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European Fund and Asset Management Association

2015 ANNUAL REPORT

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EFAMA is the representative association for the European investment industry.

Its mission is:

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

TABLE OF CONTENTS

2015 ANNUAL
REPORT

TABLE OF CONTENTS

Alexander Schindler
President
June 2016

PRESIDENT'S STATEMENT

I am honoured to be the President of EFAMA. It was a privilege to have been elected in June 2015, and since then, we have continued on the way that my predecessor, Christian Dargnat, had so efficiently paved.

I would like to take the opportunity here to express my warm thanks to Christian for the many achievements under his mandate. His charismatic leadership and powerful persuasion provided huge benefits to the industry and how it was perceived.

Reflecting on my first year as EFAMA president I can say without a doubt that it has been a very interesting one, one during which we have felt a new mood and a change of tone in the European Commission with the adoption of an open and positive approach towards regulation and its impacts, towards filling the gaps and fixing regulatory hurdles.

During this time, our industry has also continued to grow and market trends show a consistent increase in figures. This ties in well with the role of the asset management industry in providing alternative funding sources, as well as channeling savings and investments into long-term projects.

Our industry is a strong supporter of the Capital Markets Union (CMU) and welcomes the view of the Commission to acknowledge it has a key role to play in this action plan. We continue to support it and its good ideas, such as lowering the regulatory costs of setting up funds and facilitating the cross-border operation of investment funds. We have said that the European passport system, certainly for UCITS, has clearly demonstrated its benefits and works well. It is a good lesson to learn and to build on, and for this reason asset managers also support the Commission's aim to make the European passport system function better for all types of investment funds.

The European asset management industry is also an enthusiastic supporter of the idea of a truly unified European market for personal pension products.

As major players in the channelling of savings into long-term investment, asset managers are in a prime position to support the European Union in this initiative.

We are therefore committed to remain proactive in these discussions, to keep working with the European institutions, and to find a way to make the proposal for a Pan-European Personal Pension product (PEPP) a reality.

Another move EFAMA welcomes is the very difficult exercise of assessing the cumulative impact of previous regulatory changes. The Commission had set itself the challenging, but much needed task to ensure proper implementation followed by careful evaluation, which is the key to the successful completion of a single capital market. One of the outcomes of this evaluation we hope will be to highlight any overlapping regulatory requirements which either lead to inconsistencies or inadvertently go against the creation of a level playing field.

« Short and unrealistic implementation deadlines create legal uncertainty and cause serious operational challenges for our industry. »

In the past year, we have also been concerned with a number of fundamental pieces of legislation for asset managers and the timing for the industry in which to implement and comply with them. It is clear that short and unrealistic implementation deadlines create legal uncertainty and cause serious challenges for our industry. To mention but one example I would refer to the current discussions on the postponement of MiFID II and PRIIPs.

Additionally, the concept of "shadow banking" last year continued to be used when referring to our industry. Using this term to designate investment management activities is simply misleading and we have recommended to use the more appropriate term of "markets-based financing" instead. Unlike entities acting in the "shadows", asset management companies and the funds they manage are subject to a detailed and robust regulatory framework, identifiable under the EU UCITS and AIFMD frameworks. These are to be complemented by a comprehensive regulatory regime for money market funds under the MMF proposal, as currently being negotiated by the European Parliament and Council.

It is worth repeating that our industry is not a significant source of systemic risk. This year has been useful in explaining to central bankers and regulators the distinctive features of our business model and how different we are from banks. Still, many regulators around the world remain

Alexander Schindler and William Nott were elected President and Vice-President at the EFAMA AGM 2015 (Lisbon, 19 June 2015) concerned about how asset managers would be able to cope with liquidity issues on certain markets. Our industry has the tools, let alone a strict and sound EU regulatory framework, to address any potential market liquidity concerns. Therefore it is essential to continue the constructive and efficient dialogue with the relevant regulators and stakeholders.

These first 12 months end with a clearer and more ambitious "CMU-era" which will undoubtedly bring many opportunities and which the asset management industry, amongst others, is ready to embrace. We look forward to seeing a number of initiatives implemented in such a way as to bring down the remaining barriers to a unified market for investment products.

The answer to a prosperous asset management industry in Europe is a well-functioning single financial market, one that will boost capital flows and help the European economy and citizens' welfare to grow, one that will attract new participants from all over the world. Can this be done? Yes it can.

Alexander Schindler

President
June 2016

Peter De Proft
Director General
June 2016

DIRECTOR GENERAL'S STATEMENT

Global financial regulatory reform, which aims to increase financial system resilience while preserving its diversification, integration and open access, has entered its ninth year since the onset of the global financial crisis in 2007. While many objectives have been addressed in terms of building resilient financial institutions, ending too-big-to-fail moral hazards, and making derivatives markets safer, it is time to evaluate and enhance the post crisis financial regulation framework, particularly lessons learned from implementing relevant rules in terms of diversification, openness, adaptability and consistency. The global economy is facing a degree of uncertainty, yet the credit squeeze on underserved sectors has remained a major hurdle for the economy, and the depth of market liquidity has declined while regulatory compliance costs have risen in recent years. Policymakers need to recalibrate certain aspects of the financial regulatory framework as well as conduct impact assessments to reveal and avoid unintended consequences during rule-refining process.[1]

1 B20 Financing Growth Taskforce Policy Paper, April 8th, 2016

In Europe, 2015 saw an intense debate about the future of European governance. The Greek crisis, an influx of refugees and the upcoming UK referendum dominated the front pages. European leaders were in discussion throughout the year, with an unprecedented number of European Council meetings, but rarely reached firm agreements. In this context, European Commission President Jean-Claude Juncker published a long-awaited report in collaboration with the presidents of the European Council, the Eurogroup, the European Central Bank and the European Parliament. The so-called "Five Presidents' Report" aimed at preparing a roadmap for the completion of economic and monetary union.

In his job as European Commissioner for financial services, Lord Hill is also working to strengthen and deepen that single market. That is why he has launched a Call for Evidence to review Europe's regulatory framework for the financial sector, and to check it is as growth-friendly as possible. That is why he is looking at financial services from the point of view of the consumer to see whether we can improve competition and choice – and lower costs and improve the quality of the services we use every day. And that is why he is working to build a Capital Markets Union – a Single Market for capital – to help money flow throughout the EU.

The goal of the Capital Markets Union is to connect savings more effectively to growth, to channel investment to projects in need of financing, to give companies a greater choice of funding, and to increase the options for people saving for the long term. Why do we need to do it? The EU's economy is about the same size as America's, but our capital markets are about half their size. If we could grow our equity markets across the EU to bring the smaller ones up to the European average, 25 billion euros of additional capital could be raised each year.

« Dialogue, listening mode and good governance are key elements in the smooth running of a European association. »

European asset managers continue to be supporters of the CMU project, cleverly packaged into the EC Action Plan. And we do so because the EC's Action Plan is both ambitious and sensible in the steps it outlines for the realisation of a deeper and more effective single market and fewer unnecessary cross-border barriers. Its aspirations chime with our own in that it aims to promote further the financing of the European economy through a well-functioning capital markets union.

When looking at the opportunities that a capital markets union bring to the European asset management industry, a very first thing to note is that the EU institutions have recognised the pivotal role that investment funds play in channelling investors' money into the economy.

More capital market union means less barriers and less market fragmentation. While the European passport system, certainly for UCITS, has clearly demonstrated its benefits and works fairly well, in particular compared to other financial services products, asset managers support the Commission's objective to make the European passport system function better for the cross-border operations of all investment funds, be they UCITS, AIFs or others.

Indeed, the CMU brings a significant opportunity to come to grips with the remaining obstacles to achieving a truly unified capital market in Europe. To name a few: the goldplating of EU legislation by Member States, the numerous overlapping regulatory requirements in various pieces of EU legislation, or the fragmentation of Europe's market for personal pensions.

Encompassing the CMU project, a parallel and complementary initiative taken last year by the European Commission is the exercise to assess the cumulative impact of the previous financial services regulator changes. The EC has set itself a challenging, but much needed task: proper implementation followed by careful evaluation is the key to a coherent regulatory framework and the successful completion of a single capital market.

Underlying all moves towards a CMU are the issues of trust and consumer protection. Without investors' trust and confidence the capital markets union project will not thrive. For this very reason, financial and investor education need to remain key elements for EU and national public authorities to promote. Better informed investors are essential to channelling more money into the capital markets.

Furthermore, a capital markets union is vital not only for the investment management industry and investors, but for the European economy as a whole. The priority given in the Action Plan to European Long-Term Investments Funds (ELTIFs) demonstrates the importance of channelling the savings of European investors into longer-term infrastructure projects, thereby stimulating employment and economic growth. If ELTIFs are to become a market success, it will be necessary to ensure that the political goal is in line with the interests and needs of those investors that the ELTIFs seek to attract. For that reason, we have welcomed the Commission's encouragement of fiscal incentives at the national (Member State) level and its proposal to recalibrate the requirements of Solvency II to make it easier for insurers to take up the shares and units issued by ELTIFs, given they would be the natural providers of such funds.

In several European countries, governments are struggling to maintain the sustainability of their public pension systems, and thus developing private pensions in Europe and encouraging households to save long-term is crucial. The current fragmentation of the pensions market has several undesirable consequences. It makes economies of scale impossible to achieve; it limits people's choice of pension products and pension providers and it ultimately obstructs the potential flow of savings into the capital markets that could provide long-term funding for the economy of the European Union as a whole.

The creation of a Pan-European Personal Pension Product (PEPP) is an idea European asset managers have for long encouraged. We truly believe it would widen the opportunity for European citizens to make provisions for their retirement via long-term investments that will facilitate better outcomes both for savers and the wider European economy.

Today, the proportion of euro area household financial wealth held in bank accounts (42%) is far from optimal. Achieving more diversified allocation of savings appears key. The PEPP has the potential to boost the flow of retail savings into capital markets and therefore the provision of long-term stable funding to the EU economy. EFAMA has in these past years made several concrete proposals for such products – offering a limited number of investment options, an administrative support platform and professional advice – based on the expertise of the asset management industry.

Worrying still is the proposed Financial Transaction Tax (FTT), which will have the effect of fragmenting rather than unifying the European Capital market. This proposal risks causing distortions to the creation of an EU single market as it would relocate financial activities outside of the participating Member States. An FTT would increase the costs borne by investment funds and render EU investment funds more expensive compared to direct investment because the FTT applies additionally to investment funds' units. This would simply jeopardise long-term savings, growth and investment as it would channel investments to products not subject to FTT.

2015 was an absolute record year for the European investment fund industry. Net sales of European investment funds rose to an all-time high of € 725 billion in 2015 and assets under management broke through the 12.5 trillion mark. This was all achieved despite sluggish growth, deflationary threats and geopolitical tensions in Europe.

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: nine years after the crisis, we need to concentrate even more on performance in the interest of our investors.

In this demanding environment EFAMA must listen and learn from its members: to date EFAMA's membership stands at 28 National Associations, 61 Corporate Members and 24 Associate Members.

The daily 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 key elements in the smooth running of a European association.

Once again, 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 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 stressful environment. Special thanks go to the former President, Christian Dargnat, and to the current President, Alexander Schindler, and Vice-President, William Nott, for their highly appreciated team spirit and advice.

Peter De Proft

Director General
June 2016

ACTIVITY
REPORT 2015

I. EU AND GLOBAL REGULATORY FRAMEWORK

1. Capital Markets Union, Call for Evidence on recent regulatory reforms, Green Paper on retail financial services

The Capital Markets Union Project

The Action Plan for a Capital Markets Union was published by the European Commission on 30 September 2015. This followed a Green Paper launched in February 2015, launching a wide consultation. The goal of the CMU is to channel investment into Europe's companies and infrastructure.

EFAMA welcomed from the outset the CMU as an ambitious and sensible project towards a deeper and more effective single market and fewer cross-border barriers. The Commission's action plan on the CMU is consistent with European asset management industry's aspirations for **more single market**, more capital market union, and less cross-border barriers.

It is also, we believe, a significant opportunity to come to grips with the remaining, and considerable, obstacles to achieving a truly unified capital market in Europe. These barriers include among others the gold-plating of EU legislation by Member States, overlapping regulatory requirements, and the fragmentation of Europe's market for personal pensions.

In line with developing the single market, EFAMA equally welcomed the Commission's stated aim to improve the functioning and effectiveness of existing European fund passports, to lower the regulatory costs of setting up funds and to facilitate the cross-border distribution of investment funds.

Long-term investing (see page 27)

A capital markets union is vital not merely for the investment and fund-management industry but for the European economy as a whole. The priority given in the Action Plan to European Long-Term Investment Funds (ELTIFs) as a key vehicle to support infrastructure investment demonstrates the importance of channelling the savings of European investors into longer-term infrastructure projects, thereby stimulating employment and economic growth. Indeed, the EU label of ELTIFs as new products has the potential to unlock and shift important capital towards investments in longer term projects.

The success of this new type of fund vehicle will depend on a flexible regulatory approach. For that reason, we welcome the Commission's encouragement of fiscal incentives at the national level and its proposal to re-calibrate the requirements of Solvency II in order to make it easier for insurers to take up the shares and units issued by ELTIFs, given they would be the natural providers of such funds.

FTT (see page 42)

Worrying still is the proposed Financial Transaction Tax (FTT), which will have the effect of fragmenting rather than unifying the European investment market, creating a new barrier between those countries that wish to levy the FTT and those that do not. To put it differently, the FTT proposal is inconsistent with a capital markets union. EFAMA has been urging the Commission to address this issue.

Personal pensions (see page 45)

EFAMA believes the creation of a single market for personal pensions should be seen as an integral part of the European Commission's goal of building a Capital Markets Union.

EFAMA has been for long supporting the creation of a truly unified European market for **personal**

pensions. In other words, EFAMA is convinced that a European personal pension will play an important role in increasing retail investors' participation in capital markets.

The current market fragmentation makes economies of scale impossible to achieve and limits the choice of pension products and pension providers. A shift in focus in needed towards yet again more single market and long-term saving. The creation of a Pan-European Personal Pension Product (PEPP) would have the potential to boost the flow of retail savings into capital markets and therefore to provide long-term funding to the EU economy.

By relying on robust consumer protection rules, such a product should win the trust of people. Also, the long-term nature of retirement savings will ensure that the savings accumulated into European personal pensions would be invested in long-term projects. Ultimately, EU citizens could also be expected to benefit from a better return on their savings.

Call for Evidence of Recent Regulatory Reforms

The recent European regulatory momentum has led to considerable improvements within the regulatory environment. The new rules take time and effort to be put in place, and it is crucial to first **properly implement them, and then carefully evaluate their impact**.

On 30 September 2015, the European Commission accompanied the CMU Action Plan with a parallel public consultation, in the form of a Call for Evidence, on the impact of recent financial services regulatory changes. The aim was a straightforward but challenging one: to address those EU rules that may be affecting the ability of the economy to finance itself and grow or rules giving rise to unintended consequences; to tackle and solve unnecessary regulatory burdens, inconsistencies, overlapping requirements and gaps; and to identify where the 'gold-plating practices' (i.e. going beyond what the EU legislation requires, or interpreting it in differing ways), may have resulted in differing rules being applied across Member States.

The evaluation of the impact is also meant to be cross-sectoral. It seems clear to everyone now that pieces of legislation originally built to address specific problems of specific sectors – most notably the banking sector- had unintended but serious spill over effects on other sectors, including asset management. This cumulative impact of both horizontal and sectoral pieces of legislation is the first of its kind at EU level.

The long-term outcome of this assessment is hoped to shed light about the balance -or imbalance, as the case may be- between regulatory benefits and costs. And also it may serve to point at those cases where EU legislation has been gold-plated by Member States.

In February 2016, EFAMA presented more than 40 examples[1], illustrating why existing barriers, inconsistencies and duplications that still exist in the current EU regulatory and policy framework need to be addressed. The examples are wide-ranging and include the regulatory framework built by the European institutions (European Commission, European Parliament and Council), but also regulatory and policy trends stemming from the European Supervisory Authorities.

EFAMA expressed a desire to ensure a certain degree of regulatory stability for the period to come. Much has been done in recent years in the regulatory field, setting a state-of-the art benchmark for global regulators, many of whom look at the EU for inspiration. Much remains to be done in terms of implementing and applying these new regulations. In this regard, EFAMA has been calling for a realistic implementation timeframe.

1 https://www.efama.org/Pages/EFAMA-submits-asset-managers-views-on-impact-of-recent-financial-services-regulatory-reforms.aspx

Green Paper on retail financial services

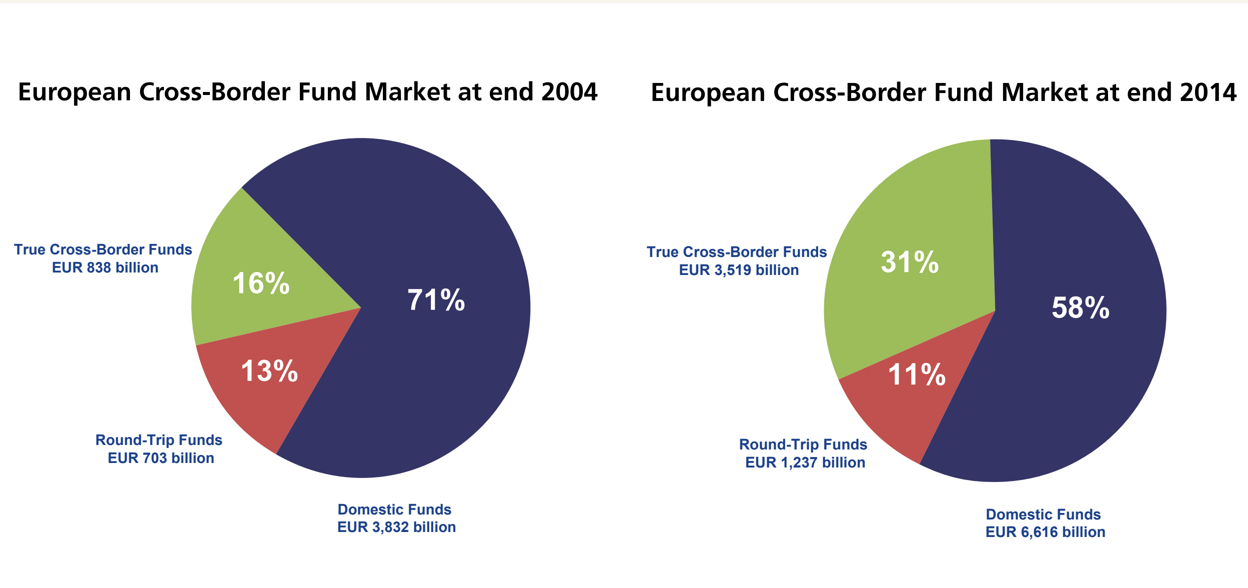
The European Commission's Green Paper on retail financial services was launched in December 2015. This was yet another occasion to support the European Commission's actions to deepen the European single market for (in this case, retail) financial products and services, boost competition, transparency and choice, and address remaining barriers for consumers and businesses to make full use of it.

