efama

European Fund and Asset Management Association

ANNUAL**REPORT** 2014

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President's Statement

A changing scenario for Europe

With the renewal of the mandates of both European Parliament and European Commission, the EU encountered in 2014 a period of change.

The European elections brought to the EU scene new MEPs, a significant shift in the political composition of the European Parliament, and new dynamics and alliances not tested before. The new European Commission too has new faces and there are winds of change. A Commissioner for Financial Stability, Financial Services and Capital Markets Union, Jonathan Hill, was an unexpected novelty, welcomed by the asset management industry, and allegedly a clever one in times of much Euro-skepticism.

Two years ago, EFAMA's presidency outlined four priorities to foster and enhance the potential of the asset management industry.

1 - Putting end investors interests first

End investors' interests have always been and will remain at the forefront of our actions. Without investor trust, we cannot hope to convince regulators and politicians to support our industry. Without investor trust, we cannot hope to finance the European future.

Financial literacy and investor education equally remain key elements for EFAMA and the EU to promote. Financial consumer protection should be reinforced with investor education policies. This is especially true in Europe where the risk and responsibility of financing decisions is increasingly being shifted away to end investors and when Europe is calling for long-term investments.

2 - A Capital Markets Union: a challenge and an opportunity

After an intensive regulatory agenda, EFAMA was supportive of a break to assess the benefits and impacts of implemented measures. With a return of confidence, EFAMA supported a focus on long-term investment for the benefit of the whole economy.

In this respect, the ambitious agenda of Juncker's Commission to restore growth in Europe, and the building of a Capital Markets Union (CMU) is highly welcome. Europe is facing a challenge that opens up opportunities. The European Commission wants to encourage the diversification and asset managers can complement the role of banks by channelling financing in a more balanced way.

3 - Asset Managers will be part of the solution

It is positive and encouraging to see that EU policymakers are embracing the opportunities that the asset management industry offers in terms of supporting economic growth and long-term financing. By channeling the savings of firms and households to companies and governments into concrete retirement plans and projects, the asset management industry finances a sizeable share of economic activity. The

EFAMA report on the Asset Management industry in Europe[1] illustrates how the asset management industry plays a vital role in the general financing of the economy.

Asset managers have a key role to play in enhancing the efficiency of savings' allocation. We need to encourage European households and savers to save more for retirement. EFAMA's recent report on personal pensions[2] proposes recommendations for the creation of a single market for European Personal Pensions.

4 – A stronger industry

Investment fund assets worldwide stood at a new all-time high of EUR 28.29 trillion at end 2014 of which one third is managed in Europe, reflecting growth of 3.9 percent during the fourth quarter and 18.9 percent since end 2013.

Our industry is growing stronger, and EFAMA wants to continue to show it is uncontestably a valuable partner with 26 national associations, 63 corporate members and 25 highly welcome associate members. With the support of all its members, EFAMA has sound expertise to illustrate the role of the sector and convey the industry's messages, and an industry voice that is at the forefront. We have an important role to play in the changing landscape of Europe and globally and we want to continue contributing to the debate on how to build and strengthen an overall framework to ensure Europe's efficient and attractive investment environment. EFAMA is grateful for the support of its members.

Looking back – 2014 intense in terms of regulation

Much work in 2014 was around completing the regulatory reforms of financial services that were adopted under the previous legislature. A considerable number of Level 1 regulations and directives have been voted or revised over the last year such as MiFID II and MIFIR, UCITS V or PRIIPs. I would like to expand on a few:

- The UCITS framework has developed into a true European success story. To a large extent, this success is the result of a flexible legal framework that has been regularly updated over time, to reflect the evolutions of the markets and of investors' needs, while improving every time investor protection. In July 2014, the **UCITS V** review was adopted by the European co-legislators, marking a new important step in this respect while level 2 measures still need to be carefully designed.
- The **ELTIF** Regulation was a welcome initiative, supported from the outset by the European asset management industry. Our industry had viewed this as a concrete step forward with much potential to unlock capital and to encourage a shift towards investments in long-term projects. Agreed by the EU co-legislators in 2014, eyes are now set on how ELTIFs are turned into a market success.
- The asset management industry welcomed the adoption in 2014 of the Regulation on Packaged Retail and Insurance-based Investment Products **(PRIIPs)** that provides enhanced protection to retail investors with clear pre-sales disclosures. The Key Investor Information Document (KIID), which each UCITS produces, is often cited as an exemplarity of the asset management industry.

1 EFAMA Eighth Annual Review of the Asset Management industry in Europe, April 2015
http://www.efama.org/Publications/Statistics/Asset%20Management%20Report/150427_Asset%20Management%20Report%202015.pdf

2 EFAMA report entitled "Towards a Single Market for European Personal Pensions: building blocks for an EU legislation", March 2015
http://www.efama.org/Publications/Public/EFAMA%20_EPP_Report_FINAL4March2015).pdf

- Level playing field among similar retail investment products should be enhanced and guaranteed at all times. When products are similar, as are fund products and insurance-based investment products, they should be subject to the same rules. Insurance Mediation Directive (IMD II) should not end up having lower levels of investor protection compared to the protection that MiFID II offers to consumers buying fund products.

Looking forward - Are asset managers a source of systemic risk?

In the ongoing debate over asset managers' potential systemic risk, a growing number of securities market regulators are sceptical that asset managers or individual funds can be the source of systemic risk. In fact, asset managers cannot be regarded as a source of systemic risk for the reason that their business model requires them to act as agents for their clients and thus, unlike banks, do not trade on their own account and take risks onto their balance sheet. Before definitive conclusions are to be drawn in these ongoing debates, it remains essential that regulators rely on robust data on which to base unbiased conclusions.

One of my goals as EFAMA President was to promote the European asset management industry and UCITS as the optimal standard for the international distribution of investment funds. I remain strongly engaged to make sure this industry has the place it deserves in the EU and global debates, and more importantly, that it carries on contributing constructively on the road towards rebuilding the European economy. As my two year term comes to a close, I want to reiterate that my commitment to this industry will remain untouched.

I want to express my gratitude to EFAMA's Vice-President, Alexander Schindler, and Director General, Peter De Proft, with whom we have formed a close and efficient three tandem on the world stage. As ever, I would like to extend my sincere thanks and appreciation to the Board of Directors, the Management Committee and the entire team at EFAMA, for their enthusiasm and commitment in serving our members, the industry and investors.

Christian Dargnat
President
June 2015

Director General's Statement

In the new European institutional environment after the 2014 elections, new ideas have started unfolding on how to build on the Single Market. The Commission's plans to stimulate growth, jobs and the EU economy, its concept of a Capital Markets Union or its investment plan are crucial stones. After taking stock of stakeholder views, the Commission will decide on its Action Plan expected to be published after the summer of 2015. The European Parliament agenda will not fall short of far-reaching debates either. To name but a few:

- The trend towards growth, long-term savings and long-term financing of European citizens and projects will become increasingly important.
- High quality securitisation will also be material for EU legislation. The European Commission plans a regulatory framework to facilitate investments into high quality securitisation and ensure a fully consistent approach to treatment of high quality securitisation across sectors.
- The Commission will also seek views from stakeholders on the European Supervisory Authorities and retail financial services.
- One of the major plans will be the long-overdue assessment of the cumulative impact of regulation. Needless to say, this is a major and very much needed task requiring considerable efforts, and the Commission will have the full support of the financial industry.

2014 was also a record year for the European investment fund industry. Net sales of European investment funds rose to an all-time high of €636 billion in 2014 and assets under management broke through the €11 trillion mark thanks to a growth rate of 16%. This was all achieved despite sluggish growth, deflationary threats and geopolitical tensions in Europe.

The European Commission's Green Paper on "Building a Capital Markets Union"[3] recognises that *"the European asset management industry plays a pivotal role in channelling investors' money into the economy."* A great deal of the success already achieved in channelling investors' money in the economy is the direct result of Europe's investment fund legislative frameworks. The UCITS ("Undertaking for a Collective Investment in Transferable Securities") framework, which permits UCITS to be offered to retail investors in any jurisdiction of the European Economic Area once registered in one Member State, is a gold standard and a label of quality for investors within and outside Europe. The introduction of the Alternative Investment Fund Managers Directive (AIFMD) in 2013 has also created a framework within which all non-UCITS investment fund managers are able to operate. The recently finalised European Long-term Investment Funds (ELTIFs) Regulation framework will offer another important tool to allow investors to put money into companies and infrastructure projects for the long term.

At the end of 2013, euro area households held 41.6% of their financial wealth in currency and bank deposits, and 8.5% in investment funds. In the United States, bank accounts and investment funds represented 15.9% and 15.1%, respectively. In view of this, one of the objectives of the CMU should be to put European savings to better use.

To achieve this goal, EFAMA considers that it is particularly important to achieve progress in two areas:

3 See European Commission Green Paper, February 2015 at: *http://ec.europa.eu/finance/consultations/2015/capital-markets-union/docs/green-paper_en.pdf*

- For ELTIFs to become a market success it is necessary to ensure an alignment between the needs of retail investors and those of the EU economy, and that the right framework and incentives are firmly in place.
- The creation of an EU-single market for personal pensions would also play an important role in broadening capital markets in Europe. In particular, a pan-European pension product would help overcome the current fragmentation of the European pension systems by stimulating cross-border market integration. Equally, encouraging retirement savings would increase the amount of capital that would be readily available to be channelled towards long-term investment.

The differences between the United States and Europe illustrate how much potential a truly integrated Capital Markets Union in Europe has in improving the efficiency with which savers are matched to borrowers, and which could lead to lower borrowing costs and increased savings through more efficient allocation of capital, thus increasing economic growth in the EU. Asset managers are in a prime place to support the EU in this mission, because long-term savings and risk management are at the heart of what the industry provides.

So it is clear that investment managers are playing an increasingly vital role in the economy, in society and in the stewardship of companies with the objective of securing sustainable, long-term economic success. This is happening as longevity increases, pension provision moves away from defined benefit schemes, retirement income delivery is liberalised and bank financing of the economy contracts. This is a source of opportunity for investment managers but is also, correctly, the cause of closer scrutiny and demand for higher accountability.

For this obvious reason asset managers always have to put their clients' interests first and ahead of their own. Asset managers act on behalf of their clients as their agents. All relationships between investment managers and their clients include an agreement about objectives and the fees that will be paid. So, in carrying out that agreement, if circumstances or issues should ever arise that contain a conflict with the interests of asset managers, they must always put the interests of clients ahead of their own. They also ensure that any conflicts of interest that may arise between clients are dealt with fairly to all the clients concerned.[4]

As a consequence of its growing importance in the economy and of its increasing role in capital markets the asset management industry faces a number of challenges. The distribution models are under scrutiny: there are different distribution models for retail products in terms of the relationships between providers, distributors and consumers. These different models have important implications for the debate on commission payments, when consumers are reliant, to some degree, on advice. The way in which the distribution is incentivised depends on the distribution model.[5]

And the IMF has issued a study calling for the strengthening of the industry: "Re-thinking Policy for the Age of Asset Management" is on the agenda.[6] [7]

4 The Investment Association, "Statement of Principles", April 2015: *http://www.theinvestmentassociation.org/investment-industry-information/current-initiatives/statementofprinciples/*

5 "The role of commissions in distributing retail investment products", Oxera, 23 March 2015

6 IMF Working Paper prepared by Brad Jones, WP/15/27 February 2015

7 Global Financial Stability Report: Navigating Monetary Policy Challenges and Managing Risks, International Monetary Fund, p. 93, April 2015

Another aspect are the liquidity concerns, sometimes called the "Liquidity Conundrum": regulatory risks are rising for asset managers as policymakers worry about the risks to financial stability from US QE exit and market structure changes.[8]

EFAMA and its members have had to substantially change their modus operandi and will no doubt have to undertake further adjustments as the regulatory implementation stretches into the horizon. Some priorities, however, do not change: eight years after the crisis, we need to concentrate on performance in the interest of our investors.

More than ever EFAMA, in this challenging environment, must listen and learn from its members: to date EFAMA's membership stands at 26 National Associations & 2 Observers, 63 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. Dialogue, listening mode 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 and reliable 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. Special thanks go to the President, Christian Dargnat, and the Vice-President, Alexander Schindler, for their highly appreciated team spirit and advice.

Peter De Proft
Director General
June 2015

8 Financial Institutions, Financial Markets, and Financial Stability, p. 12, Remarks by Jerome H. Powell, New York, New York, February 18, 2015
Blue Paper: "Wholesale & Investment Banking Outlook", Morgan Stanley & Oliver Wyman, March 19, 2015

Activity Report 2014

I. INVESTMENT MANAGEMENT REGULATION

1. The UCITS V Directive

Initiated in July 2012 with the formal publication of the Commission's legislative proposal for a revision of the UCITS directive ("UCITS V") and following trilogue discussions between Commission, Council and European Parliament in the course of 2014, a political agreement was reached in July 2015. The final text was subsequently published in the EU Official Journal on 28 August 2014.

At the same time, ESMA received a mandate from the European Commission to provide technical advice on delegated acts required under the new UCITS V text. The request recognised that most of the substantive rules and related delegated acts were identical to those previously required for the implementation of the AIFMD, apart from two aspects forming the specific object of the Commission's new empowerments for technical advice: (i) advice on the insolvency protection of UCITS assets when delegating safe-keeping functions; and (ii) advice on the "independence" requirement between UCITS management/investment company and depositary. ESMA consulted industry stakeholders over the short period of one month and EFAMA submitted its reply with comments on both aspects.

With regard to insolvency protections, the contents of the proposed advice were largely supported by EFAMA. Our key concerns were about ESMA's proposals on the independence requirement. ESMA proposed two very different options aimed at guaranteeing that UCITS management/investment companies and depositaries "act independently": option one involved imposing a "structural" separation between the two entities where both belonged to the same consolidated group, impacting cross-shareholdings and leading to significant divestments and asset transfer for the majority of European asset management companies; option two involved a separation of the two entities along "functional" lines, in conformity with the final text of the amended directive and in line with existing European business models. In its reply to the ESMA consultation, EFAMA expressed its clear preference for option two, underscoring the legal and economic challenges that would have made option one unviable.

ESMA's final advice was published on 28 November. EFAMA welcomed the fact that ESMA's final advice supported option two, qualifying the separation of the two entities along functional and not structural lines.

