2016 ANNUAL REPORT

efama

European Fund and Asset Management Association

EFAMA IS ...

EFAMA
REPRESENTS THROUGH ITS

24 ASSOCIATE MEMBERS

62 CORPORATE MEMBERS

28 MEMBER ASSOCIATIONS

€23 TRILLION
IN ASSETS UNDER MANAGEMENT

€14.1 TRILLION

MANAGED BY
€58,400
INVESTMENT FUNDS
AT END 2016

€30,600 UCITS*

€27,800 AIFs**

* Undertakings for Collective Investments in Transferable Securities ** Alternative Investment Funds

2016 ANNUAL REPORT

EFAMA is the representative association for the European investment industry.

Its mission is:

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

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PRESIDENT'S STATEMENT

Alexander Schindler
President
June 2017

It is two years now since I began my mandate as President of EFAMA, and I can truly say that it has been an honour and a privilege. During this time, I have been proud to represent EFAMA and thereby the interests of our clients in many discussions with the EU institutions and global players.

To review the important developments marking life at EFAMA last year, allow me first to have a look at some recent market trends which show a consistent increase in figures. The main developments in January 2017 can be summarised as follows:

- Net flows into UCITS and AIF totaled EUR 92 billion, compared to EUR 32 billion in December 2016.
- UCITS registered net inflows of EUR 71 billion, up from EUR 22 billion in December 2016.
- AIF recorded net inflows of EUR 21 billion, up from EUR 11 billion in December 2016.
- Total net assets of European investment funds increased to EUR 14,342 billion at end January 2017, compared to EUR 14,201 at end 2016.

As in recent years, it still looks promising.

In terms of the regulatory agenda, EFAMA had a busy schedule in 2016 and important new projects. Let me run through a number of them.

It has been a little over two years since we first started speaking about the Capital Markets Union (CMU) in relation to the EU agenda. Yes, the CMU project is still important, for this industry and for the European Commission. And that is a good thing. In fact, in these difficult times, the CMU project is more important than ever. And it is under the umbrella of the CMU that various main projects will be started in the months ahead.

EFAMA President, Alexander Schindler, speaking at the Gala Dinner of EFAMA's Investment Management Forum 2016.

The CMU continues to be "the" project that has eyes turning to our industry for its expertise to provide alternative funding sources and channeling savings and investments into long-term projects.

> « In these difficult times, the CMU project is more important than ever. »

In 2016, we celebrated the 28th anniversary of the first registration of a UCITS fund back in 1988. Investment funds – UCITS in particular – are the best example to date of a well-functioning EU single market for financial services, but barriers remain (e.g. goldplating of Member States, withholding tax, supervisory fees). The CMU project also means bringing down these remaining obstacles to enable the cross-border distribution of funds. We can only encourage the EU Commission to continue in this direction. The Commission is also poised to announce its follow-up to the 2016 Consultation on barriers to fund distribution across borders.

We highly appreciate that the CMU has given wings to a project close to EFAMA's heart: the development of a pan-European Personal Pension product (PEPP). EFAMA has been working very hard to demonstrate that the idea of a single European market for personal pension products is a much needed one. We hope that the PEPP will take shape in the form of a Commission legislative proposal in the course of 2017. Other themes high on the EU agenda under CMU are Fintech and sustainable finance.
The list of other "business as usual" files was long in 2016, ranging from PRIIPs to discussions on liquidity, securitisation, systemic relevance of the asset management industry or the functioning of the ESAs, to name but a few.

All of the above, and more, have been happening in the EFAMA sphere this past year, and our members have been discussing together to put EFAMA in the best position possible to represent the interests of our investors.

Reflecting upon last year, it is clear that the EU as a whole entered into unchartered and unprecedented territory. At EU level, the outcome of the UK referendum undoubtedly represents a historic event and is expected to have far-reaching, albeit yet to be defined, implications. I would like to take the opportunity here to express my warm thanks to all EFAMA members, be they national associations, corporates or associates, for their continuous support in such challenging times. It is reassuring to see that we all wish to embrace the challenges and opportunities ahead of us, and explore together the unknown territories that lie ahead.