The fund industry can thankfully say that the UCITS cross-border distribution is working well.

Investment funds – UCITS in particular – are the best possible example to date of a well-functioning EU single market for financial services, and UCITS are often cited as an inspirational success story.

Yet, there is still room for improvement. As mentioned earlier, EFAMA identified, in the context of the Call for Evidence, a number of obstacles that are still hindering the cross-border distribution of investment funds. This mostly stems from the absence of an EU regulatory framework in certain areas, gold-plating of EU legislation and protectionist rules adopted by Member States, fragmented marketing rules and discriminatory withholding of tax by EU Member States. In addition, national regulators themselves are often applying regulatory fees for foreign players and funds to be marketed in their jurisdictions.

Addressing these remaining obstacles would further reinforce the merits of UCITS as a true cross-border financial product. In this sense, EFAMA is strongly in favour of building on the UCITS success factors and replicate these in other sectors, most notably in the area of personal pensions.



The share of funds distributed on a cross-border basis in Europe is regularly increasing and stood at 42% of total European investment fund assets in 2014 (from 29% at the end of 2004).

Examples of what should be addressed are:

- The lack of harmonisation in relation to marketing requirements for UCITS is a barrier to their cross-border distribution. When an EU passport is granted, Member States should not gold-plate this with additional requirements and, by doing so, building more or less implicit barriers. It is unavoidable that such additional requirements imposed by (some) Member States act as deterrents for mid-sized and smaller fund managers to offer their products cross-border. Harmonisation of product-related marketing rules would have the potential of reducing costs and would in turn facilitate cross-border distribution.

- The lack of harmonisation in the tax treatment of financial products across EU Member States results in an unlevel playing field between domestic and foreign products but also between different types of competing investment products or services.

Personal pensions

EFAMA has long advocated for the creation of an EU personal pension product as a solution to overcome the fragmentation of personal pension markets in the EU (see page 45). The Green Paper is a perfect framework to convey once again the need to address the current fragmentation of the market for retirement savings. This has to be done in order to foster portability, economies of scale to lower costs and generate better returns to consumers, and also to enhance transparency, competition and innovation. EFAMA strongly believes that the creation of a standardised Pan-European Personal Pension product (PEPP) would allow progressing in that direction. The response to the Green Paper was also the opportunity for EFAMA to support the important work done by EIOPA on the PEPP, which would coexist with existing personal pension products and would be used on a voluntary basis.

Digitalisation and its impact on (retail) financial services

EFAMA equally welcomes the broader debate about **digitalisation** and its impact on the retail markets launched by the Green Paper. The trend towards greater digitalisation of financial services promises to bring another dimension to the way fund products are to be marketed and sold.

- Digitalisation promises to accelerate a move away for all sorts of disclosures away from "hard" and more costly mediums towards digital supports that prove cheaper to adapt, maintain and access.

- Digitalisation will also contribute to facilitate consumers' access to financial products in countries and regions where the network of traditional distributors is limited or where there is an "advice gap".

- It can ultimately facilitate the cross-border distribution in particular via the online sale of fund products (i.e. robo-advice and its inherent changes in B2B and B2C).

Having said that, asset managers do not believe that the digitalisation of financial services will dismantle the traditional distribution channels because those channels offer the possibility of providing a face-to-face service to consumers. Both channels are complementary and can work in tandem; they are not mutually exclusive. Digital tools can facilitate interactions and enrich the dialogue in face-to-face meeting or allow for face-to-face meeting outside the physical presence of the interlocutors (e.g. video advisory).

What can be done to encourage digitalisation?

- Overall, EFAMA believes future EU regulation should be flexible to adapt to the technological evolution and technologically neutral, to ensure a regulatory level playing field for all providers of digital financial services.
- Future regulation should encourage Member States towards digitalisation, for example to reduce the paperwork that goes with the legal life of a fund.
- Digitalisation also has the potential to reduce the launching and ongoing costs of investment funds, to the ultimate benefit of end-investors. To that end, there may be merits in amending the E-commerce Directive to facilitate the development of those distribution channels.

The Commission organised a public hearing to discuss with all stakeholders from the industry, consumers and public institutions, on 2 May 2016. EFAMA was represented by its Board Member and Chairman of Eurizon Capital, Andrea Beltratti.

EFAMA published its official response to the Commission's Green Paper on 21 March 2016. The EFAMA response can be found here: http://www.efama.org/Publications/Public/16-4010_EFAMAresponseGPRetailFinancial%20Services.pdf.

EFAMA also welcomed the European Parliament's resolution on "stocktaking and challenges of the EU Financial Services Regulation", which calls for "the delivery of adequate, safe and sustainable pensions, such as the development of a Pan-European Pension Product (PEPP), with a simple transparent design".[2]

Andrea Beltratti speaks at the European Commission's a public hearing stakeholders from the industry, consumers and public institutions on 2 May 2016

2 http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P8-TA-2016-0006&language=EN&ring=A8-2015-0360

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

Investor Protection issues

With regard to investor protection issues ESMA's final advice published in late 2014 was much more nuanced than its first initial considerations earlier in the year which would have signalled a ban on inducements for non-independent advisers, even though this had been explicitly allowed in the Level-1 Directive. In its final advice, ESMA now made sure that the receipt of inducement was linked to a quality enhancement and that a constant receipt of inducements would also require an ongoing service towards the client.

Furthermore, ESMA's detailed suggestions made clear that the concept of costs had indeed significantly changed since MiFID I. Whereas the latter based its cost disclosures on cost elements based on ex-post figures, MiFID II enhanced this concept by also requiring to display costs that cannot be fully ascertained on such an ex-post basis. For funds, this means that transaction costs and performance fees which are not disclosed would need to be included. While MiFID II does not directly apply to fund products, this new requirement is of importance as most funds are distributed through MiFID investment firms.

ESMA's advice also contained further details on MiFID II's new target market concept that is supposed to provide more information to investors. These clarifications are still not detailed enough, thus making it clear that ESMA will have to provide further Level-3 guidelines in the course of 2016 to finalise this important concept and ensure that only one target market concept exists within Europe in order not to inhibit cross-border distribution due to the existence of 28 national interpretations. EFAMA will contribute to this debate from a product manufacturer's perspective.

After the release of ESMA's final advice, it is up to the Commission to finalise these all-important Level-2 measures in order to have them approved by the co-legislators. While the original time plan called for the Commission's work to be finalised by June 2015, no legislative proposals were released throughout 2015 and the MiFID II/MiFIR framework was at an impasse, as EU Member States and the financial industry as a whole would be unable to implement the framework without the much needed technical rules.

Capital markets issues

With regard to capital markets issues, the main topics raised by the ESMA's advices and draft RTS were (i) Transparency; (ii) definition of liquidity by instrument category; and (iii) Investment Research.

Regarding Transparency, the main underlying principle imposed by the legislators and that will be enforced by the regulators is to calibrate the level of information and the disclosure of information in a way that cannot be detrimental to retail investors or that would create conflict of interests either between investors or between investors and investment firms.

From EFAMA's perspective, the new proposed Transparency regime is an improvement in terms of investors' protection. However, if not adequately set, transparency requirements might become detrimental to the investors by increasing the costs (due to excessive reporting requirements) or reducing substantially the revenue of those investors (due to the disappearance of the benefits generated by the economies of scales offered by mutual funds).

Regarding the definition of liquidity, the main issue is to be able to define the velocity of execution of transactions according to the instrument and the size of the transaction on this instrument.

As already recognised for equities in MiFID I, those elements are the main criteria to define whether or not a transaction can be executed swiftly or if it needs some level of protection through the use of waivers to either not temper the markets or to protect the negotiation of the transaction details. The main difference comes from the extension of that regime to so-called equities-like instruments (e.g. Exchange Traded Funds – ETFs) and non-equities instruments (e.g. debts' instruments).

From EFAMA's perspective, we welcome the fact that the final draft RTS are taking into account all the elements that were proposed as first choice in our comments to the different consultations published by ESMA that were referring to these issues.

Regarding the regime of Investment Research, the proposed regime has significantly improved between the first consultation Paper issued by ESMA and the proposed regime that was published at the end of March 2016.

ESMA's first intention was to link Investment Research to the regime of Minor Non-Monetary Benefits and to inducement. This approach would have prohibited the payment of research by third parties providers and the use of commission sharing agreements. Considering the strong arguments raised by the industry as a whole, the regime proposed in the Delegated Acts published at the end of March 2016 (at least for what is already available) recognises the existence of ways to delegate the management of account used to finance the research and recognises the possibility to document the payment in several, well-defined, ways.

In February 2016, the Commission proposed a one year extension (from 3 January 2017 to 3 January 2018) to the entry into application of MiFID II.
The ECON Committee voted in favour of the delay in May 2016, with the plenary vote planned for 7 June.
EFAMA supported this delay and hopes that the outstanding Level-2 measures will be approved as early as possible in order to allow market participants to start their implementation projects.

3. The UCITS V Directive

A long-awaited implementing Regulation

Once the final text of the Level 1 "UCITS V" Directive was published in the EU *Official Journal* in August 2014, ESMA launched a consultation the following September in view of providing its technical advice on the implementing delegated acts to the European Commission. Having considered stakeholders' submissions, ESMA published its final advice in November 2014.

On the basis of the ESMA advice, the European Commission prepared its own internal impact assessment study to accompany the future proposal of a delegated Regulation implementing the Level 1 Directive. In the process, EFAMA was invited by the Commission to provide additional evidence and figures to demonstrate the impact of a full, "structural", separation between the UCITS management company and the depositary institution in cases where these two entities belonged to the same group. The evidence provided served the Commission to confirm that the "functional" separation approach between the two types of entity – as also embedded in the text of the Level 1 Directive – was the most viable. However, due to delays in the Commission's impact assessment phase and subsequent inter-service consultation, the College of Commissioners only approved and transmitted the draft Level 2 Regulation to EU co-Legislators on 17 December 2015, thereby making compliance with the relevant rules of the Level 1 Directive almost impossible by the 18 March 2016 transposition deadline.

Another complicating factor in ensuring the European asset management industry's compliance with the Directive's transposition deadline was the uncertainty around the required disclosures concerning UCITS management companies' remuneration practices in their respective KIIDs, prospectuses and annual reports. On these specifically, ESMA had consulted in July 2015 and was able to publish its final *Guidelines* only on 31 March 2016 (i.e. after the Level 1 Directive's transposition deadline).

EFAMA, jointly with another industry association representing the depositary industry, addressed a letter to the services of the European Commission in early December 2015 to highlight the practical consequences of the protracted delays and proposed a number of solutions, *inter alia*, a possible "grace period" between the 18 March 2016 deadline and the application of the final Level 2 Regulation to allow affected firms to re-negotiate their appointment contracts and service level agreements with depositaries, and adapt their disclosure requirements on remuneration.

Notwithstanding the legal uncertainties linked to the delayed adoption of the delegated Regulation (particularly in terms of the application of the "UCITS V" liability regime for depositary institutions) and the late finalisation of the ESMA *Guidelines on sound remuneration policies under the UCITS Directive and AIFMD*, ESMA published a Q&A in early February 2016 to address some of our industry's concerns over the delays. The final delegated Regulation was published in the EU *Official Journal* on 24 March 2016, granting European UCITS management companies time until 13 October 2016 to meet the requirements of the combined Level 1 and Level 2 texts.

Regarding remuneration, ESMA published a final version of its *Guidelines on sound remuneration policies under the UCITS Directive and AIFMD* on 31 March 2016, applicable to managers' full performance periods after 1 January 2017. The *Guidelines* were accompanied by a separate letter addressed to the Commission and other EU bodies on the application of the proportionality principle in the context of UCITS/AIF manager remuneration in view of informing the upcoming review of the CRD framework, beginning in the second half of 2016. Overall, despite the protracted delays, EFAMA was pleased with the outcome in the form of the implementing delegated Regulation and of the ESMA *Guidelines* on remuneration.

For the rest of 2016, EFAMA expects further initiatives to have an impact on UCITS management companies. These range from a second ESMA *Discussion Paper* on UCITS share classes published on 6 April 2016, intended to gather stakeholders' views on developing a framework for UCITS share classes throughout the EU, as well as a Commission consultation on remaining cross-border barriers to fund distribution in Europe, expected towards the end of the second quarter of the year.

On the topic of share classes, EFAMA favours a principle-based European framework to guide the creation of alternative share classes for UCITS products, allowing investors to hedge their exposure against multiple risk factors (other than FX-related), while allowing for economies of scale through the establishment of larger and more competitive UCITS funds globally.

As for the cross-border barriers to fund distribution, EFAMA looks forward to provide the Commission with concrete evidence on obstacles hindering the full fruition of the EU passport regime, accompanied by suggestions as to how a better functioning of this regime may be achieved.

4. Level playing field: Packaged Retail and Insurance-based Investment Products (PRIIPs) and Insurance Distribution Directive (IDD)

Packaged Retail and Insurance-based Investment Products (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). It is loosely 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. For the first time in EU legislation fund, banking and insurance investment products are meant to provide similar disclosures.

Over the past year, a number of discussions took place which were led by the European Supervisory Authorities (ESAs) in order to turn the general principles of the Level-1 PRIIPs Regulation into a workable three A4-page document that could be produced by product manufacturers and eventually handed out to retail investors in January 2017. This process involved over three different consultations, originating from high-level principles to specific technical rules. Topics of high interest were how to display the different types of risks each investment product exhibits, how to disclose their costs in a systematic manner and how to calculate scenarios about how a product may perform in the future. For EFAMA these issues were of particular importance, as essential differences exist between the UCITS KIID and the PRIIP KID. In particular, the definition of costs now includes incidental costs such as transaction costs and performance fees that cannot be fully ascertained ex-ante and thus a completely novel calculation model needed to be developed through these Level-2 measures.

Furthermore, since the PRIIPs Regulation currently exempts funds that already provide a UCITS KIID (at least until its next review in 2018), this also brought up the question whether funds being used as underlying of products (such as unit-linked insurances) should need to produce a KID instead of a KIID, creating the perverse effect that fund managers – while being explicitly exempted by the Regulation – would be amongst the first product managers to produce a KID.

In April 2016 the ESAs have provided their final draft legislative measures which are now being approved by the European co-legislators. All investment products in scope have to produce a KID by 31 December 2016, if these products are intended to be sold to retail investors.[3]

3 PRIIPS concerns with the draft RTS, May 2016: http://www.efama.org/Publications/Public/PRIPS/16-1048_EFAMA%20-%20Comments%20Paper%20on%20PRIIPs%20RTS%20-%2019%20May%202016.pdf

Insurance Distribution Directive (IDD)

As early as 2012, the Commission proposed a revision of the current Insurance Mediation Directive (IMD) which was eventually renamed to the Insurance Distribution Directive. One of its many goals was to enhance 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 insurance-based investment products. Throughout this process EFAMA has been a strong supporter of a level-playing field that would ensure a consistent level of investor protection, for all investment product regardless of their legal wrapper.

In 2015 a compromise was finally struck between European Parliament and Council, thus ending over three years of intense discussions and debates. From a level-playing field perspective it is unfortunate to note that not all MiFID II elements on how investment products can be distributed found their way into IDD: most notably, independent advisers governed under MiFID II are not allowed to receive inducements (commissions) in order to avoid potential conflicts of interest. In IDD these advisers are still allowed to call themselves independent and receive inducements at the same time. Furthermore, MiFID II requires that non-independent advisers can retain inducements only if they "enhance the quality of the service". In practice this means that the adviser has to prove that receiving inducements will result in added value for his customer. If this cannot be proven, no inducements can be retained. The final IDD text simply requires that it has no "detrimental impact on the quality of the relevant service to the customer". In practice, this shifts the burden of proof as consumers themselves would need to demonstrate that inducements were responsible for a lower quality of service. It could also create unjustified incentives for intermediaries to favour the distribution of insurance-based investment products regardless of whether or not such products match their clients' needs.

The final legislative text for the IDD was published in the EU Official Journal in early 2016, thus allowing the Commission and EIOPA to draw up the more technical Level-2 measures. In this upcoming debate EFAMA will continue to plead for a level-playing field for all types of investment products, thus calling for consistency between the Level-2 measures under IDD and MiFID II.

5. Money Market Funds

Following the ECON vote (February 2015) and the Plenary vote (April 2015) of the Parliament's report on the Money Market Funds Regulation ('MMFR'), EFAMA members discussed and agreed a new updated EFAMA position on this file in June 2015. The outcome of the Parliament report substantially shifted the tone and direction of debate on MMFR. A new proposal for CNAV MMFs, which discarded the capital buffer, creates a specific regime for CNAV MMFs under three categories: a low volatility NAV (LVNAV) MMF with a sunset clause, a public debt CNAV MMF and a retail CNAV MMF. In its position, EFAMA called for the deletion of the LVNAV sunset clause and questioned the limited scope of the public debt CNAV MMF to EU public debt instruments. EFAMA also raised questions on the stringent diversification requirements, the high liquidity levels in place and highlighted the need to include investment in units/shares of other MMFs in eligible assets.

EFAMA continued to monitor legislative developments in Council, however there was little movement given that no Council Working Parties meetings were held in 2015. EFAMA engaged with the Luxembourg Permanent Representation before it took over the helm of the Union and kept informed of bilateral and multilateral meetings between main Member States on the file between July and December 2015.

In 2016, the file substantially progressed with the first Council Working Party in over a year taking place in April 2016 to discuss the Dutch Presidency's compromise package on MMFs, which EFAMA has taken position on. EFAMA members were broadly supportive of the 4th Presidency Compromise text, despite some reservations on liquidity levels and absence of government securities in these calculations, diversification, fees and gates on government CNAV MMFs and their practical implementation on LVNAV MMFs as well as the potential unintended consequences of a loose interpretation of the article dealing with sponsor support. EFAMA also made suggestions on other issues outside the package, notably on securitisation and the credit assessment procedure.

6. AIFM Directive

Regarding Alternative Investment Fund Managers Directive (AIFMD) all eyes were on ESMA in 2015 which prepared its first assessments of the AIFM regime since its inception.

The first was an inward-looking evaluation focusing on the functioning of the new AIF and AIFM passports within the EU single market and whether these were working as initially planned. The second one was outward-looking in nature and dealt with the possible extension of the EU passporting regime to third-countries, allowing them the same access to the EU markets as their EU counterparts.

On the functioning of the internal EU passport, ESMA considered that it was too early to tell whether the AIFMD EU passport raised major issues in terms of functioning and implementation, as the late transposition of the Directive in several Member States made a definitive assessment difficult at this point in time, thus suggesting to revisit this topic at a later stage.

Concerning the extension of the passport outside the EU, ESMA decided to conduct a country-by-country assessment for the opening of the 3rd country AIFMD passport instead of turning on the passport for all non-EU countries. Due to the overwhelming number of countries to assess, in its first wave ESMA started by giving two countries a positive assessment (Guernsey & Jersey) and one pending positive assessment for Switzerland (after enactment of pending legislation to remove any remaining obstacles). ESMA is continuing its assessment of a number of countries and it is expected that it is only when a sufficient number of countries have been positively assessed that the 3rd country passport will be activated.