Towards the end of 2014, EFAMA also replied to another UCITS-related ESMA consultation, i.e. the ESMA *Discussion paper on the calculation of counterparty risk by UCITS for OTC financial derivative transactions subject to clearing obligations.* In broad terms, EFAMA stressed that funds (whether UCITS or AIF), as financial counterparties under the EU EMIR framework, do not trade directly with an authorised CCP, but are more often clients to a clearing member. As such, applying the counterparty risk limits foreseen by the UCITS Directive would make little sense, given that exposures are to be appreciated between an individual fund and its clearing member. The same approach would apply to exchange traded-derivatives. EFAMA also clarified the importance of segregation arrangements – spanning from full individual to omnibus - available at the CCP level to ensure portability in the event of a clearing member's default. Where full individual client segregation is available at the level of the CCP, then the counterparty risk limits vis-à-vis the clearing member should not apply; differently, however, where such level of segregation is not available at the CCP level. Finally, EFAMA also called on ESMA to acknowledge the particular challenges of the U.S. "agent" clearing models, as well as the difficulties for UCITS funds to have restrictions on the re-use of cash collateral (as under the 2012 ESMA *Guidelines on ETFs and other UCITS issues*) to better meet margining requirements.

2. Money Market Funds

The European Commission issued the proposal for a Regulation on Money Market Funds ('MMFR') on 4 September 2013.

The first quarter of 2014 was quite hectic with very difficult discussions at the European Parliament.

On 23 January, the parliament's economic and monetary affairs committee (ECON) met to discuss the amendments. The following ECON meeting vote was postponed twice, on 12 February and on 17 February. The reason behind these postponements was the division of political parties in 2 groups (pro and anti-capital buffer) that could not agree on a common text.

Finally the vote meeting scheduled for the 10 of March was cancelled, with the support of most parties despite the Rapporteur's wish (Jean-Paul Gauzès) for the vote to take place. This postponement also meant that the file would be left to the new parliament to be elected in May 2014. This final postponement was caused by the disagreement between the political parties on the capital buffer. The lack of a compromised amendment and the consideration that a postponement would allow to ensure a consistent revised text of legislation.

Throughout this first quarter, EFAMA has closely followed the developments at the European Parliament, providing its input and coordinating positions among the EFAMA membership.

EFAMA was also active promoting a close dialogue between the industry, policymakers and politicians through the European Parliamentary Financial Services Forum (EPFSF). EFAMA participated as a speaker in an EPFSF meeting in January 2014, which proved to be very useful to clarify the industry's position and hear the investors' voice on the issue.

Between July and December 2014, under the auspices of the Italian Presidency, several meetings of experts and attachés in the Council of Ministers took place to discuss the MMFR. Discussions were difficult, given the stark differences between Members States' positions, particularly on specific requirements for CNAV MMFs. Several policy options for the treatment of CNAV MMFs were put forward in "non-papers", including a proposal from the Presidency for the creation of LVNAV funds, a proposal from France and Germany on mandatory conversion of CNAVs into VNAVs after a transition period, a proposal from Ireland and Luxembourg on a stable NAV MMF and a proposal from the European Commission on a Variable Shares Mechanism. In December 2014, despite achieving consensus on many parts of the MMFR text, the Italian Presidency was unable to reach a final agreement, noting in its final Progress Report the definition of the scope and treatment of CNAV MMFs as "the most disputed issue of this file".

The process in the European Parliament began under the new legislature in September 2014, with the naming of Rapporteur and Shadow Rapporteurs. On 4 November, a Stakeholder Roundtable, in which

EFAMA participated, was organised by Rapporteur Gill. The Report on MMFR by Neena Gill garnered very little support across political groups at its consideration in ECON on 1 December. A call from several MEPs prompted the European Parliament's Directorate for Impact Assessment and European Added Value to commission an Impact Assessment on certain parts of MEP Gill's proposal. Throughout this process, while coordinating members' views, EFAMA engaged with the Rapporteur and Shadows in meetings and written contributions.

3. AIFM Directive

Even though AIFMD came into force in 2012, some EU Member States have not yet transposed the Directive into their national laws. Notwithstanding this slow progress, 2014 marked another important milestone for the AIFMD regime.

At the latest by 22 July 2014 Alternative Investment Managers needed to receive their authorisations to continue their business as AIFMs. As national competent authorities were inundated with applications and needed proper time to process this huge amount of submissions, managers were advised to introduce their applications by around April to May 2014. In the run-up to this date, firms had to ensure that they had proper depositary agreements in place, had made the required changes to their prospectuses in terms of investor disclosures and had implemented all AIFMD-compliant policies and procedures – particularly in relation to valuation, risk, leverage and liquidity. EFAMA provided support to its members throughout this process by organising several workshops offering an opportunity for industry practitioners to exchange information on the practical issues they were facing, discussing possible solutions and agreeing on common interpretations of the legal requirements.

In parallel to that, asset management companies also had to prepare themselves to produce the AIFM reporting requirements. This reporting is meant to increase transparency towards national regulators by information on the manager's investment strategy and activities, assets, transactions, risks, and business. Throughout the second half of 2014 ESMA and EU regulators have been working with the industry in close cooperation to provide systems on both sides that provide the required 400 and 800 data items that are required in order to comply with AIFMD. While the first reports were submitted to regulators on 31 October, this project is still very much a work-in-progress involving huge costs and resources for AIFMs.

In 2015 ESMA's most important work will revolve around issuing advice on whether the AIFMD passporting regime should be extended to the non-EU AIF managers or non-EU AIFs. EFAMA understands that this discussion highlights the interlinkages between the EU single market and other important worldwide fund jurisdiction and will aid ESMA by providing dependable industry feedback on the workings of existing EU passporting regime.

4. European Long-Term Investment Funds (ELTIFs)

Following the publication of the proposal for a Regulation on European Long Term Investment Funds (ELTIFs) by the European Commission in June 2013, the European Parliament and the Council adopted in the first semester of 2014 their respective approaches on how to make this new investment vehicle efficient in its key goals for boosting investments in long-term infrastructure projects and SMEs.

The two approaches had important divergences in particular as to the treatment of retail investors and the level of investor protection foreseen for them, the allocation of redemption rights prior to the end of the lifetime of the fund, the design of the lifetime, as well as the treatment of particular investors such as mid-tier pension funds and local authorities. These were ironed out into a final compromise by the trilogue parties (the Council, the European parliament and the European Commission). The political will for a swift agreement on ELTIFs led to reaching a trilogue agreement in rather record time. Agreement was found in November 2014 to allow for a quick implementation of the new Regulation and the launching of ELTIFs in the EU market the soonest possible.

EFAMA welcomed the initiative to propose a Regulation for ELTIFs and the final agreement. We highlighted that a shift towards new and diversified lending structures and more market-based finance will play a key role in addressing this gap and ensuring financing for longer-term projects. Along the negotiations, EFAMA had also made clear that, due to the wide range of investors and underlying assets, a one-size-fits-all approach will not allow ELTIFs to assume their role and meet the needs of different groups of investors and different scale of projects. In that context, EFAMA had conveyed the view towards a more flexible regime for ELTIFs that would enhance their potential to unlock important capital and to encourage a shift towards investments in longer term projects.

In particular, EFAMA has asked for:

- A flexible redemptions rights regime;
- A policy concerning the lifetime of the ELTIFs that will be adapted to the changing investment landscape for each fund;
- Calibration of the capital and investment requirements for particular investors such as pension funds and insurance firms in order to incentivise their holding of long-term illiquid assets;
- Additional flexibility for professional investors, in particular concerning the diversification and transparency rules;
- 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 and a wider range of real assets;
- Substantial fiscal incentives for the long-term investors of ELTIFs.

The main characteristics of ELTIFs foreseen in the final agreed text are:

- ELTIFs Regulation foresees a common set of rules of ELTIFs as a product. AIFMD will be applicable concerning the authorisation, marketing and management of this new product. In addition several provisions of PRIIPs and Prospectus will be applicable concerning the transparency requirements.
- ELTIFs will be open to:
    - Retail investors who invest a minimum of € 10,000 (minimum aggregate amount invested in one or more ELTIFs), if this investment does not exceed 10% of their aggregate portfolio and as long as special marketing requirements are fulfilled (such as prior advice, UCITS V-like requirements for depositaries and written alert in the case of ELTIFs with more than 10 years of lifetime);
    - Professional Investors;
    - Entities such as municipalities, charities and foundations that can request to be treated as professional investors according to the criteria set by Section II f Annex II of MiFID II.
- ELTIFs shall invest a minimum of 70% of their portfolio in eligible assets which are:

- ◻ Equity and quasi equity instruments and debt instruments of a qualifying portfolio undertaking, i.e. a non-listed non-financial entity, or a listed SME of a maximum capitalisation of € 500 billion;
- ◻ Direct or indirect holdings of real assets and commercial property of a value of at least € 10 million;
- ◻ Units or shares of infrastructure projects;
- ◻ Units or shares of ELTIFs, EUSEFs and EUVECAs;
- ◻ Derivatives only for hedging risks inherent to other investments of ELTIFs;
- ◻ Assets referred in article 50(1) of the UCITS Directive.

- The lifetime of the ELTIF is a fixed one and has to be sufficient in length to cover the lifecycle of each of the individual assets of the fund.
- The ELTIFs manager may choose to offer redemption rights prior to the end of the lifetime of the ELTIF if this possibility is disclosed in ELTIFs rules, the rights cannot be exercised sooner than 5 years from the launch of the ELTIF, there is an appropriate liquidity management system in place and a fair treatment of investors is ensured.
- The ELTIF has to be authorised by the national competent authority and the ELTIF manager has to be an authorised AIFM. In addition, the AIFM should apply for authorisation to manage a concrete ELTIF.
- Borrowing of cash is allowed up to 30% of the value of the ELTIF's capital and is to be used for investing in eligible assets.
- Granting of loans is allowed as long as it is granted directly by an ELTIF to a portfolio undertaking it is invested in.
- ELTIFs shall have priority as to their participation in EIB financed projects.

The Regulation is anticipated to be published in the Official Journal of the EU in the first semester of 2015 and will be applicable 6 months after its entry into force. ESMA shall draft RTS on a number of more technical points (such as the sufficient length of the lifetime and the scope of eligible derivatives) to facilitate the consistent application of the Regulation. EFAMA will continue to engage with the aim to achieve a legislative framework that will be efficient, well-designed and sufficiently attractive to key types of investors.

5. Level playing field: Packaged Retail and Insurance-based Investment Products (PRIIPs) and IMD II

PRIIPs

Another important piece of the evolving investor protection landscape in Europe is the upcoming Key Information Document (KID) for PRIIPs (Packaged Retail and Insurance-based Investment Products) Regulation. It is based on the already existing UCITS KIID (Key Investor Information Document) that is meant to provide retail investors with easy to understand essential information to make informed decisions when buying such investment products.

In this regard, 2014 marked an important milestone for PRIIPs as an agreement between the co-legislators on the final text of the Regulation was reached in April under the Greek Council Presidency.

EFAMA has always supported enhanced investor protection and is very much in favour of the PRIIPs framework. In terms of a level playing field, we welcome the fact that insurance-based investment products are included in the scope of the Regulation, which will allow easier comparability between all types of investment products for retail investors.

While the Level-1 Regulation was being formally finalised by the EU institutions, the European Supervisory Authorities (ESAs) under the guidance of European Insurance and Occupational Pensions Authority (EIOPA) started their work on the Level-2 measures that would provide the necessary details for product manufacturer and distributors to fill out this 3-page document. As a result of this, in December 2014, the ESAs published a first discussion paper that was accompanied by a first round of consumer testing by the European Commission. This important work will continue all through 2015 and EFAMA will continue to actively contribute to the discussions leading to the definition of the contents of the PRIIPS KIID, building on the extensive experience the funds industry has gained through the development of the UCITS KIID.

IMD II

The Commission proposed in 2012 a revision of the Insurance Mediation Directive (IMD II). One of its goals was to upgrade consumer protection in the insurance sector, along the lines of MiFID II, by creating common standards across insurance sales and ensuring proper advice when searching for investment products. EFAMA is a strong supporter of a level-playing field that would ensure that a consistent level of investor protection is achieved, for all investment product regardless of their legal wrapper and whether they are within the scope of IMD or MiFID.

The European Parliament's adopted its position in the first half of 2014. After a few months of further discussions, the Council also reached a common position towards the end of 2014. While the European Parliament strongly underlined the need for a level playing field, these concerns were largely watered down in the Council's final position.

In the ongoing trilogue negotiations, EFAMA continues to convey the view of the absolute necessity to ensure the same investor protection features for all investment-based products. Whatever the regime, and whatever the distribution channel, retail consumers deserve to benefit from the same high levels of investor protection/conduct of business standards. This is the level playing field that EU legislators have agreed upon, in particular with regards to the rules governing inducements and conflicts of interest.

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

After more than two and a half years of discussions, the Level-1 negotiations on the review of the Market in Financial Instruments Directive (MiFIR II and MiFIR II) were brought to a conclusion in May 2014, as the final legislative texts were published in the EU Official Journal. Even though these texts now have to be transposed into EU Member States' national laws by July 2016, many (technical) details are still outstanding and need to be further specified through so called Level-2 legislation (i.e. delegated acts, regulatory technical standards and implementing technical standards) by early 2016.

At the same time as the publication of the Level 1 text, ESMA publicly consulted with stakeholders through a 300-page consultation and 500-page discussion paper. While the work on investor protection issues was largely based on the already existing MiFID I Implementing Directive, many new areas needed to be elaborated, as MiFID II will increase the level of investor protection through a multitude of measures. The key concerning suggestions by ESMA from an EFAMA perspective dealt with the question whether to consider investment research as an inducement, the definition of quality enhancement as a precondition to receiving inducements when providing non-independent advice, how to disclose properly costs ex-ante and whether all alternative investment funds (AIFs) should be considered complex and therefore not sold without advice.

Concerning the payment of **inducements to non-independent advisers** EFAMA underlined that the approach initially proposed by ESMA would threaten the existing "open-architecture" model. EU co-legislators had explicitly agreed to continue to allow the payment and receipt of inducements when these comply with MiFID II Level 1 criteria. It would have been inappropriate to ban these inducements at a later stage through technical definitions. EFAMA therefore did not support ESMA's suggestions that would virtually lead to a banning of inducements. ESMA proposed a negative list of circumstances and situations to determine if quality enhancement was not achieved, i.e. a list determining what is *not* quality enhancement. We argued that a negative list did not create important legal clarity and it would remain unclear under what condition an inducement was still allowed. EFAMA suggested to use instead a non-exhaustive list of positive criteria, in line with the requirement of the Level 1 text and the EU legislator's decision that MiFID firms may still pay and receive commission when providing non-independent advice (if these are designed to enhance the quality of the relevant service to the client).