> « Our industry continues to work for the benefit of its clients, the end-investors. »

Whatever the shape and pace of political events, our industry will not cease to communicate that it continues to work for the benefit of its clients, i.e. the end-investors. They should be protected and safeguarded from disruptive markets and turmoil. Much has been done already in recent years to further improve the regulatory framework for European investment funds (UCITS and AIFs). In this sense, the work for EFAMA will continue to ensure the best possible regulatory framework for European investment funds, in particular in terms of investor protection.

Finally, I want to express my gratitude for the constructive spirit and good work achieved over the past two years with EFAMA's Vice-President, William Nott, Director General, Peter De Proft, and the EFAMA secretariat. The close cooperation in which we have worked is proof that cohesion and one strong voice of the industry is crucial to be successful. I wish all the best to my successor, William Nott, and wish him a fruitful mandate holding the EFAMA flag up high.

Alexander Schindler
President

June 2017

DIRECTOR GENERAL'S STATEMENT

Peter De Proft
Director General
June 2017

Assets under management in Europe reached EUR 22.8 trillion by the end of 2016, doubling in size since 2008. Investment fund assets totaled 11.8 trillion whereas discretionary mandates represented 11 trillion.

Against the background of a wave of regulatory reforms adopted after the 2007 financial crisis, the European asset management industry has become a key part and resilient stakeholder of the wider European financial landscape, to the benefit of its members and investors.

For the CMU project, European asset managers are in a prime position to complement bank financing by offering retail investors efficient access to capital markets. In this context, asset managers stand ready to play a key role in the PEPP market in two important ways: firstly, by providing the investment expertise required to manage retirement savings, and secondly, by leveraging their experience in the UCITS cross-border market to support the creation of a true single market for personal pensions for the benefit of EU citizens.

Asset managers are also well placed to improve the allocation of capital in Europe by finding the best investment opportunities in a cross-border context and broadening the availability of finance to companies that have the potential to improve the growth and employment prospects in Europe.

Finally, as the CMU will take shape, it is likely that asset managers will develop their activities in areas beyond traditional corporate debt markets to alternative forms of debt finance to broaden their role in the financing of companies and investment projects.

At the same time, a number of challenges have surfaced in 2016 which will fundamentally influence the role and business model of the European asset managers as well as their relationship with the investor and end-customer.

The past ten years have seen a constant flow of new legislative proposals in financial regulation. At this juncture, we believe it would be timely for policymakers and regulators to take a step back from new initiatives and focus resources on the consistent implementation of existing legislation across Member States.

Supervisory convergence is a core element of the Single Market and integral to removing barriers to the cross-border provision of financial services. It is not enough to have a common rule book, but also the reading of those rules by supervisors and supervisory practices should converge to ensure the Single Market is not hampered by diverging interpretations and gold-plating of EU rules. Whilst we believe that the European Supervisory Authorities (the 'ESAs') have been successful in carrying out their regulatory functions, we are of the view that the strong focus on legislative work has overshadowed their supervisory functions.

More coordination is necessary between the three Supervisory Authorities to ensure a level playing field for financial products and services. Unless there is close cooperation between the ESAs, there is a risk of differing regulatory priorities and an unlevel regulatory playing field to the detriment of end-retail consumers. The implementation of PRIIPs and of MiFID II/IDD rules at the beginning of January 2018 is one example where such coordination will be necessary.

> **« Policymakers and regulators should take a step back from new initiatives »**

As for the PRIIPs rules, throughout 2016 EFAMA consistently highlighted its concerns regarding the Level-2 discussions. Unfortunately, not all of them were heeded, in particular the concern that disclosing past performance, which would typically show whether an investment product was able to meet its objectives, was no longer allowed in the PRIIP Kid (as compared to the UCITS KIID) and the inaccurate calculation method for transaction costs, which could lead to the disclosure of negative costs. In short, these flaws in the PRIIPs framework may result in making meaningful comparisons between different products more difficult, if not impossible.