During 2016 ESMA is expected to assess further 3rd countries which may lead to an opening of the EU passport. No revisions of the AIFMD are expected in 2016. A proposal by the European Commission on a possible revision to the AIFM Directive is only expected by mid-2017.

7. European Long-Term Investment Funds (ELTIFs)

« The market success of ELTIFs will depend on their flexibility to meet the needs and interests of different types of investors and their ability to provide them with the right incentives. »

The Regulation on the European Long Term Investment Funds was published in the *Official Journal* of the European Union on 20 May 2015 and entered into force 20 days later. Its application started on 9 December 2015.

In the Green Paper on building a Capital Markets Union (CMU) published in February 2015, the European Commission acknowledges the potential of ELTIFs for unlocking important capital and encouraging their shift towards investments in longer term projects and in concrete, infrastructure projects and SMEs. The Commission has also requested for the industry's and other policymakers' views on ways to further support the take-up of ELTIFs.

The main characteristics of ELTIFs are:

- They are open to retail markets upon strict marketing rules based on the MiFID II and PRIIPs, but also going beyond them by adding that the ELTIFs investment shall not represent more than 10% of the investor's aggregate portfolio and that the minimum aggregate amount invested in one or more ELTIFs shall be € 10,000.
- Entities such as small pension plans, charities and foundations are eligible investors treated as retail ones, but they can request to be treated as professional investors according to the criteria set by MiFID II.
- Eligible assets will represent at least 70% of each ELTIF's portfolio. Eligible assets are equity and debt instruments of a non-listed non-financial entity, or of a listed SME of a maximum capitalisation of € 500 billion, as well as direct or indirect holdings of real assets and commercial property of a value of at least € 10 million and units or shares of infrastructure projects or ELTIFs, EUSEFs and EUVECAs and assets referred in article 50(1) of the UCITS Directive.
- An ELTIF may not invest in derivatives - if not for hedging risks inherent to other investments of ELTIFs - in short selling and commodities and securities lending, borrowing and repurchase transactions (for the last ones the prohibition applies if these transactions affect more than 10% of the ELTIF's assets).
- ELTIFs may borrow cash up to 30% of the value of their capital and if it 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 an entity it is invested in.
- The lifetime of the ELTIF is a fixed, limited 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, and as long as the rights are not exercised sooner than 5 years from the launch of the ELTIF. An appropriate liquidity management system should be in place and a fair treatment of investors must be 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 be authorised to manage a concrete ELTIF.

- ELTIFs have a recognised priority over projects financed by the EIB and are considered a priority tool to accomplish the Investment Plan for Europe.

In end July 2015 ESMA published its consultation paper on the draft RTS on the following areas: the scope of financial derivatives that serve solely the purpose of hedging the risks inherent to investments, the circumstances in which the lifetime of an ELTIF is sufficient in length to cover the life-cycle of each of the individual assets, the features of the schedule for the orderly disposal of an ELTIF's assets and the definitions and calculation of methodologies for costs borne by investors, as well as the presentation of cost disclosures. The intention was that the RTS would be in place until 9 December 2015, i.e. the starting date of the application of the Regulation. However, by end 2015 the RTS were still not available.

EFAMA welcomed the initiative for a Regulation on ELTIFs, agreeing that a shift towards new and diversified lending structures and more market-based finance will play a key role in meeting the needs of investors and ensuring financing for longer-term projects. At the same time, EFAMA has been vocal on the need to envisage the adequate flexibility that would allow this new vehicle to address the needs of different types of investors and underlying projects. This flexibility is linked to the treatment of professional and semi-professional investors, the wider range of real assets, as well as of infrastructure projects and listed SMEs that an ELTIF can invest in, the lifetime of the fund and the possibility for early redemptions.

As regards the provisions of the final text agreed at Level 1, EFAMA recognises a number of welcome modifications that were included, in particular as to the early redemption rights upon the discretion of the asset manager, the wider range of listed SMEs that the fund can invest in, as well as the more flexible approach on the use of derivatives and the borrowing of cash. However, there are further elements missing that would ensure the right flexibility and increase the potential for the market success of ELTIFs. Those were the elements presented in the EFAMA response to the Green Paper on the CMU and the question on how to boost the attractiveness of ELTIFs for the investors.

The lifetime of the fund being always a limited one can impede the takeover of important market opportunities that may come during the lifetime of the ELTIF, but it can also force the asset manager to sell under unfavourable market conditions. In the case of ELTIFs that will be open only to professional investors, further flexibility would have been important in particular as to the portfolio diversification rules. Given the flexibility offered by other types of AIFs to professional investors, the ability of ELTIFs to adapt to their needs is of crucial importance to their market success. Also, for the "semi-professional investors" such as municipalities, small pension funds and foundations, a less stringent approach to their request to be treated as professional investors would have been more appropriate in order to give them the opportunity to invest in a much wider range of ELTIFs. The rules of MiFID II are too much of a legal hurdle for them. EFAMA has suggested instead the requirements foreseen in EUSEFs/EuVECAs as more fit, i.e. minimum of € 100,000 investment and written consent the understanding of the investment.

Finally, for the distribution to retail investors, the two requirements on top of the existing MiFID/ PRIIPS requirements are a disadvantage for ELTIFs opening to the retail markets.

> **« The development at national level of fiscal incentives related to long-term investments would significantly help shifting investments to new diversified structures such as ELTIFs. »**

EFAMA has also submitted a detailed response to the Commission's consultation on the Level 2 measures. The rationale was again to ensure that the right flexibility for investors is in place. In concrete, EFAMA asked for a non-exhaustive list of risks for which a derivative can be used, a definition of the sufficient in-length lifetime along the eligible asset in which the investment has the longest duration, the criteria for the assessment of the market for potential buyers to be based on market conditions only and for the use of the Fair Value Measurement or AIFMD Level 2 provisions for the valuation of the assets to be divested. It was also stressed that new technological developments should be fully taken into account and the facilities to be made available to retail investors can also be website and telephone facilities.

Apart from the regulatory text at Levels 1 and 2, EFAMA is focusing also on the general regulatory framework and other set of economic factors that are relevant to the marketing of long-term investment products and can have an impact on their take-up by investors. In that context, EFAMA has stressed that the standard requirements of Solvency II and IORP for insurers and pension funds will play a major role in the decision of those investors to invest in long-term illiquid assets. The Green Paper on Building a Capital Markets Union highlights that ELTIFs should have a particular appeal to investors such as insurance companies or pension funds, which need steady income streams or long term capital growth. For that reason, re-adjusting the capital requirements for these investors to the direction of encouraging investment in ELTIFs would be an important incentive. EFAMA welcomes the modification of Solvency II proposed in September 2015 by the European Commission as part of its action plan for the CMU, which allows investments in ELTIFs to benefit from lower capital charges. It is still, though, to be tested in practice how efficient these lower charges will be or whether a more ambitious modification is still necessary.

One other important factor EFAMA has stressed is the provision of a well- designed fiscal treatment for ELTIFs. The development at national level of fiscal incentives related to long-term investments would significantly help shifting investments to new diversified structures such as ELTIFs. EFAMA supports the provision of fiscal incentives and considers that a first step could be to extend to ELTIFs the most favourable tax treatment in place for investment funds in a national jurisdiction. It is important to highlight that this is also acknowledged by the CMU Green Paper, which states that the fiscal incentives are an important factor for the market success of ELTIFs and urges Member States to give them the same tax treatment as similar funds.

Moreover, the fiscal treatment of ELTIFs is an issue to be seen in the context of BEPS and the ongoing work at the IOSCO level on a single set of consensus-based international tax rules. These involve also alternative funds such as ELTIFs (which fall in the category of non-collective investment vehicles (non-CIVs)). EFAMA is closely monitoring and working on that topic with the objective to ensure that ELTIFs will have a tax treatment that would make them an attractive option for investors and to avoid any disproportionate impact on their cross-border marketing.

8. Securitisation Regulation

General Principles

Growth in Europe can only be achieved through the use of all possible financing routes, provided that those routes are safe and that the legal regime is reliable and homogeneous across countries and across financial instruments.

EFAMA welcomes the initiative launched by the European Commission in the context of the CMU to restore the financing of the European economy through the reshaping of instruments such as securitised debts and to create within this initiative a more prescriptive type of securitised financial products.

Simple, Transparent and Standardised Securitisation

In the proposal, presented in September 2015, EFAMA supports the idea that, provided that several criteria are met, a dedicated type of securitised instruments could receive a more favourable treatment which may encourage additional investments in a more secured manner.

EFAMA considers that the development of an additional framework for simple, transparent and standardised (STS) securitisation is a crucial element in order to reach the objective of restoring economic growth in Europe.

Our key elements of focus in this proposal are:

- Due diligence and disclosure requirements imposed on market participants:

  From an EFAMA perspective, we support the principle that the investors must apply a thorough due diligence review of all types of investment instruments that they invest in, including for STS securitised instruments. Nevertheless, we are opposed to the principle that the liability for the review and the due diligence process reside first on the investors as proposed by the Commission.

  EFAMA considers that the issuers or originators of securitised products should be the first held liable for certifying the respect of the criteria to qualify a securities instrument as STS. Additionally, and to protect investors further, EFAMA is of the opinion that the certification by an external agent, preferably imposed mandatorily for all STS securitised instruments, would benefit the investors (due to the external oversight offered in the respect of the STS criteria) and to the issuers (due to the easiness to demonstrate compliance with all criteria required to qualify a securitised instrument as STS, therefore reducing the risk of sanctions).

- Rules relating to Asset Back Commercial Papers ("ABCPs"):

  EFAMA believes that the proposed regime should better take into account the reality of the financial market. If there is a willingness from legislators to support the real economy, the criteria to qualify a securitised instrument as STS should be aligned with the underlying activities that are benefiting from securitisation, rather than on aligning the securitised instruments with its underlying assets. Therefore, we believe that even if the refinancing needs are for a short term (hence the use of commercial papers), the underlying assets could have a longer time to maturity and still qualify as STS.

- **Additional topics that must be addressed to support the expected development of STS securitised instruments:**

  1. the final text of the regulation should allow for investment from outside the EU, as well as investments from multiple domiciles in Europe;
  2. it should also maintain strict sanctions against issuers or originators that would not respect the STS criteria. However, if there is a willingness to revitalise the securitisation in Europe, we strongly believe that these sanctions should be proportionate to the breach in the regulation's regime; and
  3. lastly, we want to have a regime that allows the broadest possible range of market participants to operate and invest in securitised instruments, and that is not only available to investment firms as defined under MiFID.

In the coming months, the European Parliament is expected to make progress on the proposed regulation on securitisation and to adopt its position by the end of the year 2016. This will finally allow the start of the negotiation with the European Council, postponing the entry into force of the regulation by approximately one year compared to the initial expected timeline. EFAMA will maintain its engagement with policymakers on this file and will aim at facilitating investments by investment firms, fund and asset managers in securitised instruments in a safe environment.

9. Prospectus

In November 2015 the European Commission released its Proposal for a Regulation on the Prospectus published for securities offered to the public or admitted to trading on a regulated market. The review of the Prospectus is part of the Commission's action plan for the building of a Capital Markets Union and is mainly targeting at simplifying rules for specific companies seeking to raise money, such as smaller companies, frequent issuers and already listed companies.

It should ensure adequate levels of information for the investors as well as the lift of unnecessary burden for investment funds that are already subject to the AIFMD disclosure requirements. The main actions proposed are:

- Offers of securities of a total value below € 500,000 will be exempted from the requirement to produce a Prospectus (higher thresholds can be set by national authorities but for domestic offers only);
- Possibility for a lighter Prospectus for SMEs and small caps along with an optional "question and answer" format;
- Possibility to prepare a lighter Prospectus for an issuer whose securities have been admitted to trading on a regulated market for at least 18 months;

- A "universal registration document" can be drawn up by a frequent issuer every year – it will benefit from a fast track process each time it will be submitted for approval;
- Free and searchable online access to all Prospectuses approved in the EEA will be provided by ESMA;
- Only risk factors which are material and specific to the issuer and its securities will be mentioned in the Prospectus.

The Prospectuses hold a relevance for asset managers in terms of taking knowledge of and assessing the specific and material risks factors pertaining to the issuer and its securities. EFAMA has underlined that the simplification of requirements for issuers is welcome, but it should also be ensured that investors will maintain their level of knowledge on the risk factors. Finding the right balance between these two key elements will be the most important achievement of the review of the Prospectus.

Moreover, EFAMA has responded to the consultation launched by the European Commission in February 2015 on the review of the Prospectus Directive. The main point EFAMA raised was the need to exclude investment funds already subject to the AIFMD disclosure requirements, such as ELTIFs, from the scope of the Directive. Those requirements already ensure the adequate level of disclosure to both professional and retail investors in those funds and a third layer of disclosure via the Prospectus does not grant any added value to the transparency regime, but only constitutes an unnecessary burden and creates additional costs for the funds and its investors.

In addition, EFAMA took a stance in that consultation on the point of the co-existence of the PRIIPS KID and the part of summary of the Prospectus that is related to the security. For those securities that fall into the scope of both Prospectus Directive and the PRIIPS Regulation, a solution that would reduce unnecessary costs and also streamline administrative burdens is the most suitable. Such a solution could be the elimination of the Prospectus summary, the incorporation of the PRIIPs KID into the summary or the reference to the PRIIPs KID within the summary.

10. Regulation on European Venture Capital Funds (EuVECA) and the Regulation on European Social Entrepreneurship Fund (EuSEF)

At the end of 2015, as part of the wider Capital Market's Union project to support the EU economy, the Commission also undertook some investigative work on EuVECAs and EuSEFs as their uptake by stakeholders since their inception in 2013 had fallen short of the Commission's original expectations.

The Commission was particularly concerned that the EuVECA and EuSEF passports are currently available only to smaller fund operators managing asset portfolios below EUR 500 million and that changes to these regulations could enhance the effectiveness of the passports by, for example, allowing larger fund managers to establish and market EuVECA and EuSEF funds, reducing the investment threshold in order to attract more investors and expediting cross-border marketing and investment.

In early 2016 EFAMA responded to this consultation, calling on the European Commission to consider that any firm authorised under Alternative Investment Fund Managers Directive (AIFMD) should be allowed to manage, name and market their compliant funds either as EuVECAs or EuSEFs.[4]

11. Derivatives Regulation - EMIR

The regulation on OTC derivative transactions, central counterparties and trade repositories (known as EMIR) is the result of the G20 requirement expressed in 2009 in Pittsburgh to control the use of OTC derivatives transactions and to reduce their impact on systemic risks.

The main obligations for asset managers under EMIR are:

- Mandatory reporting to trade repositories;
- Central Clearing for classes of OTC derivatives defined by ESMA;
- Application of risk mitigation techniques for non-centrally cleared OTC derivatives, such as the collateralisation of all the types of bilateral OTC derivatives transactions.

Indirectly, asset managers are also subject to obligations imposed on other derivatives market participants through:

- The application of organisational, conduct of business and prudential requirements for CCPs; and
- The application of requirements for Trade repositories, including the duty to make certain data available to the public and relevant authorities.

4 EFAMA response to EC consultation: http://www.efama.org/Publications/Public/AIFMD/EFAMA_EuVECA%20EuSEF%20review%20consultation.pdf

EFAMA fully supports the efforts to create a reliable European derivatives market. We, however, insist that the interests of the buy-side should be better taken into account in (i) setting up the clearing infrastructure in a way that protects investors; and (ii) developing a regime of collateral deliveries that is sustainable for asset managers that are subject to other directly applicable legislations (such as the UCITS Directive). We also believe that EMIR should be adapted to the need to grant access to defaulting CCPs to central bank money before reaching to end investors assets or the need to allow the suspension of clearing obligation in case of CCP failure.

In April 2016 the ESAs issued their final draft legislative measures on the use of risk mitigation techniques for non-centrally cleared transaction which are now being approved by the European co-legislators. The European Commission approved two sets of Technical Standards for derivatives to clear, opening the doors for the first mandatory clearing of some IRS and some CDS.

> **« Develop a regime of collateral deliveries sustainable for asset managers that are subject to other directly applicable legislations (such as the UCITS Directive). »**

12. NBNI G-SIFIs

The debate continues, although with a clearer focus on asset management-related activities.

Further to a first consultation published in January 2014 by the FSB and IOSCO, aimed at defining an assessment methodology to identify non-bank, non-insurance, globally systemically important financial institutions (NBNI G-SIFIs), a follow-up second consultation was issued by the standard-setters in March 2015. The contents of the second consultation remained largely unchanged relative to the first, calling for EFAMA and other stakeholders to provide more arguments and greater evidence as to why asset management companies, their funds, and their activities, did not deserve to be designated as "systemically important", unlike other financial institutions (systemic banks and insurers) already designated under an analogous process led by the FSB.

The main arguments and evidence used to avert a very central bank-driven designation process – as spearheaded by the FSB on the basis of a methodology used to designate globally systemically important banks (G-SIBs) – were to underscore the "agency" nature of asset managers' business models, client asset protection through segregation as entrusted to global custodians, the diversified nature of portfolios (especially of those compliant with UCITS Directive requirements in the EU), as well as of a very diversified investor base. Evidence on fund flows (particularly in the fixed-income realm) during recent episodes of market turbulence proved many of the consultation's allegations to be misplaced, as did evidence on other "non-core" activities as occasionally intermediated by some asset management companies (e.g. securities lending).

On the basis of the arguments and evidence provided by the global asset management industry to the second consultation, confuting their initial assumptions, the FSB and IOSCO chose to adjust their focus mid-way through 2015, opting for a better calibration of their exercise by shifting from an entity-based designation to asset management-related investment activities. In light of this important re-assessment, the two global standard setters have turned to address eventual "structural vulnerabilities" from asset management activities, including risks arising from large liquidity mismatches, use of leverage, operational risks (e.g. tied to transferring investment mandates between asset management companies in times of market stress), and securities financing transactions.

A new consultation around a set of high-level policy recommendations to address the aforementioned concerns is expected by mid-2016, with final recommendations to be adopted by the end of 2016. On the basis of these, IOSCO could decide to subsequently review its March 2013 *Principles of Liquidity Risk Management for Collective Investment Schemes*.

In preparation of the consultation, EFAMA has worked jointly with the ICMA Asset Management and Investors' Council (AMIC) to publish a paper on *Managing fund liquidity risk in Europe* in April 2016, informing mainly bank regulators and other international/pan-European standard-setting bodies of the extensive regulatory requirements to manage liquidity risks under the EU UCITS/AIFMD regimes, together with the application of multiple industry-based tools available in most European jurisdictions and enabling asset managers to manage liquidity risks. A few recommendations at the conclusion of the paper place emphasis on fostering greater supervisory convergence as to the use of the latter tools across Europe, on improving access to data from national supervisors to international/pan-European bodies, and on the importance of continuing to develop industry best practices or guidance through industry associations.[5]

5 EFAMA-AMIC paper on Managing fund liquidity risk in Europe: http://www.efama.org/Publications/EFAMA_AMIC_Report_Managing_Fund_Liquidity_Risk_Europe.pdf

13. Benchmarks and Indices

> « Legal clarity and avoidance of additional burden are the key issues for the investment funds as users of benchmarks. »

After a long negotiation process an agreement was reached in the trilogues of the Benchmarks Regulation on 24 November 2015. This is a political agreement that will be followed by technical trilogues prior to the finalisation of the text. The application of the Benchmarks Regulation will take place 18 months after its entry into force, i.e. after its publication in the Official Journal of the EU.

