out of the combined system and transfer to the other.

According to law printed on Official Gazette in May 2021, parents will be able to save in the private pension system (BES) on behalf of their children who have not reached the age of 18.

The law also specifies that where a decision is made by authorised bodies relating to the savings and commitments in Turkey or abroad within the scope of pension commitment plans existing as of 1 January 2021, associations, foundations and other commercial companies with legal personality - such as foundations and funds that make retirement commitments to their members or employees - will be able to transfer their amounts partially or completely to Pension System at the end of December 2023.

Transferred amounts to Private Pension System are exempt from income tax. Here, members who transfer amounts will not be able to leave the system (disability and death is excluded) within 3 years from the date of transfer.

In recent years, investment funds have showed steady growth, thanks to low interest rates and stable exchange rates in 2022. Growth was 150% compared to 2021, reaching TRY 762.2 billion.

7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

The Ministry of Treasury and Finance imposes equal withholding tax rates on foreigners and Turkish nationals for bonds and investment funds. The current taxation system allows both foreign and domestic investors to pay zero withholding tax on shares.

Securities and other capital market instruments, purchase/sales gains and depreciation based on the distinction between domestic and foreign investors given the application of withholding tax and capital companies to 0% withholding tax.

For all the others:

- Withholding tax of 10% was removed for equity based investment funds (min 80% equity holding funds).
- The incomes from holding the funds that hold minimum 51% equity of the fund portfolio over a year are exempt from 10% withholding tax.
- Investors investing in all other type funds are subject to 10% withholding tax

There were major developments in year 2022. On 15 April, a Presidential Decree was published reducing 10% portfolio income tax to 0%; this also applied to venture capital funds. However, funds with foreign currency assets, gold and other precious materials and capital markets instruments were excluded from the scope of exemption.

8. OTHER ACTIVITIES OF THE ASSOCIATION

Reviewing developments in the portfolio management and fund industry since 2000, we see a significant improvement with the positive impacts of the approval of the private pension legislation and the integration of our country's financial institutions into the system. There has also been their increased reputation on the international arena as a result of the restructuring based on past lessons.

The new legislative regulations introduced by the CMB in the investment fund industry, and the new products, support and enhance the industry. Both the tax equality among the investment tools and specific legislation on the asset management companies will pave the way for the growth of collective investments industry in Turkey and meet the international standards. The number of asset management companies – with owners' independent from banks - have increased in the last six years, bringing the total number of asset management companies to 59 in 2022.

The CMB is working closely with TKYD to resolve many issues related to investment funds, as well as discussing certain proposals and potential solutions for some critical issues facing the industry in Turkey.

The activities of TKYD in 2022 can be summarised as:

On 8 February, TKYD President Mehmet Ali Ersarı, Vice President Halim Çun and Secretary General Nilgün Şimşek Ata held an online meeting with Dubai International Financial Centre authorities on the topic of cooperation opportunities.

- On 17 February, TKYD Management visited the Turkish Capital Markets Association (TCMA). The subjects were capital markets developments and mutual cooperation.

- On 28 February, TKYD Management Insurance Association of Turkey held a meeting on private pensions, asset management sector and how to further increase individual savings.

- TKYD and Integrated Reporting Turkey Association (IRTA) held a consultation meeting to discuss IRTA committee contents.

- The first TKYD Asset Management Summit was held on 7 April. As it was the first meeting held following the pandemic, a limited number of participants attended. However, thousands of online participants followed

the event which was also broadcasted on TKYD's YouTube channel. There were four panels at the summit: 'Perspective: Expectations in Local and Global Markets'; 'Technology in the Fund Management Sector, Sustainability and ESG in the Asset Management Sector' and 'Portfolio Management via Investment Funds'.

- On 8 February, TKYD President Mehmet Ali Ersarı attended the Bloomberg HT live broadcast entitled 'Demand and Real Return Performance for Mutual Funds in an Inflationary Environment'.
- TKYD organised the third Golden Egg Fund Basket Competition for university students in cooperation with TCMA and Takas Istanbul (Istanbul Settlement and Custody Bank). Some 1228 university students from 159 different universities registered for the competition.
- On 17 June, Dubai International Financial Centre (DIFC) authorities visited TKYD management in Istanbul. DIFC is home to the region's largest financial ecosystem of more than 25,600 professionals who are internationally recognised, have an independent regulator and have more than 2500 active registered companies.
- On 24 August, TKYD management visited CMB of Turkey, organising meetings with Chairman İbrahim Ömer Gönül, Deputy Chairman Ali İhsan Güngör and Institutional Investors Department Head Funda Uyar Geneci.
- TKYD supported the sixth World Investor's Week held 3-7 October 3 to 7, arranged in Borsa Istanbul.
- On 25 October, TKYD attended the IIFA General Assembly online which was a hybrid organisation.
- TKYD supported and attended Bonds, Loans & Sukuk Turkey 2022, organised by the GFC Media group. KYD distributed our Corporate Investor magazine (TKYD's Quarterly Magazine) at the event.
- In November 2022, TKYD held a press conference to announce latest data on asset management sector. The sector's AUM passed TRY 1 trillion for the first time.
- TKYD Management visited Mehmet Akif Eroğlu, (Chairman of Insurance and Private Pensions Regulation and Supervision Agency (SEDDK)). Views on the private pension sector were exchanged.
- The second TKYD Asset Management Summit was held on 23 December. Murat Zaman, Deputy Minister of Republic of Turkey Ministry of Treasury and Finance attended and made a speech. This summit also had four panels: 'Perspective: Expectations in Local and Global Markets'; 'Global Trends and Innovations in the Asset Management Sector'; Why Invest with Mutual Funds?' and 'Talent Management for Transformation'.
- TKYD also prepared a commercial film for raising awareness in investment funds. The film was first shown at the second Asset Management Summit and will be shown via various channels during 2023.

