European Fund and Asset Management Association

ANNUAL REPORT

2013

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REPORT

EFAMA is the representative association for the European investment industry.

Its mission is:

- To support investor confidence in the asset management industry through the promotion of governance standards, integrity, professionalism and performance throughout the industry;
- To enhance the smooth functioning of a European single market for investment management and a level playing field for saving and investment products;
- To strengthen the competitiveness of the industry in terms of cost and quality;
- To promote the asset management industry and the UCITS brand on a European and worldwide level.

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President's Statement

When I was elected President in June last year, a major concern for EFAMA was the unprecedented number of regulatory initiatives that were being imposed on the asset management industry. At the time, I was keen to stress that the investment management industry is the solution to our current financial situation, and not the problem.

This is still very much the case, and at EFAMA we are particularly pleased by the European Long-Term Investment Funds (ELTIFs) initiative, which represents a vital first step towards building an EU label that could be an important future source of financing of growth in the EU. It also reflects a change in attitude towards the asset management industry, as decision-makers are embracing the opportunities our industry offers in terms of supporting sustainable economic growth and recovery.

2014 promises to be yet another eventful year for regulation and with the European elections in May, and the appointment of a new Commission in November, all eyes are focused on the legislative agenda going forwards. Now, as ever, EFAMA is grateful for the support of our members as we work alongside legislative bodies to support regulatory measures that benefit the industry, economy and end-investor.

Supporting the industry and the investor

One of the priorities I outlined for my Presidency was to support investor confidence in the asset management industry through the promotion of governance standards, integrity, professionalism and performance throughout the industry. This includes support for thoughtful regulation that supports the industry and protects investors.

There are over 30 different regulatory initiatives underway that are likely to affect the asset management industry from AIFMD and UCITS V generated in Brussels, to Fatca and Dodd-Frank coming from the United States.

As stated by my predecessor, Claude Kremer, more regulation does not necessarily mean better regulation. We respect and support all efforts to protect investors and it is in all our interests to support regulation that safeguards investors. However, we must find a balance that ensures both regulation that achieves this goal, but also encourages the growth of the asset management industry – a key tool in bringing about long-term financial stability.

We wholeheartedly welcomed the agreement reached by the co-legislators on the Packaged Retail Investment Products initiative, a piece of legislation that we feel is valuable and efficient in promoting transparency and comparability of investment products.

EFAMA welcomes the willingness of policymakers to reach a level playing field in the disclosure of products offered to consumers. We look forward to pursuing a constructive dialogue with the European Commission and ESMA as we work collaboratively towards developing the implementation of these measures.

EFAMA supports the implementation of such mutually beneficial initiatives. We do, however, call for a move away from adding new regulation towards supervision. In January this year, EFAMA hosted an interactive reception at the United Kingdom House of Commons, in partnership with the UK Investment Management Association. In my final remarks to Members of Parliament and senior representatives from the UK and European fund management sector, I argued that having introduced so much new legislation in the years after the financial crisis, now is the time for legislators to stand back and assess what is working. It is only when an analysis has been made of the progress to date, that we should look to embellish and add to existing regulations.

Leveling the playing field

Another priority has been to enhance the smooth functioning of a European single market for investment management and to establish a level playing field for saving and investment products.

The MiFID agreement came as a welcome development, which followed three years of much debate and negotiations between the European Parliament and European Commission.

This issue also falls under my third stated priority, which is to strengthen the competitiveness of the industry in terms of cost and quality.

The industry on a global stage

My final goal for my two-year term is to promote the asset management industry and the UCITS brand on a European and worldwide platform.

This year, we have seen amendments made to the UCITS directive, which have further raised the already high standards of protection offered by the product structure. By strengthening and making consistent the UCITS depositary regime, we are able to better protect clients' assets.

This progress confirms UCITS as a viable and secure investment structure for a global audience. We see much potential for growth in emerging markets, especially in Asia, and despite developments in the creation of an ASEAN Fund Passport, we hope that the improvements to UCITS will positively bolster international recognition of the brand as the vehicle of choice. We continue to work alongside regulators across Asia in particular to promote UCITS as the optimal choice for the international distribution of investment funds.

Next steps include working with the European Commission and ESMA to develop implementation methods for adoption before the revised UCITS directive is officially put in place.

Sustainable growth

As always at EFAMA, the investor is at the heart of our activity and decision-making. Without a financially informed and protected population, we will not be able to grow our industry, support the economy and encourage people to save for their retirement.

In March this year, we published a report and held an event on the theme of Investor Education with three flagship themes: the vital role of financial education in rebuilding public confidence after the financial crisis; the need for financial education as a policy priority given the need for people to assume more responsibility for their own provision; and the current lack of financial literacy across Europe.

The event highlighted our commitment to encouraging investor education and financial literacy, as we see these as being key to achieving our overarching goal of investor protection. Along with the OECD, European Commission, European Parliament and other stakeholders including Member States and corporate members, we are committed to helping retail investors make informed financial decisions, which will help them and ultimately the industry and wider economy. If investors are better educated, and therefore their investment decisions become more informed, then the need for protective regulation will diminish.

In the face of an ageing population, much importance has been placed on identifying solutions to the provision of adequate pensions by European policymakers. The industry has worked together to create a long-term savings culture and the vote in the European Parliament in favour of European Long-Term Investment Funds (ELTIFs) was a promising step in the direction of sustainable growth.

EFAMA worked alongside the European Private Equity and Venture Capital Association (EVCA) and the Federation of European Securities Exchanges (FESE), two leading EU industry associations, to actively promote the financing of long-term investments. ELTIFs will offer flexibility to investors regarding lifetime to meet the needs of individual investors, as well as options for professional and semi-professional investors to allow for the different needs and expectations of a wide variety of individuals.

A key feature is the maintenance of the ‘retail passport’ for ELTIFs. This will help to maximise the pool of eligible investors and brings us closer to portability of pension schemes within the European Union.

Additionally, the proposal included the listing of small and medium-sized businesses up to EUR1billion market capitalisation as eligible investments. These businesses are crucial to the economic recovery of Europe: they create the largest number of new jobs and are the backbone of sustainable economic recovery.

Progress

Overall, trends in 2013 have been encouraging: investment fund assets worldwide stood at an all-time high of EUR23.79 trillion, reflecting growth of 7.3 per cent since the end of 2012.

At EFAMA, we hope to build on these solid figures and continue to strengthen our industry so that in turn it can strengthen our economy.

As ever, challenges lie ahead – but so do opportunities, and with the ongoing support of a strong team at EFAMA, I am committed to continue to focus on our priorities, which will lead to sustainable growth and an efficient economy.

Through the ongoing principle of cross-industry cooperation and unity that EFAMA embodies, we are able to demonstrate our unique insights and expertise about the interests of the industry. The high-quality and considered contributions made by the wide range of industry professionals have ensured that we continue to offer a robust and relevant voice to the European debate.

As I approach the starting line for my second year as President, I wish to thank my predecessor Claude Kremer who provided a wealth of support and expertise in guiding the work of EFAMA, and who continues to be dedicated to our principles. Through his leadership the organisation has established new and efficient methods of governance, management and financing, and has taken large steps to educate, inform and innovate, so as to best represent the changing needs of the industry. We must build on this progress and vision by continuing to develop our message of supporting greater investor confidence and European growth.

Alongside this, I would like to extend my sincere thanks and appreciation to Director General Peter De Proft, the Board of Directors, the Management Committee and the entire team at EFAMA, for their constant commitment and efforts in serving our members, the industry and investors.

Christian Dargnat
President
June 2014

Director General's Statement

Europe is in a deep need for economic growth and a healthy European financial sector is essential to support this growth. It remains a very critical time. Although there have been some signs of recovery, the European economy is still under pressure, weighed down by indebtedness, unemployment – especially among young people – and declining competitiveness. European policymakers, politicians, regulators, central bankers, financial services firms, the private and public sectors alike, and citizens are adjusting to pull through this difficult period.

The challenges are well known. Europe needs to start growing again so it can create jobs. Many countries have to improve their fiscal positions, become more competitive and invest for the long-term. This will not be easy, especially as the demographic profile of Europe is changing. The coming years will be critical. At the same time Europe is part of a more integrated world, where other economies are growing faster and becoming increasingly competitive.

The institutions of the European Union are also undergoing change. 2014 sees a new European Parliament and a new European Commission. Politicians and civil servants will inherit an ambitious agenda of financial regulatory reform and will finalise the important work already underway. They need to convince the citizens of Europe what steps need to be taken and why.

Europe is undergoing a period of substantial social transformation, due to an ageing population, rapid advances in technology, big changes in social and consumer behaviour, pressure on the welfare state and globalisation. All of these changes have significant implications for financial services.

Across Europe people are generally living longer than ever, and having fewer children. The combined effect will be to reduce the ratio of workers to retirees, from 4:1 now 2:1 by 2050 according to the International Monetary Fund (IMF). As people live longer it will put substantial pressure on pension provision and health care. Although these trends will in some cases be partially offset by immigration, overall it is expected that in the near future there will be fewer workers to pay income taxes and fund pension schemes.[1]

As consumers adapt to these trends we can expect them to take more interest in saving for their retirement. They are likely to favour retirement products that can smooth income over time and protect them from inflation. Knowing that their money has to last longer may make some people more risk averse and to opt for security (wealth protection) over higher returns (wealth accumulation). Depending on interest rate developments, there may also be more demand for traditional savings products, mutual funds and pension schemes, which can combine to help fund long-term investment.

1 EFR, The Road Ahead for Financial Services in Europe, p. 9, March 2014

Another hugely important trend is technological change and the impact this has had on consumer behaviour. The financial world is moving to continuous accessibility, empowered by technology and consumer demand, and both the private and public sectors need to adapt to this.

European consumers will want to be confident about the security and stability of their assets and the financial system as a whole. With people pushing for change, it is up to the financial sector and policymakers to work together to find the right balance between innovation, accessibility, competition and consumer protection.

Over recent years, there have been significant discussions about supporting growth in Europe, however, it is now time to see actions to support this rhetoric. We need regulation that provides a stable regulatory framework for asset managers, to enable them to develop products that suit clients' needs, and for investors to invest in. In order to prosper, Europe needs both saving and investment, and asset managers are perfectly positioned to offer solutions by providing investors the chance to save for their long-term needs and supporting investment for European firms and public entities.

For this approach to work however, we need regulation that supports development, is globally consistent, and does not lead to overregulation which would make products uneconomical for investors.

The cornerstone for European asset managers is the UCITS regime, a global gold standard for investor protection and international distribution of investment funds. The 1985 Directive provided a stable basis for UCITS to develop into a true European success story. There has been an ongoing review of the framework in the years since. UCITS IV has been implemented, UCITS V has just been adopted and now there is already talk about UCITS VI being prepared.

Rather than pursuing the UCITS VI agenda, it is now necessary to implement UCITS V and let it have its intended impact on the markets, by further enhancing the investor protection UCITS offers. Only then should additional amendments to the legal framework be considered, if necessary.

ESMA will play a crucial part in the implementation process when enacting these measures. On issues like remuneration rules we have to remember that UCITS, whilst being a European product, serves a global base of investors and asset managers. Taking only a European perspective could be harmful for the usefulness of UCITS for the international community and therefore for the overall global success of UCITS.

EFAMA and its members have had to substantially change how they operate and will no doubt have to undertake further adjustments as the regulatory timelines stretch into the horizon. Some priorities, however, do not change: seven years after the crisis, we need to concentrate on performance.

More than ever EFAMA, in this challenging environment, must listen and learn from its members: to date EFAMA's membership stands at 27 National Associations & 2 Observers, 62 Corporate Members and 25 Associate Members.

The particular challenge of leading a European association is that it represents such a diverse group of interests and people. Both leadership and good governance are therefore very important elements in the smooth running of a European association.

Once again, EFAMA wants to stress and is convinced that the asset management industry needs to be perceived as speaking with "one voice" in order to be considered as a valuable partner for legislators, regulators and other market stakeholders.

In closing, my warm thanks go to all our Members for their unfailing support and trust and to all my colleagues at the Secretariat for their continuous efforts in this challenging and stressful environment.

Peter De Proft
Director General
June 2014

Activity Report 2013

I. Investment Management Regulation

1. The Ongoing Review of the UCITS Framework

UCITS V

Initiated in July 2012 with the publication of the legislative proposal of the European Commission[1], the examination of the UCITS V proposal by the European Parliament and the Council continued throughout 2013.

During the first half of the year, discussions largely focused on the contents of the draft report issued by the Rapporteur, MEP Sven Giegold, at the end of 2012. Whilst it essentially endorsed the Commission's proposal concerning the review of the UCITS depositary regime, this draft report was proposing substantial changes to the Commission's text on remuneration policies applicable to UCITS management companies, including in particular an extension of the categories of staff to which the remuneration principles would apply, but also a cap on variable remunerations (which could not exceed one time the fix remuneration) and an obligation to defer at least 60% of the variable remuneration. The draft report also proposed a number of provisions on the management fees charged to the fund (not envisaged in the Commission's initial proposal) as well as a drastic increase of some of the sanctions foreseen in case of breach of the Directive.

In this debate, EFAMA continued to argue firmly in favour of applying remuneration principles to UCITS companies which are, as far as possible, consistent with those applicable under AIFMD and CRD IV (as proposed by the Commission). We also repeatedly stressed the view that any significant changes made by the draft report to the Commission's proposal (e.g. on performance fees) should be subject to full impact-assessment and prior consultation with the stakeholders and envisaged in a more horizontal way for all substitute retail products, in order to maintain a level playing field.

After some intense discussions, the report of the ECON Committee was adopted with a short majority on 21 March 2013[2] before being confirmed – with a number of substantial amendments – by the European Parliament in Plenary session on 3 July 2013[3]. The position adopted by the European Parliament notably rejected the idea of imposing a cap on variable remunerations paid to the staff of UCITS management companies and softened also some of the proposals made in the draft report concerning the categories of staff involved as well as the percentage of variable remuneration to be deferred as well as the length of the deferral period. It also contained a number of welcome improvements to the Commission's proposal regarding the depositary regime (eligible depositaries, conditions for the delegation of the custody function, etc…).

1 UCITS V Legislative proposal of the EU Commission: http://www.europarl.europa.eu/registre/docs_autres_institutions/commission_europeenne/com/2012/0350/COM_COM(2012)0350_EN.pdf

2 ECON Committee report on UCITS V: http://www.europarl.europa.eu/sides/getDoc.do?type=REPORT&mode=XML&reference=A7-2013-125&language=EN

3 EP Plenary position on UCITS V (first reading): http://www.europarl.europa.eu/sides/getDoc.do?type=TA&language=EN&reference=P7-TA-2013-309

In parallel to the work done in Parliament, the Council continued on its side the examination of the UCITS V legislative proposal. Thanks in particular to the efforts of the Lithuanian Presidency, an agreement on a general approach was reached on 4 December 2013[4], opening the way for the Trilogues with the European Parliament and the Commission to start early 2014.

ESMA guidelines on ETFs and other UCITS issues

During this year, EFAMA's secretariat dedicated important efforts to provide support to its members for the implementation of the ESMA guidelines on ETFs and other UCITS issues, which were adopted in 2012 and gradually came into force, as of 18 February 2013 (subject to a number of transitional provisions).

This support essentially took the form of facilitation of exchange of information on the status of implementation of the guidelines in the various Member States, exchange of views among EFAMA members on the interpretation and practical implications of the guidelines, as well as an active contribution to the Q&A documents published by ESMA shortly after their entry into force in order to foster a common interpretation of the guidelines.