Given that the Proposal for a regulatory framework for benchmarks is a targeted response to the recent manipulation scandals in the EU (EURIBOR/LIBOR) and that the EU is the first jurisdiction in the world to move forward with such an integrated framework, the number of challenges for this Regulation is particularly high. It needs to restore market credibility and ensure appropriate governance for benchmarks, while at the same time allow for a proportionate approach based on the different notional values and impact for market stability of the benchmarks used in the EU, as well as a level playing field for the providers and users in the EU vis-à-vis the non EU ones. In that context, the Regulation foresees some requirements for the users of the benchmarks with the objective to ensure that only benchmarks in compliance with the EU regulatory framework are in use in the internal market.

In concrete, the Regulation defines the supervised entities, in which UCITS and AIFMs are included, that may use only those benchmarks or combination of benchmarks that are provided by an administrator complying with this Regulation. The compliance of an administrator with the Benchmarks Regulation can be verified via its inclusion in the ESMA Register of benchmarks that have been authorised or registered. Also, supervised entities such as UCITS and AIFMs shall produce and maintain robust written plans for every benchmark they use, in the event that a benchmark materially changes or ceases to be produced. Finally, a Prospectus of an investment product referencing a benchmark shall include information on the compliance of the benchmark administrator with the Regulation.

Asset managers represent an important group of benchmark' users when managing portfolios on behalf of their clients. Investment funds are using benchmarks and financial indices either 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 the fund's performance against a set index or a combination of indices). It is important, therefore, to stress that asset managers as benchmarks users are generally not involved in the production, calculation, and contribution to data on which benchmarks are based. Their role being clearly limited to the use of a benchmark – for which they are called to pay high and multiple fees – does not make it possible for them to have direct access or control over the benchmark setting processes.

EFAMA, has been in favour of moving forward with a new regulatory framework ensuring that benchmarks provided to users have in place a robust framework to minimise conflicts of interest or structural weaknesses. This is an important step for restoring market credibility and confidence in benchmarks and allowing a level playing field for all market participants.

Concerning the concrete references to the users, the text of the Benchmarks Regulation, as finalised after the conclusion of the trilogues, ensures further legal clarity for them by foreseeing a definition of the "use of a benchmark" rather than a definition of concrete groups of users (as was the case in the initial legislative proposal). This definition includes a number of cases, amongst which "measuring the performance of an investment fund through an index or a combination of indices for the purpose of tracking the return of such index or combination of indices, of defining the asset allocation of a portfolio, or of computing the performance fees". From the asset management industry's perspective, this is the category of use into which investment funds fall. The clarification that funds are users of benchmarks is therefore a welcome move.

At the same time, the same wording, i.e. measuring the performance of an investment fund, appears also in the definition of what constitutes a benchmark. It is our understanding that the reason for that is to capture in concrete all performance benchmarks used by investment funds in Europe, still acknowledging that the funds remain users of those benchmark. While the recognition of the investment funds remaining users is correct, EFAMA has stressed that the decision to single out only those benchmarks used for the measurement of the performance of an investment fund and not of other investment products is disproportionate and creates risks for a non-level playing field.

On the rest of the provisions of the Regulation, EFAMA is very supportive of the fact that the requirements for users are concrete and are stating which benchmarks may be used by a supervised entity, such as UCITS and AIFs, and how the compliance with the Regulation can be easily confirmed by the user (reference in the ESMA register) with no additional controls required from their side. However, EFAMA regrets the fact that the initial proposal to allow for transparency on the underlying data of the benchmark is now deleted in the final compromise text and substituted by transparency on the methodology. This deletion restricts users' capacity to perform their due diligence duties and make informed choices as to the benchmarks they will be using.

On the indices used by investment funds there are some more particular points that are either dealt at the Level 1 text or are left for further specification by ESMA at Level 2.

The case of combination of indices, i.e. the result of the combination of several existing indices or the modification of an existing one where no new data are included, is a key issue for the asset management industry. Combined or - as referred to - bespoke indices are used in several cases by asset managers to address the requests and target the personalised objectives and strategies of a particular investor. As clarified in the definition of the use of a benchmark, a combination of indices remains use and doesn't constitute provision of a benchmark. EFAMA considers this is a very useful clarification, in particular as it is stated already at the Level 1 text.

There is also the case of bespoke indices that are not made available to the wider public. The text of the final agreement foresees that a published or made available to the public index is one of the requirements for an index to be captured by the Benchmarks Regulation. Still, the further specification of what constitutes made available to the public will be based on delegated acts adopted by the European Commission after a technical advice by ESMA. EFAMA considers that indices that are not easily and free of charge accessible by investors and prospective investors, cannot be deemed as public and should, therefore, be excluded from the scope of the Regulation.

In the case of UCITS, the use of financial indices is already extensively regulated via the ESMA Guidelines on ETFs and other UCITS issues (ESMA/2014/937/EN)[6], which foresee that only transparent indices are permitted for UCITS to use as a benchmark. These

6 https://www.esma.europa.eu/sites/default/files/library/2015/11/esma-2014-0011-01-00_en_0.pdf

transparency requirements are very extensive, covering calculation, re-balancing methodologies, as well as constituents and their respective weightings. In addition, indices used as performance evaluation tools need to be disclosed in advance in the UCITS KIID. For reasons of legal consistency and avoidance of unnecessary double burden for UCITS and given that the Benchmarks Regulation will be now setting out which are the benchmarks that can be used by any user, including a UCITS funds, EFAMA has been vocal on the need to withdraw or bring into line the requirements deriving from the ESMA Guidelines with the Regulation. Although this was included in the European Parliament's position, regretfully it is not reflected in the final text. EFAMA intends to take up this point further on at Level 2.

Finally, the trilogues' agreement seems to tackle in a more balanced way than the initial Proposal the treatment of non-EU index providers. As an equivalence decision is not an option for the time being (there is no other national jurisdiction that has started drafting a comprehensive legislative framework on benchmarks to the same extent as the EU) the non-EU providers may either be endorsed by EU administrators or certify their compliance with the IOSCO Principles via an external auditor. EU asset managers are currently using an extensive list of benchmarks produced by non-EU providers. A potential exit of some of them from the EU market due to their inability to comply with the Regulation could significantly disrupt the benchmarks landscape in the EU, by reducing the scope of index provider options for benchmark users and concentrating market power in a few index providers. This would inevitably lead to higher costs for end investors. EFAMA has strongly supported the compliance with the IOSCO Principles as well as any alternative that could ensure the continuation of the use of reputable, robust and cost effective market indices and prevent additional costs to end users.

Apart from the regulatory developments linked to the Regulation, EFAMA has also been closely monitoring and assessing the international developments on critical benchmarks, such as the FSB Interim Progress Report on the reform of major interest rate benchmarks[7], and their implications for investment funds. Moreover, EFAMA has developed a public template questionnaire on Index Information to be required by Index Providers on the basis of the ESMA Guidelines on ETFs and other UCITS issues, with the purpose to help its members collect the necessary information to fulfil their due-diligence requirements and to create a single standard for index providers enabling easily comparable and transferable information. EFAMA is also represented at the EMMI Board and Steering Committee – the administrator of the EURIBOR - and is closely following the developments related to the transition of the EURIBOR to a transaction based EURIBOR+.

14. 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.

7 http://www.fsb.org/wp-content/uploads/OSSG-progress-report-July-2015-Press-release.pdf

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. Unfortunately, when taking a closer look at the proposal, it is clear that, while being primarily addressed at EU banks, there are also severe impacts not only for asset management companies that are EU bank subsidiaries but also for 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.

In 2015 both co-legislators extensively discussed the Commission's proposal. The EU Member States under the guidance of the Latvian EU Presidency managed to find agreement in the middle of 2015 which, importantly, recognised that not all AIFs should be considered as hedge funds and that banks should thus only be restricted in their interactions with "substantially leveraged" AIFs. On the side of the European Parliament discussions continued at a much slower pace due to major ongoing disagreement between the main political parties. For this reason, no agreement was reached in 2015 and the process will continue throughout 2016.

EFAMA agrees with the approach taken by the Council to differentiate between AIFs with are "substantially leveraged" and those that are not. EFAMA will continue to underline this essential difference which should improve the resilience of EU credit institutions while not unreasonably inhibiting transactions between banks and funds in Europe.

15. Regulation on Securities Financing Transactions – SFTR

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 the end investors by bringing additional remuneration, through securities lending programmes, and as they help providing liquidity and predefined revenues through repo activities.

The negotiation between the co-legislators on the text initially proposed by the EU Commission has been extremely fast, allowing for the publication of the Level 1 Regulation on transparency of securities financing transactions and of reuse ("SFTR") in November 2015.

EFAMA supports the objective to (i) improve the safety in the markets; (ii) impose additional requirements to control possible systemic risks; and (iii) encourage the use of existing reporting infrastructures such as EMIR's Trade Repositories to ensure adequate reporting without increasing implementation costs. In that perspective, while remaining supportive of the objectives of SFTR also in the requirement to provide high quality reporting to regulators, we disagree with:

- The level of disclosure requirements imposed exclusively on asset managers. Those requirements are creating an unlevel playing field without proper impact assessment of the benefits of those requirements for the investors;

- The amount of details to be reported for each transactions; and
- The insertion of a regime for haircuts on collateral in the scope of a regulation initially developed to provide reporting on a specific category of transactions.

Therefore, during the development of the Level 2 text our key areas of focus will be:

- The reporting regime (bilateral or single sided reporting); and
- The granularity of the details to be reported including the reporting on composition of the collateral; and the amount of data to provide to meet the reporting requirements.

In the course of 2016, ESMA is due to publish several consultation papers on SFTR implementing measures. EFAMA will be focusing on the reporting requirement and the use of haircuts in the upcoming Level 2 text as currently developed by ESMA.

16. Revision of the Shareholders' Rights Directive

The first half of 2015 saw the European Parliament and Council of Ministers finalise their respective positions and amendments on the Revision of the Shareholders' Rights Directive. In the Parliament, EFAMA engaged with MEPs, in particular raising concerns with amendments on incentives to encourage long-term shareholding, such as additional voting rights, which, ultimately, was removed from the final Plenary report. Our main messaging with both institutions revolved around the overlap between SRD II and other sectoral legislation for asset managers, particularly in relation to the necessary disclosure requirements. While EFAMA has consistently supported strong engagement between asset managers and the companies they invest in, we argued that the "engagement policy" as put forward in the Proposal was overly prescriptive, running the risk of diluting the quality of compliance. EFAMA also holds the view that transparency between the asset owner and asset manager is key to the managers' fiduciary duty towards their clients' long-term economic interests, however the means by which this is introduced in the Proposal is disproportionate and inconsistent with the realities of the industry.

In the second half of the year and ahead of the Trilogue negotiations, EFAMA worked jointly with Invest Europe – Voice of Private Equity and Pensions Europe, given the close alignment of the three associations' positions on the file. Joint letters and meetings with the Dutch Presidency, the European Commission and key MEPs on the file subsequently took place in 2016. EFAMA continues to monitor the Trilogue process closely.

« EFAMA supports COP21 goals and is committed to helping investors achieve their green investment goals. »

17. Responsible Investment

In 2015, a survey of EFAMA members was carried out in an effort to map members' views and practices on responsible investment 'RI' and how environmental, social and governance 'ESG' matters are incorporated into the investment process. Whereas responsible investment is central to EFAMA corporate members' investment decision-making, very few are process certified. EFAMA corporate members consider reporting to clients the most efficient way of demonstrating responsible investment management to clients.

Analytical work was undertaken by the RI Working Group on the widely perceived misconceptions on responsible investment, namely regarding RI and performance, diversification and investment risk.

The Working Group also contributed to EFAMA's reply to the European Commission's consultation on Capital Markets Union. Given the evolving nature of the RI industry and the need to assess the EU's legislative measures on transparency, EFAMA argued that it would be too premature to discuss standardisation of RI processes, beyond retail investor information on the investment process.

Ahead of the Paris COP21 in December 2015 talks on climate change, the Working Group put out a statement emphasizing EFAMA's support of COP21 goals as well as our wider commitment to helping investors achieve their green investment goals.[8]

18. Solvency II reporting templates

The Solvency II Directive defines, among other things, solvency capital requirements (SCR) for insurance companies across all EU Member States. Moreover, the Solvency II Directive establishes uniform reporting standards which require quantitative information on investments by insurance and reinsurance undertakings.

The EU investment fund industry developed a template (so-called Tripartite template) to assist insurers with Solvency II reporting. The template provides data on the underlying assets of the investment funds insurers are invested in. The objective of the template is to provide insurers the necessary data they need for the SCR calculation and for the quantitative reporting templates (QRTs).

BVI in Germany, club AMPÈRE in France - sponsored by the French Asset Management Association - and The Investment Association in the UK have taken the initiative to develop a standardised template to assist insurers with Solvency II reporting. Assogestioni, VOÏG, DUFAS, ALFI and INVERCO have also joined the initiative. The work of the European Solvency II Working Group is supported by EFAMA.

The goal is to have the Tripartite template widely available at European level to be used on a standardised basis by all fund managers to answer their client insurers' reporting needs in a cost-efficient way.

The latest version of the template is Version 3.0, it was launched in October 2015 and is available on the EFAMA website for free download.[9]

8 EFAMA comments on COP21: http://www.efama.org/Publications/EFAMA_COP21%20statement.pdf
9 Solvency II template: http://www.efama.org/Publications/15-4102_Solvency%20II%20Tripartite%20Data%20Exchange.pdf

19. The Volcker Rule

During the first semester of 2015 EFAMA continued its dialogue with the U.S. authorities to address outstanding concerns raised by the so-called Volcker Rule, in particular the risk for a large portion of UCITS and other similar US non covered funds that are sponsored and managed by a banking entity, to be treated as '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.

As a result of the efforts of EFAMA and other stakeholders, supported also by the European Commission, the U.S. Volcker Rule agencies finally released in July 2015 much welcomed guidance ("FAQ 14")[10] providing substantially all the relief that had been requested for foreign public funds – essentially putting them on an equal footing with U.S. mutual funds – by confirming that a qualifying foreign public fund shall not be deemed to be a banking entity as a result of the governance relationship it has with the sponsoring banking entity so long as, after an appropriate seeding period, the sponsoring banking entity owns less than 25% of the foreign public fund's outstanding voting shares.

Nonetheless, FAQ 14 unfortunately did not provide any relief for those foreign funds that do not qualify for the foreign public fund exclusion from covered fund status, such as would be the case for alternative investment funds ("AIFs") organised and offered under the AIFMD. Accordingly, there remains the potential for such AIFs to be considered banking entities because of their governance structure.

In the worst case, the AIFs will be deemed to be banking entities and would need to comply with the requirements of the trading outside the United States ("TOTUS") exemption from the proprietary trading restrictions.

Consequently, EFAMA wrote a new letter to the U.S. Volcker agencies in September 2015 insisting on the importance of this issue and inviting them to consider the possibility of offering similar relief to foreign private funds as had been provided to foreign public funds in FAQ 14.

At the end of 2015, EFAMA had not yet received a substantial answer to that letter but will actively pursue its engagement with U.S. authorities in 2016 in order to reach a satisfactory outcome to the above-described issue.

10 http://www.federalreserve.gov/bankinforeg/volcker-rule/faq.htm#14

II. TAXATION

In 2015, the discussions on the implementation of the Financial Transaction Tax (FTT) continued but no agreement was reached.

In contrast further progress was achieved on Automatic Exchange of Information (AEOI).

Regarding its Base Erosion and Profit Shifting (BEPS) project, the OECD issued its 2015 BEPS Package which included 13 final reports on the 15 BEPS Actions. In advance of the package the OECD has issued further discussion drafts on several action points.

1. Financial Transaction Tax (FTT)

On 25 January 2015 a letter was sent by France and Austria to the other Participating Member States (PMS) to resume the FTT initiative. This initiative has the following orientations:

- Decision to reinforce and enlarge the methodological basis applicable to FTT as it is considered that the current approach was not sufficiently pragmatic and precise and has led to the current situation;
- Appointment of the Austrian Minister of Finance as the permanent president of the FTT group in charge of the organisation and the coordination of the FTT group;
- Appointment of a technical group which will be led by Portugal;
- Request for a greater involvement of the EU Commission in particular from a technical perspective, e.g. on the impacts of the proposals to be made;

Commissioner Moscovici sent a letter to the 11 PMS confirming the support of the EU Commission to this new FTT initiative in the ECP framework on 13 February 2015.

By the end of 2015 Estonia temporarily left the 11 PMS Group and the UK announced that they would go to court in case FTT has extraterritorial effects.

On 8 December 2015, at the last ECOFIN meeting for 2015 a general agreement was reached among the participating Member States on the tax features regarding shares and derivatives. With respect to shares inter alia all transactions including intra-day transaction should be taxed. With respect to derivatives the taxation should be based on the principle of the widest possible base and low rates and it should not impact the cost of sovereign borrowing. Besides, no exemption for market making activities should be granted.

In July 2015 EFAMA sent a letter to all participating Member States, Luxembourg (Presidency of the council of the EU at that time) and the European Commission reiterating its objections to the proposed EU FTT. EFAMA expressed the view that FTT is not consistent with the CMU objectives to *"maximise the benefits of capital markets for the economy, jobs and growth."* EFAMA mainly communicated the following concerns:

1. An FTT amongst 11 Member States distorts the creation of a single market for capital for all 28 Member States and would create a risk of

relocation of financial activities outside of the 11 Member States.

2. The proposed FTT would require complex collection mechanisms that will increase costs and uncertainty for participants in capital market transactions.
3. FTT is an indiscriminate tax on savings, investments and pensions borne by EU citizens as it would increase the cost of capital for businesses and lower returns on investments and savings, thus creating great damage to pensions.
4. FTT would increase the costs borne by investment funds and would render EU investment funds more expensive compared to direct investments if the FTT applies additionally on investment funds' units.

The Commission acknowledged EFAMA's concerns.

2. Automatic Exchange of Information (AEOI)

In March 2015, the Commission AEFI expert group (Commission Expert Group on automatic exchange of financial account information) published its first report on the implementation of Directive 2014/107/EU for automatic exchange of financial account information. The AEFI group was created to provide advice on EU legislation on automatic exchange of information in relation to financial account information and on its compliance with OECD global standard with the view to minimising the administrative burden for financial intermediaries while preserving the needs of the EU Internal Market. Furthermore, the AEFI expert group contributes to the periodic review process of this EU legislation and provides advice on tax compliance proposals affecting financial account information. EFAMA is represented on the EU Expert Group and our views are thus communicated to the European Commission. The first report includes recommendations on 11 different topics including implementation timelines, data protection and privacy issues, implementing guidelines, minimising the administrative burden and aligning the compliance regime.