We have expressed our serious disappointment that the PRIIPs RTS make asset managers provide investors with incorrect information about the key characteristics of an investment product. European asset managers continue the work on this complex and costly implementation project, faced with an extremely tight deadline. In the meantime, the many outstanding questions remain to be clarified by the European Supervisory Authorities and the Commission through guidelines and Q&As to make implementation possible. EFAMA will certainly raise these outstanding concerns ahead of the Commission's review of the PRIPP KID in 2018.

Key challenges facing the asset management industry that will need to be addressed vigorously by EFAMA members and regulators alike include risks around cyber security, changing market structure, and financial technology such as robo-advice, fintech, regtech, blockchain, etc. Increasing demand for data and analytics are putting high constraints on EFAMA's members and require a strategic approach.

A defining moment in EU's history

In June 2016, the British people voted by referendum that the UK should leave the European Union. Based on this mandate, the British Government and Parliament have confirmed this decision, which resulted on 29 March 2017 in the triggering of Article 50 of the TFEU. This marked the beginning of a negotiation process between the European Union and the UK to determine the legal, technical and political terms of separation and to define the terms of the new relations between the EU and the UK. The result of the referendum and the ensuing negotiations over the terms of the UK's exit from the EU has ushered in a period of political and economic uncertainty in Europe. It comes at a time of rising geopolitical risks, both within Europe and elsewhere. Moreover, Brexit poses several uncertainties for financial services firms and investment management professionals.

In relation to Brexit, EFAMA as a pan-European association has an important and very challenging role to play for its members, be they national associations, corporate members or associate members; we will provide insight to Europe's policymakers and regulators, and will keep the interests of investors in mind.

Whatever the outcome of Brexit, it is likely to alter the shape of the investment management industry in Europe. In this unchartered territory, EFAMA must listen intensely to its members, which at the time of writing total 28 National Associations, 62 Corporate Members and 24 Associate Members. Leading a European association in such a challenging, politically unpredictable time, coordinating a diverse group of interests, different cultures and people is a true diplomatic exercise with continuous dialogue, listening mode and good governance as key elements.

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 President, Alexander Schindler, and Vice-President, William Nott, for their highly appreciated team spirit and advice. Their positive business-minded thinking and continuous support show that true professionalism and a constructive attitude is an absolute asset in order to enhance the credibility of a pan-European Association.

Peter De Proft
Director General

June 2017

ACTIVITY
REPORT 2016


SQUARE
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EU AND GLOBAL REGULATORY FRAMEWORK

1. Capital Markets Union

The Capital Markets Union Project

The European Commission launched on 20 January 2017 a Public Consultation on the CMU Mid-Term Review. The consultation document ran through the 33 CMU initiatives to report on the state of play and next steps, identify outstanding issues and challenges, and ask stakeholders the broad question whether there are "additional actions" to be suggested.

EFAMA submitted its views in March 2017. The EFAMA response[1] was a reminder of the asset management industry's views on the many CMU initiatives. The asset management industry continues to support all dimensions of the CMU: strong focus on investors' interests, promotion of a market-based financing of the economy, development of a PEPP and development of a comprehensive strategy on sustainable finance. Our views are summarised as follows:

- End-investors' interests need to be at the heart of any EU initiative. EFAMA supports investor-centric legislation and investor education as two sides of the same coin, and encouraged the European Commission and the ESAs to promote both further.

- Investment funds are a success story which can inspire a well-functioning EU Single Market in other areas. UCITS is a very good example of that, and for this reason EFAMA encouraged the European Commission to pave the way for further deepening the Single Market for investment funds and removing remaining barriers (see page 32). This is essential to provide a larger and more diversified choice of investment and saving opportunities for European citizens, increase competition in the markets, allow for further innovation and reduce the costs and fees.