TKYD has 18 institutional (asset management companies, insurance companies and brokerages) and 24 individual members.

The Turkish Institutional Investment Managers' Association, with an ambitious vision of enhancing the base for institutional investors in Turkey, aims at increasing the number of investors to 10 million.

Since April 2008, TKYD has published a quarterly magazine called 'Institutional Investor'. This is distributed to TKYD members, institutional investors, companies traded at the stock exchange, universities and the regulatory body officials. The magazine covers all the latest developments in the Turkish investment fund industry as well as several analyses, reports, introductions of new funds to the market, interviews, new trends in the sector and developments in the global fund industry along with the relevant industry statistics. Last year, the Annual Magazine celebrated its 14th anniversary.

TKYD has determined six Priority Areas for 2023:

1. Investor Protection
2. Improvement of Sector Standards
3. Capital Markets Development
4. Research Activities and Statistical Data
5. Long Term Savings Growth
6. Taxation

TKYD signed a partnership agreement with Borsa Istanbul in 2015 for calculation of KYD benchmark indices.

UNITED KINGDOM COUNTRY REPORT

1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in United Kingdom (GBP billion)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	1,335.9	1,502.2	1,604.1	1,794.4	1,559.6
Funds domiciled abroad and promoted by national providers					
Total net assets	1,335.9	1,502.2	1,604.1	1,794.4	1,559.6

Table 2: Net Sales of Investment Funds in United Kingdom (GBP million)					
	2018	2019	2020	2021	2022
Home-domiciled UCITS & AIFs	-20,451.4	-17,413.0	14,566.0	32,301.4	-37,523.6
Funds domiciled abroad and promoted by national providers					
Total net sales	-20,451.4	-17,413.0	14,566.0	32,301.4	-37,523.6

2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (GBP billion)					
	2018	2019	2020	2021	2022
Equity funds	579.9	672.3	702.5	811.1	698.2
Bond funds	185.5	183.4	195.2	200.8	173.2
Multi-asset funds	121.6	153.8	176.6	186.5	173.5
Money market funds	19.3	21.6	21.3	22.0	20.3
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	55.1	43.9	35.9	29.4	22.5
Other funds	15.5	21.6	24.7	43.1	41.1
Total	976.8	1,096.6	1,156.1	1,292.9	1,128.8
of which ➤ ETFs					
➤ Funds of funds	45.5	59.2	64.4	68.7	62.7

Table 4: Net Sales of UCITS by Fund Type (GBP million)					
	2018	2019	2020	2021	2022
Equity funds	-14,621.5	-14,455.6	628.6	16,533.8	-30,033.7
Bond funds	-1,922.9	259.6	690.5	9,786.3	5,607.5
Multi-asset funds	7,404.1	7,082.6	13,865.8	9,394.6	-857.6
Money market funds	-1,003.4	2,343.0	-278.3	696.5	-1,845.1
Guaranteed/protected funds	-8.4				
Absolute Return Innovative Strategies (ARIS) funds	-12,186.4	-14,504.6	-8,722.2	-6,844.6	-5,654.0
Other funds	1,099.9	2,258.5	3,982.7	7,701.2	3,963.4
Total	-21,238.7	-17,016.6	10,167.1	37,267.8	-28,819.5
of which ➤ ETFs					
➤ Funds of funds	5,055.1	2,101.2	2,027.4	1,402.9	770.4

3. KEY TRENDS IN THE AIF MARKET

Table 5: AIF Assets by Fund Type (GBP billion)					
	2018	2019	2020	2021	2022
Equity funds	41.3	49.3	77.1	80.9	67.6
Bond funds	14.4	15.1	16.8	18.6	15.7
Multi-asset funds	83.9	88.3	93.1	99.1	88.0
Money market funds	0.1	0.1	0.1	0.1	0.1
Guaranteed/protected funds					
Absolute Return Innovative Strategies (ARIS) funds	10.9	12.6	11.9	12.2	6.7
Real estate funds	25.8	21.9	18.4	15.3	10.7
Other funds	182.8	218.4	230.5	275.2	241.9
Total	359.1	405.6	448.0	501.5	430.7
of which ➤ ETFs					
➤ Funds of funds	102.6	112.5	117.8	130.1	118.6
➤ Institutional funds					

Table 6: Net Sales of AIFs by Fund Type (GBP million)					
	2018	2019	2020	2021	2022
Equity funds	1,005.5	-2,121.9	4,636.3	-5,622.0	-3,992.2
Bond funds	-57.7	-1,284.9	-7.1	2,020.6	471.1
Multi-asset funds	-2,580.5	2,963.2	256.1	-609.8	-1,656.4
Money market funds	-8.1	-0.6	15.8	7.7	13.4
Guaranteed/protected funds	-118.7				
Absolute Return Innovative Strategies (ARIS) funds	743.4	559.9	-1,007.9	-711.5	-4,096.3
Real estate funds	-863.4	-4,393.8	-2,204.7	-4,458.5	-3,080.0
Other funds	2,666.7	3,881.7	2,710.4	4,407.0	3,636.4
Total	787.3	-396.4	4,398.9	-4,966.3	-8,704.0
of which ➤ ETFs					
➤ Funds of funds	-2,625.0	3,756.9	1,230.4	-963.5	-905.7
➤ Institutional funds					

4. TRENDS IN THE NUMBER OF FUNDS

Table 7: Number of Funds					
	2018	2019	2020	2021	2022
Home-domiciled UCITS	2,196	2,301	2,350	2,320	2,271
Home-domiciled AIFs	1,003	1,014	1,029	1,067	1,060
Foreign funds registered for sales	1,415	1,463	1,608	1,712	1,667
➤ By national promoters					
➤ By foreign promoters					
Fund launches	226	356	220	241	162
Fund liquidations	117	152	123	146	121
Fund mergers & acquisitions					

5. MARKET DEVELOPMENTS IN 2022

Funds under management

UK investor Funds under Management (FUM) in both UK and overseas-domiciled funds saw a drop of 14% over 2022, from a record high of GBP 1.59 trillion at the close of 2021 to GBP 1.37 trillion by the end of 2022. The fall in asset valuations has been the primary driver over the year. Retail and institutional net outflows withdrew GBP 50.1 billion from funds, with the remaining GBP 168 billion fall in assets arising from a drop in valuations. Both equities and fixed income saw hits to asset values.