In terms of providing **disclosures on cost to investors**, EFAMA was concerned that ESMA's proposals were not properly aligned with the already existing cost disclosure documents, such as UCITS Key Investor Information Document (KIID). ESMA suggested to add more volatile cost elements (such as transaction costs, performance fees) to the overall fund costs. We were critical of this approach as the existing on-going charges figure (OCF) did not include these costs due to the fact that such costs cannot be precisely predicted in advance. Including these figures in the MiFID II requirements would de-facto render the UCITS KIID insufficient, add more but contradictory cost information to be provided and ultimately create confusion among investors as to which figures represented a fund's true costs.

EFAMA also opposed ESMA's assessment regarding **AIFs being automatically excluded from the execution-only regime**, as this would make it much harder to sell even the simplest non-UCITS investment funds, designed under national regimes especially for retail investors, to those clients. EFAMA brought forward that a general treatment of AIFs as complex would simply be inappropriate, as AIFs cover a broad range of products. In many Member States non-UCITS retail funds exist which have been designed to be non-complex instruments and which differ from UCITS only in terms of diversification limits but which would otherwise easily qualify as non-complex instruments.

EFAMA expressed serious concerns on **research**, as it feared that ESMA de-facto banned investors of portfolio management services to be able to pay for investment research which could cause major disruption to well-established and well-functioning relationships with research providers to the ultimate detriment of investors – something that was neither intended nor foreseen in the Level 1 text and was unilaterally brought to the table by ESMA. If the suggestions were not changed, there would be serious consequences for investors: (1) Larger players that can source in-house investment research would be favoured; (2) there would be a reduction of available research for less liquid instruments, in particular corporate bonds and SMEs; ultimately (3) this would also create an unlevel playing field between EU and non-EU investment firms, disadvantaging European actors.

A large part of the debate over the last years around MiFID II and MiFIR is related to capital markets issues such as transparency and liquidity, data access and price, data quality and consolidated tape.

Considering the specific role of asset management in the real economy, EFAMA fully supports the need for improved **transparency requirements and liquidity** assessment, 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, we are convinced 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. We also strongly believe that the liquidity for equities cannot be compared with the liquidity of bonds, requiring consequently different transparency regimes.

Regarding **data access and price**, EFAMA disagreed with the regime proposed by ESMA that considers that disclosure requirement are sufficient to ensure the provision of data on "reasonable commercial basis". We insisted on the need to have clear, immediately and high quality information to ensure the control of systemic risks and allow for the development of a consolidated tape. We also disagreed with ESMA's approach, which considers that the access to data from stock exchanges and data providers is already sufficiently efficient and provides fair prices, as we believe that the pricing is currently made on an "un-reasonable commercial basis". This is due to the fact that:

- The data costs are not transparent; and
- Trading venues are also increasing the costs without transparency on the origin of their costs and without uniform application of their fees.

To ensure transparency and price formation, we support the idea of a **Consolidated Tape** ("CT") and are in favour of a reporting also by instrument type. For the sake of legal certainty, systemic risk measurement and control as for budgeting controls, we strongly suggest to have one or very few Consolidated Tape Providers ("CTP"). EFAMA therefore urged the competent authorities to provide 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.

In the final days of 2014 ESMA ultimately published its final advice to the Commission. It is now up to the Commission to finalise these all-important Level-2 measures and draft delegated acts on the basis of ESMA's advice. Before their eventual publication in the European Journal in the second half of 2015 they will need to be approved by the European Parliament and Council. This approval by the co-legislators will mark the signal for European MiFID investment firms to start implementing MiFID II in earnest.

7. Derivatives Regulation - EMIR

As a reminder, six years ago, the G20 imposed the control of the use of OTC derivatives through:

- the obligation to use central clearing for derivatives instruments that are considered sufficiently standardised;
- the collateralisation of all the types of bilateral OTC derivatives transactions;
- the mandatory reporting of all derivatives transactions and the creation of trade repositories.

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.

In 2014, ESMA issued several consultations, especially on clearing obligation for IRS and CDS, in order to set the technical standards to apply those rules. EFAMA answered these consultations in detail.

Beside clearing and reporting, there is an obligation to collateralise transactions that are not centrally cleared. EFAMA welcomes the use of variation margining, for both centrally cleared and bilaterally OTC derivatives transactions. We however insisted on the point that only variation margins should be applicable to asset managers other than hedge funds.

Indeed, should initial margins be required from asset managers, imposing initial and variation margins would create extreme pressure on asset managers when they will have to meet the collateral requirements of the clearing members (the initial margin to initiate transactions and the variation margin's call). This cumulative effect could then in certain circumstances have a substantial negative impact on the management of fund portfolios.

In the course of 2014, EFAMA also engaged actively in supporting initiatives such as LEI (Legal Entity Identifier) or UTI and UPI, the unique identifiers for transactions and products. The ultimate aim for EFAMA is to ensure that the proposed regulatory environment helps funds and assets facilitating their reporting duties. We are convinced that this standardisation will help reducing costs of reporting and improving systemic risk control.

8. Recovery and Resolution Schemes for non-Banks

Following the Commission's consultation on recovery and resolution schemes for non-banks in 2012 and the European Parliament's own-initiative report in May 2013 on recovery and resolution mechanisms for "other" financial institutions, both to which EFAMA replied in September 2013, EFAMA and other concerned stakeholders are expecting the announced final Commission proposal in the latter half of 2015.

EFAMA understands the scope of this proposal should not include asset management companies but would concern other types of financial market infrastructures – primarily exchanges and CCPs. In this regard, EFAMA has maintained that, given their central clearing obligations under EMIR, CCPs will be concentrating significantly more of the risks in financial markets and in a way that inevitably would make their failure truly "systemic". EFAMA, therefore, supports an EU level framework of measures and powers addressing the potential failure of CCPs and foreseeing clear preventive measures to avoid the significant spill-over effects for clearing participants and their clients. In this regard, in order to augment their resilience to market shocks, CCPs should not solely collect margin requirements from the participants, but develop continuity plans for their critical services, while protecting their direct and indirect clients' assets as financial market users.

9. NBNI G-SIFIs

In January 2014, as part of a broader global G20 mandate to identify and contain the risks posed by globally systemic financial institutions, the FSB and IOSCO jointly published a first consultation aimed at defining an assessment methodology to identify non-bank, non-insurer globally systemically important financial institutions (NBNI G-SIFIs). The exercise attempts to identify globally systemic actors in the non-banks and non-insurance space, after the FSB together with the BIS and the IAIS have already respectively identified a list of globally-systemic banks (G-SIBs) and globally-systemic insurance companies (G-SIIs) over the past few years.

In this first consultation – that was also extended to market intermediaries and finance companies – EFAMA provided comments only with respect to the questions targeting asset management entities, including funds, albeit also opening to the possibility of including fund managers in the scope. In its reply, EFAMA underscored the strict regulations that already apply to investment funds and their managers under the UCITS and AIFMD frameworks, hence arguing that specific risks were already contained by virtue of existing regulations. Secondly, EFAMA explained how "size" alone was not an optimal indicator of systemic importance, stressing how specific activities and high levels of leverage were better indicators. It also criticised the choice and description of other indicators such as substitutability, complexity and global activities. EFAMA strongly believes that asset managers should not be included in the scope of the FSB/IOSCO designation process, on grounds of the "agency" nature of managers' business models and avoidance of any balance sheet risks (differently to banks). Further comments concerned the alleged risk transmission channels, where EFAMA pointed out that funds and their investors tended to act more as "shock absorbers" in times of market turmoil rather than as risk transmitters.

Taking into account the input of stakeholders on the first consultation, it is expected that the FSB and IOSCO will publish a second consultation early 2015.

10. Benchmarks and Indices

The Proposal for a Benchmarks Regulation was the response of the European Commission to the LIBOR/EURIBOR scandals and the follow-up to the IOSCO and EBA/ESMA Principles on the governance of financial indices that were published in summer 2013.

Given the controversy concerning some of the points of the Regulation, in particular the scope of the benchmarks and indices to be covered, the definition of benchmarks that should be deemed critical for the stability of the financial markets and the mandatory contribution for such critical benchmarks, the regime of equivalence concerning indices produced and administrated outside the EU and the proportionate requirements for different types of benchmarks, the draft Proposal was debated for a long period of time in the Council and the European Parliament. After a first postponement of the votes in the European Parliament, the debate was carried over to the new mandate of the ECON Committee with a newly elected rapporteur who submitted a new report in December 2014. In the Council the Greek and the Italian Presidencies did not achieve agreement by the end of 2014 and the negotiations carried on under the Latvian Presidency in 2015.

EFAMA highlighted that asset managers do not produce or contribute to data on which the calculation of benchmarks is based, but they are, instead, users of rate benchmarks 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.

For that reason, EFAMA emphasised the need to differentiate the use from the provision of a benchmark and requested an additional definition in the Regulation of what constitutes sole use of a benchmark and, therefore, does not imply same duties as the ones foreseen in the case of provision/administration of a benchmark. We have also stressed that the particular cases of benchmarks used for the assessment of the performance of an investment fund and the tailor-made indices as a result of a combination of existing indices (i.e. the combined indices usually at the request of a small number of investors), also fall in the scope of use.

Moreover, EFAMA has supported the Commission's efforts to restore market credibility and re-establish confidence in benchmarks by proposing a regulatory framework for the setting methodologies, calculation, transparency, governance and supervision. At the same time, we were supportive of the need for a proportionate approach that would ensure that no unnecessary burden is put to consumers and users of benchmarks. Therefore, we coordinated our approach with other key EU stakeholders asking for the regulatory focus to be placed on benchmarks that represent the main risks for manipulation and conflicts of interest and to avoid adding costs and burden to users of benchmarks that are based on regulated and therefore fully transparent data.

Our industry also requested a level playing field for all indices used within the EU, coming from EU or non-EU administrators, in order to allow investors to have access to a wide range of reputable, robust and cost effective market indices and benchmarks. Given that there are no regulatory actions foreseen in the near future in the jurisdictions of other global partners of the EU, it would be more realistic to replace the equivalence regime foreseen in the legislative Proposal with a third country regime that would give the possibility to use indices administered outside the EU as long as the compliance with IOSCO Principles is ensured.

EFAMA also supports the need for transparency of the underlying data of an index as an important tool to increase stability in the markets and confidence amongst users of indices and investors. Moreover, asset managers are subject to concrete transparency requirements concerning the data of the indices they use. This should be taken into consideration by the Regulation. Otherwise, in the absence of transparency provisions, there will be significant costs to be assumed by investment funds and managers in order to comply with their own regulatory requirements.

Finally, EFAMA highlighted that given the efforts to establish a common set of rules for the provision, the administration and the use of benchmarks via this Regulation, the co-existence of different guidelines and other regulatory standards for the asset managers, in particular the ESMA Guidelines on ETFs and other

UCITS issues concerning the use of financial indices, is a duplication of requirements for them and creates an unlevel playing field. For that reason, they should be disapplied once the Regulation enters into force.

The draft report of the ECON Committee of the European Parliament and the latest compromise proposal discussed in the Council in December 2014 are supporting the majority of the points raised by EFAMA, although the deletion of the provisions on transparency remains problematic. Asset managers welcome the efforts of both EU institutions for a more balanced and efficient regulatory framework to the benefit of the market stability, as well as users and investors. Following the informal seminar held in June 2014 on the Benchmarks Regulation and the users' perspective with the representatives of the Member States in the Council, EFAMA will continue its efforts on highlighting the main concerns and position of the asset management industry.

11. The Volcker Rule

Throughout 2014, EFAMA continued its dialogue with the US authorities to address a number of outstanding concerns raised by the so-called Volcker Rule which could have very significant impacts for European asset managers.

The decision of the US authorities in December 2013 to carve out UCITS (and other investment funds satisfying the conditions of the foreign public funds exclusion) from the definition of 'covered funds' was warmly welcomed by the European asset management as it added clarity in the application of the Final Rules and assisted EFAMA's members in their efforts to comply with the Volcker Rule.

Unfortunately, this decision also brought about unexpected and unintended consequences in the sense that the Final rules will potentially treat a large proportion of UCITS and similar US non-covered funds that are sponsored and managed by a banking entity, as being 'banking entities' themselves and therefore subject in their own right to the Volcker Rule's restrictions on proprietary trading, solely as a consequence of the bank-sponsored funds' traditional relationship with the sponsoring banking entity.

The consequences to a bank-sponsored fund of being considered a banking entity are severe and would significantly limit, if not outright prohibit, the investment activities of the bank-sponsored fund.

EFAMA met in March 2014 with staff of the Federal Reserve, the SEC and the OCC to draw their attention on what we consider as being an unintended consequence of the Volcker Rule. Following up on that meeting, EFAMA also wrote a letter to the five US Agencies involved in the interpretation and the implementation of the Volcker Rule, asking them to address this issue and suggesting three possible approaches to solve it: (1) exclude bank-sponsored investment funds from the definition of banking entity, (2) confirm that bank sponsored investment funds reasonably will not be considered banking entities so long as the banking entity does not (after a reasonable seeding period) own 25% or more of a bank-sponsored investment fund's outstanding voting securities in principal capacity, or (3) exempt any bank-sponsored investment fund that is determined to be a banking entity from the restrictions on proprietary trading in recognition that the fund's investment activities are conducted for the benefit of the fund's investors, rather than for the benefit of the banking entity that sponsors the fund.

At the end of 2014, EFAMA had not yet received a substantial answer to that letter. On December 18, 2014, however, the Federal Reserve Board issued an order extending until July 21, 2017 the period for 'banking entities' to conform their investments in and relationships with covered funds and foreign funds.

This extension of the conformance period was much appreciated by EFAMA as it significantly reduces the pressure on its banking entity members with respect to the important issues raised in the above mentioned letter. Unfortunately this extension would not be applicable for foreign funds launched after December 31, 2013 (non-legacy covered funds) and therefore only partly alleviate the concerns of EFAMA and its members.

In 2015, EFAMA will actively pursue its engagement with US authorities to come to a satisfactory outcome to the above-described issue.