In addition, in October 2013, EFAMA also wrote a reasoned letter to the ESMA Chair, Mr. Steven Maijoor, illustrating with concrete examples and data the very negative – and most probably unintended – impact of the collateral diversification requirements under section 43 e) of the Guidelines and, therefore, urging ESMA to consider a targeted modification of that provision. To the great satisfaction of EFAMA and its members, this letter was positively received by ESMA, which took the decision in December 2013 to launch a short public consultation on a possible revision of the provisions on diversification of collateral in ESMA's guidelines on ETFs and other UCITS issues[5].

2. Shadow Banking

In 2013, EFAMA continued to engage constructively in the debate with regulators and policymakers at international and EU levels on the need for better oversight and regulation of the so-called "shadow banking system".

More specifically, in January 2013, EFAMA submitted a detailed answer to the Consultation Paper issued by the Financial Stability Board on a number of recommendations aiming at strengthening the oversight and the regulation of Shadow Banking[6]. In its reply, EFAMA welcomed the approach proposed by the FSB consisting in identifying possible shadow banking entities susceptible to raise significant systemic risks not by their legal forms or names but on the basis of economic functions or activities performed by these entities. However, we expressed strong reservations about a number of examples of possible shadow banking entities provided in the Consultation Paper (such as "credit investment funds") and developed the reasons why we are genuinely convinced that European investment funds – thanks to the tight regulatory

4 EU Council General approach on UCITS V: http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2017094%202013%20ADD%201http://register.consilium.europa.eu/doc/srv?l=EN&f=ST%2017094%202013%20ADD 1 COR 1

5 Link to the Consultation Paper: http://www.esma.europa.eu/system/files/2013-1974_cp_guidelines_etfs_and_other_ucits_issues_for_publication_0.pdf

6 Link to FSB Consultation Paper: http://www.financialstabilityboard.org/publications/r_121118a.htm
Link to EFAMA reply: http://www.efama.org/Publications/Public/Money_Market_Funds/EFAMA_reply_to_FSB_Strengthening_oversight__Regulation_of_SB_entities.pdf

framework to which they are already subject – do not present significant systemic risks or opportunities for regulatory arbitrage.

Following up on this, EFAMA also replied in November 2013 to a more targeted consultation by the FSB on a policy framework for addressing shadow banking risk issues in securities lending and repos[7]. In our reply, we highlighted our strong support for the primary objective of the FSB consisting in collecting more granular data on the functioning of securities lending and repo markets (drawing, as much as possible on existing reporting by market participants). We also expressed our concerns that imposing mandatory haircuts for securities lending and repos may have unintended consequences of becoming the ***de facto*** norm for these markets.

Going forward, EFAMA will continue monitoring very closely further developments to be expected in this field, both as a result of the continuation of the work initiated by the FSB and IOSCO at international level and as a follow up of the Communication on Shadow Banking published by the European Commission in September 2013[8].

3. Money Market Funds

In September 2013, following numerous consultations with relevant stakeholders, including EFAMA, the European Commission published its proposal for a regulation on money market funds (MMFs). After a thorough analysis of the proposal, EFAMA finalised a position paper with a view to developing recommendations to improve the proposal. The position paper explained that some proposed measures were going too far and would endanger the viability of both CNAV and VNAV MMFs. In addition, EFAMA argued that the imposition of a 3% capital requirement for CNAV MMFs would cause sponsors to cease providing this type of MMFs, and would lead to the withdrawal of up to EUR 500 billion of financing to companies, banks and governments.

In addition, EFAMA's position paper made suggestions to better align the requirements with the UCITS/ AIFM Directives and reduce the negative impact of the Regulation on MMFs. The main goal of this work was to inform the Members of the European Parliament's Committee on Economic and Monetary Affairs and its Rapporteur, Saïd El Khradraoui.

Following the publication of the amendments on the Commission's proposal tabled by MEPs, EFAMA engaged in constructive discussions with MEPs to explain its remaining concerns and suggest ways to improve the proposed regulation.

7 Link to FSB Consultation Paper: http://www.financialstabilityboard.org/publications/r_130829b.htm Link to EFAMA reply: http://www.efama.org/Publications/Public/EFAMA%20reply%20to%20FSB%20Consultation%20on%20Policy%20Framework%20for%20Securities%20Lending%20and%20Repos.pdf

8 EU Commission Communication on Shadow Banking of 4 September 2013: http://ec.europa.eu/internal_market/finances/shadow-banking/index_en.htm

4. AIFM Directive

Given the importance for non-UCITS fund managers that are now covered under the Alternative Investment Fund Managers Directive, AIFMD continued to be a key dossier for EFAMA in 2013.

A major milestone passed on 22 July 2013 which symbolised the official deadline to transpose the EU Directive into applicable national law ending the 2-year transposition period given to all EU Member States. While this date was intended to establish this regime in the whole of Europe, only twelve Member States were able to transpose the Directive in time. While many countries are still working on their national laws, the current non-UCITS landscape is still a fragmented one until all EU countries will transpose the Directive.

Unfortunately, delayed Member State transposition was not the only late arrival in 2013. While the Directive was already applicable since 22 July, one major puzzle piece was still outstanding: the very definition on how to designate open or closed-ended alternative investment funds. In April 2013 ESMA had provided its guidance to the European Commission. This guidance was assumed to be the blueprint for the legal acts to follow, therefore allowing national lawmakers to base their ongoing transpositions on the ESMA concepts in order to provide answers to these questions by 22 July. Much to everyone's surprise the Commission chose to reject ESMA's proposal[9] in July. Even though ESMA did not share the Commission's viewpoint[10], it swiftly amended its proposal[11]. It, nevertheless, took the Commission just before Christmas to end the uncertainty whether the new proposal would find their acceptance[12].

Throughout 2013 ESMA also continued to provide "level-3 guidance" to national regulators with the aim of further specifying existing rules, creating a single rulebook. These guidelines included key concepts of the AIFMD[13], remuneration policies[14] and reporting guidelines to national regulators[15]. In parallel ESMA was busy negotiating the required co-operation agreements ("Memorandums of Understanding"), to be between EU Member States' national competent authorities and 3rd country regulators[16]. This was of major importance, as these agreements were necessary after 22 July 2013 to continue the marketing of alternative investment funds in the EU and the management or marketing of AIFs outside the EU by EU AIFMs.

One other major challenge that remained throughout 2013 was the question whether an AIFM licensed to provide MiFID services in its home country was allowed to offer these services (such as brokerage) on a cross-border basis ("passporting") to clients throughout the EU. While the original AIFM Directive remained ambiguous in this regard, the Commission set the tone in its Questions and Answers[17] that declared that it should be impossible for an AIFM to provide such MiFID services in other EU Member States. Unfortunately, most European regulators followed the Commission's legally non-binding guidance, leaving AIFMs to split their MiFID services into a separate entity for the sole reason of complying with the Commission's thinking.

9 http://www.esma.europa.eu/system/files/ec_letter_to_esma_re_draft_rts_on_types_of_aifmd_4_july_2013.pdf

10 http://www.esma.europa.eu/system/files/2013-1119_opinion_on_draft_rts_on_types_of_aifms.pdf

11 ibidem

12 http://ec.europa.eu/internal_market/investment/docs/alternative_investments/131217_delegated-regulation_en.pdf

13 http://www.esma.europa.eu/system/files/2013-600_final_report_on_guidelines_on_key_concepts_of_the_aifmd_0.pdf

14 http://www.esma.europa.eu/system/files/2013-201.pdf

15 http://www.esma.europa.eu/system/files/2013-1339_final_report_on_esma_guidelines_on_aifmd_reporting_for_publication_revised.pdf

16 http://www.esma.europa.eu/system/files/2013-992_press_release_on_aifmd_mous.pdf

17 http://ec.europa.eu/yqol/index.cfm?fuseaction=question.show&questionId=1143

Through EFAMA and its members' efforts the industry was finally able to convince lawmakers that a MiFID license should not lose its passporting rights merely because it was held by an AIFM, adding massive red-tape and costs. To remedy this situation and bring clarity once and for all, it was decided to amend the AIFMD (through the ongoing MiFID review) to state that AIFMs were able to passport their MiFID services throughout the EU.

In the last quarter of 2013 and the first half of 2014 asset managers were devoting massive resources to prepare their AIFM license applications, as 22 July 2014 marks the end of the transitional period which continued to market and manage AIFs without an AIFM license. In 2014 ESMA is also expected to start drafting its report to the Commission whether EU-internal passporting should be allowed for non-EU AIFMs and, if yes, under what conditions this should be possible.

The regulatory landscape for alternative investment funds has clearly evolved hugely in 2013 and will continue to do so in the coming years. In order to support its members EFAMA is constantly holding technical AIFMD workshops for them to provide a platform for exchange of information on developments in these crucial years of implementation.

5. International Trade Negotiations

Barriers to trade in the more and more globalised world also represent major obstacles for the free flow of services to and from the European Union. One of EFAMA's goals is to promote the European asset management industry and the UCITS brand on a world-wide level which makes it necessary for the EFAMA Secretariat to monitor international political developments and upcoming and ongoing trade negotiations actively.

Over a number of years UCITS funds have enjoyed unprecedented success penetrating the Asian market and developing a renowned brand, but its own success has brought to life three similar Asian-Pacific initiatives that are aimed at challenging this trademark. These initiatives aspire to create passporting rules similar to the ones for UCITS funds in Europe that would allow distribution of these funds in the participating emerging markets. With this in mind, EU officials conducted several rounds of negotiations with key Asian players (such as Hong Kong and China) in order to develop deeper ties with the EU, to lower the barriers for EU funds to invest in these regions as well as to allow easier access to EU fund products.

The most ambitious trade project, which saw its official start of negotiations in 2013, is intended to create a free trade agreement between the EU and the US (called the Transatlantic Trade and Investment Partnership or TTIP) which aims at removing trade and non-trade barriers in a wide range of economic sectors facilitating the provision of goods and services between the EU and the US. While the financial sector and its global regulatory review have stemmed from the G20, the EU – with the support of financial markets trade associations – have urged the US to also include the opportunity to enhance their financial regulatory coordination process, to ensure that investments in each other's jurisdictions are not inhibited by slightly diverging rule sets. While there have been negotiations in Brussels and Washington in 2013, these negotiating rounds are expected to continue well into and beyond 2014.

6. European Long-Term Investment Funds (ELTIFs)

In June 2013 the European Commission launched its proposal for a new investment fund framework designed for investors who want to put money into companies and projects for the long term. The proposed Regulation[18] was the follow-up to previous consultations of the Commission on possible ways to fill the equity gap in the field of financing long-term investments by creating a European investment culture where retail and institutional investors take a longer-term and strategic view when placing their savings and investments.

EFAMA strongly believes that a shift towards new and diversified lending structures and more market-based finance will play a key role in filling this gap and ensuring financing for longer-term projects. Asset managers have a primary role to play in this changing landscape of long-term financing through their experience in managing collective investment schemes that pool and diversify the investments of different investors. Moreover, from the investors' perspective, there is growing interest in having an opportunity to invest in long-term projects that can offer new and diversified sources of risk with high returns and therefore limit their concentrated exposure to more traditional markets and financial products.

In that context, the asset management industry welcomed the policy aim of the new proposal, i.e. the idea of creating private ELTIFs as pooled investment vehicles invested in long-term financing projects. At the same time, EFAMA's key goal and starting point has been to ensure that ELTIFs will succeed in attracting all types of investors.

Therefore, EFAMA members worked on a number of key recommendations on the Commission's proposal in order to promote the market success of the future ELTIFs and ensure main policy goals of the Regulation are achieved. EFAMA's recommendations were agreed in end October 2013 and made public in EFAMA's position papers on ELTIFs (i.e. EFAMA Key and Detailed Comments on the European Long Term Investment Funds).

In concrete EFAMA has been advocating against the single set of rules for all types of investors (retail, or professional; small-medium- or large-) which is proposed in the Draft Regulation, as it fails to recognise different needs of such a wide range of investors or of a wide range of eligible assets, both of which are welcome. Against that background, EFAMA is supporting a more flexible structure on a number of key areas such as:

a. The lifetime of the ELTIF, which should be left to the discretion of its manager so that it can be aligned with the investments strategy of the fund.

b. A flexible redemption policy that will make ELTIFs "attractive" to all types of investors. Listing of ELTIFs' units/shares on a regulated market is welcome as a possibility to redeem in secondary markets, but is not enough and can prove difficult for some markets. Therefore, the ELTIF manager should be given the possibility to establish ELTIFs with no redemption rights according to the investment strategy of the ELTIF. The redemption policy and its particular features should be clearly disclosed to all investors in the rules of ELTIFs.

c. Additional flexibility for professional investors, in particular concerning the diversification rules and the KIID.

18 http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52013PC0462&rid=1

d. Inclusion of a third type of "semi-professional investors" (based on the identical definition in the recent EuSEFs/EuVECAs Regulations), so as to allow small and medium-sized entities and wealthy individuals to be eligible to invest in the same way as professional ELTIFs.

e. Enlarging the scope of ELTIFs eligible assets to include SMEs that although listed (several times for regulatory policy reasons amongst others) are still lacking access to financing.

EFAMA also requests a number of other technical amendments to certain provisions, which are essential to ensure a balanced ELTIF framework.

The EFAMA position papers were presented to a number of key policymakers, mainly to Members of the European Parliament's Committee on Economic and Monetary Affairs, as well as to representatives of the Member States in the Council and of the European Commission. As a result, many of the EFAMA recommendations were carried through via the draft report and the amendments presented in the ECON Committee of the European Parliament. Moreover, the upcoming Presidency of the Council in the first semester of 2014, which will be launching discussions on ELTIFs, is set to present a more balanced approach on the design of ELTIFs based also on the key EFAMA recommendations.

The legislative procedure at EU level is anticipated to be completed by the end of 2014. EFAMA will keep focusing its expertise and work on delivering a legislative framework that will be efficient, well-designed and sufficiently attractive to key types of investors.

7. Packaged Retail Investment Products (PRIPs)

2013 has been a very active year for EFAMA in respect to investor protection and in particular, to the development of the Key Information Document (KID) the PRIPs Regulation will bring forward.

EFAMA's working group, chaired by and made up of industry practitioners, has closely followed the legislative process of PRIPs and provided policymakers with concrete comments in view of achieving a level playing field for enhancing investor protection.

EFAMA supports the Key Information Document (KID), which seeks to address crucial issues of retail investor protection and the lack of a level playing field in the distribution of retail financial products around the Union. We believe it is essential to create a harmonised framework for product disclosure that seeks to eliminate regulatory arbitrage in the distribution of financial products to retail investors and to ensure a high level of protection for retail investors via the provision of easily-accessible product information produced to common standards.

On 24 June 2013, the European Council issued its general approach on PRIPs which is closer in terms of scope and content to the proposal of the European Commission issued in July 2012.

On 21 October 2013, the European Parliament, through the ECON Committee, issued its position which differs significantly from the European Commission's and Council's positions.

The main key issues for EFAMA in regards to PRIPs are as follows:

- Scope:
  - EFAMA believes that all forms of packaged products should fall under the scope of PRIPs and it should include all insurance products with an investment element attached.
- Complexity label:
  - EFAMA does not agree with the proposal to include a "complex label" in the PRIP KID. EFAMA believes it will be extremely detrimental and confusing for investors to have a warning label mentioning that a PRIP is not met to be sold to retail investor. Currently, existing disclosures vary according to the legal form a product takes. EFAMA is very concerned about the idea of establishing subcategories of certain investment products and to require an additional "Complexity label" in the PRIP KID.
- Rules on eligible assets:
  - The objective of the PRIPs Regulation as proposed by the Commission is standardisation of product transparency rules, not intervention into the product manufacturing process. Rules on eligible assets are an integral part of the UCITS Directive and they represent a core element of product regulation which is generally unknown to investment products outside the fund sector. EFAMA strongly objects to the introduction in the PRIPs regulation or requirements in terms of eligible assets which cannot be introduced in the Regulation on key information document and disclosure obligations.