Net retail sales

The UK funds industry saw withdrawals of GBP 25.7 billion by retail investors in 2022, the first-ever annual outflow recorded in IA data, which dates back to 2002. This follows the highest two-year net retail sales period on record with total sales of GBP 74.4 billion over 2020 and 2021. The 2022 retail outflow is equivalent to 1.6% of FUM.

Both equity funds and fixed-income funds saw outflows from retail investors in 2022. Fixed income outflows were concentrated to the beginning of the year. A sharp increase in yields, triggered by central banks raising rates to combat inflation, hurt bond prices. Retail investors withdrew GBP 7.4 billion from bond funds in the first half of the year. Bond funds did see inflows in the second half of the year as yields stabilised and the higher returns now available attracted investors back to bonds.

Equity funds saw outflows throughout 2022 (GBP 18.2 billion), with particularly high outflows in Q3 (GBP 9.4 billion). Most types of equity funds saw outflows in 2022, as economic and market growth prospects dimmed globally. UK (GBP 12.0 billion) and European (GBP 5.5 billion) equities were hit particularly hard hit by concerns over the security of energy supplies following the war in Ukraine. This led to rising inflation and heightened geopolitical uncertainty.

Some types of equity fund did see investor demand, with North America funds showing a modest annual inflow (GBP 687 million), while global equity income funds enjoyed net retail sales of GBP 2.8 billion as part of a rotation away from sales to growth-focused equity funds.

Responsible and sustainable investment

In 2022, funds under management in Responsible Investment (RI) funds saw a small increase of 1%, from GBP 90.5 billion at the start of the year to GBP 91.4 billion by the close. This modest growth contrasts with the GBP 34.4 billion increase in FUM recorded in 2021.

Following net retail inflows of GBP 11.7 billion in 2020 and GBP 15.9 billion in 2021, inflows dropped to GBP 5.4 billion in 2022. Inflows to RI funds were more robust, and continued as sales shifted to outflow in the wider industry. However, mounting outflows from equity and mixed-asset funds in the wider industry in the second half of the year were also reflected in outflows from equity and mixed-asset RI funds.

Active - Tracker

Overall, index tracking funds remained in inflow through 2022, with net retail sales of GBP 11.0, billion down from the circa GBP 18 billion inflows of 2020 and 2021. Actively managed funds returned to outflow in 2022, when retail investors withdrew a net GBP 36.7 billion. This followed a resurgence in sales through 2020 and 2021, where inflows were GBP 12.4 billion and GBP 25.3 billion, respectively.

6. REGULATORY DEVELOPMENTS

6.1. UCITS/AIFMD

The Overseas Funds Regime (OFR) entered into force in February 2022. This provides the legislative framework allowing non-UK fund regimes - including EEA UCITS - to be recognised in the UK for marketing to retail investors. The timing for when the OFR will be operationalised for UCITS - along with any additional requirements - remains to be confirmed, although progress updates are expected in the first half of 2023. The Temporary Marketing Permissions Regime (TMPR), which allows EEA UCITS to continue to be marketed in the UK, lasts until the end of 2025; UCITS in the TMPR will need to transition to the OFR before the TMPR ends.

The Assessment of Value (AOV) requirement has been in force since 2019, and requires managers of UK UCITS and authorised AIFs - Non-UCITS Retail Schemes (NURS), Qualified Investment Schemes (QIS) and Long Term Asset Funds (LTAF) to consider whether fund costs are justified for the value delivered. The FCA is conducting a supervisory review of AOV implementation, following the 2021 review, which found shortcomings.

The Consumer Duty, which applies from 31 July 2023, also includes a value assessment requirement for any products and services marketed to retail investors, although there is a carve-out for managers of UK authorised funds who have performed an AOV. EEA UCITS in the TMPR are strictly out of the scope of the value assessment, but distributors are expected to request information from these funds. The IA, along with other trade bodies, are developing a framework for reporting core data to distributors.

In 2022, the FCA permitted UK UCITS and NURS to use side pockets for the first time, for funds holding assets impacted by the Russian invasion of the Ukraine. This has not been extended to other scenarios. The FCA is seeking further feedback on liquidity management in funds in its recent discussion paper (see below), following the joint work on liquidity in open-ended funds with the Bank of England. It is considering introducing a minimum notice period for redemptions from open-ended property funds.

The FCA has issued a broad discussion paper on the on the future UK regulatory framework for asset management (FCA DP23/2). This consults on a broad range of potential measures that could be undertaken for reforming the UK's investment fund framework, including on restructuring the retail funds framework, liquidity management, asset eligibility, depositary responsibilities and the digitalisation/tokenisation of funds, although the FCA has noted not all of these are likely to be taken forward. The consultation period ends in May 2023.

6.2. MiFID II

With MiFID II having been transposed into UK law, there is substantial consideration being given to potential reforms to the regulatory framework by regulators and the UK Government. A number of reforms have been proposed, both as part of the UK's Wholesale Markets Review announced in 2022 and the Edinburgh Reforms package announced late last year. These include (amongst other things) committing to a regime for a UK Consolidated Tape by 2024, and trailling a new class of wholesale market venue that would operate on an intermittent trading basis.

The Wholesale Markets Review also saw the FCA commit to providing further guidance, most likely in the form of a market playbook. This would provide future guidance on communication protocols in the event of market outages, as well as removing the Share Trading Obligation and the Double Volume Cap for equities and review the transparency regime for both bonds and derivatives.