12. Structural measures improving the resilience of EU credit institutions

In January 2014, the European Commission brought forward a proposal for a regulation to prevent the biggest banks from engaging in riskier activities such as proprietary trading. These new rules would give supervisors the power to require those banks to separate certain potentially risky trading activities from their deposit-taking business, if the pursuit of such activities was considered to compromise the stability of the financial system.

While European fund managers invest extensively in European banks on behalf of their clients, we are generally supportive of a structure for banks that protects retail activities from systemic shocks. The proposal however, as currently drafted, can severely impact asset management companies that are EU bank subsidiaries as well as many alternative investment funds (as defined in the AIFM Directive) – including those managed by alternative investment fund managers (AIFMs) not belonging to banking groups – as banking groups might be severely restricted in investing in those funds in the future which can lead to negative impacts on long-term funding of the economy through AIFs.

EFAMA is therefore actively working on explaining the difference between highly complex hedge funds, on the one side, and retail AIFs, on the other, to make sure that this discussion, which will continue through 2015, will not negatively affect the work of the European investment management industry.

13. Regulation on Securities Financing Transaction – SFTR EMIR

EFAMA welcomes the initiatives aimed at enhancing safety and transparency in capital markets activities. For the funds and asset managers industry's perspective, 'securities finance transactions' ("SFT") such as repos or securities lending activities are an important part of their activities as they benefit managers' clients by bringing additional remuneration, through securities lending programmes, and as they help providing liquidity and predefined revenues as well, through repo activities.

We strongly support the objective of the Commission to create safer markets and to impose additional requirements to control possible systemic risks as the result will benefit our investors. Some elements of what is being proposed however may need clarifying to avoid unintended consequences:

- Within this overarching objective of transparency and market robustness, we insist on the fact that existing EU legislation such as UCITS and AIFM Directives has already put in place a robust framework of risk controls.
- There should be no overlapping or inconsistent reporting obligations. Equally, we do not support an approach that aims to impose specific disclosure requirements exclusively applicable to investment funds. Such requirements as they exist in other EU pieces of legislation (in particular MiFID II, EMIR, UCITS and AIFMD) should be taken into account to avoid overlaps.
- Securities lending should be recognised as a means to achieve well-functioning capital markets.
- Even more importantly, we constantly stress the point that all securities financing transactions create systemic risk. Some do not imply any systemic risk at all.
- The type of required information should be adapted to the user of the information. While supervisory authorities need detailed data, retail clients do not.

During the year 2015, we will closely engage with the EU Parliament and the Member States' representative to foster transparency in financial markets without depriving end-investors from the additional revenues generated by securities lending activities.

II. TAXATION

In 2014, the discussions on the implementation of the Financial Transaction Tax (FTT) have continued but no agreement was reached whilst progress was achieved at fast pace on Automatic Exchange of Information (AEOI) in relation to financial accounts information.
In 2014, in the framework of its Base Erosion and Profit Shifting (BEPS) Project, the OECD has started to issue Public Discussion Drafts on the various actions defined with the view to tackle base erosion through profit shifting.

1. Financial Transaction Tax (FTT)

On 30 April 2014, the European Court of Justice dismissed the action brought by the United Kingdom against the decision authorising eleven Member States to establish enhanced cooperation in the area of FTT. The decision was motivated by the fact that the two arguments put forward by the United Kingdom are directed at elements of a potential FTT and not at the authorisation to establish enhanced cooperation itself. As a reminder, on 18 April 2013, the United Kingdom brought an action to annul the Council of the European Union Council Decision 2013/52/EU authorising enhanced cooperation in the area of financial transaction tax as it considered an FTT would produce extraterritorial effects and will impose costs on non-participating Member States.

FTT was one of the priority files of the Italian Presidency of the EU Council over the second semester of 2014. Despite the efforts made and the many discussions and meetings held in particular in November and December 2014, at the last ECOFIN meeting held on 9 December 2014, the state of play presented indicated that no final agreement had been reached on FTT between the eleven participating Member States as several questions could not be resolved.

The state of play indicated that with regards to the definition of the FTT scope, progress had been made for transactions in shares. However, although a better understanding of some critical issues had been achieved on identifying the categories of derivatives to be subject to the FTT, the taxation of transactions in derivatives remained a key open question. With regards to the definition of the main taxation principle for FTT, the eleven Member States agreed to adhere to the issuance principle with some elements of the residence principle. Further reflection would however be necessary on these taxation principles. Finally, with regards to the collection of FTT, further work would be required on the mechanism to be used to collect FTT.

The Latvian Presidency of the EU Council starting on 1 January 2015 indicated in its programme it would support the work on FTT, even though Latvia is not one of the Member States participating in the Enhanced Cooperation Procedure.

In 2015, the FTT initiative was unexpectedly renewed through a letter sent on 25 January 2015 by France and Austria to the other eleven Member States participating in the Enhanced Cooperation Procedure to resume the FTT initiative with new orientations. It is now proposed to have the FTT applied on a broader taxable basis comprising all types of securities including derivatives however with a lower tax rate compared to the one initially foreseen. The objective of a first phase implementation as from 1 January 2016 remained unchanged.

The eleven Member States also decided to reinforce the methodological basis applicable to FTT as the current approach was not sufficiently pragmatic and precise. The Austrian Minister of Finance was therefore appointed as the permanent president of the FTT group in charge of the organisation and the coordination and a technical group led by Portugal was created. The eleven Member States have also requested and have been granted a greater involvement and support from the EU Commission, in particular from a technical perspective.

Since January, the discussions on the FTT are going on amongst the eleven participating Member States. As of today, no new draft directive or text reflecting this new initiative has been released.

EFAMA has been and will be closely monitoring the discussions held on FTT and will emphasise once again its objections and concerns about the FTT in its response to be issued in May 2015 to the EU Commission Green Paper on Capital Markets Union explaining that FTT is a barrier to the Capital Markets Union.

2. Automatic Exchange of Information (AEOI)

On 13 February 2014, the OECD released the Common Reporting Standard (CRS), which seeks to establish a new global standard for automatic exchange of financial account information between governments. As with FATCA, the CRS model defined obligations for financial institutions to identify reportable accounts and obtain information on account holders as well as on income and gains received on these accounts. This information is to be reported with the local tax administration with the view to exchange it with the account holder's tax residency country.

On 21 July 2014, the OECD released the Standard for Automatic Exchange of Financial Accounting Information in Tax Matters, including the Commentary on the Common Reporting Standard.

In November 2014, G20 endorsed the global Common Reporting Standard for the automatic exchange of tax information to be applied on a reciprocal basis and stated that the automatic exchange information with each other and with other countries would start by 2017 or end-2018, subject to completing necessary legislative procedures.

At the level of the European Union, on 1 December 2014, the Council of the European Union issued a proposal for a Council Directive amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation. The aim is to reinforce and extend the automatic information exchange of Directive 2011/16/EU through the extension of the information exchanged to new categories of income but also to account balances and sales proceeds and the removal of the condition that the information only has to be exchanged if available. The proposal made explicit reference to the OECD Model Competent Authority Agreement (MCAA) and CRS as a source of illustration or interpretation to ensure consistency in application across Member States. The dual aim is to prevent taxpayers from hiding capital abroad or assets on which tax is due, whilst also improving the efficiency of tax collection. On 9 December 2014, the Council of the European Union approved Directive 2014/107/EU amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation. The Directive is to be implemented in national legislations by 31 December 2015 and would enter into force as from 1 January 2016. Austria shall apply the provisions of this Directive as from 1 January 2017 with respect to taxable periods as from that date.

On 15 December 2014, Regulation (EU) No 1353/2014 was released by the EU Commission. It is directly applicable in all Member States as from 1 January 2015. The regulation sets out detailed rules for implementing certain provisions of Council Directive 2011/16/EU as modified by Directive 2014/107/EU on mandatory AEOI through the introduction of provision of computerised formats for the mandatory AEOI on income from employment, director's fees, pensions, life insurance products, ownership of and income from immovable property.

Through its representatives with the Expert Group on Automatic Exchange of Financial Account information, EFAMA has actively participated in the preparation of the first Report of the EU Commission AEFI expert group on the implementation of Directive 2014/107/EU. The final report has been issued in March 2015 and includes recommendations on eleven different topics, including implementation timelines, data protection and privacy issues, implementing guidelines, minimising the administrative burden and aligning the compliance regime within the European Union.

On 18 March 2015, the EU Commission presented its Tax Transparency Package which includes several initiatives aiming at fighting against tax evasion and corporate tax avoidance identified as a political priority. The objective is to re-establish the link between taxation and the real economy.

In this context, an automatic exchange of information on Tax Rulings has been considered as *"urgently needed in order to tackle aggressive tax planning and ensure fair tax competition between Member States"* and would be introduced through a further amendment to Directive 2011/16/EU. On 18 March 2015, a proposal for a Council Directive amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation with effect 1 January 2016 was released.

The EU Commission also considered to repeal Council Directive 2003/48/EC on taxation of savings income in the form of interest payments ("EUSD") in order to avoid duplication and overlapping EU legislations in this field and ensure a streamlined and coherent framework for the automatic exchange of information. On 18 March 2015, a proposal for a Council Directive repealing the EUSD with effect 1 January 2016 was also released.

3. Base Erosion and Profit Shifting (BEPS)

On 12 February 2013, the Organisation for Economic Co-operation and Development ("OECD")[9] published a report entitled "Addressing Base Erosion and Profit Shifting"[10] to present the issues related to BEPS. According to the OECD, a significant source of base erosion is profit shifting having its source in *"tax planning strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations where there is little or no economic activity, resulting in little or no overall corporate tax being paid".*

This report presents the existence and magnitude of base erosion and profit shifting and contains an overview of global developments having an impact on corporate tax matters and identifying the key principles of the

9 The Organisation for Economic Co-operation and Development (OECD) is an organization dedicated to economic development. As of today, OECD has 34 Member countries from North and South America, Europe and Asia-Pacific including many of the world's most advanced countries but also emerging countries like Mexico, Chile and Turkey. The OECD mission is to promote policies to improve the economic and social well-being of people around the world.

10 OECD Report Addressing Base Erosion and Profit Shifting dated 19 July 2013
http://www.oecd.org/tax/addressing-base-erosion-and-profit-shifting-9789264192744-en.htm

taxation of cross-border activities. The report concludes that current rules provide opportunities to associate more profits with legal constructs and intangible rights and obligations, and to legally shift risk intra-group, with the result of reducing the share of profits associated with substantive operations.

The report recommends the development of an action plan to address BEPS issues in a comprehensive manner. On 19 July 2013, the OECD released its report on *"Action Plan on Base Erosion and Profit Shifting"*[11] (BEPS Action Plan) whereby fifteen specific actions are being developed with the view to provide governments with the domestic and international tools to ensure that profits are taxed where economic activities generating the profits are performed and where value is created, while at the same time giving business greater certainty by reducing disputes over the application of international tax rules and standardising requirements.

On 6 September 2013, the G20 summit endorsed the OECD's work on BEPS and in November 2014, the G20/OECD Secretary-General Report was presented to G20 Leaders. G20 acknowledged the significant progress on the BEPS Action Plan and committed to finalising the work in 2015.

The first set of Public Discussion Drafts on various actions started to be released as from March 2014 while a second wave of measures is currently being released in the course of 2015. The calendar set foresees the completion of the BEPS Project by end of December 2015 and so far it has overall been respected.

EFAMA has been closely following up on the various BEPS Actions and has responded to OECD public Discussion Drafts having an impact on investment funds and/or the asset management industry.

EFAMA responded to the Public Discussion Draft on Action 6 - Preventing Treaty Abuse published on 14 March 2014. The report called for a very significant rewrite of both the OECD Model Tax Convention and the Commentary, including a US-style Limitation of Benefits (LoB) article as well as a main purpose anti-abuse rule and a variety of other anti-abuse measures.

On 9 April 2014, EFAMA provided the OECD with its comments and has drawn the OECD's attention to the fact that this Public Discussion Draft did not take into consideration situations where cross-border investments were made by or through Collective Investment Vehicles (CIVs) and that this may have significant unintended consequences. EFAMA has also expressed its serious concerns about the recommendation to include a limitation-on-benefits (LoB) clause in existing treaties, in particular, the primary concern with the OECD proposals was that the OECD focus on combating treaty shopping would have a disproportionate impact on CIVs that would cease to get access to double tax treaties.

Further to the first Discussion Draft on Action 6, on 21 November 2014, the OECD published a Discussion Draft Follow-up work on Action 6 which identified the various issues on which there would be follow-up work to be done such as the LOB provision and treaty entitlement, the application of the derivative benefit provision and the Principal Purpose Test (PPT) rule applied to CIVs and non-CIV funds.

On 9 January 2015, EFAMA provided its comments to the OECD and asked for the recommendations of the OECD 2010 CIV Report[12] to continue to be appropriate for CIVs and should not be substantially

11 OECD Report Action Plan on Base Erosion and Profit Shifting dated 12 February 2013 *http://www.oecd.org/tax/action-plan-on-base-erosion-and-profit-shifting-9789264202719-en.htm*

12 THE GRANTING OF TREATY BENEFITS WITH RESPECT TO THE INCOME OF COLLECTIVE INVESTMENT VEHICLES adopted by the OECD Committee on Fiscal Affairs on 23 April 2010 <

modified. In particular, no preferred single approach should be adopted. In its answer to OECD, EFAMA also recommended to:

- encourage contracting States to treat UCITS and UCITS-like funds as qualified persons without the need to satisfy any Limitation on Benefits provision;
- treat Pension Funds as qualifying resident in their home jurisdiction without restriction under Limitation on Benefits or Principal Purpose Test;
- expressly exempt CIVs from any Principal Purpose Test.

EFAMA also responded to the Public Discussion Draft "Guidelines on Place of Taxation for Business-to-Consumer Supplies of Services and Intangibles" published on 18 December 2014. Some elements raised in this Discussion Draft mainly dealing with the digital economy may also be understood as being applicable to all services rendered on a cross-border basis. On closer review, these guidelines might have a side effect on the asset management industry.

On 20 February 2015, EFAMA submitted a letter with its comments on the Discussion Draft to the OECD, recommending that, due to the lack of harmonised Value Added Tax treatment of financial services and the unlikeliness of such harmonisation in a reasonable timeframe, financial services should be considered as "specific services" and thus not be subject to the proposed Business to Client general taxation rule and should also excluded from the scope of those Guidelines.