At the end of 2013 and the start of 2014, the trilogue negotiations were engaged with the view of achieving an agreement before the European elections in May 2014.

8. Markets in Financial Instruments Directive/Regulation (MiFID/MiFIR)

These past years have been mainly dedicated to political debates on MiFID/MiFIR and EFAMA has been very active in promoting its views and positions on many of these topics.

On 26 October 2012, the European Parliament issued its position.

On 19 June 2013, the Presidency of the Council of the European Union published its proposed general approach.

Following some extensive debates, the legislative process reached a milestone on 14 January 2014 as policymakers came to a political agreement. Further technical meetings were to take place before a final text was adopted.

(a) Investor protection:

EFAMA has always been in favour of investor protection notably through enhanced transparency. However, the key concerns for EFAMA are as follows:

- Complex products for the purpose of execution only services:
  - UCITS are conceived to be retail products; and therefore, EFAMA is very much concerned about creating a sub-category of UCITS where structured UCITS would be classified as complex products. EFAMA does not consider appropriate to split the UCITS brand into two categories of products, e.g. complex UCITS vs. non-complex UCITS.
- Inducements regime:
  - EFAMA believes that a ban on the acceptance of monetary inducements for advice "provided on an independent basis" will lead to a reduction in competition among distribution channels and a reduction in the number of products offered by distributors. Therefore, EFAMA is concerned about the orientation the legislative process is taking.

(b) Capital markets:

A large part of the debate over the last years around MiFID II and MiFIR is related to capital markets issues. As a reminder, considering the dedicated and technical questions raised by capital markets issues, EFAMA established by the end 2011 a Working Group on Financial Markets Mechanisms.

This working group, chaired by and made of industry's practitioners, has as its main strategic aim to promote the maintenance of liquidity in the financial market and to provide data useful to competent authorities and to the market participants.

Considering the specific role of asset management in the real economy, EFAMA fully supports the need for improved transparency requirements, especially for data consolidation. However, we strongly believe that any changes to MiFID regarding financial markets structures, trading and transparency are of great and direct importance to millions of citizens of the EU and other countries, through their pensions, funds, annuities and insurance policies.

As expressed several times this year, we are confident that forcing full transparency, especially for large transactions, will be directly detrimental to European citizens.
Despite our understanding and support that systemic risk must be controlled, we believe that full pre-trade transparency for large transactions, be they on equities or on bonds, will increase the relative prices of transactions as no "discounted prices" would be possible anymore.

Another focus that EFAMA placed on the capital market part of MiFID II is data consolidation and consolidated tape structures. We are urging the competent authorities to provide a standard data set and to mandate one or several repositories. Additionally, the requested information should be determined in coordination with the work done already in other legislation such as EMIR. For example, EMIR relies on MiFID to define the nature and limits of financial instruments which impacts directly reporting requirements and collateral requirements at a later stage.

EFAMA believes that an efficient calibration of the reporting duties is also mandatory to support transactions across less liquid instruments like fixed income instruments or SME financing.

9. Derivatives Regulation – EMIR

In 2009, the G20 imposed the control of the use of OTC derivatives through (i) the obligation to use central clearing, (ii) the collateralisation of all the types of OTC derivatives that would be dealt bilaterally, and (iii) the creation of trade repositories.

The European Union is implementing this duty through the Regulation on OTC Derivatives, CCPs and Trade Repositories (EMIR).

EFAMA supported from the beginning efforts made to create reliable European derivatives markets. We, however, insisted that the interests of the buy-side should be better taken into account in e.g. the setting up of the clearing infrastructure and the avoidance of increased pressure by clearing members on criteria imposed by CCPs.

EFAMA has issued several position papers and amendments on the proposed regulation in the course of 2011.

During 2012, ESMA issued several consultations in order to set the technical standards to apply those rules that EFAMA answered in detail.

The major development in 2013 was the publication by BCBS – IOSCO of the report that proposes the requirement to collateralise OTC derivatives transactions that are not centrally cleared. We expressed already on numerous occasions our major concern over the mandatory initial margining duty. This duty, if applied by ESMA to its future standards, would be extremely detrimental to the entire asset management industry as asset managers are only able to give as collateral the assets bought for achieving the sold strategies.

The cumulative effect of collateral requirements by clearing members and the one to initiate transactions could then leave the asset managers with no asset to actively manage apart from 2 OTC derivatives transactions.

EFAMA welcomes the use of variation margining for both centrally cleared and bilaterally OTC derivatives transactions, and only variation margin should be applicable to asset managers other than hedge funds.

In the course of 2013, EFAMA also engaged a lot in the LEI debate, also directly with the dedicated committee mandated by FSB (LEI ROC). The ultimate aim for EFAMA has been to ensure that each strategy in the way assets are managed could get the required identifiers each time it was relevant for funds and asset managers.

10. Risk Management

EFAMA continued to monitor every legislative development that could impact the work done in the risk department of our members.

Considering the lack of specific regulatory changes (especially with the delays in EMIR with the lack of CCP designation and the absence of proposed margining regime), the Risk Management WG did not convene in 2013.

In 2014, EFAMA's Risk Management Working Group will meet on a more regular basis and in coordination with other Working Groups (such as the Derivatives Working Group as the first CCP must be mandated by end of March at the latest) as ESMA will have to (i) announce the names of the authorised CCPs and (ii) consult on the regime for bilaterally traded derivatives.

11. Recovery and Resolution Schemes for non-Banks

Following the legislative proposal for recovery and resolution schemes for banks and the consultation for similar schemes to be possibly extended to non-bank financial institutions, that were both presented in 2012 by the European Commission, the European Parliament presented in May 2013 an own-initiative report on recovery and resolution mechanisms for other financial institutions. The report was presented as a follow up to the efforts of the European Commission to identify financial institutions other than banks the failure of which can cause financial instability and assess the effectiveness of recovery and resolution mechanisms for them.

EFAMA supported this initiative as a positive step towards minimising the risk of systemic contagion and enhancing the stability of financial markets through greater integration and cross border cooperation on preparatory and preventative measures, early intervention, resolution tools and powers.

In that context, EFAMA adopted a position paper in September 2013 on the European Parliament's draft report. In its paper EFAMA stressed that the systemic relevance of an institution should be the starting point for deciding any future extension of recovery and resolution frameworks to institutions other than banks. Therefore, any future regulation should focus on institutions that are considered important in terms of systemic risks, the failure of which can threaten financial stability.

In addition, EFAMA repeated its main arguments, which were presented in all its responses and position papers at EU and international level, on how asset managers due to their business model are not systemically important financial institutions. Asset managers do not individually bear the hallmarks of systemic institutions i.e. large size, being extremely interconnected and being providers of services which are difficult to substitute. More importantly their business model requires them to act as agents for their clients and not trade on own account. Therefore, in conducting their investment activities asset managers do not take any major risks on their own books. Clients' assets are invariably segregated and placed with a custodian, which means they are not on the asset managers' balance sheet, thus are not affected by the asset management firm's insolvency. It was also emphasised that no fund manager has failed as a result of the crisis and no asset management firm had to be recapitalised with public funds.

Concerning the other financial institutions referred to in the ECON draft report, EFAMA stressed the role of Financial Market Infrastructures and in particular the role of CCPs. Given their central clearing obligations under EMIR, CCPs will be gathering significantly more of the risks in the financial markets and in that way the failure of a CCP of any consequence in terms of size can have a detrimental impact on financial markets. EFAMA, therefore, supports an EU level framework of measures and powers addressing the potential failure of CCPs and foreseeing clear legislative preventive measure to avoid massive burden or spill-over effects for clearing participants and their clients. CCPs should not just restrict themselves solely on adding margin requirements from the participants, but also entail an integrated framework as to ensuring the continuity of critical services, the protection of the clients' assets and legal certainty to all users.

The European Parliament's report was adopted in the Plenary Session of November 2013. The outcome of the votes has been a clear signal to the Commission as to where the focus should be placed regarding any future legislative proposal, e.g. CCPs, as there are extensive references to recovery and resolution schemes for CCPs.

Concerning asset managers there is a call to assess whether any asset manager should be designated as systemically important based on criteria such as size, business models, geographical scope etc. At the same time it takes note of the client segregation model of asset managers as a substantial safeguard.

12. Benchmarks and Indices

As a response to the recent LIBOR scandal and the serious concerns about false submissions on other key benchmarks and financial indices, the European Commission and IOSCO have been engaged on taking the necessary measures to restore market confidence and prevent similar manipulations in the future that could result in significant losses to consumers and investors, or distort the real economy. As a follow up to the two legislative proposals[19] to amend the market abuse and criminal sanctions Regulation and Directive and to include benchmark manipulations published in July 2012, the European Commission launched in September 2013 its proposal on a new regulatory framework for benchmark setting processes and all market participants that are involved[20]. The main goals of the proposal are to enhance the robustness and reliability of benchmarks, facilitate the prevention and detection of their manipulation and clarify responsibility for and the supervision of benchmarks by the authorities.

Asset managers have no direct access to the benchmark setting processes and are not able to control their outcome and even more manipulate it, nor do they use them to price financial instruments. They do not produce or contribute to data on which the calculation of benchmarks is based, but they are, instead, the users of rate benchmark and market indices when managing portfolios on behalf of their clients. Indices are either used as a target for index linked funds, such as passive investment funds and exchange traded funds (ETFs), or as an evaluation tool of an active manager's performance (i.e. to measure fund performance against a set index or a combination of indices). Moreover, asset managers are already subject to extensive requirements and conditions under which UCITS may use financial indices as benchmarks.

19 http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0651:FIN:EN:PDF and http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0654:FIN:EN:PDF

20 http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52013PC0641

As users of financial indices, asset managers consider the new regulatory framework is an important step for restoring market credibility and re-establishing confidence in benchmarks. A regulation on the processes of setting methodologies, calculation, transparency, governance and supervision of benchmarks, will contribute to ensuring stability in financial markets and a level playing field for all market participants. However, EFAMA believes that a number of principles should also be safeguarded in the current legislative framework in order to be consistent with its objectives, and in concrete:

- Appropriate proportionality as to the requirements it imposes to different types of benchmarks. The new framework should by no means and unjustifiably hamper investment opportunities by restricting innovation, flexibility or creating artificial barriers to entry for new index providers. In that context, the scope of the Regulation has to primarily focus on benchmarks that represent the main risks for manipulation and conflicts of interest. EFAMA therefore, considers that benchmarks covered by this Regulation should be solely the ones based on indexes that are used for pricing a financial instrument. Given that they directly affect the value of a financial instrument, they are the ones susceptible to conflicts of interest and manipulation. In the case, however, of an index mentioned as a reference to indicate the investment universe of the fund and/or to suggest an implied level of risk and return, it would not make sense to be covered by the definition of Benchmarks, for the simple reason that such index does not entail the risks that an index defining monetary value of a contract does. With the same reasoning proportionality makes it essential to draw a fundamental distinction between market indices that are based on transparent and objective data and benchmarks that have traditionally relied on voluntary information submissions.

- Transparency on the benchmark costs borne by the end investors, as a way to avoid further increases in the multiple fees users and end-investors are paying.

- A level playing field for all indices used within the EU, in order to allow investors to have access to a wide range of reputable, robust and cost effective market indices and benchmarks.

Based on those principles EFAMA presented its position paper on the draft Regulation in November 2013 which was submitted to all key policymakers of the EU institutions. The position paper was accompanied by concrete suggestions on the provisions of the proposal on the scope, the transparency requirements, the third country requirements and the transitional period.

The European Parliament started its internal discussion on the proposal in mid-November with the presentation of the draft report of the ECON Committee. The Rapporteur intends to conclude votes in the European Parliament prior to the end of the current legislative mandate (in May 2014), however this seems extremely difficult due to important differences amongst the political parties on key and highly controversial topics such as the scope. In the Council, the discussions are anticipated to be launched in the first semester of 2014, but the complexity of the file makes it rather improbable that discussions will be concluded in the Council within the first semester of 2014.

13. The Volcker Rule

When the U.S. authorities issued their proposed rules to implement the so-called Volcker rule in October 2011 it soon become clear that this created major problems for European asset managers.

In their proposed form, the rules represented an inappropriate extraterritorial application of U.S. jurisdiction. The wide scope of the rule could have had significant impacts on the operations of many European asset managers including naming of funds, providing seed capital to funds, fund investments by personnel of the management company etc. All in all the Volcker rule could have resulted in serious restructuring needs for European asset managers.

EFAMA's most significant concern with the proposed rules was the disparate treatment of U.S. mutual funds, on the one hand, and UCITS and other regulated investment funds available to European investors, on the other. U.S. mutual funds were not considered to be 'covered funds' under the proposed rules, while their regulated European counterparts were treated as such.

The EFAMA Dodd-Frank/ Volcker Working Group provided member input to the Dechert team to draft an extensive EFAMA response to the U.S. authorities' consultation in February 2012. EFAMA and Dechert also met the SEC and the Fed. After a long wait, the final rules were approved in December 2013 providing a positive outcome as UCITS type of funds were carved out of scope of covered funds. The conformance period was also extended until July 21, 2015.

However, even as the final rules addressed many of the concerns of European asset managers, they also created new issues and unintended consequences necessitating EFAMA to continue its dialogue with the U.S. authorities to find solutions to the remaining problems for European asset managers.

II. Taxation

2013 was a busy year for EFAMA's tax work streams, in particular as regards the U.S. Foreign Account Tax Compliance Act (FATCA), the European Commission's proposal for a Financial Transaction Tax (FTT) and the developments regarding a wider Automatic Exchange of Information (AEOI) in a multilateral context.

1. FATCA

The U.S. tax legislation FATCA was enacted in March 2010 with the aim to combat tax evasion by U.S. person holding investments in accounts at financial institutions (e.g., banks and investment vehicles) outside the U.S..

The basic premise of FATCA is to require certain foreign (i.e., non-U.S.) financial institutions ("FFIs") to identify and disclose their U.S. account holders, or else suffer penal 30% withholding tax on all U.S. source income and, more importantly, gross disposal proceeds. The 30% withholding tax will also apply to payments attributable to such U.S. source income and gains ("pass-thru payments").

The starting date for various obligations under FATCA is July 1, 2014.

FATCA's statutory provisions were intentionally broad and gave considerable discretion to the U.S. Department of the Treasury (U.S. Treasury) and the Internal Revenue Service (IRS) to further detail its scope in the implementing regulations. Further to the preliminary guidance (Notices 2010-60, 2011-34 and 2011-53) published in 2010 and 2011 by the U.S. authorities and to the FATCA proposed regulations published early in 2012, the FATCA final regulations were released early in 2013 (on January 17) with the aim to provide additional details and guidance needed for the implementation of the FATCA rules.

The issuance of the final regulations also followed the signature of bilateral inter-governmental agreement (IGAs) entered into between the US Treasury and 4 foreign governments by the end of 2012. During 2013, new IGAs has been signed, ending up with a total of 18 foreign governments having an IGA in place before the end of 2013.