6.3. CSDR

The discussion of operationalisation of cash penalties is ongoing and continues to evolve, but we understand that approaches across IA member firms remain disparate.

While there was originally a fairly even split in the two main approaches, some IA members are moving towards a net penalty model (only reimbursing debits if the monthly figure is a net debit) from a gross penalty model (to reimburse all debits where appropriate), though this has been client dependant.

There is considerable variance in how IA members have operationalised cash penalties, and the allocated to them. Some having no specialised resource and some have built small teams. There is also a spread in how much firms have been able to operationalise the process, in part reflecting the fragmented timelines from custodians and differing downstream client demands.

Custodian approaches to MT537 SWIFT messages for cash penalties have become marginally more standardised in formatting and timelines, but issues remain. We note the work of the AGC on CSD cash penalty standards for intermediaries, and will continue to monitor with members.

6.4. EMIR

A majority of IA member firms only started initial gap analysis once the ESMA level 3 documentation emerged (December 2022), so are still in the fact-finding phase. This will be a challenge for firms seeking to be ready by the 'go-live' date as there are significant changes to be made and fields to map.

There are a few potential challenges that have already been identified and will be areas to overcome before go-live, including:

- The consumption and transmission of ISO 20022 XML messages.
- Any fields that rely on information to/from clients and the counterparty (counterparty 2 data, clearing threshold field, clearing obligation field) and a review of how this data is transmitted and ingested.
- Application of identifiers, UTI, UPI, PTRR ID and report tracking numbers.
- How the execution agent field will be applied.

Potential divergence between the UK and EU in EMIR reporting requirements may be a further challenge and will need to be continuously monitored.

6.5. PRIIPs

While EU UCITS transitioned to the PRIIP KID at the end of 2022, UK UCITS and retail AIFs remain exempt from PRIIPs for another four years, pending a review of the UK retail disclosure regime. In the meantime, UK investors need to be provided with a UCITS KIID, regardless of where the fund is domiciled.

UK PRIIPs - other than funds - have also seen a divergence in the PRIIP KID. The EU KID has a new methodology for calculating performance scenarios, changes to the presentation of cost information and certain material imported from UCITS KIIDs. However, the UK KID has replaced performance scenarios with narrative information about the factors affecting performance, and has retained the existing cost presentation. The EU and the UK have made identical technical methodological modifications for calculating transaction costs, but only the EU has imposed the total explicit costs as the minimum amount to be disclosed.

6.6. ELTIF

No ELTIFs were ever launched in the UK, and in December 2022, the UK government announced it would abolish the Long Term Investment Fund Regulation (the post-Brexit UK onshored ELTIF Regulation) as part of its Edinburgh reforms. The Government noted that instead, the UK has launched its own fund regime for private market investments, the Long Term Assets Fund (LTAF). Although EU-domiciled ELTIFs will be accessible to professional and sophisticated investors through the National Private Placement Regime (NPPR), uptake in the UK market is not expected to be significant, even after the revisions to the ELTIF Regulation.

The LTAF is gaining traction, with three applications reported to being under consideration by the FCA as of January 2023, with the first LTAF being authorised by the FCA in March 2023. The FCA is expected to publish its final rules allowing them to be marketed to retail investors, subject to restrictions, in 2023.

6.7. Sustainable finance

Taskforce on Climate-related Financial Disclosures (TCFD)

The largest asset managers (AUM >£50bn) will have to make their initial public disclosures by 30 June 2023 for the period beginning 1 January 2022. They must be made in line with the FCA's climate-related financial disclosure rules for asset managers, life insurers, FCA-regulated pension providers (PS21/24). These will require mandatory disclosures consistent with the TCFD's recommendations on an annual basis at:

- Entity level – an entity-level TCFD report setting out how they into account take climate-related risks and opportunities in managing or administering investments on behalf of clients and consumers.
- Product or portfolio level – a baseline set of consistent, comparable disclosures in respect of their products and portfolios, including a core set of metrics.

Smaller firms (> £5 billion AUM exemption threshold but < £50bn AUM) will be required to disclose one year later.

UK Sustainable Disclosure Requirements (SDR) regime

On 25 October 2022, the FCA published its Consultation Paper (CP) on Sustainability Disclosure Requirements (SDR) and investment labels. The CP followed the publication of the FCA Discussion Paper 21/4 on SDR and investment labels in November 2021. The FCA's draft proposals cover the following areas:

- **Sustainable investment labels** (Sustainable Focus; Sustainable Improver; Sustainable Impact), to help consumers navigate the investment product landscape and enhance consumer trust.
- **Consumer-facing disclosures**, to help consumers understand the key sustainability-related features of a product.
- **Detailed disclosures**, targeted at a wider audience (e.g. institutional investors and consumers seeking more information):
  - **Precontractual disclosures** (e.g. in the fund prospectus), covering the sustainability-related features of investment products.

- **Ongoing sustainability related performance information** including key sustainability-related performance indicators and metrics, in a sustainability product report
- **A sustainability entity report**, covering how firms are managing sustainability-related risks and opportunities

- **Naming and marketing rules**, restricting the use of certain sustainability-related terms in product names and marketing materials unless the product uses a sustainable investment label.
- **Requirements for distributors**, to ensure that product-level information (including labels) is made available to consumers.
- **A general 'anti-greenwashing' rule** applied to all regulated firms which reiterates existing rules to clarify that sustainability-related claims must be clear, fair and not misleading.

The consultation closed on 25 January 2023, and the FCA's final rules are currently expected in June 2023.

On specific rules for financial advisers, the FCA has stated that it will follow up with a separate consultation to confirm how they should account for sustainability matters in their investment advice and understand investors' sustainability preferences to ensure their advice is suitable.