On 18 March 2015 a Proposal for a Council Directive has been published, repealing Council Directive 2003/48/EC (so-called "European Union Savings Directive" ("EUSD")). This EUSD repeal proposal has been approved at the ECOFIN meeting on 10 November 2015.

3. Base Erosion and Profit Shifting (BEPS) – EC anti-BEPS draft legislative proposal

On 5 October 2015, the OECD issued its 2015 BEPS Package which included 13 final reports on the 15 BEPS Actions. The G-20 Finance Ministers endorsed this package on 8 October in Lima. The OECD presented it for the G-20 leaders at the 15-16 November summit in Turkey. On 8 December 2015, at the last ECOFIN meeting of 2015, an EU implementation of Anti-BEPS was discussed as part of moves to clamp down on tax avoidance by multinational companies. The Council identified EU directives as the preferred vehicle for implementing the OECD recommendations, also highlighting possible 'soft-law', i.e. non-legislative, solutions for a number of anti-BEPS actions.

EFAMA commented on two OECD Public Discussion Drafts concerning BEPS Action 6 in 2015 (the first one was submitted by the beginning of the year 2015, the second one in June 2015).

> « The ATA directive needs to consider the specific nature of investment funds. »

In its first answer, EFAMA stated that UCITS and UCITS- like funds are aimed at being distributed to the public and to small investors. There is therefore no material risk for source countries that these funds are used for treaty shopping purposes. EFAMA therefore invited the OECD to consider for the purposes of the commentary on Article 1 of the model convention, that contracting states should be encouraged to treat UCITS and UCITS-like funds in general as qualified persons, without the need to satisfy any LoB provision.

Furthermore, EFAMA stated that it would encourage discussion and engagement of non-CIVs similar to the CIV process, through the OECD Informal Consultative Group. EFAMA added that it is essential that small investors are encouraged to make appropriate provision through pension funding arrangements to obtain the necessary long-term financial security for workers into their retirement years. The massive global pension under-provisioning (including the underfunding by governments of basic social welfare pensions) has been well documented and cannot be ignored. It is crucial that their role is not lost in the treaty debate.

Regarding a proposed Principal Purpose Test (PPT), EFAMA responded that a PPT which is introduced unilaterally can undermine and create further uncertainty on the ability of CIVs to meet treaty qualification. Due to the importance of CIVs in the management of retirement funds of small investors and the low risk of treaty shopping by investors in widely held investment vehicles, EFAMA recommended to expressly exempt CIVs from any PPT.

EFAMA underlined the above opinion in its comment that was submitted in June. EFAMA therein stated that regrading CIVs we welcome the Simplified LOB approach, to the extent that it results in a less subjective outcome than widespread primary reliance on principal purpose tests ("PPT"). However, EFAMA expressed concerns due to the fact that many funds are widely distributed. EFAMA therefore stated that a wider adoption of an LOB approach means more cases where the lack of data about underlying beneficial owners is problematic, and while TRACE is a potential solution for certain distribution structures of CIVs in some countries, it may not be workable for CIVs in all countries or may not be in place for some years. Regarding non-CIVs, EFAMA commented that the Simplified LOB approach, with a suitably drafted equivalent beneficiaries' provision, might be an appropriate determinant of treaty access as non-CIV funds as these funds are not sold to the public, and although some might be widely held, determining ownership is typically less difficult than for widely held and widely distributed CIVs.

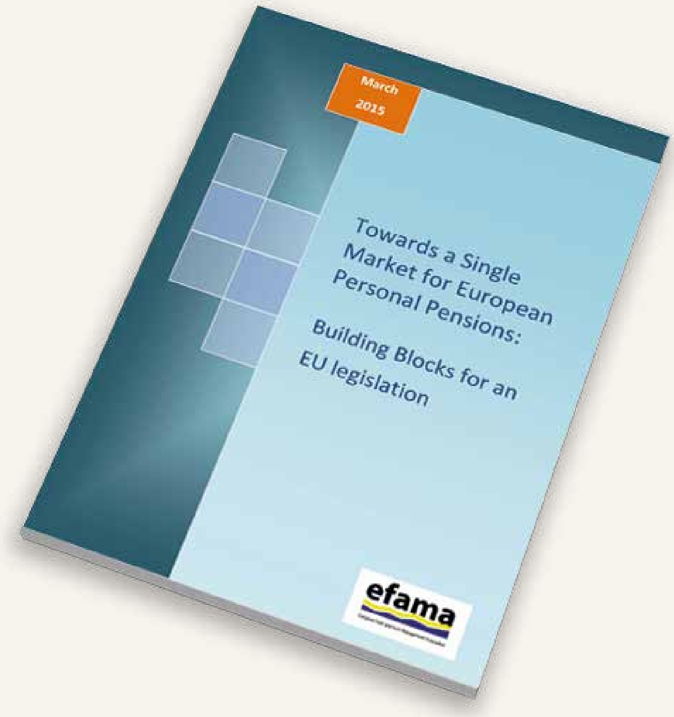
In the first quarter of 2016 the OECD published two relevant discussion drafts dealing with BEPS Action 6. The first one concerns the treaty residence of pension funds, the second one the treaty- entitlement of non-CIVs. EFAMA commented on both discussion drafts.

Besides, the European Commission published its proposal for an Anti-Tax Avoidance (ATA-) Directive on 28 January 2016. EFAMA issued its position paper on this proposal on 6 April 2016, stating that the ATA directive needs to appropriately consider the specific nature of investment funds. In addition, EFAMA reflected on the proposed anti-tax avoidance rules in the specific fields.[11]

11 EFAMA position paper on the ATA Directive: http://www.efama.org/Publications/16_4028_EFAMAPP_ATADirective.pdf

III. PENSIONS

The European pension landscape was under EU policymakers scrutiny in 2015. The initiatives that took place aim at addressing the economic and demographic challenges Member States are facing, and strengthening the single market for both personal and occupational pensions.



1. Towards a Single Market for European Personal Pensions

In March 2015, EFAMA published its second report on "European Personal Pension"[12], which followed on the 2013 EFAMA Report on the Officially Certified European Retirement Product (OCERP).[13]

The 2015 report aimed at contributing further to the work undertaken by EIOPA on personal pensions. It also included the results of a survey that was sent out to EFAMA corporate members to provide an industry perspective on how the creation of a pan-European personal pension product (PEPP) would change the operating landscape for asset managers.

In July 2015, one year after the European Commission sent its formal Call for Advice, EIOPA launched a consultation paper on the creation of a Pan-European personal pension product (PEPP).[14] In its response, EFAMA highlighted the following messages:

- **The PEPP would facilitate scale economies and therefore reduce costs and provide better returns to consumers.** The PEPP would help achieve a more competitive domestic environment for personal pensions, enhancing the choice between different types of pension products and providers. It would also improve the portability of pension savings across Europe and simplify the life for people moving from one Member State to another.

- **The creation of a Single Market for personal pensions should be seen as an integral part of the Capital Markets Union initiative.** Indeed, the long-term nature of retirement savings will ensure that the savings accumulated into European personal pensions will be invested in long-term projects.

- **The PEPP would strengthen the three-pillar pension system and diversify the risks inherent to each.** Along with occupational pensions, personal pension savings can help reduce the pension gap and contribute to the objective of achieving an adequate and sustainable retirement income for EU citizens in the future.

12 https://www.efama.org/Publications/Public/EFAMA%20_EPP_Report_FINAL4March2015%29.pdf
13 https://www.efama.org/Publications/Public/EFAMA_OCERP_Report_September_2013_Print_Final.pdf
14 https://eiopa.europa.eu/Publications/Consultations/EIOPA-CP-15-006-Consultation-paper-Standardised-Pan-European-Personal-Pensionproduct.pdf

- **The goal is not to harmonise all types of existing personal pension products.** Instead, the aim should be to create a simple, highly standardised, cost-effective and trustworthy product that could be offered across Europe thanks to an EU passport.

- **The single market for PEPPs will only work properly if gold-plating is avoided.** While we understand EIOPA's wish to strike a balance between rules that will be standardised at EU level and rules of general good that will remain country specific, we would like to stress the importance of achieving a highly standardised product to avoid gold-plating by Member States that would put the overarching goal of the project at stake.

- **The PEPP will improve the portability of pension saving across borders.** This will simplify life for people working and living in more than one EU member country – a trend that will only become stronger, as more and more people spend a period of their life working abroad.

In November 2015, EIOPA launched a survey on the attractiveness of a PEPP with a view to finalising its technical advice to the European Commission in 2016. The goal was to seek for further input from the industry on the attractiveness of the PEPP.

In light of the feedback received from its members, EFAMA confirmed to EIOPA that asset managers will offer the PEPPs if two important conditions are met:

- The PEPP will have to be sufficiently attractive to consumers to generate enough demand.

- Asset managers will also need to be convinced that the costs of production, distribution and administration of the PEPP could be kept low to make the product competitive.

Demand will greatly depend on tax incentives. The following factors have also the potential to boost demand:

- **The large amount of households' financial wealth held in bank deposit accounts in Europe is not optimal (42% in the euro area).** The creation of the PEPP against the background of the CMU initiative and a targeted communication strategy about the need and benefits of retirement saving would have a positive spill-over effect on households' demand for the PEPP.

- **Self-employed workers would benefit from the PEPP**, especially those who move between Member States. At the moment these workers miss out on much pension provision.

- **The PEPP will create a new dynamics in the personal pension markets** thanks to increased transparency, enhanced competition and lower costs. This is likely to create initially a shift of savings between providers, and an increase in overall Pillar 3 savings over time.

- **The PEPP has the potential to become a mass-market personal pension product** accessible to all EU consumers. To achieve this goal, low cost, simplicity and digital access are key elements, in particular to target tech-savvy millennials.

- **Young workers who plan to work and live abroad across the EU would also be a target group** with a high potential to invest in a PEPP.

The PEPP project will continue to be a high priority for EFAMA in 2016, as the European Commission is expected to take a decision by the end of the year about whether to propose a legislative initiative or not.

2. Revision of the IORP Directive

The Commission published its proposal to revise the IORP directive in March 2014. Since then, EFAMA has actively engaged with the co-legislators with a view to promoting a modernised directive that takes into account the active role asset managers play in a landscape that is shifting from defined-benefit to defined-contribution pension schemes. EFAMA also hopes this revision can foster the creation of occupational pensions and facilitate their operations and investments in the EU single market.

In December 2014, MEP Brian Hayes was appointed as the Economic and Monetary Affairs Committee (ECON) rapporteur on the revision of the IORP directive. At that time, the Council reached its General Agreement under the Italian Presidency.

In January 2015, EFAMA circulated its position paper to the MEPs involved in the file from both the lead (ECON) and opinion committees (EMPL) at the European Parliament.

The rapporteur Brian Hayes issued his draft report in July 2015 and the ECON Committee agreed its final text in January 2016.

In its discussion with the rapporteur, shadow rapporteurs and other MEPs, EFAMA emphasized the following points:

- **The scope of the Directive should be extended to allow asset managers to** use their own license, and not necessarily an IORP license, to operate DC occupational schemes.
- **The Proposal should not state** a preference for the means by which pension benefits are provided, whether in the form of annuities, lump sums, draw down options or other combined forms.
- The remuneration rules in the Proposal should not overlap with the existing EU remuneration rules that already apply to some service providers.
- IORPs investing all their assets in investment funds should be exempt from the requirement to appoint an external depositary as these investments are already protected by depositary rules.

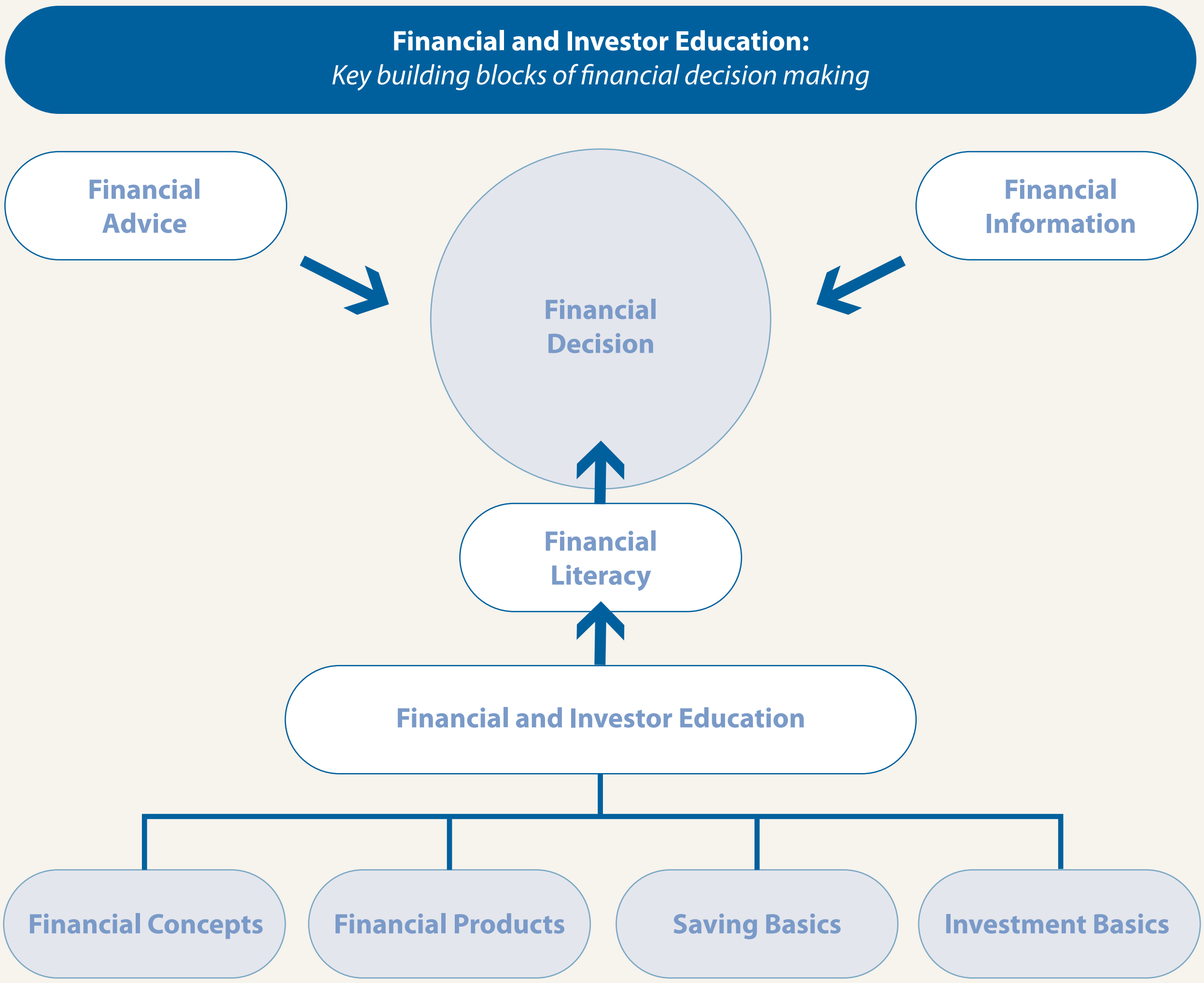
The trilogues started in February 2016 and the last trilogue scheduled for the revision of the IORP directive is planned for 4 May. EFAMA will keep engaging with the Council and the Parliament throughout the process.

IV. INVESTOR AND FINANCIAL EDUCATION

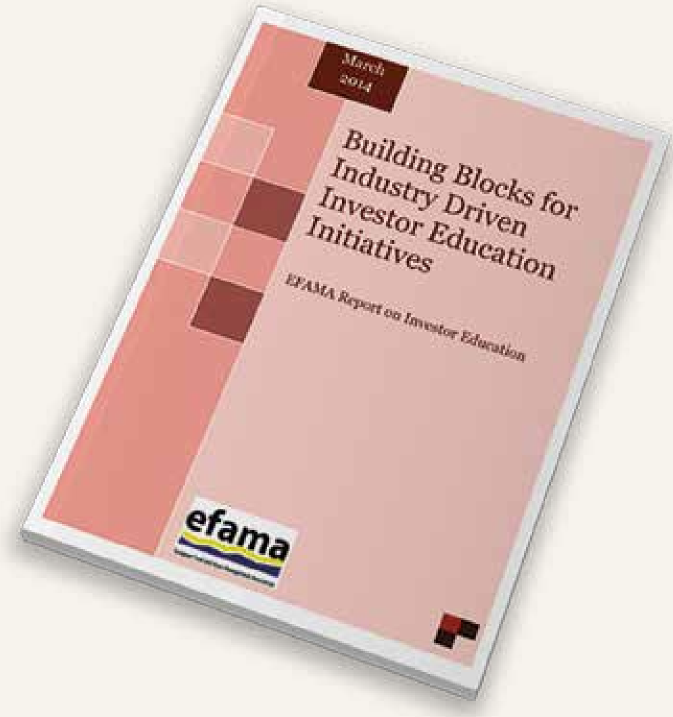
Investor education is a strategic priority for EFAMA. The publication in 2014 of the EFAMA report entitled "Building Blocks for Industry Driven Investor Education Initiatives" highlighted the strategic importance given by EFAMA to investor education.

Financial education also needs to be considered to ensure that consumers can fully benefit from the regulatory framework concerning financial innovation and financial advice. The chart below, which is taken from the EFAMA's 2014 Investor Education report[15], highlights the importance of this point. In other words, efforts undertaken to strengthen financial information and financial advice will only have their full effect if they go hand in hand with policies to improve the level of literacy of individuals.

15 The EFAMA 2014 Investor Education report is available here: https://www.efama.org/Publications/EFAMA_Investor_Education_Report.pdf



In general, EFAMA encourages the European Commission to support ambitious educational initiatives, targeting different groups of the population to avoid financial exclusion. A programme coordinated at EU level (private and/or public) should be envisaged. We also believe that Member States and the financial services industry have an important role to play to enhance investor education and financial literacy.



EIOPA and ESMA could also play an important role in this area by increasing awareness about financial illiteracy and promoting initiatives to develop the capacity of individuals to save for the long term to improve their future financial well-being. Following this approach, the European Supervisory Authorities would support the very useful work pursued at the international level by the OECD and IOSCO.

In 2015, EFAMA became a member of the International Forum for Investor Education (IFIE). IFIE is an organisation that brings together private sector and public sector providers of investor education to improve the effectiveness of investor education programs around the world. It serves as a clearinghouse for the exchange of information and ideas among providers of investor education from different jurisdictions, including organisations that are just developing or planning to develop investor education programs.[16]

Together with IFIE, EFAMA organised a half-day meeting "*Strengthening Engagement – Financial Capability and Investor Education Strategies and Initiatives in Europe*", on 26 October 2015.

The meeting aimed to gather stakeholders from different sectors and jurisdictions – public sector, regulatory sector, private sector – to exchange views on Financial Capability/Investor Education issues, and discuss what they believe are key challenges and opportunities in the European context and what might be some follow-up steps to be undertaken together, including whether forming a regional group to look at key European issues and addressing them within an IFIE Chapter is warranted.