On May 3, 2013 the U.S. Treasury released updated FATCA model IGAs and annexes. Then, on July 12, 2013 the IRS and the U.S. Treasury issued Notice 2013-43 announcing revised timelines for implementing various provisions under FATCA. The Notice also provided additional guidance concerning financial institutions in jurisdictions that have signed an IGA but have not yet enacted legislation bringing it into force. By extending the timelines, the Notice also provided (1) the IRS more time to issue the necessary forms, guidance, clarification, and interpretation, (2) U.S. Treasury and potential FATCA partners more time to agree to and sign IGAs and (3) entities around the world more time to implement changes in order to be FATCA / IGA compliant. Furthermore, on September 10, 2013 the IRS issued correcting amendments to the final FATCA regulations released in January 2013. The amendments clarified and corrected various provisions and according to the release, their purpose was three-fold: (i) correct several citations and cross references, (ii) modify the regulatory language to clarify the relevant provisions to meet their intended purposes; and (iii) ensure that the rules in the final FATCA regulations are coordinated with rules in other relevant regulations (i.e., those under Chapters 3 and 61 of the Internal Revenue Code).

During 2013 EFAMA continued its dialogue with the U.S. authorities regarding the huge impact of FATCA on the European fund industry and the difficulties of compliance with FATCA arising from the typically intermediated business model of the EFAMA membership. In connection thereto, on February 11-12, 2013, EFAMA representatives attended the business meetings organised by the OECD and the Business and Industry Advisory Committee to the OECD (BIAC) as well as the joint briefing session on the Final Regulations. Then on June 13, 2013, EFAMA representatives attended the OECD organised meeting between the BIAC FATCA Business Advisory Group and the Governments working on FATCA.

2. Financial Transaction Tax (FTT)

On September 28, 2011, The European Commission put forward a proposal for the introduction of a Financial Transaction Tax (FTT) in the 27 EU Member States. Based on this proposal, commencing from 2014 financial institutions (including asset managers, pension funds and investment schemes) established in an EU Member State, and carrying out financial transactions (e.g., purchase and sales of transferable securities, derivatives transactions) both on regulated markets and over-the-counter, would be subject to tax at a rate either of 0.1% (on the consideration paid or received in case of purchase of transferable securities) or of 0.01% (on the underlying notional amount in case of derivative transactions).

Nevertheless, during the ECOFIN Council meetings in June and July 2012 it was ascertained that there was no unanimous support within the Council for a common system of FTT in the Union as a whole, as proposed by the Commission, in the foreseeable future. During these Ecofin meetings several delegations had already pointed out that progress could be made on the issue in a more restricted group of Member States in the context of enhanced cooperation between interested Member States.

In connection with the above, on October 9, 2012, the EU Tax Commissioner Algirdas Šemeta informed the EU-27 Finance Ministers that 11 Member States were supporting the introduction of a common "EU-wide" FTT in their countries via enhanced cooperation. Then, on October 23, 2012, the EU Commission (after careful legal analysis leading to the conclusion that all legal requirements for authorising the 11 participating Member States to move forward were met) proposed to the EU Council to authorise the enhanced cooperation. This proposal received the consent by the European Parliament on December 12, 2012. Then, on 22 January 2013 the ECOFIN Council adopted a decision by qualified majority authorising the 11 Member States to proceed with the introduction of a harmonised EU FTT through enhanced cooperation in their Countries. And on February 14, 2013, the European Commission adopted the substantive proposal for a Directive on the FTT to be implemented under enhanced cooperation

On July 3, 2013 the European Parliament voted in favour of a wide-scope FTT.

Then on September 6, 2013 the EU Council Legal Service issued an opinion on the legality of the proposed FTT. The opinion calls into question the territorial scope of the tax and, in particular, its application to financial institutions based outside of one of the participating Member States where they transact with counterparties which are located within a participating Member State. In response to that, on December 3, 2013, the Legal Service of the EU Commission produced a 'non paper' concluding that the counterparty principle is not in breach of international or EU law and providing a strong rebuttal to the EU Council Legal Service's opinion.

EFAMA, further to an open letter published on December 12, 2012, issued a press release on March 14, 2013 together with an impact analysis. Then, on May 21, 2013 EFAMA submitted a coalition letter to the ECOFIN Council to express the combined financial industry's concerns over the introduction of the proposed FTT and its wider effects across the EU and even beyond. Moreover, on July 2, 2013, EFAMA submitted a letter to the attention of the Lithuanian Presidency of the Council as well as to the EU Ministries of Finance, some key MEPs (including all the ECON members) and some key people from the EU Commission – in regard to EFAMA's concerns over the impact of the proposed FTT.

3. Automatic Exchange of Information (AEOI)

Earlier in 2013, the G8 Presidency requested the OECD to produce a report on how jurisdictions could implement AEOI in a multilateral context, the primary goal of which is to facilitate automatic tax information exchanges between non-US countries.

Then, on April 9, 2013, 5 EU Countries (i.e. UK, France, Germany, Italy and Spain) announced an agreement to develop and pilot multilateral FATCA-type information exchange. Under this agreement, a wide range of financial information will be automatically exchanged between the 5 countries. The agreement is to help catch and deter tax evaders as well as provide a template for wider multilateral automatic tax information exchange. And on April 19, 2013 the G20 Finance Ministers and Central Bank Governors endorsed automatic exchange as the expected new standard.

On May 14 May, 2013, the EU Council released a statement noting that EU Member States are negotiating inter-governmental agreements with third countries to exchange a large scope of information on an automatic basis. And on May 22, 2013, the EU Council unanimously agreed to give priority to efforts to extend automatic exchange at the EU and global level and welcomed the on-going efforts made in the G8, G20 and OECD to develop a global standard.

On June 13, 2013 the EU Tax Commissioner Algirdas Šemeta presented a proposal for a Council Directive intended to combat tax evasion by expanding the scope of the automatic exchange of information between EU Member States on "dividends, capital gains, all other financial income and account balances" and is planned to take effect from January 2015 related to the taxable period from 1 January 2014.

On June 18, 2013, as requested by the G8, the OECD released a report "A step change in tax transparency", which outlines how jurisdictions could build on the recent increases in bilateral automatic exchange agreements (due to FATCA) to implement a global, secure and cost effective model of AEOI. Then, on June 19, 2013, the G8 leaders welcomed the OECD report and agreed to work together with the OECD and in the G20 to implement its recommendations urgently. And on July 20, 2013, the G20 Finance Ministers and Central Bank Governors endorsed the OECD proposals for a global model of automatic exchange in the multilateral context (reinforcing this message on 6 September 2013).

During 2013 EFAMA engaged a continuous dialogue with the OECD and the EU Commission in order to ensure an appropriate application of the new standard for exchanging information for the European fund industry. In connection thereto, on June 27, 2013, EFAMA representatives attended the meeting (organised by the EU Commission) of the Expert Group on Taxation of Savings to discuss EU and international developments on automatic exchange of information. Then, on October 2, 2013, EFAMA organised an informal meeting with representatives of the EU Commission to discuss latest developments and EU Commission role in the process. On October 9, 2013, EFAMA submitted a letter to the attention of the OECD with the aim to provide the OECD with the EFAMA comments on the draft report containing the Common Reporting Standard (CRS). And on October 14-16, 2013, EFAMA representatives attended the special session of the OECD working party on exchange of information and tax compliance.

4. VAT updates

On March 7, 2013, the European Court of Justice (Case C-275/11 "GfBk Gesellschaft für Börsenkommunikation mbH") decided on the VAT treatment of advisory services concerning investment in transferable securities, provided by a third party to an Investment Management Company which is the manager of a special investment fund, stating that these services should be considered VAT exempt, even if the third party has not acted on the basis of a mandate.

Still on March 7, 2013, the European Court of Justice (Case C424/11 "Wheels Common Investment Fund Trustees Ltd") decided on the VAT treatment of management services to certain pension schemes, stating that management of an investment fund pooling the assets of a retirement pension scheme (where the members of the scheme do not bear the risk arising from the management of the fund) should not be considered VAT exempt and therefore VAT should apply.

III. Long-Term Savings and Pensions

2013 was an active year in the area of long-term savings and pensions. EFAMA's Steering Committee on Long-Term Savings and Pensions met several times, under the chairmanship of Freddy van den Spiegel. In parallel, EFAMA participated in the CEPS-ECMI Task Force Report on Long-term Investing and Retirement Savings, in the IOSCO Annual Conference on the Long-Term Savings and Pensions panel and in the European Pension Funds Congress on the Workplace Pensions Financing the Future panel. A number of presentations of our work in pensions were also made throughout the year to explain to European policymakers, industry leaders and consumers how investment managers can contribute to increase efficiency in the pension market and facilitate the access to pension solutions for retail investors.

1. EIOPA Inaugural Work on Personal Pension Products

Following a letter sent from the European Commission to EIOPA in July 2012, asking for technical input on the prudential regulations and consumer protection measures needed to create a single market for personal pension products (PPP), EIOPA set up in January 2013 the Task Force on Personal Pensions with national supervisory authorities and EIOPA representatives.

In February 2013, the Task Force initiated its work with the aim of delivering (i) a Discussion Paper on Personal Pensions (published in May 2013), (ii) an EIOPA Public event on Personal Pensions (organised in June 2013) and (iii) a Preliminary report to the Commission (2014).

EFAMA welcomed the work of EIOPA in developing an EU-single market for PPPs, and contributed to the debate with a constructive proposal, based on the expertise of the asset management industry in managing long-term and pension savings. EFAMA's response to the EIOPA's Discussion Paper on Personal Pensions was inspired by EFAMA's work in this area.

EFAMA participated in the EIOPA's June 2013 public event on PPP, where the current obstacles to cross-border provision of personal pensions were discussed among stakeholders.

EFAMA attended the 3rd Annual Conference of EIOPA in November 2013, where it was agreed by many participants that European citizens would benefit from the introduction of a pan-European framework for personal pensions.

2. The Officially Certified European Retirement Plan (OCERP)

In September 2013, EFAMA published a report to shed light on the essential elements of a regulatory framework for an EU labelled PPP. The concept proposed in the EFAMA report – called "Officially Certified European Retirement Plan" (OCERP) – is a blueprint for a "European brand" of personal pension products to be distributed on a cross-border basis. The proposed standards for the OCERP should allow individuals to choose between several investment options, foster well-informed choices, and ensure that providers maintain a robust governance framework and administrative systems. Personal pension products that meet

these standards would benefit from the OCERP passport and could be distributed throughout Europe by insurance companies, banks, pension funds and asset managers.
It should be clear that the goal is not to aim at harmonising all types of existing personal pension products, especially given that the organisation of pension systems remains an exclusive competence of Member States. What we call for is to create an additional choice for personal pension savings, with unified standards across Europe.

EFAMA was invited by the Commission to present the OCERP report at the Pensions Forum in October 2013.

3. Follow-Up on the White Paper on Pensions

EFAMA is represented in the European Commission's Working Group on a Code of Good Practice for Occupational Pension Schemes, which was created as a follow-up to the White Paper on Pensions. The Group met twice in 2013 and discussed various practices that could be included in such a code, in particular with a view to strengthening safety, cost-effectiveness, transparency and good governance. The final work is expected to be presented at the 2014 Pensions Forum meeting.

In April 2013, EFAMA participated in DG SANCO's consultation on consumer protection in third-pillar retirement products. This consultation came on the back of action 13 of the White Paper which announced that the Commission would present an initiative aimed at raising the quality of third-pillar retirement products and improving consumer information and protection standards via voluntary codes and possibly an EU certification scheme for such products.

4. Revision of the IORP Directive

In May 2013, Commissioner Barnier decided that a revised legislative proposal on IORPs would be focusing on governance, transparency and reporting requirements for occupational pension funds and would not cover the issue of solvency rules for pension funds, which will be re-examined once more complete data is available.

In July 2013, EFAMA co-signed a joint press release with eight industry pension representatives – the so-called Group of Nine - welcoming the decision of Commissioner Barnier to focus on governance and reporting requirements only, with the understanding that fundamental differences that exist between insurance companies and IORPs should be duly reflected.

IV. Investor and Financial Education

Investor education is a strategic priority for EFAMA and so EFAMA continued its work in 2013 in strengthening the role that the investment fund and asset management industry can play in this area. Following on from the success of the EFAMA Investor Education Day held in November 2012, the EFAMA Investor Education Working Group (WG) set about preparing a report into which investor education initiatives by EFAMA member associations and corporations could be combined to highlight the work that is already being undertaken by the industry in this area. The work of the Investor Education WG centred on creating this report in 2013.

The aim was to have member associations and corporate members put down on paper the initiatives they have undertaken, and to share experiences and best practices with the industry. A set of guidelines was then drawn up spanning the experience of not only EFAMA members and corporate members in investor education initiatives, but also academia, financial authorities and regulators. By cataloguing these experiences and best practices, EFAMA could share this valuable knowledge not only with its members, but also with the wider financial community, public officials, the press and other interested parties.

The overarching aim of the report was to inspire and encourage those not currently undertaken investor education initiatives, to do so. The guidelines are also useful to those already undertaken initiatives as they may provide some useful best practice suggestions that could be sewn into existing initiatives. The report was finalised by the EFAMA Investor Education WG towards the end of 2013, with the official launch of the report held in March 2014.

V. Statistics and Economic Research

The provision of key information and reliable statistics through a range of regular releases reporting on the European asset management and investment fund industry was maintained by EFAMA in 2013. This work is carried out in close collaboration with EFAMA's member associations, which are the official providers of statistics to EFAMA. EFAMA is also responsible for providing the International Investment Funds Association (IIFA) with statistics about the European investment fund market.

1. EFAMA's Annual Fact Book – Trends in European Investment Funds

The 11th edition of the annual Fact Book was published in September 2013 and contains in-depth commentary on the developments in the industry during 2012 and over the past 5 years (2008-2012). It also contains a section focusing on the outlook for the industry over the short and medium term. As well as giving more information on the net sales and net assets of countries, it provides information on the ownership of investment funds across European countries, round-trip/cross-border funds and absolute return strategy funds.

The Fact Book is broken down into three parts. The first part focuses on recent developments in the European fund industry. Part 2 is a compilation of Country Reports, which contain economic and financial information, trends in the investment fund market and also give an update on the regulatory, taxation and corporate governance issues affecting each country in Europe. Part 3 is the data section which contains statistical tables on net assets and the number of investment funds in each country over the past 10 years (2003-2012) as well as providing tables on the worldwide investment fund industry.

An electronic version of the Fact Book as well as hard copies are available for purchase on EFAMA's website: www.efama.org.

2. EFAMA's Sixth Annual Asset Management Report

In June 2013, EFAMA published the sixth edition of its Annual Asset Management Report. This free-of-charge report, available on EFAMA's website, provides an overview of the professionally managed assets in Europe, taking into account the overall size, general structure, asset allocation and client base of the industry at end 2011. It also includes a first estimation of the professionally managed assets under management (AuM) at end 2012.

The Asset Management Report focuses on assets professionally managed in Europe, as opposed to assets domiciled in Europe. The report represents an effort to provide a snapshot of the European asset management industry across both the retail and institutional landscape, and with a distinction between investment funds and discretionary mandates assets. Among other things, the 2013 report highlighted the following figures:

- Assets under Management (AuM) in Europe stood at EUR 13.8 trillion at end 2011. In relation to GDP, total AuM in Europe represented 99% of GDP at year end. It is estimated that total AuM increased in 2012 to EUR 15.4 trillion.

- Total AuM is divided almost equally between investment funds and discretionary mandates. Typically, asset managers receive mandates from institutional investors and high-net-worth individuals, whereas investment funds serve the retail and institutional markets.

- Institutional investors represent the largest client category of the European asset management industry, accounting for 75% of total AuM in Europe. Insurance companies and pension funds accounted for 42% and 33% of total AuM for institutional clients, respectively.