Net Zero Transition Plans

At the end of 2021, the Chancellor of the Exchequer announced that the Government would require investment managers, regulated asset owners and listed companies to publish transition plans for considering the Government's net zero commitment or explain why they have not done so. To assist this, a high-level Transition Plan Taskforce (TPT) of regulators and civil society organisations was established to develop a 'gold standard' for net zero transition plans. The TPT secretariat is provided by two thinktanks, the UK Centre for Greening Finance and Investment (CGFI) and E3G.

The introduction of transition plans is viewed as a logical next step following the introduction of mandatory TCFD throughout the UK economy. As transition plan standards are developed, they will be incorporated into the UK's Sustainability Disclosure Requirements (SDR). The Government intends to legislate to deliver this and the FCA - which is formally involved in the TPT - will have regard to its findings as it develops new rules. The TPT will also seek to provide a leading example for developing national standards in other jurisdictions and for developing international standards and norms.

The TPT published a draft Transition Plan Disclosure Framework and associated Guidance for consultation at the end of 2022.

UK Green Taxonomy

Since 2021, the UK has been developing a green taxonomy to clarify which economic activities count as sustainable. It is intended to be robust and evidence-based, taking an objective and science-based approach to assessing sustainability. The Green Technical Advisory Group (GTAG) was established to provide independent advice on implementing the UK green taxonomy and the Government spent much of 2022 reviewing its recommendations.

The Government was expected to consult on draft Technical Screening Criteria (TSC) for climate change mitigation and climate change adaptation objectives within the UK green taxonomy (to be based on those in the EU taxonomy) and to introduce legislation by the end of 2022. In December, the Government's HM Treasury announced that it would review its approach to taxonomy development, following review of the GTAG advice. The Government will provide a further update in 2023 as part of its publication of the Green Finance Strategy.

Environmental, Social, and Governance (ESG) ratings and data

In December 2022, as part of the Edinburgh reforms, the Government announced that it would consult in Q1 2023 on bringing Environmental, Social, and Governance (ESG) ratings providers into the regulatory perimeter. This followed a 2021 announcement that it was considering bringing ESG-related services, including ratings, data, and verification, into the scope of the FCA.

Meanwhile, the FCA set up the ESG Data and Ratings Working Group (DRWG), an industry working group mandated by the FCA to develop a voluntary Code of Conduct for ESG data and rating providers. By bringing together the views and expertise of all key stakeholders within the ESG data ecosystem, the DRWG aims to develop a comprehensive, proportionate and globally consistent voluntary Code of Conduct, building on IOSCO's recommendations. The DRWG is working towards a June 2023 deadline for consultation on a draft Code of Conduct.

The Secretariat role is being fulfilled jointly by the International Regulatory Strategy Group (IRSG) and the International Capital Market Association (ICMA).

Green Finance Strategy and Net Zero Strategy

In May 2022, the Government published a consultation seeking views and evidence from stakeholders to help develop an update to the 2019 Green Finance Strategy. This had set out a comprehensive approach to greening financial systems, mobilising finance for clean and resilient growth. The updated Strategy will assess progress since 2019 and set out how the UK can ensure the financial services industry supports the UK's energy security, climate and environmental objectives.

The updated strategy was initially planned for publication in late 2022, but was delayed following the announcement of an independent review of whether the Government's approach to delivering its net zero target supported business conditions and economic growth. The updated Green Finance Strategy is now expected in early 2023.

In July, the High Court ordered the Government to publish an update to its 2021 Net Zero Strategy, which was found not to provide sufficient detail to meet obligations under the Climate Change Act. The 2021 Strategy set out an approach to keep the UK on track with its 2030 Nationally Determined Contribution and the net zero by 2050 goal. It includes illustrative scenarios of decarbonisation pathways to net zero by 2050, policies and proposals to reduce emissions in a number of economic sectors (focused on those with the highest emissions) and a broader plan to support the transition across the economy. A renewed strategy must be published by the end of March 2023.

6.8. Stewardship

Lord Hill's Listings Review

In November 2020, the UK Listings Review chaired by Lord Hill was launched by the UK government, aiming to strengthen the country's position as a leading global financial centre, with a specific focus to enhance UK public markets. In March 2021, the Hill Report was published with 15 recommendations for improving the UK listing environment in seven themes:

- Monitoring and delivering results.
- Improving the environment for companies to go public in London.
- Re-designing the prospectus regime.
- Tailoring information to meet investor needs better.
- Empowering retail investors and improving capital raising for listed issuers.
- Improving the efficiency of the listing process.
- Wider financial ecosystem.

Addressing these recommendations, and the wide range of issues they cover, required commitment from various government departments, regulators, and other stakeholders. The major consultations that have sought to address some of these recommendations during 2022 are set out below.

Primary Markets Effectiveness Review

The FCA, as part of its Primary Markets Effectiveness Review, consulted further on how to make the UK listings regime simpler, more efficient and more competitive. As part of its proposals, the FCA considered removing the current dual-segment model and introducing a single segment, with all listed companies needing to meet a single set of criteria and opting into a further set of obligations (focused on enhancing shareholder rights). We expect the FCA to update the market on their proposals during H1 2023.

The Secondary Capital Raising Review

The Secondary Capital Raising Review set out recommendations for improving the efficiency of further equity capital-raising by UK publicly traded companies. Key recommendations include:

- protecting the rights of existing shareholders by maintaining and enhancing the UK's pre-emption regime;
- making existing fundraising structures quicker and cheaper by changing the UK Company's Act;
- reducing regulatory involvement in fundraisings (including raising the threshold at which a prospectus is required for a further issuance and removing the requirement for a sponsor);
- establishing a Digitisation Taskforce (chaired by Sir Douglas Flint) to consider modernising the UK's shareholding framework (including the intermediated securities system).

Developments in the Market for Stewardship

Pension funds are required to set their stewardship expectations on how they expect their money to be managed by investment managers. There have been several notable market-led solutions to ensure that managers are helping clients meet their regulatory requirements.