The meeting was attended by representatives of the European investment management industry, as well as by senior officials from the regulatory side, notably Paul Andrews, who was at the time the Chairman of IFIE, Jean-Paul Servais, Chairman of the Financial Services and Markets Authority of Belgium, Oliver Salles (European Commission), Laurent Tristan, (ESMA), Flore-Anne Messy (OECD), Robert Stammers (CFA Institute), Guillaume Prache (Better Finance), Wim Mijs (European Banking Federation) and Kathryn Edmundson (IFIE).

The meeting underscored the potential role that can be played in bringing the relevant parties together. All participants showed a strong commitment in terms of trying to make something work in Europe. This could lead to the creation of a European regional chapter, which could address within issues unique to Europe.

16 See www.ifie.org.

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 2015. 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 2015 in ensuring that the statistics published by EFAMA were homogeneous, coherent and in line with market developments.

1. Investment Fund Statistics

International Statistics

Following the agreement reached by the IIFA Board to expand the IIFA statistics to include all open-ended, substantively regulated investment funds and report those funds by their jurisdiction of domicile. It was also agreed to add four new categories to the IIFA statistics: ETFs, guaranteed/protected funds, institutional funds and real estate funds.

In line with this decision, the IIFA statistics will include the following types of European investment funds: all UCITS, and all open-ended, substantively regulated AIFs. The publication of the new IIFA statistics started in August 2015. At this occasion, EFAMA used a new layout of its International Statistics Release to enhance its reporting of international statistics.

European Statistics

UCITS were conventionally defined in EFAMA's statistics in the sense of being publicly offered, open-ended funds investing in transferrable securities and money market instruments. We used this approach in order to analyse the trends in comparable investment funds in terms of investment strategy and investor protection. With the introduction of the AIFMD and its EU passport, which allows the marketing of an alternative investment fund to professional investors throughout the EU on the basis of a single "home state" approval, EU fund managers are no longer confined to UCITS for pan-European distribution. Hence, they will be able to unlock the European market through the use of the EU-wide marketing passport.

This important change in EU legislation for investment funds, coupled with the opportunity for the AIFMD to become a brand in the alternative investment market, led EFAMA to decide to define in its statistics UCITS as investment funds strictly complying with the UCITS Directive, and treat all other investment funds as AIF funds. It was also agreed that the main categories of UCITS and AIF should be based on their main underlying assets (equity, etc.).

The new classification of EFAMA took effect from and including Q4 2014.

2. EFAMA's Publications

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

The 13th edition of the annual Fact Book was published in September 2015.
As usual, the Fact Book provides an in-depth analysis of how assets and net sales have developed over the past decade, who are the main holders of investment funds, where are investments funds domiciled in Europe and the rest of the world, and what the prospects are for the future. As in its previous editions, the Fact Book also includes country reports which offer very useful information about the current situation and recent developments of the investment fund industry in each country of EFAMA's member associations.
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 Eighth Annual Asset Management Report

In April 2015, EFAMA published the eighth edition of its Annual Asset Management Report. This free-of-charge report, available on EFAMA's website, 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.
Last year's report also included a section to highlight the importance of the Capital Markets Union (CMU) project, and the larger role that asset managers could play in the future in channelling financing to the European economy and thereby supporting the EU in the CMU project.

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 and AIF (including a breakdown between categories). Twenty-eight 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 AIF, as well as the number of UCITS and AIF are also presented in this release. Twenty-eight 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. 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 PRIIPs 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 been very much 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 information conference calls and permanent updates;
- Important representation in EFAMA's institutional bodies, chairing of Working Groups, representing EFAMA in meetings with the European Commission, European Parliament, ESMA, FSB, ECB, IOSCO, EPFSF, etc.

Peter De Proft, Director General, addresses the EFAMA Investment Management Forum 2015

EFAMA is proud 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 2015 EFAMA had 24 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.

4. The EFAMA Investment Management Forum 2015

Alexander Schindler, EFAMA President, chairs a panel on CMU with (left to right): Philippe De Backer MEP, Christian Hyldahl (CEO, Nordea Asset Management), Paul Schott Stevens (President & CEO, ICI) and Niall Bohan (Head of Unit, DG FISMA, European Commission)

William Nott, Vice President of EFAMA, addresses the EFAMA Investment Management Forum 2015

Day 1 of the conference reflected on how asset managers are part of the solution to the financing gap and can help develop non-bank financing for Europe's businesses; the criteria under which ELTIFs can be successful in the markets, and the role of Alternative Investment Funds as an important investment pillar for European citizens.

Day 2 went international, with views from IOSCO, as well as a special panel session on the Regulatory challenges and market trends in the international arena. Another topical panel discussion developed ideas on how to further promote long-term savings and private pensions, and how to foster the development of a Single Market for European Personal Pensions. Rounding off the event, the "Industry Leaders Round Table" provided a unique opportunity to hear the views of CEOs about the state of our industry and the perspectives for 2016.

The conference concluded with what is now known as the "U.S. regulatory update workshop", during which participants discussed the latest developments in systemic risk regulation of asset managers and the potential implications for European asset managers.

The 21st EFAMA Investment Management Forum took place on 18-19 November 2015 in Brussels. It brought together 250 investment managers, policymakers and other stakeholders of the industry from 30 different countries. The conference's main theme was the Capital Markets Union and the many new opportunities for the asset management industry. It was important to stress that recognising investors' interests lies at the heart of the project for a Capital Market Union, and the focus of the discussions was firmly on investors and rebuilding their confidence.

« The trend towards greater digitalisation of financial services promises to bring another dimension to the way fund products are to be marketed and sold. »

VII. EFAMA AND EUROPEAN ORGANISATIONS

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

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

The Securities and Markets Stakeholder Group (SMSG) was established in April 2011 under ESMA's founding Regulation to help facilitate consultation with key financial market stakeholders in all areas relevant to ESMA's tasks. The SMSG provides ESMA with opinions and advice on policy work streams 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.

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 in the ESMA Library at https://www.esma.europa.eu/databases-library/esma-library.

Steven Maijoor speaks at the EFAMA Investment Management Forum 2015

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 it is first meeting on 29 January 2014.

The 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.

In 2015, 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 2015 in full: meetings were held on 5 February, 16 April, 25-26 June, 22 September, and 10-11 December. In addition, the Group met with the ESMA Board of Supervisors on 26 June and 11 December in 2015. The Summary of Conclusions of the SMSG meetings, the SMSG's 2015 work programme, advice and letters submitted to ESMA can all be found at https://www.esma.europa.eu/about-esma/governance/smsg.

2. 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, FESE, Invest Europe, AFME, Insurance Europe, PensionsEurope, EAPB, ESBG, EMMI, 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, PensionsEurope, … 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.

3. 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 2015. 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.

The Chair of the EPFSF Financial Industry Committee, EFAMA Director General Peter De Proft, and the Chair of the EPFSF Steering Committee, MEP Burkhard Balz, both elected in June 2014, worked together closely on several EPFSF events and industry files.

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 over 50 MEPs.

Since it joined the EPFSF in 2010 EFAMA has been an active participant. In the course of 2015 EFAMA provided speakers for several events:

- 20 January 2015: Lunch event on "Financial Benchmarks"
- 13 May 2015: Breakfast event on "Shadow Banking: the impact on corporate and bank funding"
- 26 May 2015: Lunch event on "Consumer Protection and financial education"
- 23 June 2015: A special Lunch event with EU Vice President Jyrki Katainen
- 30 September 2015: Lunch event on " The overall impact of the legislative proposals in the financial area "

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;
- Better Finance - The European Federation of Investors and Financial Services Users;
- 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.

VIII. EFAMA ON THE GLOBAL SCENE

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

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

The 2015 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 U.S. & EU Money Market Funds Reform;
- Fund & asset management developments at the level of the Financial Stability Board (FSB);
- Update on the U.S. SEC's investment management agenda;
- The Volcker Rule.

2. The 29th International Investment Funds Associations (IIFA) Conference in Brazil

The International Investment Funds Association (IIFA)[17] gathers more than 40 investment fund associations from across the world. Its 2015 Annual Meeting was hosted by ANBIMA, the Brazilian Financial and Capital Markets Association[18] and took place in Rio de Janeiro on 19-21 October 2015.

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 geo-political landscape. Special attention was given to the recent trends in local and regional markets and the new drivers of growth for investment funds worldwide.

Leaders of the global investment funds industry agreed that having reached the level of more than US$ 38 trillion in assets under management, the industry finds itself in a very dynamic and challenging environment.

Chaired jointly Paul Schott Stevens, Chairman of the IIFA and President and CEO of the ICI and Jose Carlos Doherty, CEO of ANBIMA, the conference focused on and discussed topics such as systemic risk and regulated investment funds, financial and capital markets integration challenges in Latin America, cybersecurity, and investor education.

The IIFA's 30th Annual Conference will be held on 24-26 October 2016 in Osaka, Japan.

17 For more information see: www.iifa.ca
18 For more information see: http://portal.anbima.com.br/Pages/home.aspx

3. The Cumberland Lodge Conference

The Cumberland Lodge Financial Markets Conference has become an important annual 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 ten years now been a co-sponsor of the event facilitating from its part the evolution of the event.

The 2015 conference was organised on 12-13 November and chaired by Mr. Ashley Alder, CEO of the Hong Kong Securities and Futures Commission. The conference examined means of building growth and boosting savings and the implications of stabilised financial services markets. EFAMA's President, Alexander Schindler, presented an overview of the European asset management industry.

4. The EFAMA-ICI Industry Roundtable

In order to raise understanding on both sides of the Atlantic on issues of mutual interest, EFAMA's Director General and the ICI's President and CEO held the seventh EFAMA-ICI Industry Roundtable in Brussels on 17 November 2015, to complement the discussions of the EFAMA-ICI joint May meeting. The 2015 roundtable was organised as a dinner with the focus of the discussions on market liquidity and the implications for funds, asset managers and investors.

5. The IOSCO Agenda

IOSCO is playing an increasingly important role to facilitate and enhance cooperation among the securities regulators around the world. This is crucial in the post-crisis world where regulators in different jurisdictions are implementing the G20 commitments to 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 several working groups that support the mandates of the IOSCO permanent policy committees. Topics of relevance to IOSCO from an investment management perspective in the course of 2015 have been cyber-security, obtaining better global data on investment funds, while providing IOSCO precious inputs in the context of the evolving debate around the alleged systemic relevance of asset management activities.

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 first survey was conducted in the course of 2015, to be refined and repeated in the course of 2016. Results may possibly feed into a policy initiative one of the IOSCO permanent committees (Committee 5) may wish to pursue in the future.

As in the previous year, EFAMA in 2015 has continued to play a very active role as a key stakeholder in the evolving joint work of the IOSCO / FSB around the alleged systemic relevance of the asset management industry. A second Consultation on the assessment methodologies for identifying non-bank, non-insurer globally systemically important financial institutions (NBNI G-SIFIs) was launched in March 2015, attracting much attention and offering a precious opportunity for the asset management industry to be heard once again. A key turning point in this debate, especially on the back of tangible evidence against the FSB's initial approach, was reached in the course of the June 2015 at the IOSCO Annual Conference in London. IOSCO then resolved to re-focus its work with the FSB away from a potential designation of asset management entities as G-SIFIs. Instead, a broader and more informed analysis of asset managers' activities would be performed, including via access to better data. EFAMA, together with other representatives of the global asset management industry, welcomed this decision to a great extent.


19/11/2015
EFAMA INVESTMENT MANAG
REGISTRATION & COFFEE / SILVER FOYER / LEVEL 0 /
OPENING OF DAY 2 / SILVER HALL / LEVEL 0 /
AN IOSCO VIEW / SILVER HALL / LEVEL 0 /
REGULATORY CHALLENGES AND MARKET TRENDS IN
SILVER HALL / LEVEL 0 /
COFFEE BREAK & NETWORKING OPPORTUNITIES / SI
TOWARDS A SINGLE MARKET ON PRIVATE PENSIONS
EUROPEAN PERSONAL PENSION. WHAT ROLE CAN I
LONG-TERM SAVING? / SILVER HALL / LEVEL 0 /
THE CRUCIAL ISSUES FOR THE EUROPEAN INVESTM
2016 / SILVER HALL / LEVEL 0 /
NEC

EUROPEAN INVESTMENT FUND DEVELOPMENTS IN 2015


Unit Price
9.90
12.20
IWLKS
SKWOS
ISKJLS
AKSDK
PKDKJ
KSFKW
Type 1
Type 2
Type 3
Type 4

EUROPEAN INVESTMENT FUND DEVELOPMENTS IN 2015[1]

1. Introduction

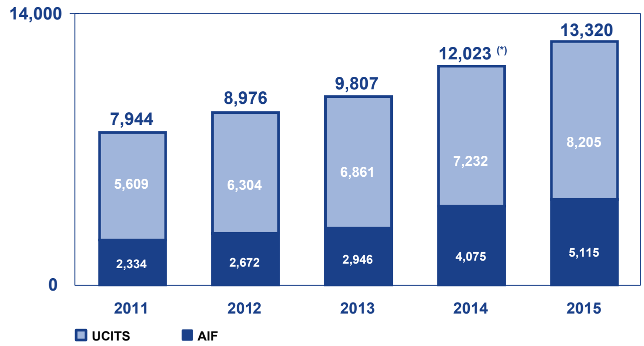
2015 was a record year for the European investment fund industry. Net sales of European investment funds rose to an all-time high of EUR 734 billion in 2015 and assets under management broke through the EUR 13 trillion mark representing a year-on-year growth rate of 11%.

Net assets of UCITS increased to EUR 8,200 billion, while net assets of AIF rose to EUR 5,116 billion. Demand for UCITS reached its highest level ever in 2015 as EUR 601 billion in net new money flowed in. Long-term UCITS recorded net inflows of EUR 516 billion, and money market funds recorded net inflows of EUR 86 billion. Many European businesses and institutions continued to use money market funds as a short-term cash management tool despite offering close-to-zero returns. Net sales of AIF increased to EUR 151 billion in 2015. Institutional funds attracted EUR 181 billion in net new money in 2015, thanks to high sustained demand from traditional institutional investors such insurance companies, pension funds and others.

The positive evolution of the industry in 2015 can be explained by the following factors:

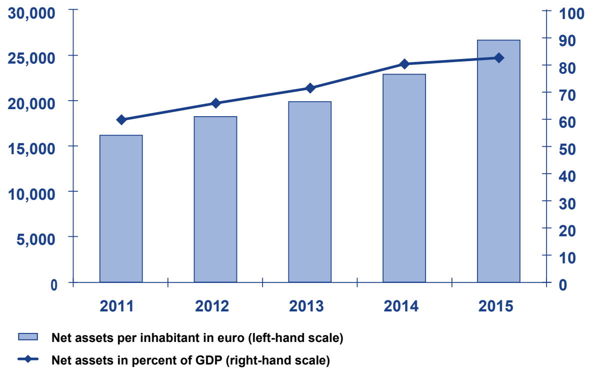
- The quest for higher investment returns in a context of interest rates at record lows.
- The attractiveness of investment funds in terms of investor protection.
- The role of central bank actions to prevent deflation, in particular the ECB's Asset Purchase Programme (known as Quantitative Easing, QE) which was announced in January 2015 and boosted investors' optimism and their demand for long-term UCITS in early 2015.

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



(*) Total does not equal sum due to unavailability of UCITS/AIF data for funds domiciled in the Netherlands in 2014.

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



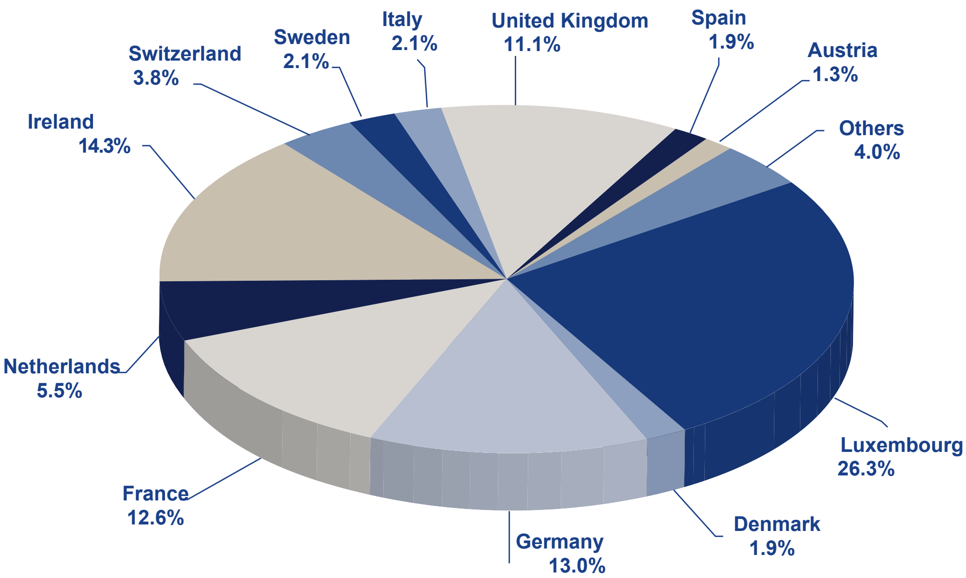
(1) Aggregated GDP and population of all EFAMA reporting countries were used to prepare this chart.

1 For sections 1-4, funds are classified according to the regulatory definition as of 2014. Unless noted otherwise, EFAMA is the source of data.

Investment funds per inhabitant registered a 10% increase during the year, rising to EUR 22,470 from EUR 20,450 at end 2014. This increase reflected sustained high net inflows to European investment funds as well as market appreciation. European investment fund net assets represented 83% of GDP [2] at end 2015, up from 80% at end 2014. This indicator highlights the important role played by investment fund managers as managers of long-term savings, investors in the European financial markets, shareholders in European companies, and providers of jobs and short-term funding for many European corporations.

Five countries held market shares greater than 10% at end 2015: Luxembourg, Ireland, Germany, France and the United Kingdom. Added together, these top five countries held a cumulative share of 77% of the industry's assets at end 2015. Luxembourg remained the largest market in Europe, with a market share of 26%.