- More than 3,200 asset management companies employing about 90,000 were registered in Europe at end 2011. Taking into account related services along the asset management value chain, the level of direct and indirect employment would increase to approximately 505,000.

3. EFAMA's Other Statistical Publications

EFAMA Monthly Fact Sheet

The monthly "EFAMA Investment Fund Industry Fact Sheet" provides an overview of the net sales and net assets of investment funds domiciled in Europe at month end. It focuses on aggregated figures for net assets and net sales, but also provides monthly net sales data over the previous twelve months for UCITS funds (including a breakdown between categories) and Special Funds. Twenty-six countries provide data for inclusion in the monthly statistics.

EFAMA Quarterly Statistical Release

The "EFAMA Trends in the European Investment Fund Industry Quarterly Release" focuses on net assets and net sales of investment funds domiciled in Europe, whilst also presenting a commentary on the trends in the industry during the quarter. This release provides a country breakdown of the net assets and net sales of UCITS during the quarter. Aggregated data on non-UCITS funds, as well as the number of UCITS and non-UCITS funds are also presented in this release. Twenty-seven countries provide statistics for inclusion in the quarterly release.

EFAMA Quarterly International Statistical Release

The "EFAMA Worldwide Investment Fund Assets and Flows Quarterly Release" focuses on net assets and net sales of worldwide investment funds, whilst also presenting a commentary on the trends in the industry during the quarter. The report contains data on the largest domiciles of investment funds around the globe and the position of Europe in the worldwide context. The supplementary tables accompanying the international statistics release contains net assets data for countries supplying data from around the world.

These releases are all available on EFAMA's website www.efama.org free of charge.

VI. Technical Industry Standards

1. Fund Processing Standardisation

To continue informing the European Commission, the European Parliament and other interested stakeholders about the European fund industry's progress toward greater standardisation and automation, EFAMA published in cooperation with SWIFT two reports (in April and October 2013) providing updates on the evolution of automation and standardisation rates of fund orders received by transfer agents (TAs) in the cross-border fund centres of Luxembourg and Ireland in 2012 and 2013. These reports highlight the advancement of automation and standardisation rates of orders of cross-border funds. 32 TAs in Ireland and Luxembourg, representing more than 80% of the total incoming third-party investment funds order volumes in both markets, participated in the survey.
Highlights from the report:

- In the first half of 2013, the total volume of orders increased by 15% to 14.3 million orders compared to the second half of 2012 with 12.5 million orders. Out of this, the volume of manually processed orders increased by 11% to 3.2 million (against 2.9 million in H2 2012).
- The total automation rate of processed orders of cross-border funds increased to 77.8% in the second quarter of 2013, compared to 77.7% in the fourth quarter of 2012. However, the rate of standardisation progressed by 2.6 percentage points, reflecting a fall in the use of proprietary File Transfer Protocol (FTP) formats.
- ISO adoption continued to increase in both fund domiciles:
    - The total automation rate of orders processed in Luxembourg increased by 1.2% to reach 74.9%. This increase was driven almost equally by a greater use of ISO messaging standards and proprietary FTP.
    - The total automation rate of orders processed in Ireland decreased to 83.9% in the second quarter of 2013, compared to 85.3% in the fourth quarter of 2012. Still, the percentage of automated orders based on the ISO messaging standards increased to 23.5% in the second quarter of 2013, compared to 19.3% in the fourth quarter of 2013.

Updates concerning fund processing standardisation and links to the EFAMA-SWIFT reports can be found on the EFAMA website at http://www.efama.org/Lists/Themes/form/DispItem.aspx?ID=6.

2. The European Fund Classification (EFC)

The EFC Forum (EFCF) established a pan-European methodology for classifying cross-border funds on the basis of well-defined criteria and regular monitoring of the fund's holdings by a neutral classification administrator to ensure that funds do not drift from their stated objectives. The EFC is a tool to support the UCITS brand with a single standard of fund classification designed to give distributors and their clients the confidence that the fund they select is true to their label. In 2013, the EFCF continued to work with the European fund industry in order to expand the EFCF. At end September 2013, the classification administrators monitored 3,437 funds (20,210 share classes) managed by 137 fund groups, including many of the largest European fund management groups.

VII. Preserving the Integrity of the Industry

1. Corporate Governance

In 2013 EFAMA continued to promote EFAMA's Code for external governance[21]. This code provides high level principles and best practice recommendations in order to ensure that asset managers also act as fiduciaries for clients through the exercise of their shareholders' rights. For 2014 the industry is expecting a revision of the Shareholders' Rights Directive by the European Union that will also look at these fiduciary duties of asset managers.

2. Responsible Investment

In 2013 EFAMA continued its efforts to promote Responsible Investment (RI), an important feature of the investment management industry. Investment managers, being fiduciaries acting on behalf of their clients, offer RI products to their clients, the asset owners, to whom they provide services and offer a choice as to the investment approach to be adopted. In order to increase the public's awareness to already existing RI efforts, EFAMA – together with its working group on RI – have thoroughly updated their 2011 report that showcases the myriad of initiatives that are ongoing at EU Member States' level. At the start of 2014 EFAMA released this update to the public[22].

21 http://www.efama.org/Publications/Public/Corporate_Governance/11-4035%20EFAMA%20ECG_final_6%20April%202011%20v2.pdf

22 http://www.efama.org/Publications/Public/Responsible_Investment/140228_Responsible_Investment_Report_online.pdf

VIII. EFAMA and its Members

EFAMA's profile has changed significantly over the past years. Today, one of the most important missions and challenges of EFAMA is to speak with a single voice for the whole of the European investment management industry, both at European and global level. This unified industry representation is based on a set of rules trying to install a fair balance of rights and decision-making aptitude between corporations and associations as well as between large and small associations.

An intense diplomatic and negotiating effort is a prerequisite for efficiency in reaching common and clear positions. National associations, corporate members and associate members all play a key role in EFAMA's daily life.

1. Independent National Associations

Some national associations function under the umbrella of wider financial trade associations, creating potential conflicts of interest. The discussion initiated more than eight years ago by EFAMA on the need for the creation of a level playing field for all saving products, which is still ongoing, demonstrates the importance of the independency of EFAMA's member associations. Without this independence EFAMA would not have been in a position to drive the discussion forward against other very strong competing interests. The PRIPs file has been very illustrative in this context.

This is why EFAMA's Rules of Procedure make clear that:

- *National Member Associations should be **sufficiently** independent to provide EFAMA with opinions reflecting the interest of the national investment management industry, and also when conflicting with the interests of other areas of the national financial industry;*
- *National Association Members should have decision-making bodies mandated to conduct independent budgetary and policy decisions representing the interests of the national investment management industry.*

Only on such a basis is EFAMA strong enough to defend efficiently the interests of the European investment management industry.

2. Corporate Members: a vital part of EFAMA

Corporate members have become increasingly involved in the work of EFAMA since it first admitted direct corporate membership back in 2005. Today EFAMA's Working Groups benefit greatly from a significant participation of corporate members. The contribution of their practical knowledge is an invaluable asset and constantly takes the pulse of the industry. From the association's point of view, one of its main goals has been reached: without the often highly technical input of its corporate members, EFAMA would not be in a position to deal as efficiently with the tremendous and increasing number of complex files the industry has to tackle.

Also, the close cooperation between EFAMA members broadens the industry's understanding of pan-European and global issues, as well as intricate European regulatory procedures. In the past years, EFAMA corporate members have gained a better understanding of the key role they play in the opinion-building exercise within EFAMA through:

- Active participation in all working groups and consultations;
- Meetings held specifically for corporate members;
- Six weekly conference calls and permanent updates;
- Important representation in EFAMA's institutional bodies, chairing of Working Groups, representing EFAMA in meetings with ESMA, FSB, IOSCO, etc.

EFAMA is proud to announce that in these budgetary difficult times, the number of corporate members increased to over 60 in mid-May 2014.

3. Associate Membership: an established part of EFAMA membership

In September 2010, an Extraordinary General Meeting of members extended EFAMA membership to a new category referred to as "Associate Members". These are companies, associations and other organisations which do not qualify to become full members of EFAMA but are acting as service providers or major stakeholders of the fund and/or the investment management industry and have developed specific expertise in that field which may be helpful to achieve the objectives of EFAMA. Associate membership is open, among others, to national and international consulting, audit and law firms, IT and technology support providers, research firms, fund service providers, fund administrators, depositaries and global custodians, as well as clearing and settlement institutions. At the end of 2013 EFAMA had 25 associate members which is a very satisfying number given the recent economic challenges faced by the industry.

Benefits of membership

The benefits of becoming an associate member of EFAMA are numerous. Associate members may attend EFAMA's general meetings (without voting rights). Furthermore, they are invited to the EFAMA Investment Management Forum which is an annual two-day conference organised in Brussels, where industry leaders, policymakers and other stakeholders come together to exchange views and network in a high-level framework. Associate members are able to attend this event at a special rate and may apply to become speakers.

Associate members are also invited to other seminars organised by EFAMA on a number of topics. Importantly, the EFAMA Board of Directors decided in May 2012 that associate members can participate in EFAMA Working Groups, which are the main tool for EFAMA to form its opinion on regulatory and industry developments.

Associate members receive EFAMA's regular statistics and similar information and reports, working papers relating to the work and findings of EFAMA Working Groups as well as any other document of general interest provided to EFAMA members and posted on EFAMA's public website. Associate members also have access to specific sections of the members' restricted area on EFAMA's website.

Associate Members Meeting on 5 March 2013

EFAMA organises an annual associate member meeting which evaluates the previous year's interaction between EFAMA and its associate members. The 2013 annual meeting, which was held on 5 March, offered among other things an insight into the European Commission's agenda for asset managers by Mr. Tilman Lueder, Head of unit for asset management at the European Commission. Since May 2013, 6 weekly conference calls are organised to update associate members on the key regulatory files EFAMA is working on.

4. The EFAMA Investment Management Forum 2013

The 19th EFAMA Investment Management Forum took place on 5-6 November 2013 in Brussels. It brought together more than 250 investment managers, policymakers and other stakeholders of the industry from more than 20 countries. This year the theme of the conference was "Investment Management Industry - Providing Long-Term Value to Investors." Day 1 of the conference focused on the key regulatory evolutions impacting the investment management industry, including UCITS V, implementation of the AIFMD, the shadow banking debate, as well as the challenges to distribution models of investment managers posed by MiFID II. Also attention was devoted to the role of investment managers in the provision of long-term savings and the need for investor education. Both ESMA and the European Commission presented their current agenda. Day 2 of the conference had a high-level panel of regulators and industry representatives discussing the new global scene on financial regulation. A panel of industry leaders debated the crucial issues for the industry for 2014. The conference was concluded with two special workshops focused on U.S. regulation and taxation issues.

IX. EFAMA on the Global Scene

1. Annual Joint Meeting with the ICI's International Committee

The joint meeting of EFAMA members and the ICI's International Committee takes place in Washington, D.C., once a year, in context of the ICI's General Membership meeting in May. The aim of the meeting is to intensify contacts between the European and the U.S. investment fund industries and to identify issues of mutual interest. An increasing number of other members of the International Investment Fund Association also attends this meeting, making it more and more a global forum for discussion on regulatory trends and industry initiatives.

The 2013 meeting was co-chaired by Liliane Corzo, Chair of ICI's International Committee, and EFAMA's Director General, Peter de Proft. The key topics discussed were:

- Top 5 Regulatory Issues for Funds and Managers;
- Money Market Funds;
- Capital market reforms in Europe and the U.S.;
- FATCA and FTT;
- Regulatory restrictions on incentives for the sale of funds.

2. The 27th International Investment Funds Conference in New Orleans

The International Investment Funds Association (IIFA)[23] gathers more than 40 investment fund associations from across the world. Its 2013 Annual Meeting was hosted by the Investment Company Institute (ICI), the national association of U.S. investment companies and took place in New Orleans, Louisiana, on 21-24 October 2013.

The 3-day conference examined a number of topics including the challenges of running a global business, important trends and topics in regions around the world, the role of fund associations, international policy issues such as how to improve retirement savings worldwide and how to deal with the implications of new and changing tax regulations.

Delegates agreed that it would require a common effort from the international investment fund industry to establish and maintain high standards and that investment fund associations have a key role to play in an increasingly interconnected world.

Chaired by Eduardo Penido, Chairman of the IIFA and representative of the Brazilian Association of Financial and Capital Market Entities, the conference focused on the fund industry in the various jurisdictions

23 For more information see: www.iifa.ca

represented in the IIFA with special attention to promoting the use of funds for retirement savings, informing investors in the electronic age, ETFs and the changes in regulation of fund distribution.

Another highlight of the conference was the discussion among ICI President and CEO Paul Schott Stevens, Vanguard Chairman and CEO F. William McNabb III, and Invesco Ltd. President and CEO Martin L. Flanagan on the challenges of running a global fund business.

The conference had the honour of having Tajinder Singh, Deputy Secretary General of the International Organization of Securities Commissions (IOSCO), as keynote speaker.

Participants felt that there needs to be closer interaction between the international investment fund industry as represented by the IIFA and global regulators such as the G20, the Financial Stability Board (FSB) and IOSCO. An intense process of internationalisation of regulation is taking place. International standard setters such as IOSCO are gaining a unique relevance in the shaping of international markets, fostering the expectations that all local regulators will apply international principles that are getting more detailed over time.

3. The Cumberland Lodge Conference

The Cumberland Lodge Financial Markets Conference (previously ***Wilton Park***) has become an important annually held international event where industry representatives, regulators and policymakers are able to debate the key issues impacting the financial services industry in a unique setting. The limited amount of high-level attendees provides an opportunity for fruitful discussions and networking. The discussions are cross-sectoral as in addition to investment management also banking and insurance are represented. EFAMA has for eight years been a co-sponsor of the event facilitating from its part the evolution of the event.

The 2013 conference was organised on 24-25 October and chaired by Mr. Adam Farkas, Executive Director of the European Banking Authority. The conference focused on examining means of building growth and boosting savings and the role of stabilised financial services markets. The discussions provided valuable insights to the European regulatory developments without, however, neglecting the transatlantic aspects.

4. The EFAMA-ICI Industry Roundtable

In order to raise understanding on both sides of the Atlantic on issues of mutual interest, EFAMA's Director General and the ICI's President and CEO, Paul Schott Stevens, decided to organise the fifth EFAMA-ICI Industry Roundtable in Brussels on 19 November 2013, to complement the discussions at the EFAMA-ICI joint May meeting. The roundtable discussed many of the key topics for the investment management industry:

- The regulatory agenda for funds and managers;
- EU-US trade discussions;
- Financing and the economy – promoting growth for the euro area;
- The shadow banking debate and the financial system.

5. The IOSCO Agenda

IOSCO is playing an increasingly important role to facilitate and enhance cooperation among the securities regulators around the world. This is crucial in the post-crisis world where regulators in different jurisdictions are implementing the G20 commitments to overhaul the financial regulation. Consistency and coherence are essential for the investment management industry as the business is more and more global but regulation is still mostly local. IOSCO's role is central as it brings together all the world's securities regulators who have a profound understanding of the world's securities markets and how they are regulated. IOSCO is therefore an important partner for the FSB in developing the new global regulatory architecture. EFAMA joined IOSCO in 2012 as an affiliate member, in order to support the increasingly important role of IOSCO.

EFAMA attended the IOSCO Annual conference in Luxembourg on 15-19 September, including a two day meeting of the SRO Consultative Committee which was decided to be renamed as Affiliate Members' Consultative Committee (AMCC). This is to reflect the growing and broadening membership of IOSCO as not all affiliate members are SRO's as previously but other organisations with a deep interest in international regulation, such as EFAMA.