- **Pension and Lifetime Savings Association's (PLSA) Vote Reporting Template** – This is designed to promote consistent and uniform reporting of how asset managers use their voting rights and seeks disclosures on 'most significant votes'.
- **Investment Consultants Sustainability Working Group's (ICSWG) Engagement Reporting Guide** – This is designed to support the consistent and comparable collection of engagement reporting data to help asset owners meet their stewardship obligations. It includes firm level and strategy level questions for asset managers on their engagement activities.
- **Expression of Wish** — The Taskforce on Pension Scheme Voting Implementation recommended that pension schemes set an 'Expression of Wish' (EoW) to indicate how they would like their shares to be voted. The Occupational Pension Stewardship Council set out further guidance on the range of approaches under an EoW framework, clarifying that an Eow while not binding, enables asset managers to facilitate the client wish within stewardship practices,
- **Investment Association/Pension and Lifetime Savings Association Report on Investment Relationships for Long-term Value Creation** — this notes that a greater focus on stewardship can help improve the relationship between asset owners and asset managers, delivering better returns for savers. It makes recommendations for each stage of the relationship including:
  1) greater articulation of stewardship expectations during the manager appointment process
  2) clarity on the role of investment consultants in supporting the incorporation of stewardship into the assessment process
  3) a 'governing charter' setting out mutual expectations to promote long-term sustainable value
  4) an oversight framework between asset owners and managers to align with performance review cycles.
     (i) **FCA Vote Reporting Group** - The FCA has launched a working group to develop a comprehensive and standardised vote disclosure regime. This would be designed to deliver: (i) more timely and complete vote reporting
     (ii) disclosure at fund and mandate level
     (iii) explanations/rationales for significant votes cast.

Improving vote reporting will enable asset owners to better assess their managers while reducing the level of ad-hoc vote reporting to clients. The FCA will issue a public consultation on the draft vote disclosure framework in Q2 2023.

FRC Stewardship Code

The Financial Reporting Council's revised Stewardship Code came into effect on 1 January 2020. Under the FCA's Conduct of Business (COBS) requirements, all asset managers are required to report the nature of their commitment to the Stewardship Code, irrespective of whether they are signatories to the Code. In February 2023, the FRC listed successful signatories to the Code, based on those signatories who had submitted their reports at the end of October 2022. The total number of signatories has increased to 254, bringing the total Assets Under Management to £46.4tn.

Following the FRC's publication of the second list of signatories in March 2022, in their 'Review of Effective Stewardship Reporting' they have clarified expectations in the following areas:

- Greater emphasis on reporting of activities and outcomes in 2023. Firms should move away from a reliance on context and policy statements.
- Better explanations of how the firm defines and practices engagement, collaboration and escalation.
- For longer-term engagements or collaborative initiatives spanning multiple periods, firms should provide background, activities and progress on outcomes during the reporting period.
- Signatories should disclose the level of internal or external assurance sought against the Stewardship Report and its rationale.
- Asset owners should provide evidence and illustrative case studies on monitoring and holding third party managers to account from the reporting period.
- Firms should update reporting against the Code annually for the relevant reporting period.

The FRC, alongside the Pensions Regulator, Financial Conduct Authority (FCA), Department for Workplace Pensions (DWP) and Department for Business and Trade have committed to reviewing the regulatory landscape for stewardship. This will culminate in a limited review of the Stewardship Code in 2023.

Asset Management Taskforce Stewardship Report

In November 2020, the Asset Management Taskforce published its report 'Investing with Purpose: placing stewardship at the heart of sustainable growth', which provides a blueprint for integrating stewardship into the investment process and promoting excellence in stewardship practice. This blueprint is formed by 20 recommendations under three key pillars, namely:

- stewardship behaviours
- stewardship for clients and savers
- economy-wide approach to stewardship.

The recommendations connect investment decisions more closely with climate change and sustainability considerations, as well as strengthening the relationship between savers' broader investment goals and their financial returns.

In response to the recommendations in the report the IA has initiated several pro-active projects including:

- Expanding stewardship beyond listed equities into other asset classes, through working with fixed-income investors to ensure they make full use of their available rights. In 2022, the IA published guidance on how stewardship in fixed income can be improved; it will establish a permanent, ongoing Working Group to consider several issues warranting further consideration, namely:
  - monitoring and advancing best practice in fixed income stewardship;
  - developing industry infrastructure to facilitate greater investor collaboration at debt origination
  - moving beyond stewardship in corporate debt to sovereign debt.
- Strengthening escalation of stewardship. The IA has established a working group to work with industry to develop guidance on overcoming existing practical and regulatory barriers to the effective use of requisitioned resolutions as an escalation mechanism. We expect this guidance to be published shortly.
- As noted above, the IA/PLSA published a report in 2022 on how the relationship between asset owners and investment managers can be governed in a way that promotes a long-term focus and aligns stewardship expectations.
- Improving company reporting and disclosures, with a focus on supporting ongoing international efforts to promote corporate reporting standards for sustainability through the International Sustainability Standards Board.
- Widening adoption of the UK Stewardship Code to include various parties along the investment chain, including asset managers, asset owners and service providers.

Corporate Governance

BEIS Audit and Corporate Governance Reform

BEIS published its White Paper, 'Restoring Trust in Audit and Corporate Governance in March 2021'. The sets out proposed reforms to the UK's audit, corporate reporting and corporate governance system, seeking to improve the audit market and reinforce investor and public confidence in audits and in companies more generally. The White Paper took forward recommendations made by three independent reviews: The Kingman Review, the Brydon Review and the CMA Statutory Audit Market Study.

In 2022, BEIS published its Government Response to the White Paper, setting out its final position on a number of its proposals.