Chart 3. The European Investment Fund Market
(Breakdown of nationally domiciled funds at end 2015)

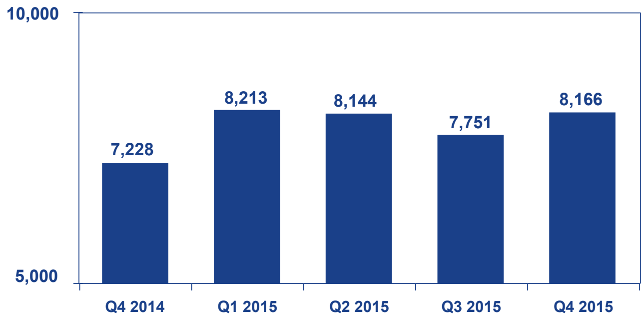


2. Developments in the UCITS industry in 2015[3]

Total UCITS net assets increased by 13% in 2015 to stand at EUR 8,166 billion at year end. This remarkable growth marked the fourth consecutive year of growth for UCITS. Chart 4 highlights the evolution of UCITS net assets from end 2014 to end 2015 on a quarterly basis.[4]

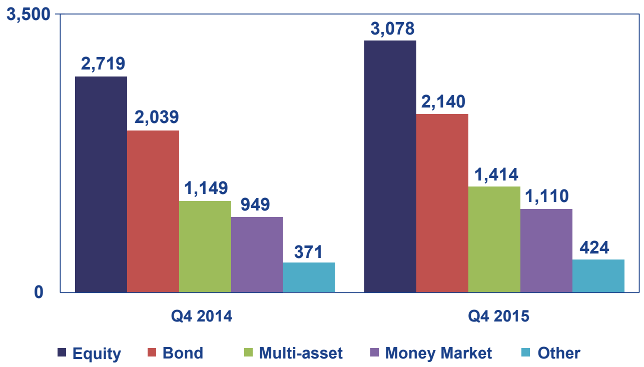
2 Aggregated GDP of all EFAMA reporting countries.
3 Sections 3 and 4 exclude net assets/net sales data on funds domiciled in the Netherlands due to unavailability of 2014 data, and net sales data for Belgium due to unavailability of quarterly data.
4 The data reported in this report are based on the new fund classification adopted by EFAMA which took effect as of, and includes, Q4 2014.

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



Strong asset growth was seen across all categories of UCITS in 2015. The largest growth was seen in multi-asset funds which increased 23% over the course of the year thanks to a surge in investor demand. Equity funds posted strong growth of 13%. Bond funds enjoyed a rise in net assets of 5% to end the year at EUR 2,140 billion. 2015 was also a good year for money market funds with net asset growth of 17%, the largest percentage increase in net assets that money market funds have experienced since 2002.

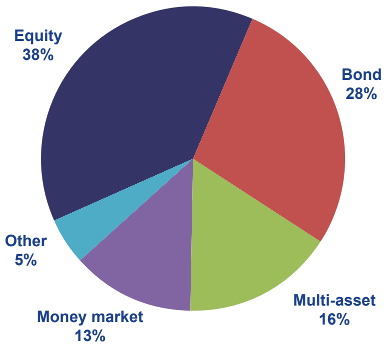
Chart 5. Total Net Assets by type of UCITS
(in EUR billions)



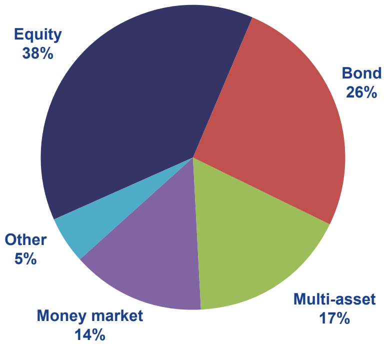
Asset allocation of UCITS remained relatively stable in 2015. The share of multi-asset funds in the UCITS portfolio increased from 16% in 2014 to 17% in 2015. Money market fund holdings rose from 13% in 2014 to 14% in 2015. In contrast, the share of bond funds decreased to 26% in 2015, down from 28% a year earlier. The asset allocation of equity funds remained 38%, the same as in 2014.

Chart 6. Asset Allocation by UCITS Type

Q4 2014



Q4 2015



Net inflows to UCITS totalled EUR 592 billion in 2015. Long-term UCITS recorded a surge in demand rising to EUR 515 billion, while money market funds registered net inflows of EUR 77 billion. For the first time since 2008, money market funds have ended the year with positive net inflows.

Chart 7. Total Net Sales of UCITS
(EUR billions)

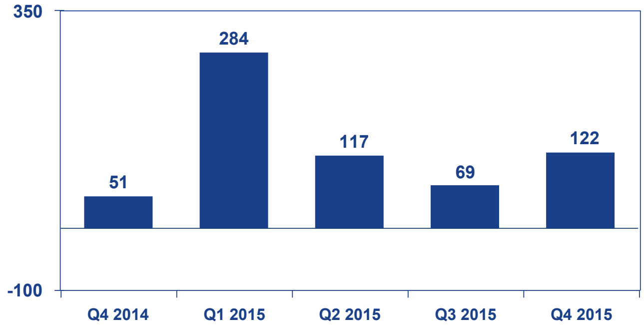
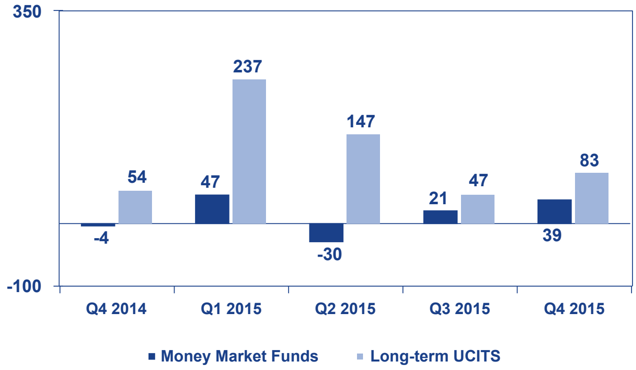


Chart 8. Net Sales of Long-term UCITS and Money Market Funds
(EUR billions)



Charts 9a-9f show the demand for UCITS from Q4 2014 – Q4 2015. Multi-asset funds enjoyed the largest net inflows (EUR 238 billion) in 2015, thanks to the broad market, asset class and sector diversification this type of fund provides investors. Equity funds attracted EUR 146 billion throughout the year as investors remained confident in the economic outlook for Europe despite the rise in uncertainty and market volatility. Bond funds recorded lower net sales (EUR 84 billion) compared to 2014, against the background of a reversal in bond yields and the uncertainty concerning the evolution of the bond market. As noted above, money market funds saw a turnaround in net flows in 2015, despite net outflows during the second quarter. Net inflows into Absolute Return Alternative Strategies (ARIS) UCITS and other UCITS remained positive throughout the year, albeit subdued.

Chart 9a. Net Inflows into Equity Funds
(EUR billions)

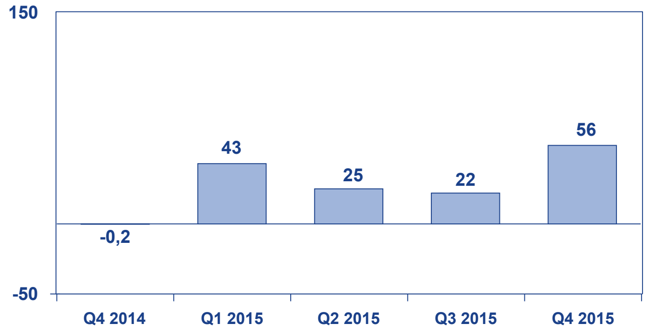


Chart 9b. Net Inflows into Bond Funds
(EUR billions)

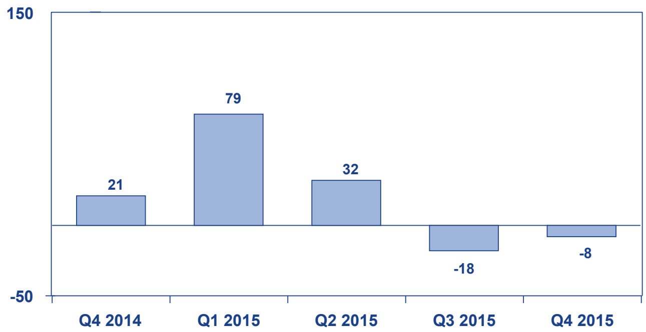


Chart 9c. Net Inflows into Multi-asset Funds
(EUR billions)

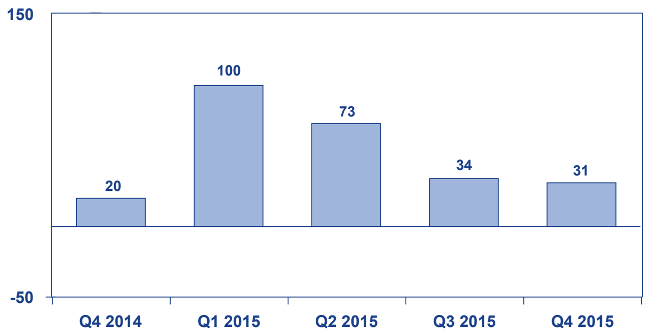


Chart 9d. Net Inflows into MMFs
(EUR billions)

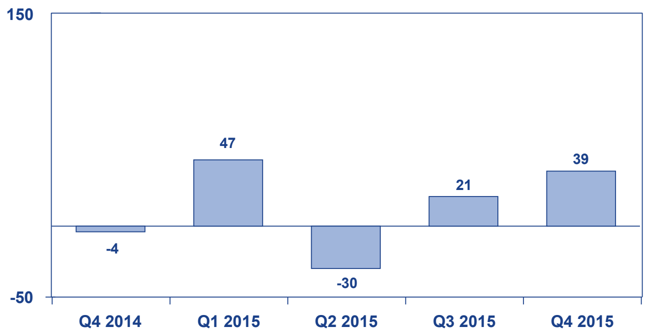


Chart 9e. Net Inflows into ARIS Funds
(EUR billions)

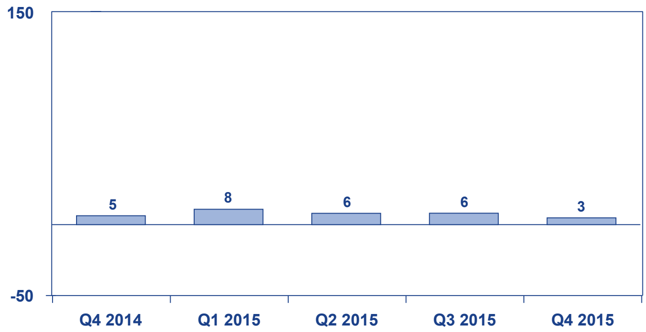
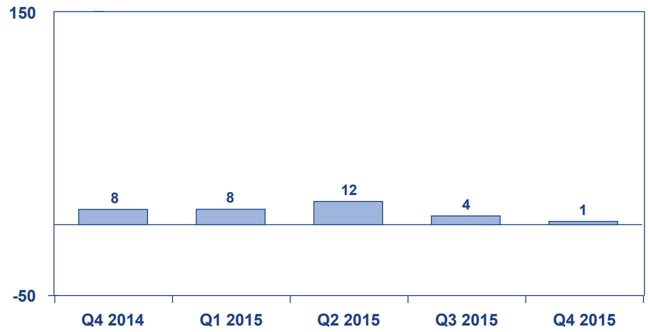


Chart 9f. Net Inflows into Other Funds
(EUR billions)



3. Developments in the AIF Industry in 2015

Total AIF net assets enjoyed growth of 8.4% in 2015, ending the year at EUR 4,415 billion. Net assets of multi-asset funds experienced the largest increase (12%) among the various categories of AIF funds, ending the year at EUR 1,284 billion. AIF real estate follows in this ranking, increasing by 8.9% to EUR 426 billion compared to EUR 391 billion at end 2014. AIF equity funds rose by 4.1% to stand at EUR 374 billion at end 2015, compared to EUR 359 billion in the previous year. On the other hand, money market funds saw their net assets decrease by 4.4% from EUR 93 billion in 2014 to EUR 88 billion in 2015. Net assets of AIF bond funds also decreased in 2015, albeit by a tiny 0.1%, to stand at EUR 722 billion at year-end. Other funds, which include funds that do not fall under the other categories or for which information is unavailable, experienced net asset growth of 11.4%, increasing from EUR 1,364 billion in 2014 to EUR 1,521 billion in 2015.

Chart 10. Total Net Assets of AIF
(in EUR billions)

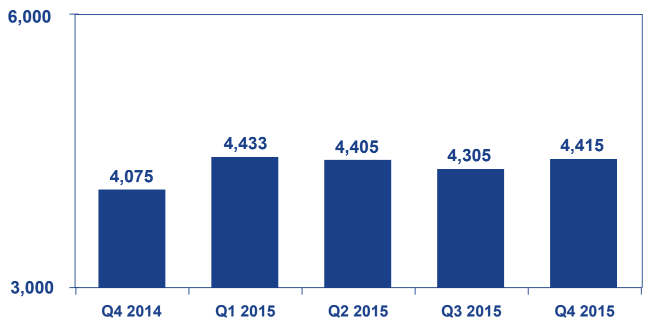
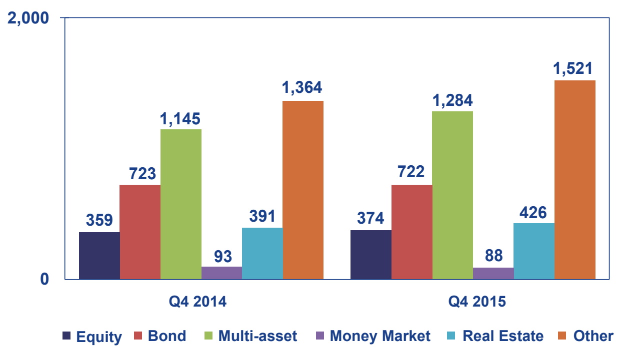
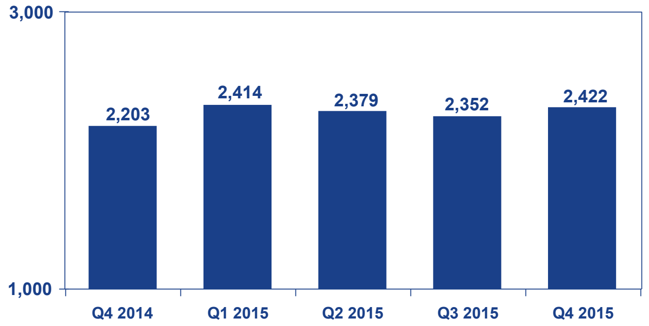


Chart 11. Total Net Assets by Type of AIF
(in EUR billions)



Net assets of institutional funds (which are reserved for institutional investors and which are included in the AIF categories reported in Chart 11) increased by 10% to EUR 2,422 billion, or 55% of total AIF net assets.

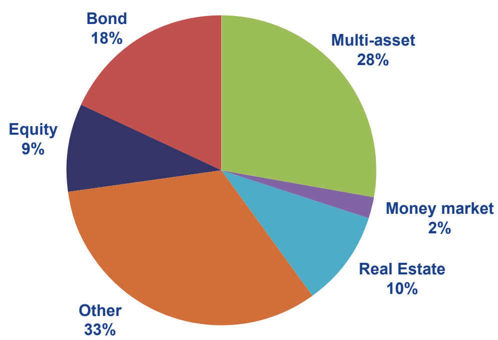
Chart 12. Total Net Assets of AIF Institutional Funds
(in EUR billions)



Asset allocation of the AIF market remained stable from 2014 to 2015, as is shown in the charts below. The share of multi-asset funds rose from 28% to 29% of the total AIF market. Equity funds, money market funds and real estate funds maintained the same market share as in 2014 (9%, 28% and 10%, respectively). The market share of bond funds decreased by 2 percent, ending the year with 16% of the market. The asset allocation of other funds grew from 33% to 34%.

Chart 13. Asset Allocation by AIF Type

Q4 2014



Q4 2015

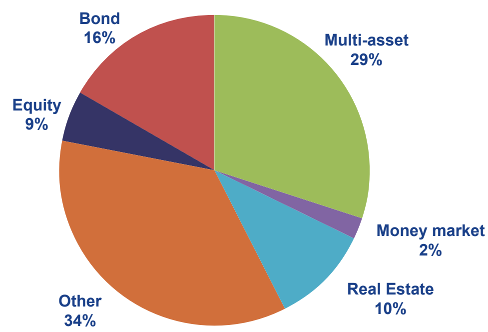


Chart 14. Total Net Sales of AIF
(in EUR billions)

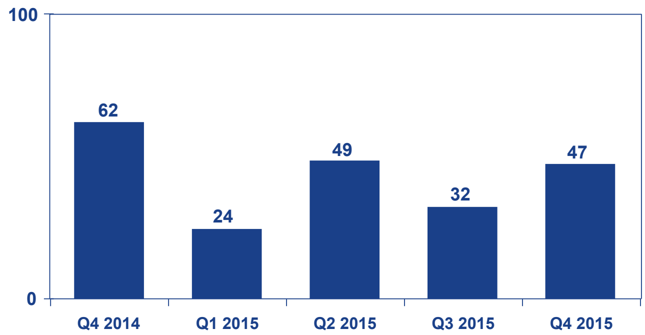
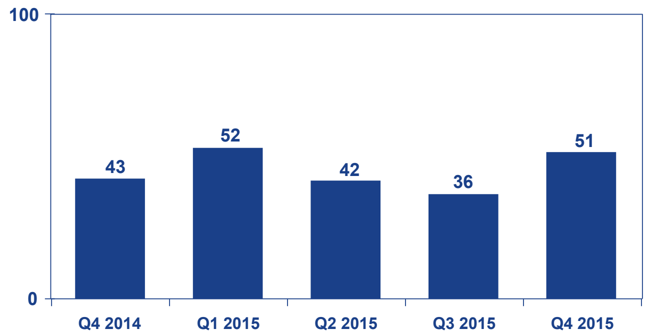


Chart 15. Total Net Sales of AIF Institutional funds
(in EUR billions)



AIF funds attracted EUR 153 billion in net sales. AIF institutional funds, an "of which" category of AIF funds, attracted EUR 181 billion in net sales by end 2015. Inflows to institutional funds were higher than the inflows to total AIF funds due to outflows from AIF funds in countries which do not have institutional funds.

Charts 16a-16f show net flows to the main AIF fund categories between end 2014 and end 2015 on a quarterly basis. Mirroring the trend in UCITS net flows, AIF multi-asset funds recorded the largest net inflows (EUR 86 billion). Real estate funds also attracted large net inflows, amounting to EUR 24 billion in 2015. Bond funds follow in this ranking with EUR 4 billion in net sales in 2015. AIF money market funds experienced the largest net outflows in 2015 (EUR 7 billion) followed by equity funds (EUR 5 billion). Other funds attracted EUR 52 billion in net sales during 2015.