EFAMA also attended on 13 December 2013 a meeting of the AMCC with the IOSCO General Secretariat in Madrid. The meeting focused on the AMCC working programme until the next annual meeting in Rio de Janeiro, from 28 September to 2 October 2014. One of the key initiatives of the AMCC is to provide improved information to IOSCO on the global investment fund industry. EFAMA is participating in the task force developing this data service.

During the year EFAMA submitted responses to various IOSCO consultations, especially the consultation on benchmarks and the Basel Committee-IOSCO consultation on margin requirements for non-centrally cleared derivatives.

X. EFAMA and European Organisations

1. EFAMA and the European Securities Markets Authority (ESMA)

ESMA started its operations on 1 January 2011 with an ambitious work programme, largely driven by the EU regulatory agenda. In April 2011 the Director General of EFAMA, Peter De Proft, was appointed to the Securities and Markets Stakeholders Group (SMSG) established within ESMA for a 2.5 year term. Peter De Proft was elected Vice-Chair by ESMA's SMSG at its second meeting in October 2011 for the remaining term.

The Securities and Markets Stakeholder Group (SMSG) was established in April 2011 under ESMA's founding Regulation to help facilitate consultation with stakeholders in all areas relevant to ESMA's tasks.

In 2013, the Group held a number of plenary meetings in the presence of the Chair of ESMA, Steven Maijoor and ESMA's Executive Director, Verena Ross. ESMA's staff provided helpful input on a number of the technical issues which have been discussed by the Group. In addition, the Group established a constructive dialogue with the ESMA Board of Supervisors in the context of two joint meetings.

The SMSG met on 5 occasions in 2013 in full: meetings were held on 30-31 January, 18 April, 19 June, 25 and 26 September, and 21 November, the last meeting of the original Stakeholders Group. In addition, the Group met with the ESMA Board of Supervisors on 30 January and 25 September in 2013. The Summary of Conclusions of the SMSG meetings can be found at www.esma.europa.ue/smsg.

Since its launch, the Group has produced numerous public opinions, advice and reports. The Group has also delivered a number of informal feedback documents to ESMA. The Group's ambition is to deliver advice at the earliest upstream stage possible and to focus on strategic issues. This means that the SMSG has tried to get involved at an early stage, often by responding to "discussion papers" rather than by taking part in ESMA's later Public Consultations on standards or guidelines. The SMSG Advice Papers and responses to Consultation Papers can be found at http://www.esma.europa.eu/page/SMSG-advice-and-letters.

In addition to its advice to ESMA, the Group also started working on a number of own initiatives outside of ESMA's Annual Work Programme. In this context, it set up specialised working groups which examine the impact of regulation on the access of SMEs to capital markets, on Investor Protection and on Credit Rating Agencies.

The regulations establishing the European Supervisory Authorities and the European Systemic Risk Board include provisions for the Commission to review their structure and performance within the European System of Financial Supervision (ESFS) and the ESFS as a whole. A consultation was launched on 26 April 2013 in the framework of the review process and the SMSG decided to draft an in-depth evaluation of ESMA's functioning and to analyse its own workings (2013/SMSG/013).

With respect to horizontal issues, the Chair and vice Chairs of the SMSG initiated contacts and discussions with the Chairs of the (EBA) Banking, as well as the EIOPA (Insurance and Occupational Pensions) Stakeholder Groups. The aim is to ensure consistency of advice on key regulatory initiatives by the three

European Supervisory Authorities (ESAs), including with respect to investor protection and SME financing in particular.

On 12 December 2013 a new SMSG Group was appointed with a mandate for a 2.5 year term and EFAMA Director General Peter De Proft was reappointed for a second mandate. Peter De Proft was re-elected Vice-Chair of the new SMSG at its first meeting on 29 January 2014.

The new SMSG is composed of 30 individuals drawn from across 17 Member States and representing ESMA's key stakeholder constituencies – consumer representatives (4), users of financial services (5), financial market participants (10), financial institution employees (2), small and medium sized enterprises (1) and academics (8). A number of the incoming members have previously served in the first SMSG.

The SMSG was set up to facilitate consultation with key financial market stakeholders on all aspects of ESMA's work. The SMSG provides ESMA with opinions and advice on policy workstreams and must be consulted on technical standards and guidelines and recommendations. In addition, the Stakeholder Group is expected to notify ESMA of any inconsistent application of European Union law as well as inconsistent supervisory practices in the Member States. Steven Maijoor, ESMA Chair, said: "The SMSG makes an important contribution to ESMA's policy development, providing us with timely and valuable input on how our regulatory activities may potentially affect the different users of financial markets.
We have enjoyed a very good working relationship with the outgoing members of the SMSG who, as well as contributing their views and experience to our policymaking discussions, have been pioneers in developing the role of their group as part of the new European System of Financial Supervision." (Press Release ESMA/2013/1909)

2. European Parliament Financial Services Forum (EPFSF)

In 2010 EFAMA became a member of the European Parliament Financial Services Forum (EFPSF), a not-for-profit organisation, supported by a wide range of MEPs from most political groups.

Over the last nine years, the EPFSF industry membership has increased, so that it now represents the diversity of Europe's financial services industry. It has gone from 26 members in 2004 to 50 in 2013, thus reinforcing the Forum's stability and credibility.

As it is important for the Forum to have different points of views expressed during discussions within the Steering Committee and at EPFSF events, it reinforced its actions to raise the number of MEPs in the Forum. The Steering Committee now includes 51 MEPs.

The main objectives of the Forum are:

- to promote integration of a single European market for financial services across national borders, which is globally competitive and to the benefit of the European economy as well as suppliers and consumers of financial services;
- to provide a focal point and resources for members of the European Parliament interested in financial services issues as well as a forum for industry-Parliamentary dialogue;

- to deploy the joint expertise of its financial industry members to spread factual information about financial markets and services to the European Parliament via briefs, meetings, study visits and other regular activities as appropriate.

In the course of 2013 EFAMA was, and indeed is, an active participant in drafting the briefing documents and providing speakers to EPFSF events. More specifically, speakers were provided for the following "lunch events":

- 19 February: "The Framework for the recovery and resolution of financial institutions";
- 5 June: "Financial Transaction Tax";
- 10 July: "Post-trade legislation *What will change after EMIR and CSDR and what remains to be done*";
- 25 September: "The social and economic role of the financial sector: using finance to deliver sustainable and environmental developments";
- 16 October: "The overall impact of the legislative proposal in the financial sector".

Each of these discussions was attended by approximately 50 to 60 people. In addition to MEPs and financial industry members, other regular participants were representatives from the European Commission, the ECON Secretariat, end-user/consumer groups, as well as Parliamentary assistants.

In order to guarantee a discussion as open and balanced as possible where participants can express different point of views, representatives from consumer/end-user groups are now systematically invited to attend the Forum's events on a non-paying observer basis. Notwithstanding the possibility to invite other guests on an ***ad hoc*** basis, these representatives have been limited to five because of space constraints:

- BEUC – the European Consumers' Organisation;
- EuroFinuse – The European Federation of Investors;
- Finance Watch – Association dedicated to making finance serve society;
- FSUG – Financial Services User Group;
- UEAPME – The European Association for Craft, Small and Medium-sized Enterprises.

3. PCS Initiative

EFAMA continued to follow closely PCS (Prime Collateralised Securities), a market led initiative to revitalise the securitisation markets. With PCS, the industry aims for the establishment of a new market segment called Prime Collateralised Securities (PCS) which shall help the market to distinguish ABS with direct link to real economy and quality collateral. PCS compliant issues receive the PCS label by the PCS secretariat if they reply to strict criteria built around 4 main principles of quality, transparency, simplicity/standardisation and liquidity. The initiative had first been launched by EFR (European Financial Services Round Table) in autumn 2009. By 2012, it was mainly driven by AFME and its members with participation by EFR while EBF, EFAMA, Insurance Europe, EFRP, ECB, EIB as well as the European Commission held an observer status. Throughout 2013, EFAMA continued to participate as observer in meetings of the PCS Steering Committee, in the establishment of the PCS association and the PCS Secretariat. First successful PCS issuances finally took place in November 2012 and continued into 2013.

4. Other European Trade Organisations

Given the nature of its activities and topics covered, EFAMA has developed over the years active and open relationships with the other trade organisations from the financial industry such as EBF, Insurance Europe, EAPB, PensionsEurope, ESBG, FESE, EVCA, Business Europe, AFME, etc. Views and documents are shared and discussed on a regular basis and the Director General, Deputy Director General and staff have so-called "open lines".

At the same time, EFAMA is convinced that the asset management industry needs to be perceived as speaking with "one voice" in order to be considered as a valuable partner for legislators, regulators and other market stakeholders. For this reason, EFAMA tries to present a "common position" with other buy-side associations such as IMMFA, FEAM, AIMA, AMIC and EFRP by signing joint letters, participating in common meetings and trying to reach constructive compromise positions.

The trends for common letters, working groups and common statements is gradually and successfully extended to many trade organisations from the financial industry.

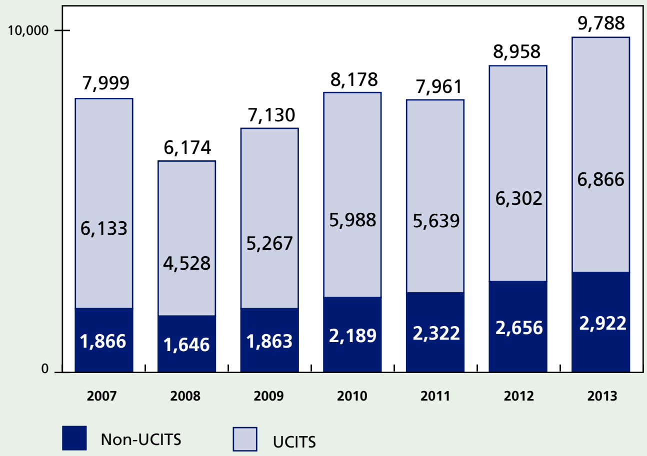
European Investment Fund Developments in 2013

1. Introduction

The European investment fund industry enjoyed a second consecutive year of strong growth in 2013, thanks to increased investor optimism amid encouraging economic data and rising stock markets. The economic outlook improved significantly during the year, as the European economy stabilised after a volatile 2012. As countries made progress in implementing reforms to reduce budget deficits, measures introduced to improve competitiveness and to strengthen the recovery began to pay off. The gradual resumption of economic growth across Europe that followed, albeit at low levels, underscored the hope that the financial crisis and the subsequent sovereign debt crisis was over.

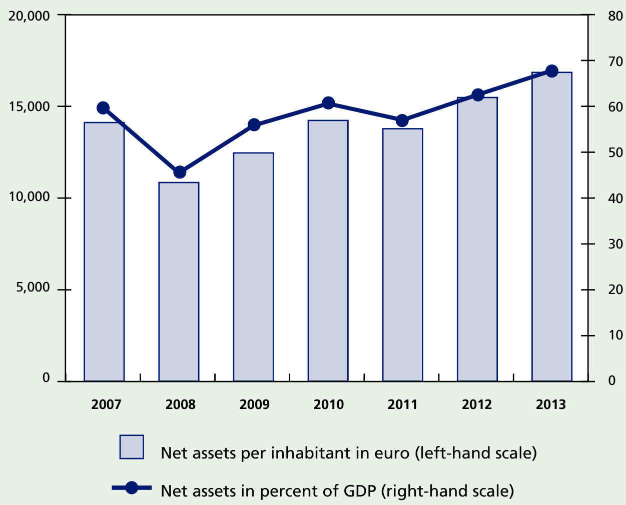
Overall, investment fund assets in Europe increased 8.9% to €9,788bn, whilst net assets of UCITS increased by 9.0% to €6,866bn and net assets of non-UCITS increased by 8.8% to stand at €2,922bn at end 2013. Net sales of UCITS and non-UCITS totalled EUR 410 billion in 2013, compared to EUR 307 billion in 2012. Total net assets of UCITS and non-UCITS represented 68% of GDP at end 2013, up from 63% at end 2012. This indicator highlights the significant role played by investment funds as financial vehicles raising capital from retail and institutional investors, and providing funding to many European corporations and government agencies. In this intermediary role, investment managers play a key role in the European economy as managers of long-term savings, investors in financial markets, shareholders in European companies and providers of employment, both directly and indirectly.

Chart 1. Net Assets of European Investment Funds
(EUR billions)



Source[1]: EFAMA, European Commission

Chart 2. Trends in Investment Funds in Europe (1)



(1) Aggregated GDP and population of all EFAMA reporting countries were used to prepare this chart.

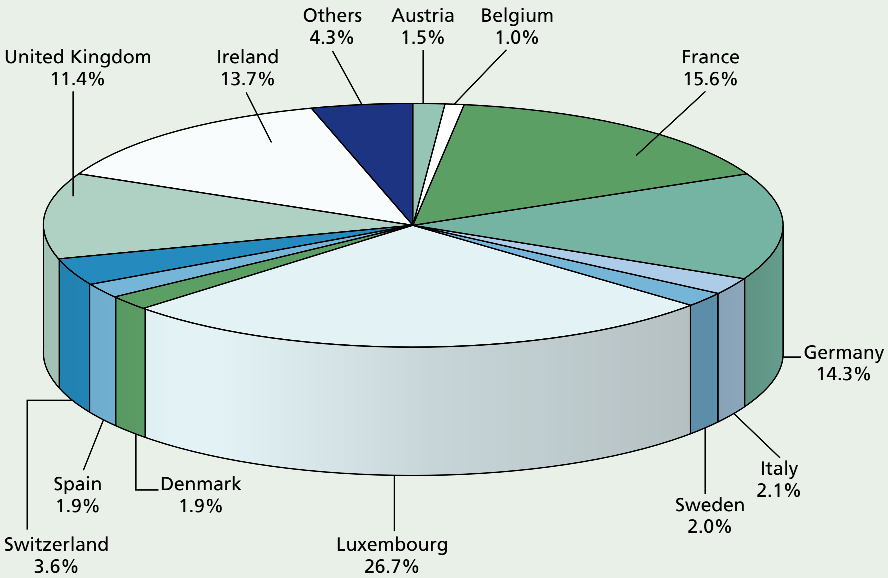
1 Except noted otherwise, EFAMA is the source of data.

Further highlights on the developments in 2013 include:

- Investment funds per inhabitant registered an 8.8% increase in 2013 to €16,800 from €15,500 at end 2012. European investment fund net assets represented 68% of GDP[2] at end 2013.
- 2013 saw a strong acceleration in the investor demand for equity and balanced funds, as stock markets around the globe rebounded strongly during the year.
- Bond funds continued to attract net new money, albeit significantly less than in 2012 because rising long-term interest rates and persistent uncertainty about bond market developments caused a significant slowdown of investor demand.
- 2013 was another difficult year for money market funds as historically low levels of short-term interest rates reduced very much the attractiveness of this fund type.
- Special funds (funds reserved to institutional investors) attracted €154 billion in net new money, thanks to high institutional demand from insurance companies, pension funds and other institutional investors, who continued to use these funds to invest the recurrent contributions collected from their members.
- Strong UCITS brand recognition contributed to the continued growth of cross-border fund business in Europe, with Luxembourg and Ireland gathering 91% of all net inflows into UCITS in 2013.

Five countries held market shares of above 10% at end 2013 – Luxembourg, France, Germany, Ireland and the United Kingdom. These top 5 countries combined held a cumulative share of 82% of the industry's assets at end 2013. Luxembourg remains the largest market in Europe with a 27% market share.