- The definition of a Public Interest Entity is expanded to include private companies, AIM-listed companies and third sector companies with >750 employees and £750m turnover. The focus on director accountability comes through new reporting requirements, including a shareholder distributions policy statement, a capital management statement and a resilience statement to replace the existing viability statement. Proposals to make directors personally liable for internal controls over financial reporting will be delivered through the Corporate Governance Code and will only apply to premium-listed companies.
- The government will take forward proposals to **establish a new regulator (ARGA)** to succeed the FRC and be funded by a statutory levy. ARGA will have the necessary powers to investigate and sanction breaches of corporate reporting and audit-related responsibilities.
- The FRC intend to advance managed shared audits for FTSE 350 companies, with those companies required to appoint a 'challenger' audit firm to conduct a meaningful proportion of the statutory audit. The 'Big Four' have already begun to implement operational separation between the audit and non-audit sides of the firm.
- The government will allow shareholders the opportunity to propose areas of emphasis for the audit as part of the proposed Minimum Standards on Audit Committees. An Audit Users Review Board will also be established, with the Investment Association as secretariat, to aid the regulator in protecting and promoting the interests of investors and account users. Companies will be required to publish an Audit and Assurance Policy implementation statement every three years, to demonstrate to shareholders how information beyond the financial statement is being assured. The policy will not be subject to an advisory vote and the Government is not mandating any specific assurance activity.

A number of the above changes will require primary legislation from Government. In the absence of this, in 2022 the FRC consulted on a number of changes in particular to the Audit Market.

- A draft set of Minimum Standards for Audit Committees on the external audit, which will support the FRC's wider objectives for greater competition.
- The firm-level Audit Quality Indicators to give greater insight into how audit firms delivery high quality audits.
- A Competition Policy Statement, setting out its regulatory approach to competition in the audit market.

Public register

In August 2017, the UK Government asked the IA to develop and maintain this Public Register, which can be found here. This is an aggregated list of the publicly available information on meetings of companies in the FTSE All-Share who have received significant shareholder opposition to proposed resolutions or have withdrawn a resolution prior to the shareholder vote. Its aim is to highlight those companies who receive a high vote against or withdraw a resolution, and to understand the process they use to identify and address the concerns of their shareholders.

Issuer Diversity-Related Disclosures

In April 2022, the FCA finalised Listing Rules to encourage improved disclosure of diversity targets on listed company boards and executive committees. Under these, companies should disclose against the following targets on a 'comply or explain' basis:

- At least 40% of the board should be women.
- At least one of the senior board positions (Chair, Chief Executive Officer (CEO), Chief Financial Officer (CFO) or Senior Independent Director (SID) should be a woman.
- At least one member of the board should be from an ethnic minority background.

The FCA will review the targets in 2025 to see if they remain appropriate.

Issuer Climate-Related Disclosures

In the UK government's Roadmap for TCFD, the UK's Joint Government-Regulator TCFD Taskforce sets out an indicative pathway for making TCFD-aligned disclosures mandatory throughout the economy by 2025, with a significant portion of mandatory requirements in place by 2023.

In October 2022, the FCA and FRC reviewed first-year TCFD reporting by premium-listed companies. This followed the listing rule requirement for commercial companies with a UK premium listing to include a statement, in their annual financial reporting, setting out whether they have made disclosures consistent with the TCFD recommendations on a comply or explain basis. Both regulators noted that most companies refer to climate-related reporting in their financial statements.

However, the FRC suggested the following areas for improved reporting:

- Granularity on the impact on climate change on different businesses, sectors and geographies.
- Better-balanced discussions on climate-related risks and opportunities.
- Connectivity between sustainability-related disclosures and those within the financial accounts.
- Acknowledgement of how companies apply materiality to their TCFD disclosures.

Transition Plan Taskforce

In November 2022, the UK Transition Plan Taskforce (TPT) launched its consultation on a draft Sector-Neutral Disclosure Framework and accompanying Implementation Guidance.
The TPT Disclosure Framework makes recommendations for companies and financial institutions to develop 'gold standard' transition plans; the TPT Implementation Guidance sets out the steps to develop a transition plan with information on when, where and how to disclose it. The documents are accompanied by a TPT Technical Annex. Publication of the draft framework has drawn the attention of various international bodies and jurisdictions interested in implementing the final TPT Framework or a similar framework in their domains. The Framework is likely to be finalised in 2023.

The TPT initiated a sandbox exercise in October 2022 for companies and financial institutions to test implementation. The sandbox will work with preparers and users to road test the TPT's outputs and gather practical feedback from the market. The findings from this exercise will inform the final iteration of the TPT Disclosure Framework, Implementation Guidance and sector guidance.

FRC's revised Corporate Governance Code

Following the Government Response to the Audit and Corporate Governance reform package in 2022, the FRC will begin consulting on changes to the Code in Q2 2023 to reflect the following proposals:

- Revising those parts of the Code that deal with the need for a framework of prudent and effective controls to provide a stronger basis for reporting on, and evidencing the effectiveness of, internal controls around the year end reporting process.
- Making the necessary revisions to reflect the wider responsibilities of the Board and Audit Committee for expanded sustainability and ESG reporting and, where commissioned by the company, appropriate assurance in accordance with a company's audit and assurance policy.
- Including a provision for boards to consider how audit tendering undertaken by the company takes account of the need to expand market diversity.
- Strengthening reporting on malus and clawback arrangements.

The revised Code will have updated guidance for Audit Committees and Board Effectiveness.

6.9. Benchmarks

The UK Benchmarks Regulation came into force on 31 December 2020. At present, it is based on the EU Regulation. In September 2022, the FCA issued a portfolio letter to all the benchmark administrators it regulates, outlining the key risks identified and its areas of focus. It also set out the actions it expects benchmark administrators to take to minimise risks to consumers, market integrity or competition, from their failures to meet regulatory requirements. HMT consulted on some changes to the Money Laundering Regulations during 2022, and these have now been implemented. The main changes were extending the scope of the MLRs to include new sectors, such as art dealers and increasing the obligations around beneficial owner registers.