III. LONG-TERM SAVINGS and PENSIONS

EFAMA's work in Pensions has been guided by the principle that Europe needs a common agenda for making pensions adequate and sustainable in the long term. A common pension agenda is particularly important due to the ageing population, which will result in lower replacement rates, putting an increased responsibility on citizens to save for their pensions. This common agenda should particularly focus on the opportunities to increase complementary retirement savings while ensuring that the internal market functions properly.

In 2014, EFAMA welcomed two important initiatives taken by the Commission:

- The revision of the IORP directive with the aim to facilitate the cross-border activity for IORPs, while increasing their governance and transparency;
- A request for technical advice from the European Insurance and Occupational Pensions Authority (EIOPA) on possible solutions to create an EU single market for personal pensions.

We have summarised below all the initiatives related to pensions where EFAMA was particularly active during 2014.

1. Towards a Single Market for European Personal Pensions

Preparation of a new EFAMA report on a European Personal Pension

In July 2012, the Commission Services requested EIOPA to provide technical advice to develop an EU Single Market for personal pension schemes. In order to prepare its advice, EIOPA set up, at the beginning of 2013, a task force on personal pensions and started to explore prudential regulation and consumer protection measures that would be necessary to create an EU single market for personal pensions. To contribute to this work, EFAMA published in September 2013 a report presenting a blueprint for a "European brand" of personal pension products, referred to as "Officially Certified European Retirement Plan" (OCERP).

In February 2014, EIOPA published its Preliminary Report to the Commission entitled "Towards an EU Single Market for Personal Pensions", which devoted a section to the analysis of the OCERP. On the basis of this report and the discussions held in the Long-Term Savings and Pensions Committee, EFAMA continued its work on a new report to provide more information on several aspects related to the design of a European Personal Pension which had not been addressed in detail in its 2013 report.

In the meantime, EIOPA received a Call for Advice on a single market for personal pensions, which will have to be delivered to the European Commission by 1 February 2016. It will then be up to the Commission to decide on whether a legislative initiative is needed and what its scope should be.

EFAMA participation at the EIOPA Conference

EIOPA and the National Bank of Slovakia held, on 15 April 2014, an international conference dedicated to the creation of a single market for personal pensions in the EU. The event was organised in the context of EIOPA's work at the request of the European Commission. EFAMA was invited to speak at the conference.

This gave Peter De Proft the opportunity to present EFAMA's views on the main benefits that a European Personal Pension would bring:

- It would achieve a more efficient environment for personal pensions markets, enhancing the choice between different types of pension products and providers.
- It would help pension providers operating on a cross-border basis to achieve economies of scale.
- It would improve the portability of pension savings across borders. This would simplify life for people working and living in more than one EU member country – a trend that will only become stronger.

2. Revision of the IORP Directive

Recast Directive

On 27 March 2014 the European Commission adopted a legislative proposal for new rules on occupational pension funds (IORPs). The proposal aims at improving governance and transparency of these funds in Europe, promoting cross-border activity, and helping long-term investment.

Council General Agreement

On 10 December 2014 the European Council agreed on a General approach on the IORP directive. The general approach is to make the proposal less prescriptive and detailed, which was welcomed by EFAMA.

EFAMA Position Paper

EFAMA prepared a position paper in cooperation with the Long-Term Savings and Pensions Committee. The EFAMA position paper welcomes the European Commission's legislative proposal, highlighting its strong support for (i) the exclusion of solvency rules from the scope of the revised IORP Proposal, (ii) the recognition of IORPs as long-term investors, and (iii) the removal of the prerogative given to host Member States to impose additional investment rules to cross-border IORPs.

EFAMA identified four key points of improvement in the proposal:

- Asset managers should be allowed to operate DC occupational schemes under their own license. This would lower cost of entry in the market and therefore the cost of DC pension schemes for the benefit of consumers.
- Investment firms and investment managers should be exempted from new remuneration rules, as they are already subject to EU legislation on remuneration.
- IORPs (or third parties operating on behalf of IORPs) that invest all their assets in investment funds falling under the AIFM or UCITS Directives should be exempted from the depositary requirement, as investment funds are protected by the depositary rules included in those directives.
- No preference should be given to annuities over other payout options in order to ensure that Member States' different rules on the payout options are respected.

Coordination with other federations

EFAMA has continued its cooperation within the group of representative European organisations known as the "Group of Nine". This group represents pension institutions, EU level social partners and asset and fund managers. During 2014, the Group of Nine met several times to exchange views and positions on the revision of the IORP directive.

3. Pensions Forum and the Code of good conduct for occupational schemes

EFAMA was elected to participate in the new expert group created under the remit of the Pensions Forum. The Working Group on a Code of good practice, led by DG Employment at the European Commission met several times in 2014. The goal was to build a code as a first guide for workers and employers interested in developing workplace-based collective pension schemes in the light of good practise developed elsewhere.

The outcome of the meetings held in 2014 was presented at the Pensions Forum in October 2014 and follow up action by the Commission is to be expected by 2015.

IV. INVESTOR AND FINANCIAL EDUCATION

Investor education is a strategic priority for EFAMA and so it continued its work in 2014 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 penning a document 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 around creating this document in 2013 and 2014. This work concluded in the first quarter of 2014 with the publication of the report entitled "Building Blocks for Industry Driven Investor Education Initiatives" in March 2014.

The aim of the document 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 document was centered around three parts:

- **Essential Perspectives**
  In this section five independent experts in certain fields of financial services were asked to convey their views on the goals of investor education, and the type of actions that are most effective to achieve these goals. These experts belonged to five different stakeholder groups representing academics, international regulators, national financial supervisory authorities, end investors and independent financial advisors.

- **EFAMA Guidelines for Investor Education Initiatives**
  This section of the report focuses on the best practice guidelines drawn up by the EFAMA Investor Education WG. It is envisaged that the guidelines will provide a template to encourage, inspire and support the development of investor education initiatives by organizations in the asset management industry and the financial sector at large.

- **EFAMA Member Investor Education Initiatives**
  This part of the report focuses on highlighting the investor and financial education initiatives that EFAMA members have already put in place and confirms that the promotion of investor education is now part of the DNA of the European fund and asset management industry.

The overarching aim of the report was to inspire and encourage those not currently undertaking 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 launched in March 2014 at a high level conference held by EFAMA in Brussels, Belgium. A panel discussion was held at the launch which included speakers from the OECD and European Commission.

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 2014. 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. As explained below, EFAMA's Statistics Committee played an important role in 2014 in ensuring that the statistics published by EFAMA were homogeneous, coherent and in line with market developments.

1. Investment Fund Statistics

Review of International Statistics

Following a long period of preparation by the IIFA Statistics Committee, the IIFA board agreed last autumn to an expansion of the IIFA statistics. It was agreed that investment funds should comply with three general principles to be included in the IIFA statistics: firstly, they must be substantively regulated, i.e. they need to offer a high level of investor protection; secondly, they must be open-ended in the sense of being redeemable; and thirdly, they must be reported by their jurisdiction of domicile and not by the domicile of the investor. Following a survey of IIFA and EFAMA members, it was also decided to add four new categories to the IIFA statistics: ETFs, guaranteed/protected funds, institutional funds and open-ended real estate funds.

In line with this decision, the IIFA statistics will include the following types of European investment funds: all UCITS, all open-ended, substantively regulated AIFs which are classified according to their investment strategy (equity, bond, etc.), and all open-ended, substantively regulated AIFs which can be classified as "institutional" funds, i.e. funds reserved to a limited number of investors.

The publication of the new IIFA statistics is expected to start with the data covering the first quarter of 2015.

Review of EFAMA Statistics

The decision to broaden the scope of the IIFA statistics led to a revision of the classification scheme used by EFAMA to collect and present its statistics. This revision, which was prepared in close cooperation with EFAMA's Statistics Committee, was approved by the EFAMA Board of Directors in June 2014. The two most important changes in the classification of European investment funds are as follows:

- The distinction between UCITS and non-UCITS should be replaced by a distinction between UCITS and AIF, which should be based on the regulatory definition of UCITS and AIF. This approach will allow EFAMA to monitor closely the development of AIFs.
- The main categories of UCITS and AIF should be based on their main underlying assets (equity, etc.).
- ETFs and institutional funds shall be included in the main fund categories. Statistics on these funds shall also be collected separately on an "of which" basis to be able to provide information about these funds.

Fund Data Exchange with IOSCO

In 2013, EFAMA joined ICI Global and the Brazilian Financial and Capital Markets Association (Anbima) to create a Task Force on Investment Management, as part of the Affiliate Members Consultative Committee (AMCC) of IOSCO. The mandate of the Task Force was to review the existing statistics on worldwide investment funds and explore the possibility of expanding these statistics to meet IOSCO needs.

The representatives of the Task Force presented the main features of the International Investment Fund association (IIFA) statistics to the IOSCO Research Department and to IOSCO Policy Advisers in February 2014. The extensive presentation explained in detail the current IIFA investment fund data collection process as well as the methodology used to classify the data.

This meeting and subsequent discussions with the IOSCO Research Department and IIFA members led to the conclusion of a data-provision agreement between IIFA and IOSCO to collaborate on the provision and publication of IIFA data on regulated investment funds. It is understood that IOSCO will use the data in the context of its research on the worldwide investment fund industry, and publish some aggregated data on its website.

Redevelopment of EFAMA database

EFAMA decided to develop a new database to be able to collect fund statistics from member associations using the new classification scheme. It appeared indeed that the statistical platform which has been used for many years could not be upgraded to expand the data collection.

The business requirements for the new database were defined in close coordination with the Statistics Committee, and a new provider (Investment Research Finland) was selected to implement the project.

The development was almost finished at the end of 2014, with testing of the new system with member associations beginning in Q1 2015. The database will be used to collect the monthly and quarterly data. It is proposed to use the new template to collect the January 2015 monthly data in June 2015 and the Q1 2015 quarterly data in May 2015.

2. EFAMA's Publications

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

The 12th edition of the annual Fact Book was published in September 2014 and contains in-depth commentary on the developments in the industry during 2013 and over the past ten years (2003-2013). 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 (2003-2013) 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.

EFAMA's Seventh Annual Asset Management Report

In June 2014, EFAMA published the seventh 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 2012. It also includes a first estimation of the professionally managed assets under management (AuM) at end 2013.

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 2014 report highlighted the following figures:

- Total Assets under Management (AuM) in Europe increased by approximately 9% in 2013 to EUR 16.8 trillion. In relation to GDP, the value of AuM is estimated to reach 115% at end 2013, up from 108% in 2012. This increase reflects the increase in AuM (9%) as well as economic growth in Europe of 1% in 2013.
- Bond assets dominate asset managers' asset allocation choice, with a share of 46% of all assets at end 2012. Equity assets accounted for 29% of assets, whilst money market and cash equivalents represented 10% of assets.
- Institutional investors, acting on behalf of millions of households, represent the largest client category of the European asset management industry, accounting for 74% of total AuM in Europe. Insurance companies and pension funds accounted for 42% and 32% of total AuM for institutional clients at end 2012, respectively.
- European asset managers held 23% of the debt securities issued by euro area sectors at end 2012, and 31% of euro area companies' total equity. These figures highlight the role played by asset managers in the financing of Europe's economy.
- More than 3,200 asset management companies are registered in Europe employing about 95,000 people directly and over 435,000 indirectly at end 2012.

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 12 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

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 2014) 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 2013 and 2014. 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 2014, the total volume of orders increased by 2.5% to 15.6 million orders compared to the second half of 2013 with 15.2 million orders.
- Out of this, the volume of automated processed orders increased by 2.5% to 12.2 million against 11.9 million in H2 2013.
- In the first half of 2014, the adoption of ISO messaging standards increased by 4.7 percentage points to 50% in Q2 2014 (against 45.3% in Q4 2013). In parallel, the use of proprietary ftp continued to decrease from 33.4% (Q4 2013) to 28.2% (Q2 2014). The manual processing rate also increased, albeit less than a whole percentage point (from 21.3% in Q4 2013 to 21.8% in Q2 2014).
- ISO adoption continued to increase in both fund domiciles:
    - The total automation rate of orders processed in Luxembourg increased by 0.8 percentage points to 76.1%. This increase was driven almost equally by a greater use of ISO messaging standards and proprietary FTP.
    - The total automation rate of orders processed by Irish transfer agents decreased to 83.2% in Q2 2014 against 85.6% in Q4 2013. The percentage of automated orders based on the ISO messaging standards increased to 27.3% in Q2 2014 compared to 20.9% in Q4 2013, while the proprietary ftp rate fell to 55.7% against 64.7% in Q4 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.

VII. PRESERVING THE INTEGRITY OF THE INDUSTRY

1. Revision of the Shareholders' Rights Directive[13]

Following the publication of the European Commission proposal on the Revision of the Shareholders' Rights Directive in April 2014, EFAMA finalised its position in September 2014. EFAMA is fully supportive of the enhanced transparency requirements for asset managers and institutional investors as a means of fostering good corporate governance and encouraging shareholder engagement. However, we advise that such transparency be proportionate and not overly prescriptive and warn against potential overlap with requirements asset managers are already subject to in AIFMD, UCITS Directive and MiFID. In full support of the Commission's proposal on related party transactions, we view the introduction of this article as one of the few instances in the legislation where the rights of shareholders have been extended.

Under the Italian Presidency in the second half of 2014, although a General Approach was not reached, the Presidency progressed significantly, agreeing on many parts of the text, including the articles on engagement policy, investment strategy of institutional investors and arrangements with asset managers, and transparency of asset managers. The more political questions such as the right to vote on remuneration policy and the right to vote on related party transactions led to difficult negotiations between Member States and required more time to finalise.

In the European Parliament, the legislative process got underway with the lead Committee, JURI (Legal Affairs) appointing Rapporteur and Shadow Rapporteurs in October 2014. The ECON Committee was given joint competence over specific parts of the text dealing with asset managers. The wide divide between MEPs' views on the file was apparent during exchange of views in both Committees, with MEPs disagreeing particularly over the approach to follow on the right to vote on remuneration and the right to vote on related party transactions.

2. Responsible Investment

Responsible Investment is a crucial instrument of the investment management industry. In 2014, EFAMA consolidated its work on Responsible Investment, an area of the asset management industry in rapid expansion, which some believe will move from niche to mainstream rapidly. EFAMA provided guidance to the European Commission and the European Supervisory Authorities in relation to the elaboration of Delegated Acts on Responsible Investment transparency in the Packaged Retail Insurance Based and Investment Products ('PRIIPS' KID).