Chart 3. The European Investment Fund Market
(Breakdown of nationally domiciled funds at end 2013)

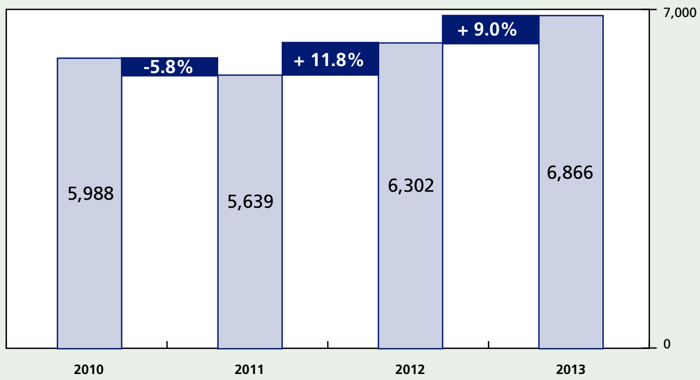


2 Aggregated GDP of all EFAMA reporting countries.

2. Trends in the UCITS Industry

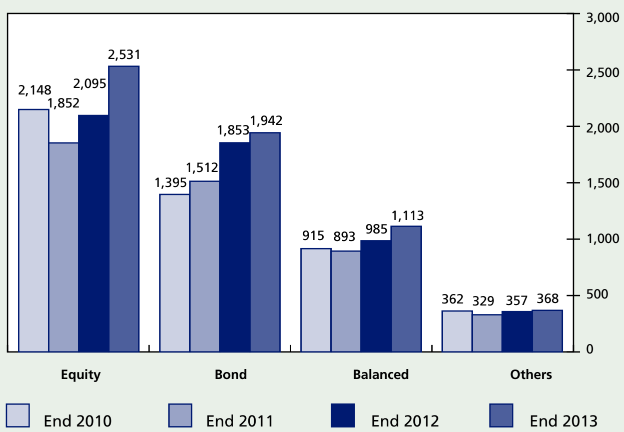
Total net assets of UCITS[3] grew by 9.0% in 2013 to stand at €6,686bn at year end. This marked the second consecutive year of growth and came on the back of strong net inflows and asset appreciation during 2013. Over the past three years, net assets have risen by 14.7%. This equates to an annual compound growth rate of 4.7%, which far outweighs the compound annual growth of GDP[4] (2.3%) over the same period. Chart 4 highlights the evolution of UCITS net assets over the past three years.

Chart 4. Total Net Assets of UCITS
(in EUR billions)



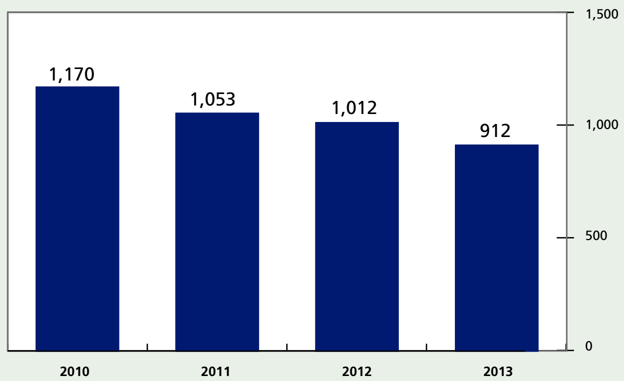
Strong asset growth was seen across all categories of long-term UCITS in 2013. A surge in investor demand for equity funds, coupled with strong market appreciation supported the extraordinary high growth (21%) of equity funds during the year. Balanced funds also benefitted from rising stock markets and saw its growth reach 13% during the year. Bond funds also enjoyed a rise in net assets of 5% in 2013. Other UCITS, which include funds of funds, funds of hedge funds and all funds whose strategy falls outside the four main UCITS categories, enjoyed a more modest increase in assets of 3%. In contrast to long-term UCITS, money market funds recorded a fourth consecutive year of reducing net assets as net assets dipped 10%.

Chart 5. Net Assets by Type of Long-term UCITS
(in EUR billions)



(1) Including funds of funds.

Chart 6. Net Assets of Money Market Funds
(in EUR billions)

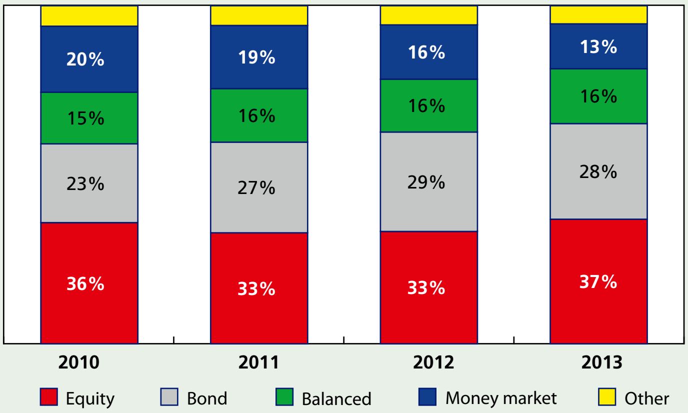


3 UCITS is defined in this section as publicly offered open-ended funds investing in transferable securities and money market funds.

4 Aggregated GDP of all EFAMA reporting countries.

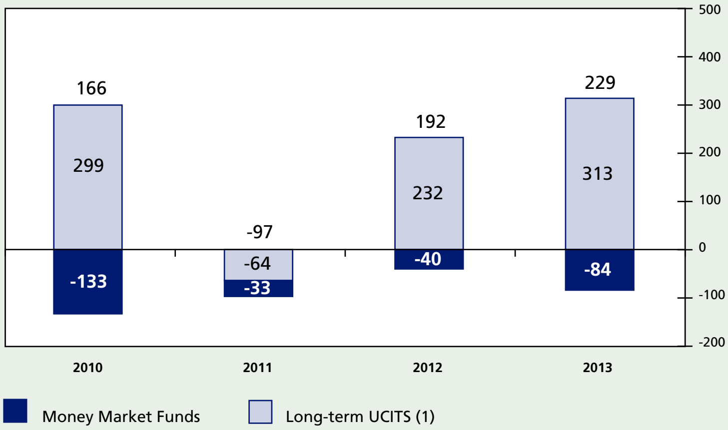
The asset allocation of UCITS changed in 2013 to reflect market developments. Equity funds accounted for 37% of total investment fund assets in 2013, marking a 4% increase year-on-year. The strong performance of equity markets in 2013 underlines this increase. The share of balanced funds in the UCITS portfolio remained flat during the year at 16%. On the other side of the spectrum, the portfolio mix held by bond funds decreased to 28% from 29% a year earlier. Money market funds also saw its holding fall to 13% from 16% in 2012.

Chart 7. Asset Allocation by UCITS Type
(in percent)



Net inflows to UCITS totaled €229bn, up from €192bn in 2012. Long-term UCITS recorded a surge in demand rising to €313bn from €232 billion in 2012. Money market funds experienced net outflows for the fifth successive year of €84bn, compared to net outflows of €40bn in 2012.

Chart 8. Net Inflows into UCITS
(in EUR billions)



(1) All UCITS excluding money market funds.

Charts 8a-8e show the demand for UCITS from 2011-2013. Balanced funds were investor's fund category of choice in 2013, as €114bn of net new cash flowed into this category during the year, almost five times as much as in 2012 and 2013. Investors were attracted by the risk diversification offered by this fund type during a period of rising stock markets, increasing long-term bond yields and uncertainty regarding monetary policy. Equity funds experienced a turnaround in net sales in 2013 to attract inflows of €99bn. This surge in net inflows followed two years of net outflows, a period when uncertainty regarding the economic outlook persisted. Bond funds registered reduced net inflows of €70bn after recording net inflows of €203bn in 2012. This fall in net inflows came against the backdrop of rising long-term interest rates and uncertainty about bond market developments. In contrast to long-term funds, money market funds (MMFs) continued to suffer from net withdrawals (€84bn) given the persisting low interest rate environment.

Chart 8a. Net Inflows into Equity Funds
(EUR billions)

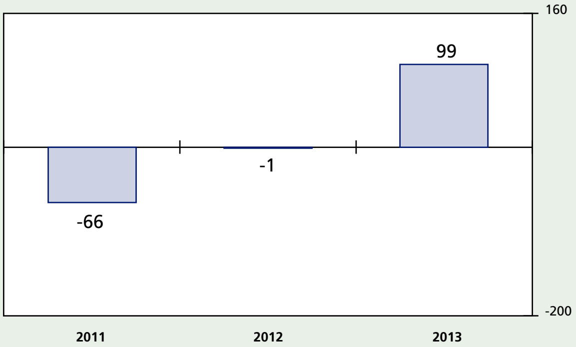


Chart 8b. Net Inflows into Bond Funds
(EUR billions)

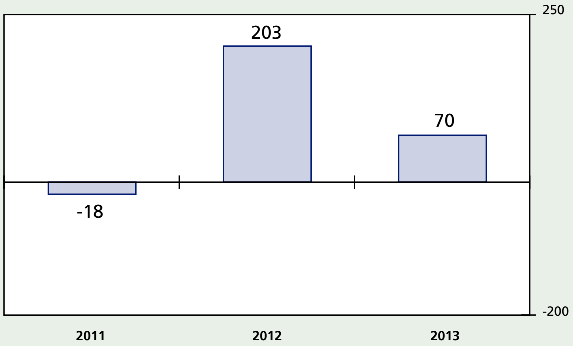


Chart 8c. Net Inflows into Balanced Funds
(EUR billions)

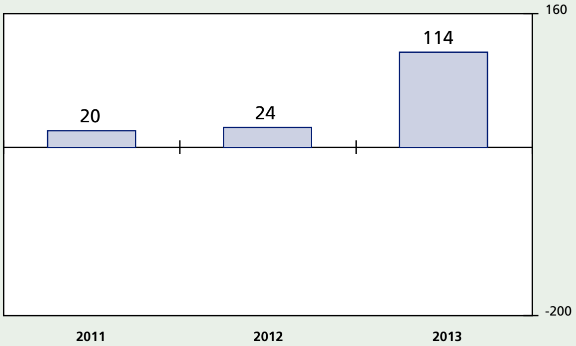


Chart 8d. Net Inflows into MMFs
(EUR billions)

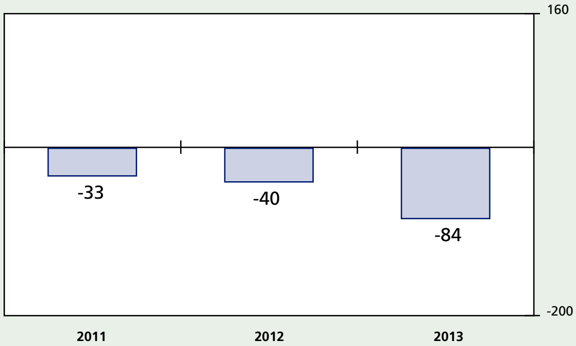
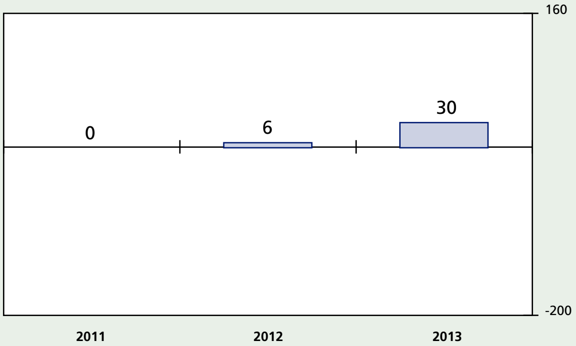


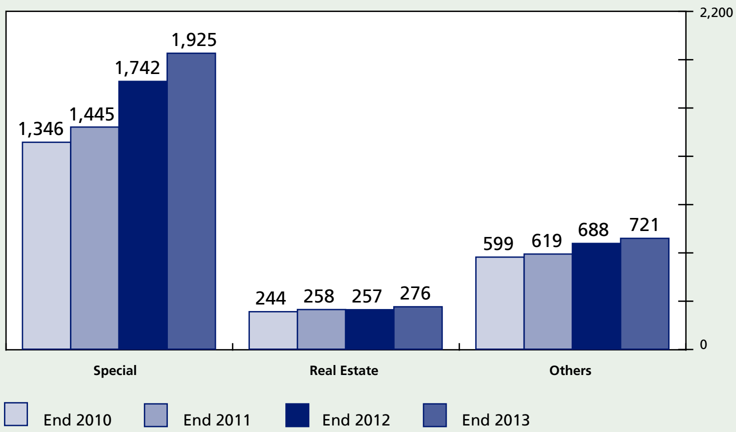
Chart 8e. Net Inflows into Other Funds
(EUR billions)



3. Trends in the Non-UCITS Industry

Total non-UCITS net assets enjoyed growth of 8.8% in 2013 to stand at €2,922bn at year end. Special funds (funds reserved for institutional investors) continued to record strong growth in 2013 (11%) as inflows hit €154 billion for the year. At end 2013 net assets of special funds stood at €1,925bn and represented 66% of the entire non-UCITS market. Net assets of real estate funds rose 7% in 2013 to reach €276bn. "Other" non-UCITS assets, which include regulated hedge funds, securitisation funds, venture capital funds and other regulated funds which do not fall under UCITS, real estate or special funds categories. Asset of these types of funds increased by 5% in 2013 to €721bn.

Chart 9. Net Assets by Type of Non-UCITS
(in EUR billions)



4. Trends across Europe

Net inflows to UCITS totaling €229bn in 2013 or 3.9% of UCITS assets at end 2012. Most countries registered net inflows during the year, with just five countries registering outflows. Luxembourg and Ireland led the way with large net inflows of €153bn and €56bn, representing 8.1% and 7.4% of end 2012 assets, respectively. Spain followed in third position with net sales of €23bn, which represented 14% of end 2012 assets, closely followed by the United Kingdom (€22bn representing 3% of end 2012 assets). Of the other large domiciles, Germany registered net inflows to UCITS of €6bn (or 2% of 2012 assets), whilst France suffered outflows of €75bn (6% of 2012 assets), mainly on account of large net withdrawals from money market funds (€47bn). Elsewhere, Italy registered net inflows of €13bn during the year, representing 7% of 2012 assets. Portugal registered net inflows of €1bn representing 13% of end 2012 assets. Romania also registered net inflows of 800 million, which represented 63% of end 2012 assets.

Net flows of UCITS in 2013

COUNTRY	NET FLOWS (in EUR bn)	COUNTRY	NET FLOWS (in % of end 2012 assets)
Austria	-1.8	Austria	-2.1%
Bulgaria	0.1	Bulgaria	43.2%
Czech Republic	0.4	Czech Republic	8.3%
Denmark	5.6	Denmark	8.3%
Finland	4.2	Finland	8.0%
France	-75.0	France	-6.2%
Germany	5.8	Germany	2.3%
Greece	-0.6	Greece	-8.4%
Hungary	2.7	Hungary	28.8%
Ireland	56.3	Ireland	7.4%
Italy	12.7	Italy	7.3%
Liechtenstein	-0.6	Liechtenstein	-2.1%
Luxembourg	153.1	Luxembourg	8.1%
Malta	-0.3	Malta	-13.6%
Netherlands	0.6	Netherlands	0.9%
Norway	3.6	Norway	5.6%
Poland	1.9	Poland	10.1%
Portugal	1.1	Portugal	12.8%
Romania	0.8	Romania	62.7%
Slovakia	0.2	Slovakia	6.5%
Slovenia	0.0	Slovenia	-1.8%
Spain	23.1	Spain	14.2%
Sweden	7.8	Sweden	4.8%
Switzerland	4.5	Switzerland	2.2%
Turkey	0.8	Turkey	5.3%
United Kingdom	21.9	United Kingdom	3.3%
Europe	**228.9**	Europe	**3.9%**

UCITS assets in Europe enjoyed growth of 9.0% in 2013. Amongst the largest domiciles of UCITS, the United Kingdom recorded net asset growth of 13%, closely followed by Germany (12%), Luxembourg (10%) and Ireland (8%). France registered negative asset growth of -0.5% during the year. Elsewhere, Romania, Hungary and Bulgaria all registered large increases in UCITS assets, albeit starting from low base levels. Of the Southern countries, Spain enjoyed large growth of 24%, followed by Portugal (23%), Italy (14%) and Greece (7%).