6.10. Anti-Money Laundering Directive

There were no notable developments in this area during 2022.

6.11. Digital finance

In July 2022, the UK's Bank of England, Prudential Regulation Authority and Financial Conduct Authority issued a joint discussion paper (DP3/22 – Operational resilience: Critical third parties to the UK financial sector), setting out proposals to oversee the resilience of critical third parties for the finance sector. The measures are intended to enable regulators to manage the systemic risks presented by large technology providers to the financial services industry (including, but not limited to, cloud service providers) and in turn support the regulators' statutory objectives of financial stability, market stability and consumer protection.

The measures involve:

- A framework for designating certain third parties as critical third parties (CTPs).
- Minimum resilience standards for CTPs for material services they provide to companies in the financial services sector.
- Resilience testing of material services that CTPs provide to firms.
- Provision of information by CTPs to the regulators to assess the resilience of material services.

The UK authorities' proposed approach is comparable to the 'Critical Third Party Oversight' pillar of the EU's Digital Operational Resilience Act (DORA).

Subject to the outcome of parliamentary debates on the Financial Services and Markets Bill, and after having considered responses to the DP, the regulators plan to consult again on their proposed requirements and expectations for CTPs in H2 2023.

6.12. Other regulatory developments

There were no notable developments in this area during 2022.

7. PENSIONS

Reporting of financial risks of climate change in pension portfolios

- Building on regulations passed under the existing reporting framework of the Taskforce for Climate-related Financial Disclosures (TCFD), from October 2022, certain occupational and workplace pension schemes are now required to calculate specified portfolio alignment metrics as part of their annual TCFD reports. The purpose of these metrics is to demonstrate the alignment of pension scheme portfolios with certain climate targets, for example specific temperature rises. While pension schemes are obliged is on to calculate these metrics, they will in reality be dependent upon the fund and investment managers of their underlying portfolio to provide the information needed to calculate an overall portfolio alignment metric. TCFD reporting has therefore become an important requirement for investment managers selling products and services to UK pension schemes.

Increasing investment by Defined Contribution (DC) pension schemes in private assets

- A series of consultations took place in 2022 that are designed to facilitate increased investment by workplace DC pension schemes in private assets. Specifically, the UK government is taking forward measures to require DC schemes to formulate and disclose a policy on investing in illiquid assets as part of their Statement of Investment Principles. Alongside this, the government is loosening the coverage of the existing charge cap for workplace default arrangements, by excluding well-designed performance fees from the cap. Both measures are intended to help DC schemes increase their allocations to private assets. They follow on from the launch of the UK's Long Term Asset Fund in 2021, a new regulated fund structure aimed specifically at permitting DC schemes to access private assets. The changes to the rules will take place in 2023.

8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

UK adoption of Minimum Tax Rules and Domestic Minimum Tax

- The UK has set out the legislation required for adopting the OECD's minimum tax rules. Set at the globally agreed 15% rate, these measures will come into force from 31 December 2023, mirroring the currently anticipated introduction by the EU and other jurisdictions.

VAT in Fund Management

- At the end of 2022, the UK Government consulted on the application of Article 135(g) of the VAT Directive and VAT exemption for supplying fund management services. Many UK funds currently benefit from this exemption via the VAT Directive, and with primary EU law due to fall away at the end of 2023 the UK is seeking to codify the Special Investment Funds definition. The aim of these measures is not to expand or limit the exemption, but rather to ensure uninterrupted access for UK funds through domestic statute. This will likely develop and evolve over the course of 2023.

Long-Term Asset Funds

- Under development for a number of years, the first authorisations for the Long-Term Asset Fund or 'LTAF' have been received. These will have the same tax treatment as other UK authorised funds and are expected to benefit from the UK's extensive network of tax treaties.

QAHCs – Qualified Asset Holding Companies

- The Qualified Asset Holding Company (QAHC/AHC) regime came into effect from April 2022 to provide a platform to consolidate investments via UK resident holding companies.
- The regime has been designed to ensure that investors get a similar tax outcome to that from investing in the underlying assets. There are several eligibility criteria, including that the QAHC must be at least 70% owned by diversely held funds or by certain institutional investors, and must undertake investment activity with no more than insubstantial ancillary trading.
- Provided all eligibility criteria are met, the QAHC is exempt from capital gains and able to pay out dividends or interest without deducting withholding tax. The QAHC regime has proved popular, with over 100 QAHCs already registered within the first nine months of its introduction.

Crypto assets

- In 2022, the UK added 'relevant crypto assets' to its whitelist of approved Investment Transactions. This allows UK managers to manage cryptocurrency funds without the investment activities of these funds being considered as trading for tax purposes. The 'relevant crypto assets' will be aligned with the OECD's CARF definitions.

Double tax treaties

- The UK signed the Multilateral Instrument (MLI) to implement tax treaty-related measures to prevent base erosion and profit shifting on 7 June 2017.The UK double taxation agreements with Chile, India and Luxembourg countries have been modified by the Multilateral Instruments (MLI) entering into force in 2022/23.

- The following Tax Treaties have been amended during 2022 to update existing agreements, including new competent authority agreements and MoUs: Cyprus, Germany, Guernsey, Isle of Man, Kyrgyzstan, Luxembourg, Saint Kitts and Nevis, Sweden, Taiwan, Ukraine.

- In November, the UK signed a new double tax treaty with Brazil. This is currently in the process of being ratified by both states.

9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

There were no notable developments in this area during 2022.

10. OTHER ACTIVITIES OF THE ASSOCIATION

The IA has had an extensive events schedule covering many relevant industry subjects throughout 2022. These included conferences, briefings, forums and seminars. The IA also delivered industry training, primarily on regulatory and compliance requirements.

All the IA's Events and Training activities can be found here:

- https://www.theia.org/events-training

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