EFAMA sees Responsible Investment as a key incentive to encourage corporate responsibility of investee companies and sustainable development. The asset management industry encourages clear standardised disclosure of environmental, social and governance (ESG) information by investee companies.

13 Proposal for a Directive of the European Parliament and of the Council amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement and Directive 2013/34/EU as regards certain elements of the corporate governance statement.

The asset management industry also strives towards setting self-regulatory standards on transparency of Responsible Investment, for instance:

- in the pre and post-investment phase;
- in the KIID for investment funds and PRIIPs;
- for fund documentation other than the KIID.

As an active interlocutor with policymakers, EFAMA participated in a European Commission Informal Roundtable on Responsible Investment in October 2014. EFAMA is planning to conduct a survey to provide a mapping of RI/ESG/SRI views and practices of EFAMA corporate members and member associations around Europe.

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 nine 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, EPFSF, etc.

EFAMA is proud to announce that in these budgetary difficult times, the number of corporate members increased to over 60 in mid-May 2015.

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 2014 EFAMA had 23 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 participate in 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 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. Six weekly conference calls are organised to update both corporate and associate members on the key regulatory files EFAMA is working on. And associate members also have their own "workspace" on the members' restricted area of EFAMA's website.

Associate Members Meeting on 11 March 2014

EFAMA organised an associate members meeting to evaluate the previous year's interaction between EFAMA and its associate members. The meeting and cocktail reception of March 11th provided the opportunity for an in-depth exchange of views with associate members as well as looking at EFAMA's strategic plan ahead of the start of the new EU Parliament and Commission.

4. The EFAMA Investment Management Forum 2014

The 20th EFAMA Investment Management Forum took place on 5-6 November 2014 in Brussels. It brought together over 280 investment managers, policymakers and other stakeholders of the industry from more than 20 countries. This year the conference theme was "From regulatory reaction to the crisis to creating new growth for Europe".

Day 1 of the conference focused on the key regulatory evolution impacting the investment management industry, including UCITS, ELTIFs, Money Market Funds, MiFID II, IMD II and PRIIPs. Also, attention was devoted to the role of investment managers in the provision of long-term financing and saving. Both ESMA and the European Commission presented their views. A high-level panel debated about the possible systemic importance of asset managers, with the participation of IOSCO.

Day 2 of the conference focused firstly on the international distribution opportunities for European investment managers; a keynote speaker from the Asset Management Association of China participated in the debate. Secondly, a panel of industry leaders shared their views on the crucial issues for the European investment management industry in 2015.

The conference concluded with two special workshops focused on US regulation and the impact of regulation on European asset managers.

EFAMA President, Christian Dargnat, addresses EFAMA Investment Management Forum (5-6 Nov., 2014, Brussels)

IX. 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 was established in April 2011 under ESMA's founding Regulation to help facilitate consultation with stakeholders in all areas relevant to ESMA's tasks.

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.

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.

In 2014, 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 2014 in full: meetings were held on 29 January, 10 April, 10-11 July, 23 September, and 5-6 November. In addition, the Group met with the ESMA Board of Supervisors on 10 July and 5 November in 2014. The Summary of Conclusions of the SMSG meetings can be found at *www.esma.europa.eu/smsg.*

The 2014 work programme can be found on the ESMA website, as well as the advice and letters submitted to ESMA.

2. European Parliament Financial Services Forum (EPFSF)

The role of the European Parliament Financial Services Forum (EPFSF) as a forum for exchanges of ideas between Members of the European Parliament (MEPs) and the financial industry continued to be instrumental in 2014. The EPFSF continued in the past year its monthly meetings to discuss with MEPs topics on the EP's agenda, and contribute its industry-wide views to the debate. 2014 was a year of change: with new mandates for the European Parliament and European Commission, 2014 marked an inflexion point in the European Union. It did so also in the EPFSF.

In 2014 EFAMA's Director General Peter De Proft was elected Chair of the EPFSF Financial Industry Committee. After the European Parliament elections, the EPFSF also elected a new Chair and vice Chairs of the Steering Committee, composed of MEPs. Burkhard Balz MEP became the Chair, and Elisa Ferreira MEP and Kay Swinburne MEP the two vice-Chairs.

The EPFSF paid tribute to their predecessors for their valuable contribution to the EPFSF agenda: former MEPs Wolf Klinz and Peter Skinner as Chair and vice-Chair of the Steering Committee, and Guido Ravoet, former Secretary General of the European Banking Federation and currently Chief Executive of European Money Markets Institute (EMMI). They were crucial figures that helped build a successful ongoing dialogue between the financial services industry and the European Parliament.

Over the last years, the EPFSF industry membership has increased from 26 members in 2004 to 57 in June 2015, thus representing the diversity of Europe's financial services industry and reinforcing the Forum's 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, after the European Parliament elections it reinforced its actions to raise the number of MEPs in the Forum. The Steering Committee now includes 43 MEPs.

Since it joined the EPFSF in 2010 EFAMA has been an active participant. In the course of 2014 EFAMA provided speakers for the following "lunch events":

- 21 January 2014: Lunch event on "Shadow Banking and Money Market Funds"
- 11 February 2014: Lunch event on "Review of the European Supervisory Authorities"
- 24 September 2014: Lunch event on "Coherence of EU financial services legislation and challenges ahead"
- 2 December 2014: Lunch event on "Long-term financing of the economy"

Each of these discussions were attended by approximately 50 to 60 people. In addition to MEPs and financial industry members, other representatives are always invited and regularly participate, including the European Commission, the ECON Secretariat, Parliamentary assistants and administrative staff as well as end-user/consumer groups.

Indeed, 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 systematically invited to attend the Forum's events on a non-paying observer basis. These are:

- BEUC – the European Consumers' Organisation;
- EuroFinuse, Better Finance for All – 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.

For background information, the EPFSF is a not for profit organisation under Belgian law (ASBL). It consists of a number of MEPs who form a Steering Committee, together with Financial Industry Members, a wide range of leading players in the European financial industry.

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.

3. The PCS Initiative

PCS (Prime Collateralised Securities), a market-led initiative to revitalise the securitisation markets, aims for the establishment of a revised securitised market which will help the real economy and quality collateral. The initiative was first launched by EFR (European Financial Services Round Table) in the autumn of 2009. By 2012, it was mainly driven by AFME and its members with participation by EFR with EFAMA, EBF, ECB and EIB holding an observer status.

Proposed new securitised products that intend to obtain the PCS label by the PCS secretariat must comply with strict criteria built around 4 main principles supported by BCBS-IOSCO and the European Commission: quality, transparency, simplicity/standardisation and liquidity.

The first successful PCS issuances took place in November 2012 and continued into 2014. As a supporter of the development of high quality securitisation, which can restore confidence in securitised instruments, EFAMA continued in 2014 to participate as an active observer in the work and efforts of PCS and intends to do so in 2015.

4. European Trade Associations

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

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.

And, as the well-being of the end-investor is a key priority for EFAMA members, the relations and exchange of views and documents with consumer organisations are of primary importance for EFAMA's staff.

X. 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 the 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 2014 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:

- EU policy and regulatory developments;
- Update on the SEC's international activities;
- The Volcker Rule;
- U.S. developments of international interest;
- The Financial Stability Board Consultation on non-bank, non-insurer globally systemically important financial institutions (NBNI G-SIFIs).

2. EFAMA Meetings in Asia

An EFAMA delegation travelled to Asia on 13-17 October 2014. Members of the delegation were Peter De Proft (Director General), Camille Thommes (co-Chair of EFAMA's International Distribution Working Group), Pat Lardner (co-Chair of EFAMA's International Distribution Working Group) and Stéphane Janin (member of EFAMA's International Distribution Working Group).

These were the key take-aways from meetings with various stakeholders:

- The delegation from EFAMA was well received in Beijing, Hong Kong and Singapore. AMAC, who hosted EFAMA in Beijing, put together a very interesting programme which included meetings with their members, the CSRC, SAFE and NSSF.
- The European Commission has begun more substantive dialogue with the securities authorities in China and the Head of the Asset Management Unit of DG MARKT, Tilman Lueder, was in China while EFAMA was there.
- Shanghai Hong Kong Stock Connect featured prominently in many of the discussions with many managers & authorities seeing this as an increasingly important channel into the Chinese markets.
- The ongoing challenge of combining product, distribution and advice in a client and regulator friendly way was another consistent theme from many countries.

EFAMA held meetings with:

- The Chinese Capital Markets regulator (CSRC);
- The Hong Kong regulator (SFC), together with Hong Kong's sister trade association;
- The Singaporean sister association (IMAS);
- The Singaporean regulator (MAS).

The highlight of the Asian tour was the signing of a Memorandum of Understanding between EFAMA and the Asset Management Association of China (AMAC) in Beijing on 14 October 2014.

EFAMA – AMAC: signing of a Memorandum of Understanding (Oct., 2014, Beijing) Peter De Proft (Director General, seated), Pat Lardner and Camille Thommes (Co-Chairs of EFAMA's International Distribution Working Group, standing). The signatory for AMAC was HU Jiafu, Vice-Chairman.

3. The 28th International Investment Funds Associations (IIFA) Conference in Canberra (Australia)

The International Investment Funds Association (IIFA)[14] gathers more than 40 investment fund associations from across the world. Its 2014 Annual Meeting was hosted by the Financial Services Council of Australia[15] and took place in Canberra on 19-22 October 2014.

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 ageing population and the geopolitical landscape. Special attention was given to the Asia region funds passport.

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 jointly by Eduardo Penido, outgoing Chairman of the IIFA and representative of the Brazilian Association of Financial and Capital Market Entities, and Paul Schott Stevens, incoming Chairman of the IIFA and President and CEO of the ICI, the conference focused on the fund industry in the various jurisdictions represented in the IIFA with special attention on the geopolitical landscape and the global economy and the potential impact on financial markets and asset fund managers, the use of funds for retirement savings, and the changes in regulation of fund distribution, especially in those markets which have ventured into a commission-free world.

The conference had the honour of having a working lunch with Greg Medcraft, Chairman of the International Organization of Securities Commissions (IOSCO) and Chairman of the Australian Securities and Investment Commission.

Participants felt that there needs to be close interaction between the international investment funds industry as represented by the IIFA and global regulators such as the G20, the Financial Stability Board

14 For more information see: *www.iifa.ca*

15 For more information see: *www.fsc.org.au*

(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.

During the business session, Paul Schott Stevens was appointed as the new Chairman of IIFA, and Thomas Richter, CEO of the German Investment Funds Association (BVI) and EFAMA Board Member, was appointed Deputy Chairman. In addition, a new Board of Directors was elected to serve for the next two years.

4. The Cumberland Lodge Conference

The Cumberland Lodge Financial Markets Conference has become an important annually held international event where senior industry representatives, regulators and policymakers are able to debate the key issues impacting the financial services industry in a unique setting. The discussions are cross-sectoral as in addition to investment management also banking, insurance and asset management are represented. EFAMA has for nine years been a co-sponsor of the event facilitating from its part the evolution of the event.

The 2014 conference was organised on 13-14 November and chaired by Mr. Vitor Constâncio, Vice President of the European Central Bank. The 2014 conference aimed to examine means of building growth and boosting savings and the implications of stabilised financial services markets.

5. 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 organised the sixth EFAMA-ICI Industry Roundtable in Brussels on 19 November 2014, to complement the discussions at the EFAMA-ICI joint May meeting.

The roundtable discussed many of the key topics for the investment management industry:

- Changes in the European Parliament and the European Commission: insights for funds and asset managers;
- ESMA Priorities and MiFID II;
- Systemic Risk, Funds and Asset Managers;
- Money Market Funds.

6. 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 amend or overhaul financial regulation. Consistency and coherence are essential for the investment management industry as the business becomes more and more global, but regulations still remains mostly local. IOSCO's role is central as it brings together virtually all of the world's securities regulators, fostering a more profound understanding of securities markets, as well as ways for how these should be regulated. In this, IOSCO is therefore an important partner of the FSB in developing the new global regulatory architecture in line with G20 commitments.

EFAMA joined IOSCO in 2012 as an affiliate member to support the increasingly important role of IOSCO. We actively engage in the work and discussions of the relevant policy committees in the field of investment management. As a Member of the IOSCO Affiliate Members' Consultative Committee (AMCC) – a consultative body within the organisation – covering a broad range of market players from securities exchanges to SROs, EFAMA is involved in discussions and presented progress on a joint initiative to improve global investment fund industry information to IOSCO.

Further to IOSCO's increased attention to the cyber-crime phenomenon, EFAMA also participates in a dedicated working group within the AMCC looking specifically at cyber-crime risks and counter-measures to be adopted by the asset management industry as a whole to counter growing threats. A survey will be prepared by the working group in the course of the summer of 2015. Results may possibly lead to a set of recommendations for the asset management industry, jointly to any parallel policy initiative Committee 5 may wish to pursue.

During the year, EFAMA has also taken active part in the work of IOSCO's Investment Management Policy Committee 5. In April 2014 EFAMA replied to the first FSB/IOSCO Consultation on the assessment methodologies for identifying non-bank, non-insurer globally systemically important financial institutions (NBNI G-SIFIs) and intends to reply to a second related consultation by the end of May 2015.

Other significant contributions to the work of IOSCO include EFAMA's participation in a workshop on the custody of collective investment schemes' assets held in October 2014, followed by a response to the relevant consultation document and targeting a set of Principles regarding the custody of collective investment schemes' assets due to be finalised in the course of 2015.

EUROPEAN INVESTMENT FUND DEVELOPMENTS IN 2014

1. Introduction

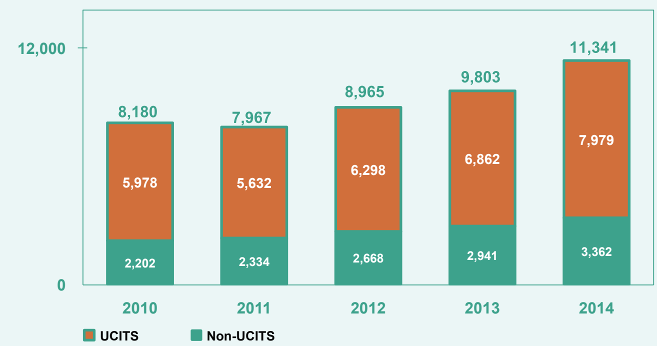
2014 was a record year for the European investment fund industry. Net sales of European investment funds rose to an all-time high of €636 billion in 2014 and assets under management broke through the €11 trillion mark thanks to a growth rate of 16%. This was all achieved despite sluggish growth, deflationary threats and geopolitical tensions in Europe.