Overall in 2013, total UCITS and non-UCITS assets stood 8.9% higher at end 2013 than at end 2012. Most countries enjoyed growth, with only two countries registering a decline in assets. The strengthening of the euro vis-à-vis the Turkish lira during the year played a role in the decline in assets in Turkey, whereas the decline in assets in Malta can be attributed to some funds closing during the year.

Net Assets of Nationally Domiciled UCITS and Non-UCITS
(EUR billions, at end 2013)

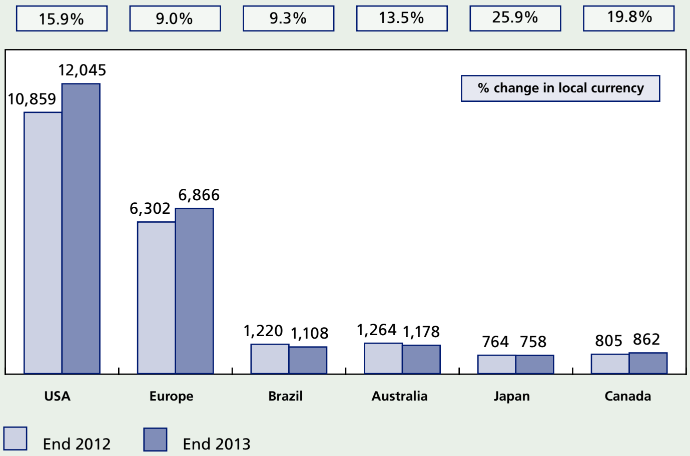
Members	Total Assets	% chg [1]	UCITS Assets	% chg [1]
Austria	149,407	1.1%	78,053	-1.9%
Belgium	95,019	8.8%	86,874	8.1%
Bulgaria	370	48.1%	367	48.4%
Czech Republic	4,720	2.9%	4,596	2.2%
Denmark	185,654	12.9%	86,317	9.7%
Finland	75,123	13.2%	64,145	14.4%
France	1,525,107	1.3%	1,110,507	-0.5%
Germany	1,404,353	9.2%	277,700	11.8%
Greece	7,059	5.3%	5,256	6.7%
Hungary	15,546	33.1%	10,262	38.8%
Ireland	1,343,882	9.5%	1,044,063	7.9%
Italy	209,091	9.8%	156,300	13.5%
Liechtenstein	31,112	12.3%	26,510	9.0%
Luxembourg	2,615,363	9.7%	2,197,567	9.7%
Malta	9,411	-3.2%	2,293	-0.2%
Netherlands	72,472	5.7%	61,855	7.2%
Norway	79,273	5.9%	79,273	5.9%
Poland	45,493	27.1%	20,318	2.5%
Portugal	24,690	4.0%	7,406	23.4%
Romania	4,509	31.4%	2,905	46.5%
Slovakia	4,570	21.9%	2,681	12.0%
Slovenia	1,850	1.2%	1,850	1.2%
Spain	184,878	23.0%	179,997	24.2%
Sweden	200,252	16.1%	198,117	17.7%
Switzerland	356,831	20.0%	287,927	22.3%
Turkey	21,526	-5.0%	10,217	-18.2%
United Kingdom	1,120,760	10.9%	862,506	13.1%
Europe	**9,788,320**	**8.9%**	**6,865,860**	**9.0%**

[1] End 2013 compared to end 2012.

5. Trends in Worldwide Investment Fund Assets

Worldwide investment fund[5] assets under management amounted to €23,789bn at end of 2013, marking a new all time high. This represented growth of 7.3 percent since end 2012 when net assets stood at €22,167bn. Measured in U.S. dollar terms, fund assets worldwide increased to $32,808bn up from $29,247bn at end 2012. In local currency, Japan posted growth of 26% during the year. However, the large depreciation of the Yen during the year meant that in euro terms, growth in Japan remained flat. Canada posted strong growth of 19.8% in local currency, whilst the United States grew 16%, followed by Australia (14%) and Brazil (9%).

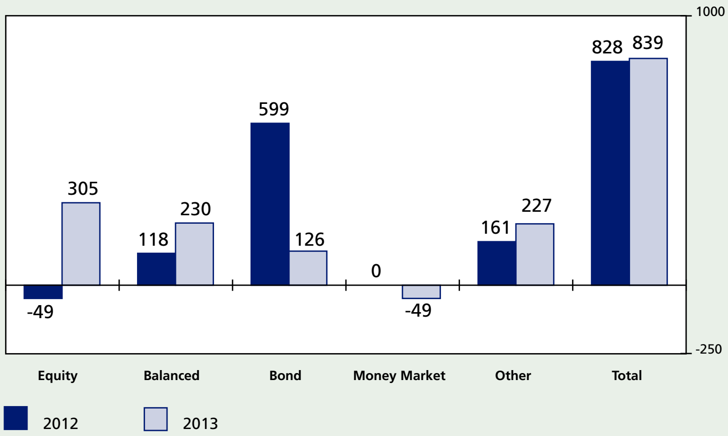
Chart 10. Trends in Worldwide Investment Fund Assets
(in EUR billions)



Source: EFAMA, ICI

Demand for worldwide investment funds remained robust in 2013 as €839bn in net new cash was collected, up from €828bn in 2012. Long-term funds enjoyed increased net inflows of €888bn, compared to €828bn in 2012. Money market funds registered net outflows of €49bn after braking-even in 2012.

Chart 11. Net Cash Inflows in Worldwide Investment Funds
(in EUR billions)

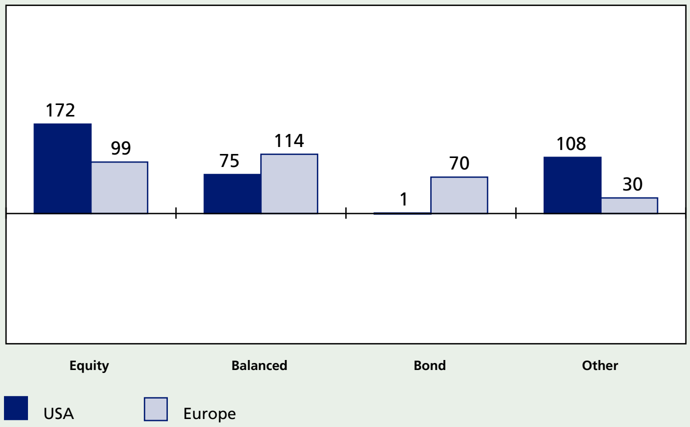


Source: EFAMA, ICI

5 In the sense of publicly offered open-ended funds, i.e. UCITS in Europe and mutual funds in the United States, including funds of funds.

Comparing net inflows between the U.S. and Europe (Chart 12), equity funds attracted large net inflows in both jurisdictions amounting to €72bn in the U.S. and €99bn in Europe. Balanced funds also posted large net inflows attracting €75bn in the U.S. and €114bn in Europe. Bond funds faired better in Europe during the year as net sales totaled €70bn, whereas in the U.S. net sales of bond funds amounted to €1bn. Other funds, which include funds of funds, attracted €108bn of net sales in the U.S. and €30bn in Europe during 2013.

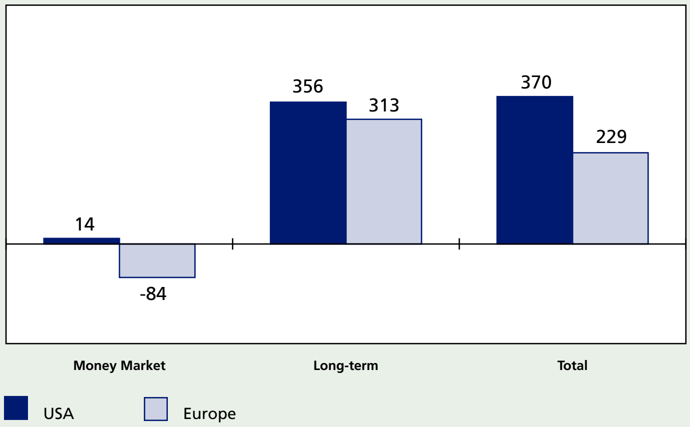
Chart 12. Net Inflows in Worldwide Investment Funds in 2013
(in EUR billions)



Source: EFAMA, ICI

Reflecting these developments, demand for long-term funds strengthened during the year. Long-term UCITS in Europe attracted €313bn in net inflows during the year, compared to €356bn in the U.S. At the same time, money market funds recorded net outflows of €84bn in Europe during 2013, whereas the money market funds in the U.S. attracted net inflows of €14bn over the same period. Overall, net inflows into U.S. domiciled funds reached €370bn, compared to €229bn in Europe.

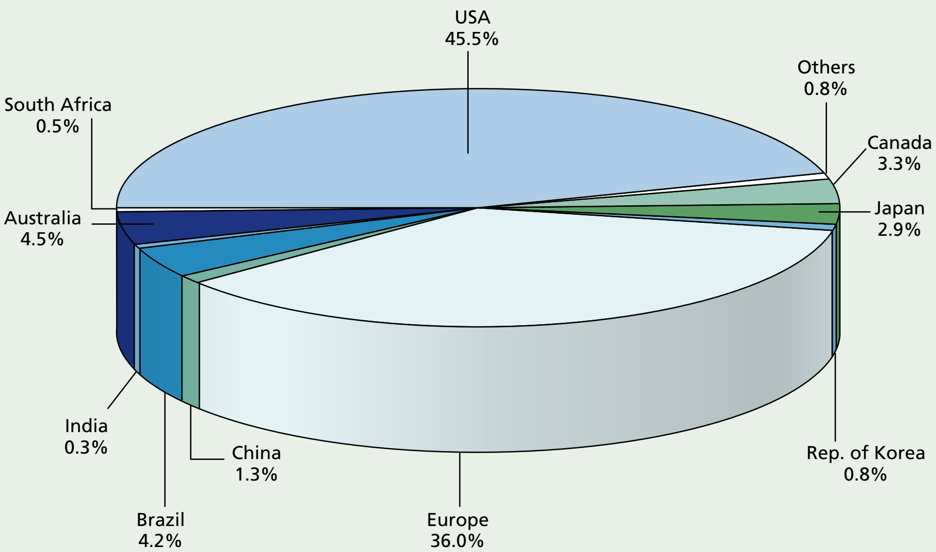
Chart 13. Net Inflows to Investment Funds in 2013
(in EUR billions)



Source: EFAMA, ICI

Looking at the worldwide distribution of investment fund assets, the United States and Europe held the largest share in the world market, with 50.6% and 28.9% respectively at the end of 2013. Australia, Brazil, Canada, Japan, China, Rep. of Korea, South Africa and India followed in this ranking. Taking into account non-UCITS assets, the market share of Europe reached 36.0%, compared to 45.5% for the United States (Chart 14).

Chart 14. Worldwide Investment Fund Assets (*)
(Market share at end of 2013 Q4)



(*) Taking into account non-UCITS.

Source: EFAMA, ICI

EFAMA MEMBERSHIP

National Associations
→ **62**

Associate Members
→ **77**

Corporate Members
→ **72**

2013

National Associations

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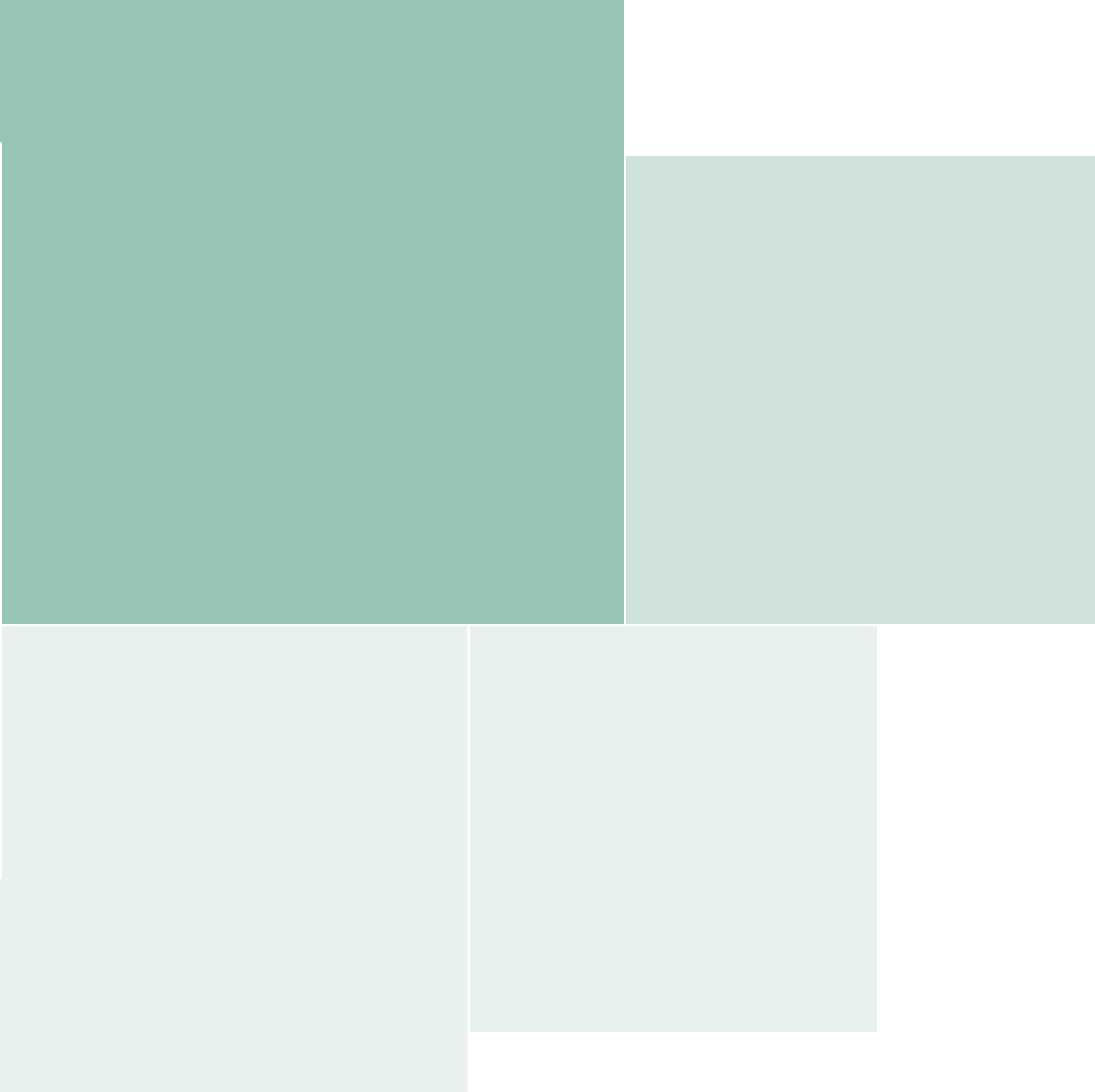

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