Chart 16a. Net Inflows into AIF Equity Funds
(EUR billions)

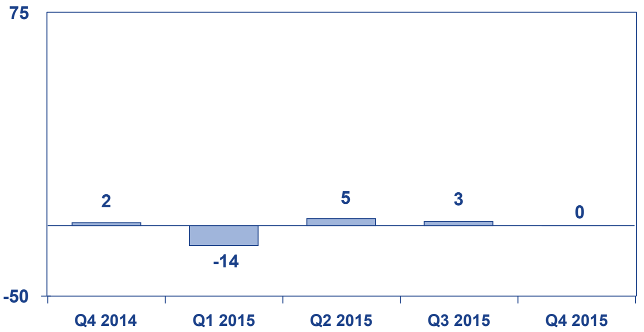


Chart 16b. Net Inflows into AIF Bond Funds
(EUR billions)

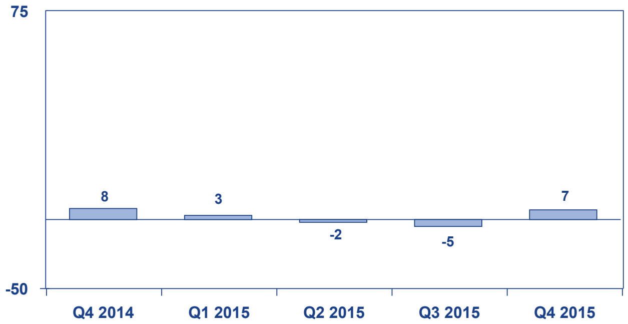


Chart 16c. Net Inflows into Multi-asset Funds
(EUR billions)

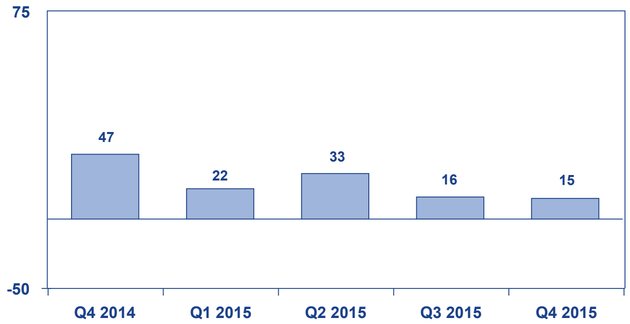


Chart 16d. Net Inflows into AIF MMFs
(EUR billions)

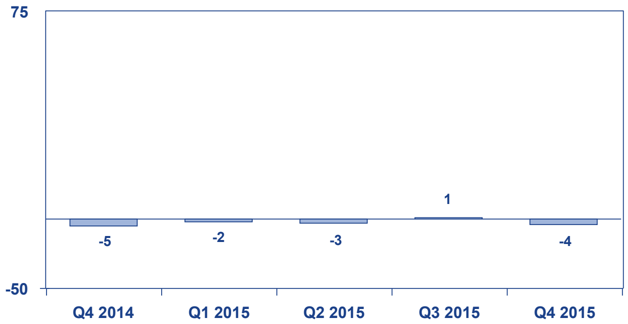


Chart 16e. Net Inflows into AIF Real Estate
(EUR billions)

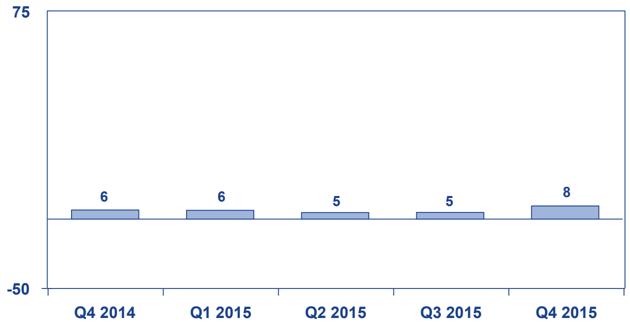
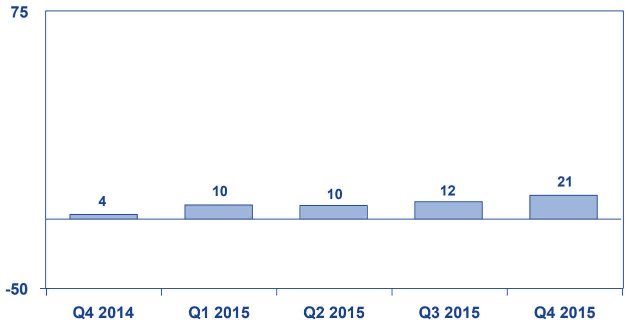


Chart 16f. Net Inflows into Other AIF Funds
(EUR billions)



4. Trends across Europe

Most countries registered net inflows during the year, with Luxembourg and Ireland capturing the largest share, EUR 264 billion and EUR 96 billion or 10% and 8% of end 2014 net assets, respectively. France registered net sales of UCITS of EUR 85 billion (13% of end 2014 assets), followed by Spain (EUR 33 billion or 23.9% of assets at end 2014), Switzerland (EUR 29 billion or 8% of assets at end 2014) and Italy (EUR 28 billion or 14% of assets at end 2014). Germany also registered large net inflows to UCITS (EUR 24 billion or 8% of assets at end 2014) as well as the United Kingdom (EUR 10 billion or 1% of assets at end 2014). Five countries suffered from net outflows, albeit relatively small: the Netherlands (EUR 2.8 billion), Greece (EUR 0.4 billion), Malta (EUR 0.2 billion), Turkey (EUR 0.2 billion) and Bulgaria (EUR -0.001 billion).

Net flows of UCITS in 2015

COUNTRY	NET FLOWS (in EUR bn)	COUNTRY	NET FLOWS (1) (as % of end 2014 assets)
Austria	1.4	Austria	1.9%
Belgium	12.3	Belgium	21.0%
Bulgaria	-0.001	Bulgaria	-0.2%
Croatia	0.23	Croatia	13.3%
Czech Republic	1.3	Czech Republic	21.2%
Denmark	6.5	Denmark	6.5%
Finland	4.0	Finland	5.6%
France	84.7	France	12.7%
Germany	24.0	Germany	8.0%
Greece	-0.4	Greece	-8.1%
Hungary	0.1	Hungary	30.4%
Ireland	95.9	Ireland	7.5%
Italy	27.6	Italy	14.1%
Liechtenstein	0.2	Liechtenstein	1.0%
Luxembourg	264.1	Luxembourg	10.2%
Malta	-0,2	Malta	-7.9%
Netherlands	-2.8	Netherlands	n.a.
Norway	1.5	Norway	1.6%
Poland	0.2	Poland	0.7%
Portugal	0.2	Portugal	3.3%
Romania	0.3	Romania	8.5%
Slovakia	0.6	Slovakia	16.6%
Slovenia	0.14	Slovenia	6.5%
Spain	33.2	Spain	23.9%
Sweden	7.1	Sweden	2.9%
Switzerland	28.8	Switzerland	8.4%
Turkey	-0.2	Turkey	-1.3%
United Kingdom	10.3	United Kingdom	1.0%
Europe	**601.2**	Europe	**8.3%**

(1) Calculation for Europe excludes funds domiciled in the Netherlands due to unavailability of 2014 data.

UCITS assets in Europe enjoyed growth of 13% in 2015, with all but four countries experiencing net asset growth. Amongst the largest domiciles of UCITS, France recorded net assets growth of 14% in 2015, followed by Luxembourg (14%), Ireland (13%), the United Kingdom (9%) and Germany (3%). Elsewhere, large net asset growth was seen in Spain (33%), Belgium (31%), Hungary (28%), Czech Republic (25%) and Switzerland (20%).

Overall, total UCITS and AIF assets stood 11% higher at end 2015 than at end 2014. Almost all countries reported an increase in total investment fund assets for 2015.

Net Assets of Nationally Domiciled UCITS and AIF
(EUR millions, at end 2015)

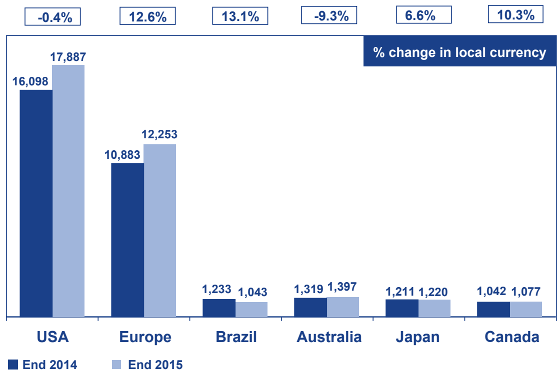
MEMBERS	UCITS ASSETS	% CHG (1)	TOTAL ASSETS	% CHG (2)
Austria	79,206	3.2%	168,239	3.5%
Belgium	76,531	30.7%	127,996	12.4%
Bulgaria	407	-1.0%	409	-1.0%
Croatia	1,814	7.0%	2,289	6.8%
Czech Republic	7,497	25.1%	7,818	27.3%
Denmark	107,871	7.9%	258,540	7.1%
Finland	78,619	10.2%	97,416	14.5%
France	762,929	14.4%	1,682,808	5.2%
Germany	309,852	3.4%	1,729,234	9.1%
Greece	4,422	-7.5%	7,047	-5.4%
Hungary	471	27.6%	18,105	3.4%
Ireland	1,446,873	13.4%	1,898,825	14.1%
Italy	226,043	15.0%	281,564	11.2%
Liechtenstein	25,752	7.9%	42,331	10.6%
Luxembourg	2,946,860	14.3%	3,506,201	13.3%
Malta	2,737	-5.7%	10,149	4.3%
Netherlands	34,186	---	734,686	2.4%
Norway	94,173	1.9%	94,173	1.9%
Poland	21,777	0.3%	59,140	20.9%
Portugal	7,577	4.6%	22,559	-1.9%
Romania	4,636	13.7%	8,994	57.3%
Slovakia	3,974	15.3%	5,697	6.2%
Slovenia	2,309	7.7%	2,309	7.7%
Spain	185,420	33.3%	254,368	11.0%
Sweden	262,445	5.4%	285,561	13.0%
Switzerland	410,199	20.0%	501,528	19.3%
Turkey	11,837	-6.1%	28,060	1.5%
United Kingdom	1,083,481	9.4%	1,479,696	12.6%
Europe	8,199,901	13.0%	13,315,742	10.8%

(1) End 2015 compared to end 2014. Percentage change for Europe excludes funds domciled in the Netherlands due to unavailability of 2014 data.
(2) End 2015 compared to end 2014.

5. Trends in Worldwide Investment Fund Assets [5]

Worldwide investment fund assets under management increased 11.8% in 2015 to reach EUR 36.94 trillion, with asset growth of 12.6% in Europe. This represented growth of 11.4% since end 2014. Measured in U.S. dollars, worldwide investment fund net assets amounted to USD 40.2 trillion. Investment fund net assets in the United States rose 11% in 2015 when calculated in euro. However, on a U.S. dollar denominated basis, U.S. mutual funds saw their net asset decrease by 0.4% on account of the large depreciation of the euro vis-à-vis the U.S. dollar during the year. Calculated using national currency, Brazil posted strong growth of 13%, followed by Canada (10%), Japan (7%) and Australia with a decrease in net assets of 9%.

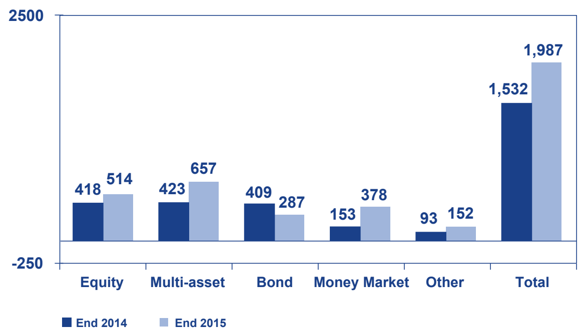
Chart 17. Trends in Worldwide Investment Fund Assets
(EUR billions)



Source: EFAMA, IIFA

Demand for worldwide investment funds surged in 2015 as net sales reached EUR 1,987 billion, up from EUR 1,532 billion in 2014. Long-term funds enjoyed increased net inflows of EUR 1,609 billion, compared to EUR 1,379 billion in 2014. Money market funds registered net inflows of EUR 378 billion after posting net outflows of EUR 153 billion in 2014.

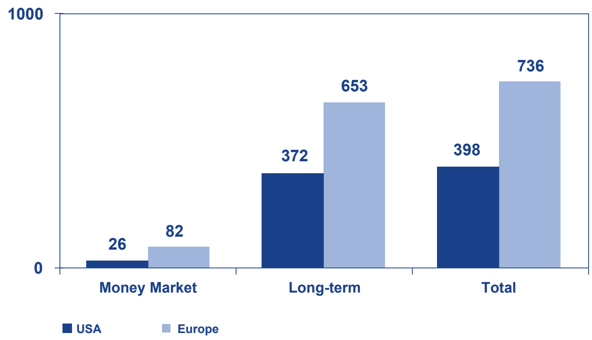
Chart 18. Net Cash Inflows to Worldwide Investment Funds
(EUR billions)



Source: EFAMA, IIFA

Long-term funds in Europe attracted EUR 653 billion in net inflows during the year, compared to EUR 372 billion in the United States.[6] At the same time, money market funds recorded net inflows of EUR 82 billion in Europe during 2015, comparted to EUR 26 billion in the United States. Overall, net inflows into Europe reached EUR 736 billion, compared to EUR 398 billion in the United States.

Chart 19. Net Inflows to Investment Funds in 2015
(in EUR billions)



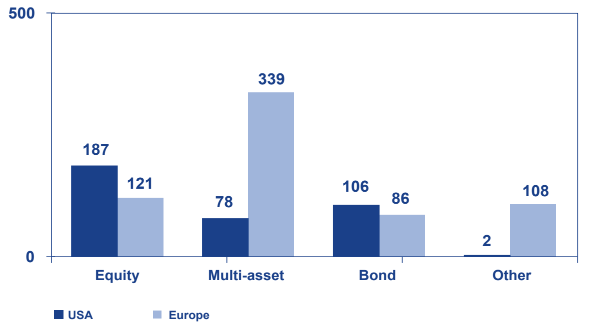
Source: EFAMA, ICI

5 The data reported in this section are based on the new fund classification adopted by the International Investment Fund Association, which covers all open-ended, redeemable, substantively-regulated funds. In the United States, this includes mutual funds. In Europe, this includes all UCITS and approximately 90% of all AIF funds. Data on funds domiciled in the Netherlands has been excluded due to unavailability of 2014 data, except where noted otherwise.

6 The figure for Europe covers long-term UCITS and substantively-regulated AIF.

The difference in net sales of long-term funds between Europe and the United States in 2015 can be explained by the large net inflows into European multi-asset funds (EUR 339 billion compared to EUR 78 billion in the United States. Other funds also experienced strong demand in 2015 (EUR 108 billion, compared to EUR 2 billion in the United States). Equity funds attracted considerable net inflows in both jurisdictions (EUR 187 billion in Europe and EUR 126 billion in the United States). Bond funds also attracted net inflows in both jurisdictions with EUR 87 billion flowing to Europe and EUR 106 billion to the United States.

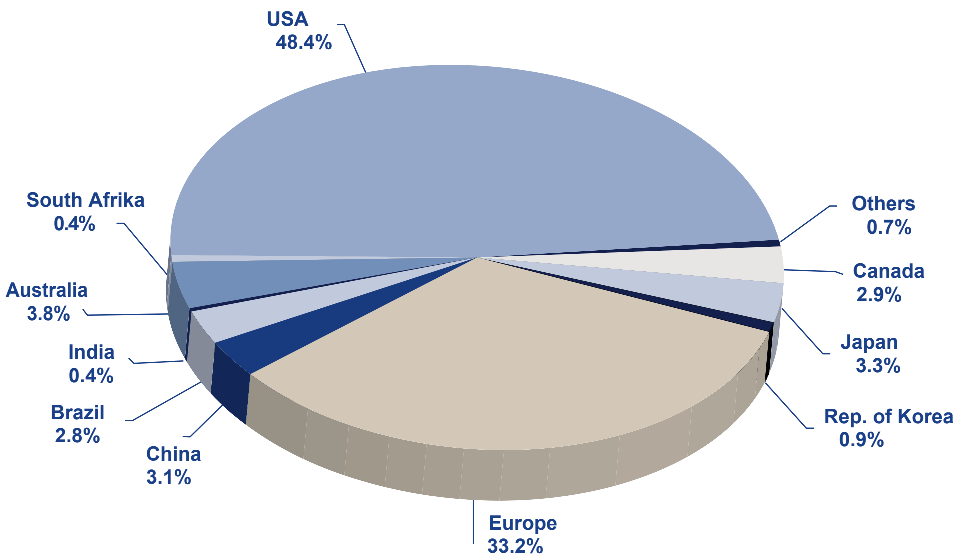
Chart 20. Net Inflows to Worldwide Investment Funds in 2015 (in EUR billions)



Source: EFAMA, ICI

Looking at the worldwide distribution of investment fund assets, the United States and Europe held the largest share in the world market at end-2015, with 48% and 33% respectively. Australia, Japan, Canada, Brazil, China, Rep. of Korea, India and South Africa follow in this ranking.

Chart 21. Worldwide Investment Fund Assets
(Market share at end Q4 2015)



Source: EFAMA, IIFA

EFAMA
MEMBERSHIP

NATIONAL ASSOCIATIONS

AUSTRIA

VÖIG
Vereinigung Österreichischer Investmentgesellschaften
Austrian Association of Investment Fund Management Companies
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BELGIUM

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Belgische Vereniging van Asset Managers
Association Belge des Asset Managers
Belgian Asset Managers Association
President: Hugo Lasat
Vice-Presidents: Dirk Mampaey, Myriam Vanneste
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BULGARIA

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Chief Secretary: Evgeny Jichev
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CZECH REPUBLIC

AKAT ČR
Asociace pro kapitálový trh České republiky
Czech Capital Market Association
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Vice-Chairman: Jan Vedral
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DENMARK

IFB
Investeringsfondsbranchen
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Chief Executive: Anders Klinkby Madsen
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Back row, from left to right: Andreas Stepnitzka, Vincent Dessard, Bernard Delbecque, Peter De Proft, Federico Cupelli, Vincent Ingham, Alex Carroll, Inga Nitsche (Tax Expert, on secondment), Gráinne Delaney. **Front row, from left to right:** Gabriela Diezhandino, Ana Breda, Agathi Pafili, Isabelle Van Acker, Antonella Massimi, Miriam Brunson


Peter De Proft,
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Bernard Delbecque,
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Ana Teresa Breda,
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Alex Carroll,
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Inga Nitsche,
Senior Tax Advisor (on secondment)


Miriam Brunson,
Head of Client Services


Isabelle Van Acker,
Executive Secretary


Antonella Massimi,
Frontline Officer

Not pictured here: Alessandro Sciamarelli, Economist (from April 2016)

A LIST OF EFAMA WORKING GROUPS AND TASK FORCES

Regulatory Policy

Accounting Working Group

Alternative Investments Working Group

Asset Protection Working Group

Corporate Governance Working Group

Derivatives and SFT Working Group

Distribution & Investor Protection Working Group

ETFs Working Group

Financial Stability & Prudential Requirements Working Group

International Distribution Working Group

Market Infrastructures & Trading Working Group

Reporting and Settlement Working Group

Responsible Investment Working Group

Risk Management Working Group

Supervision Working Group

UCITS Working Group

US Regulation Working Group

Benchmarks Task Force

ELTIF Task Force

Securitisation Task Force

Tax

Tax Working Group

Tax Information Reporting Working Group

VAT Working Group

BEPS Task Force

Financial Transaction Tax (FTT) Task Force

Economics and Research

Pensions Working Group

Statistics Working Group

Money Market Fund Working Group

Investor Education Working Group

Fund Processing Passport Working Group

Closet Index Funds Task Force

Fund Processing Standardization Group

Solvency II Task Force

European Fund Classification Forum

Public Policy

Public Policy Platform

« EFAMA Working Groups are the main tool for EFAMA to form its opinion on regulatory and industry developments. »

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