Net assets of UCITS increased by 16.3% to €7,979 billion, while net assets of non-UCITS also enjoyed a rise in net assets of 14.3% to stand at €3,362 billion at year end. Demand for UCITS reached its highest level ever in 2014 as €474 billion in net new money flowed in. Long-term UCITS recorded net inflows of €478 billion, compared to €328 billion in 2013. Money market funds recorded net outflows of €5 billion, marking a significant decrease compared to 2013 when net outflows amounted to €85 billion. Many European businesses and institutions continued to use money market funds as a short-term cash management tool even if they offer close-to-zero returns. Net sales of non-UCITS decreased slightly in 2014 to €162 billion from €169 billion in 2013. Special funds (funds reserved to institutional investors) attracted €105 billion in net new money in 2014, thanks to sustained high institutional demand from insurance companies, pension funds and other institutional investors.

The positive evolution of the industry over the past year can be explained by the following factors:

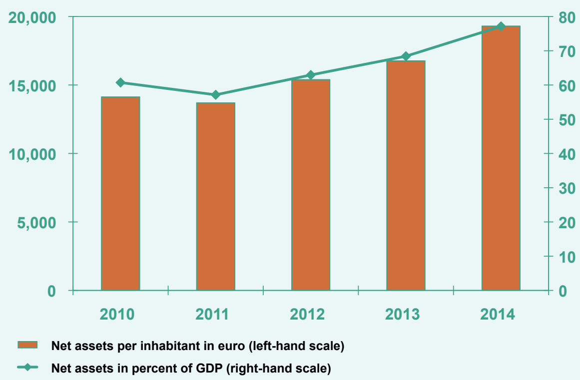
- The quest for investment returns in a context of very low interest rates.
- The attractiveness of investment funds in terms of investor protection.
- The great variety of investment strategies and risk-return profiles available in the investment fund market.
- The role of central bank actions to prevent deflation and foster economic growth.
- Strong UCITS brand recognition, which continued to boost the growth of cross-border fund net sales in Europe.

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



Source[1]: EFAMA, European Commission

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



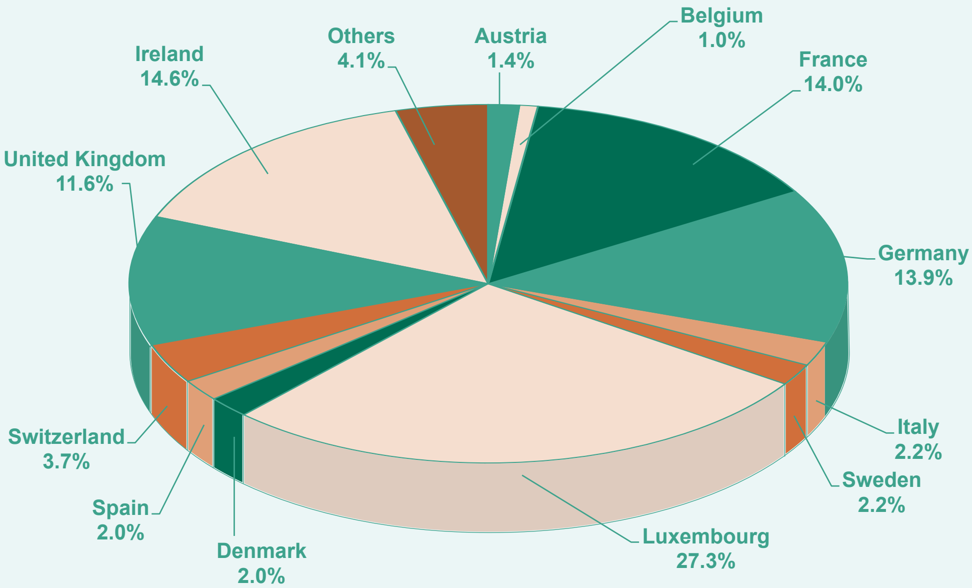
(1) Aggregated GDP and population of all EFAMA reporting countries were used to prepare this chart.

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

Investment funds per inhabitant registered a 15.1% increase during the year to €19,300 from €16,800 at end 2013. This increase reflects the large net inflows recorded into European investment funds during the year, as well as market appreciation of assets on the back of rising stock markets. European investment fund net assets represented 77% of GDP[2] at end 2014, up from 68% at end 2013. This indicator highlights the important role played by investment fund managers in the European economy: they act as managers of long-term savings, investors in the European financial markets, shareholders in European companies, providers of short-term funding for many European corporations and an important source of employment.

Five countries held market shares of above 10% at end 2014 – Luxembourg, Ireland, France, Germany, and the United Kingdom. These top 5 countries combined held a cumulative share of 81% of the industry's assets at end 2014. Luxembourg remained the largest market in Europe with a 27% market share.

Chart 3. The European Investment Fund Market
(Breakdown of nationally domiciled funds at end 2014)

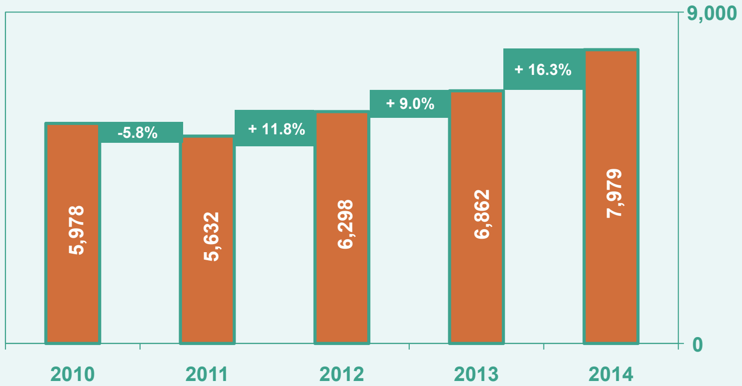


2 Aggregated GDP of all EFAMA reporting countries.

2. Trends in the UCITS Industry

Total UCITS[3] net assets jumped by 16.3% in 2014 to stand at €7,979bn at year end. This remarkable growth marked the third successive year of growth for UCITS and came on the back of strong net sales and market appreciation during 2014. Net assets of UCITS have risen by 41.7% since end 2011. This equates to an annual compound growth rate of 12.3%, which far outweighs the compound annual growth of GDP[4] (1.8%) over the same period. Chart 4 highlights the evolution of UCITS net assets since end 2010.

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



Strong asset growth was seen across all categories of long-term UCITS in 2014. Balanced funds benefited from a surge in investor demand increasing 24% over the course of the year. Bond funds enjoyed a rise in net assets of 18% in 2014. Equity funds posted strong growth of 14% amidst rising stock markets. 2014 also marked a turning point for money market funds as net assets increased (4%) during the year for the first time since 2008.

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

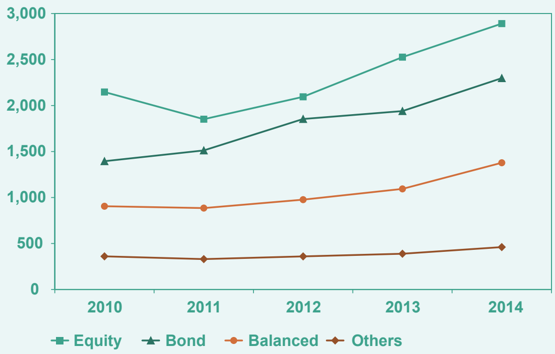
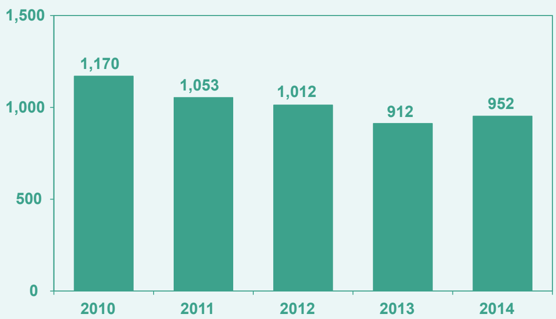


Chart 6. Net Assets of Money Market Funds
(in EUR billions)

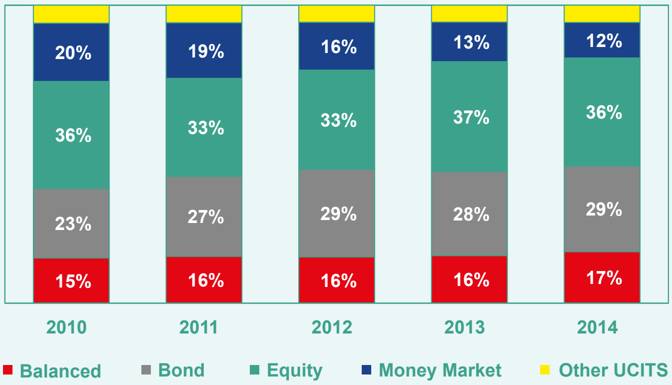


(1) Including funds of funds.

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.

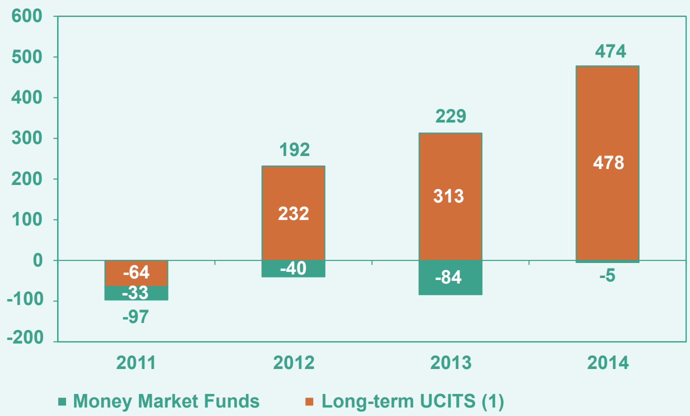
The asset allocation of UCITS remained relatively steady in 2014. The portfolio mix held by bond funds increased to 29% from 28% a year earlier. The share of balanced funds in the UCITS portfolio increased to 17%. In contrast, the asset allocation to equity funds fell from 37% of total investment fund assets to 36% in 2014. Money market funds also saw its holding fall to 12% from 13% in 2013.

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



Net inflows to UCITS totaled €474bn, up from €229bn in 2013. Long-term UCITS recorded a surge in demand rising to €478bn from €313 billion in 2013. Money market funds experienced reduced net outflows of €5bn in 2014. Nevertheless, this marked the sixth consecutive year of net outflows from money market funds, albeit much less pronounced than in 2013.

Chart 8. Net Inflows into UCITS
(EUR billions)



(1) All UCITS excluding money market funds.

Charts 8a-8d show the demand for UCITS from 2011-2014. Bond funds attracted the largest net inflows (€191bn) as investors continued to expect long-term interest rates to fall further against the backdrop of dis-inflation during the year and amid expectation of the launch of a quantitative easing programme by the European Central Bank. Balanced funds also benefited by this uncertainty as investors were attracted by the risk diversification offered by balanced funds during the year with €187bn flowing into this fund category. Equity funds posted reduced net sales in 2014 of €61bn compared to €99bn in 2013 and net outflows recorded in 2011 and 2012. Equity funds recorded lower net sales compared to 2013 against the background of a gloomy economic outlook and volatile stock markets. In contrast to long-term funds, money market funds (MMFs) continued to suffer from net withdrawals (€5bn) given the persisting low interest rate environment.

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

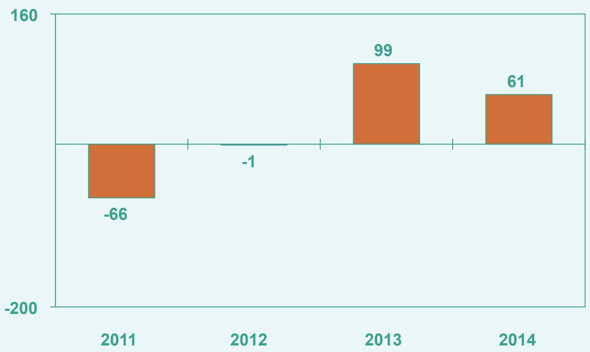


Chart 8b. Net Inflows into Bond Funds
(EUR billions)

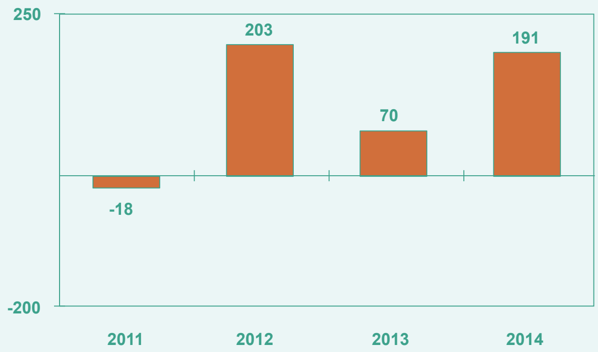


Chart 8c. Net Inflows into Balanced Funds
(EUR billions)

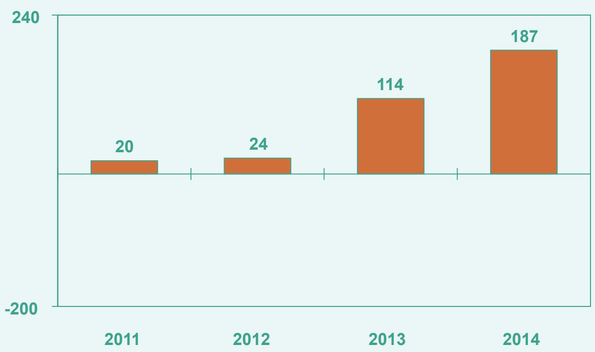
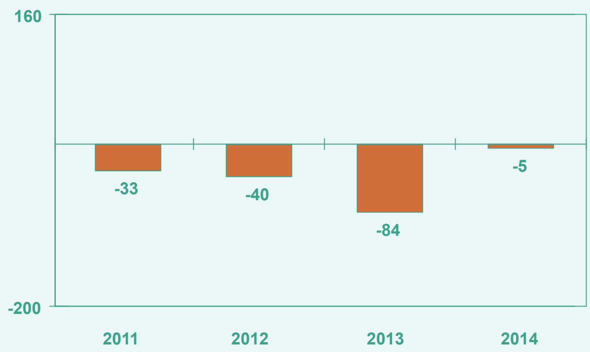


Chart 8d. Net Inflows into MMFs
(EUR billions)



3. Trends in the Non-UCITS Industry

Total non-UCITS net assets enjoyed growth of 14.3% in 2014 to stand at €3,362bn at year end. Net assets of special funds (funds reserved for institutional investors) surged in 2014 by 17% as inflows hit €105 billion for the year. At end 2014 net assets of special funds stood at €2,250bn and represented 67% of the entire non-UCITS market. Net assets of real estate funds rose 8% in 2013 to reach €304bn. "Other" non-UCITS assets, which include regulated hedge funds, securitization funds, venture capital funds and other regulated funds which do not fall under UCITS, real estate or special funds categories. Assets of these types of funds increased 10% to €808bn.

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

4. Trends across Europe

Net inflows to UCITS totaling €474bn in 2014 or 6.8% of UCITS assets at end 2013. Most countries registered net inflows during the year, with two countries posting net inflows in excess of €100bn. Luxembourg registered net inflows of €228bn, whilst Ireland attracted net sales of €112bn. This represented approximately 10% of end 2013 net assets. Spain followed in third position with net sales of €36bn, which represented 20% of end 2013 assets, closely followed by Italy (€33bn or 22% of end 2013 assets) and the United Kingdom (€22bn representing 3% of end 2013 assets). Of the other large domiciles, Germany registered net inflows to UCITS of €2bn (or 1% of 2013 assets), whilst France suffered outflows of €22bn (2% of 2013 assets), mainly on account of large net withdrawals from money market funds (€30bn). Elsewhere, Switzerland registered net inflows of €16bn during the year, representing 5% of 2013 assets. Sweden and Norway also registered large net inflows during the year (€12bn). Romania registered net inflows of €1bn, which represented 33% of end 2013 assets.

Net flows of UCITS in 2014			
COUNTRY	**NET FLOWS** (in EUR bn)	**COUNTRY**	**NET FLOWS** (in % of end 2013 assets)
Austria	0.4	Austria	0.5%
Belgium	10.1	Belgium	11.4%
Bulgaria	0.03	Bulgaria	7.4%
Croatia	-0.04	Croatia	-2.3%
Czech Republic	0.9	Czech Republic	20.6%
Denmark	6.1	Denmark	7.0%
Finland	5.8	Finland	9.0%
France	-21.8	France	-2.0%
Germany	2.4	Germany	0.9%
Greece	-0.2	Greece	-3.6%
Hungary	1.5	Hungary	15.0%
Ireland	111.7	Ireland	10.7%
Italy	32.7	Italy	21,9%
Liechtenstein	-1.3	Liechtenstein	-5.2%
Luxembourg	228.0	Luxembourg	10.4%
Malta	0.4	Malta	17.2%
Netherlands	-4.2	Netherlands	-7.0%
Norway	12.3	Norway	15.5%
Poland	1.6	Poland	7.7%
Portugal	0.6	Portugal	8.3%
Romania	1.0	Romania	33.2%
Slovakia	0.7	Slovakia	25.4%
Slovenia	0.04	Slovenia	2.1%
Spain	35.6	Spain	19.8%
Sweden	12.6	Sweden	6.4%
Switzerland	15.6	Switzerland	5.3%
Turkey	-0.4	Turkey	-4.1%
United Kingdom	21.7	United Kingdom	2.5%
Europe	**473.7**	Europe	**6.8%**

UCITS assets in Europe enjoyed growth of 16.3% in 2014. Amongst the largest domiciles of UCITS, Ireland recorded net asset growth of 22%, closely followed by Luxembourg (20%), the United Kingdom (15%) and France (3%). Net assets of UCITS in Germany rose 7% during the year. Elsewhere, Italy posted net asset growth of 32% during the year, with Sweden and Spain registering UCITS net asset growth of 25%. The Czech Republic and Romania registered large increases in UCITS assets, albeit starting from low base levels.

Overall in 2013, total UCITS and non-UCITS assets stood 15.7% higher at end 2014 than at end 2013. Almost all countries reported an increase in total investment fund assets for 2014.

Net Assets of Nationally Domiciled UCITS and Non-UCITS
(EUR billions, at end 2014)

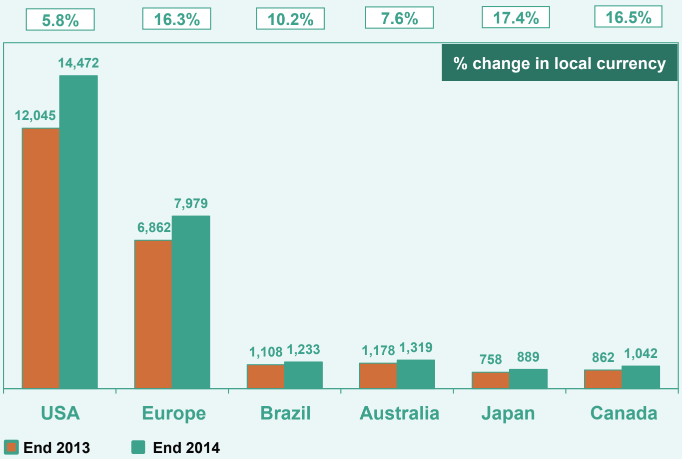
Members	Total Assets	% chg [(1)]	UCITS Assets	% chg [(1)]
Austria	162,522	8.8%	83,553	7.0%
Belgium	114,391	18.8%	104,694	19.0%
Bulgaria	414	11.9%	411	11.9%
Croatia	2,142	0.3%	1,695	-0.8%
Czech Republic	6,135	30.0%	5,984	30.2%
Denmark	230,256	23.9%	99,947	15.8%
Finland	85,060	13.2%	71,346	11.2%
France	1,584,828	3.6%	1,145,928	3.2%
Germany	1,581,625	12.6%	296,406	6.7%
Greece	7,469	4.2%	4,781	-9.0%
Hungary	17,339	28.3%	11,416	11.2%
Ireland	1,661,211	23.6%	1,274,477	22.1%
Italy	248,397	14.9%	196,299	31.5%
Liechtenstein	38,359	26.0%	23,958	-6.8%
Luxembourg	3,094,987	18.3%	2,642,504	20.2%
Malta	9,727	3.5%	2,903	27.2%
Netherlands	74,786	7.8%	62,393	4.9%
Norway	92,434	16.9%	92,434	16.9%
Poland	48,913	8.6%	21,708	7.9%
Portugal	22,986	-6.9%	8,226	11.1%
Romania	5,717	26.5%	4,079	40.0%
Slovakia	5,365	17.4%	3,445	28.5%
Slovenia	2,143	14.3%	2,143	14.3%
Spain	229,143	23.9%	225,722	25.4%
Sweden	252,710	26.2%	248,930	25.7%
Switzerland	415,802	15.4%	335,960	15.3%
Turkey	27,663	16.8%	12,613	20.6%
United Kingdom	1,318,655	17.7%	995,340	15.4%
Europe	**11,341,179**	**15.7%**	**7,979,297**	**16.3%**

[(1)] End 2014 compared to end 2013.

5. Trends in Worldwide Investment Fund Assets

Worldwide investment fund[5] assets under management increased to €28.29 trillion at end of 2014. This represented growth of 18.9 percent since end 2013. Measured in U.S. dollar terms, worldwide investment fund net assets amounted to $34.35 trillion. Investment fund assets in the United States rose 20% in 2014. However, in local currency, this growth is reduced to 6% on account of the large depreciation of the euro vis-à-vis the U.S. dollar during the year. In local currency terms, Japan posted strong growth of 17%, followed by Canada (16%), Brazil (10%) and Australia (8%).

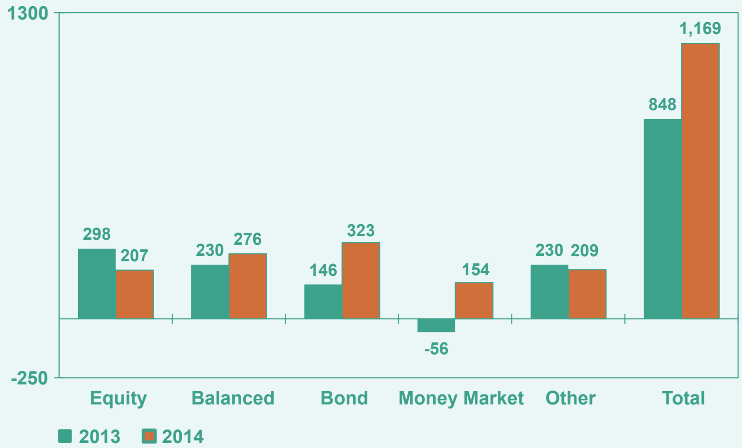
Chart 10. Trends in Worldwide Investment Fund Assets
(EUR billions)



Source: EFAMA, ICI

Demand for worldwide investment funds surged in 2014 as net sales reached €1,169bn, up from €848bn in 2013. Long-term funds enjoyed increased net inflows of €1,015bn, compared to €904bn in 2013. Money market funds registered net inflows of €154bn after posting net outflows of €56bn in 2013.

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

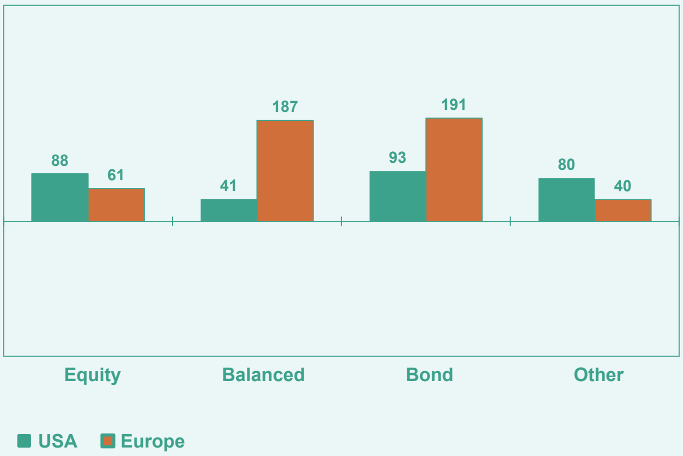


Source: EFAMA, ICI

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), bond funds attracted large net inflows in both jurisdictions amounting to €191bn in Europe and €93bn in the United States. Balanced funds also posted large net inflows attracting €187bn in Europe and €41bn in the United States. Equity funds enjoyed net sales during the year attracting €88bn in the United States and €61 billion in Europe. Other funds, which include funds of funds, attracted €80bn of net sales in the United States and €40bn in Europe during 2014.

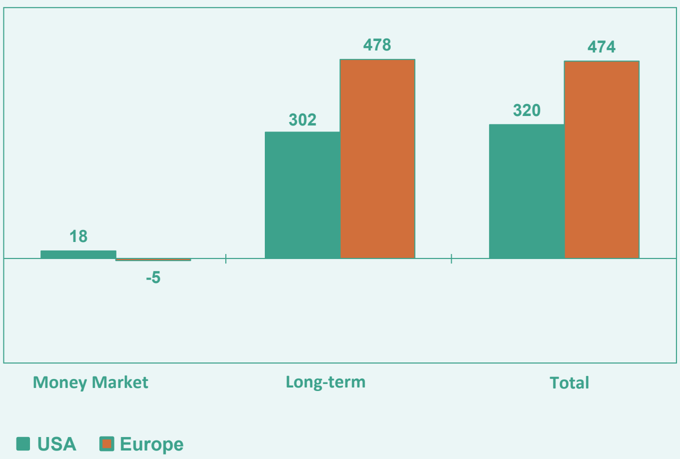
Chart 12. Net Inflows to Worldwide Investment Funds in 2014
(EUR billions)



Source: EFAMA, ICI

Reflecting these developments, demand for long-term funds strengthened during the year. Long-term UCITS in Europe attracted €469bn in net inflows during the year, compared to €302bn in the United States. At the same time, money market funds recorded net outflows of €5bn in Europe during 2014, whereas money market funds in the United States attracted net inflows of €18bn over the same period. Overall, net inflows into U.S. domiciled funds reached €320bn, compared to €474bn in Europe.

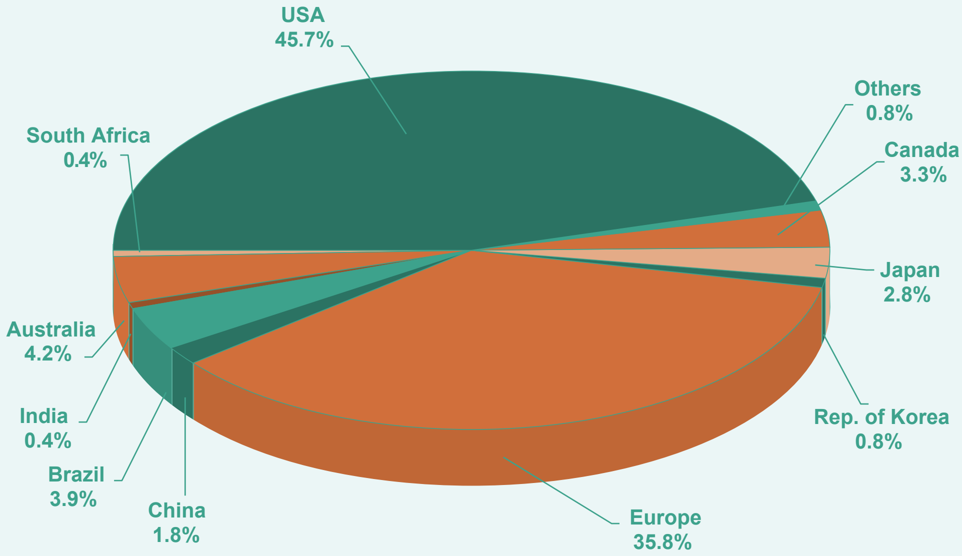
Chart 13. Net Inflows to Investment Funds in 2014
(EUR billions)



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 51.2% and 28.2% respectively at the end of 2014. 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 35.8%, compared to 45.7% for the United States (Chart 14).

Chart 14. Worldwide Investment Fund Assets (*)
(Market share at end of 2014 Q4)



(*) Taking into account non-UCITS.
Source: EFAMA, ICI

EFAMA MEMBERSHIP

NATIONAL ASSOCIATIONS

66

CORPORATE MEMBERS

76

ASSOCIATE MEMBERS

81

National associations

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