- EFAMA reaffirmed its strong support for the Commission's continued efforts to improve the Single Market for retail financial services. Retail investors need to be provided with better access to the capital markets in order to create potential for citizens' savings, which are currently under-exploited.

- In line with this, EFAMA welcomes the Commission's persistent efforts to create an EU Single Market for personal pensions (see page 50). In times when European households and savers need to be encouraged to save more for retirement, the creation of a Pan-European Personal Pension product (PEPP) would increase choices for retirement savings, trigger a shift of retail savings into capital markets and would contribute to growth and investment within the Capital Markets Union. For EU citizens, this would ensure delivery of cost-efficient, simple and portable personal pensions. Providers would be able to offer similar products within a wide range of Member States, which should lead to economies of scale, lower costs and increased competition.

1 EFAMA response to EC Consultation CMU Mid-Term Review: http://www.efama.org/Publications/Public/EFAMA%20response%20to%20EC%20CMU%20Mid-Term%20Review%20consultation%20-%2017%20March%202017.pdf

- EFAMA is also very supportive of the CMU's focus on sustainable finance (see page 27). Citizens and companies are increasingly committed to addressing environmental, social and governance ('ESG') challenges in their investments. Asset managers, as the linchpin between investor's savings and the real economy, have a crucial role to play in providing the tools and advice for selecting responsible investments.

Much remains to be done to achieve the CMU's ambitious objectives, but EFAMA welcomes the new impetus brought to the overall project.

The Commission organised a Public Hearing on the CMU Mid-Term Review on 11 April 2017 to discuss with all stakeholders from the industry, consumers and public institutions. EFAMA was represented by its President Alexander Schindler.

Call for Evidence of Recent Regulatory Reforms

EFAMA replied[2] in February 2016 to the European Commission's Call for Evidence on the EU regulatory framework for financial services, published in September 2015. EFAMA presented more than 40 examples, 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. In this response, EFAMA expressed also 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.

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

The follow-up to the Call for Evidence on the EU regulatory framework for financial services was published by the Commission in the form of a Communication in 23 November 2016. EFAMA identified some 30 follow-up actions, of particular relevance to the asset management sector, which we are closely monitoring. A number of these follow-up actions were new, others expected:

- Cross-border fund distribution: simplifying the range of authorisations needed
- Review of corporate bond markets
- EC proposal on CCPs recovery and resolution
- Action Plan on Retail Financial Services
- Assess European markets for retail investment products - distribution channels & advice
- Assess proportionality of rules in AIFMD and UCITS in relation to aligning remuneration regimes
- Review of the EU macro-prudential framework to assess merits of expanding it beyond banking
- Review of reporting requirements in the financial sector - financial data standardisation project
- Mapping exercise of national transposition measures to identify gold-plating provisions

EFAMA is closely monitoring progress in discussions in the various relevant workstreams, and the European Commission, we understand, aims to publish findings and possible next steps before end 2017.

European Commission Consultation on Cross-Border Distribution

Fostering of retail and institutional investment and allowing for a more efficient allocation of capital and savings via investment funds has been one of the main goals of the European Commission since the launch of the Capital Markets Union (CMU) initiative.

With the aim to seek means to increase the proportion of funds marketed and sold across the EU, the European Commission launched in June 2016 a Consultation on the main barriers to the cross-border distribution of investment funds. This consultation, covering all types of EU regulated investment funds, i.e. UCITS, AIFs, ELTIFs, EuSEFs and EuVECAs, was built upon the feedback that the Commission received in its Consultation on the CMU and its Call for Evidence on the EU regulatory framework for financial services.

Based on the findings of the European Commission, there is so far a successful track of cross-border distribution of funds (80% of UCITS are marketed across border and 40% of AIFs). However, the level of integration of the EU market remains low, with the majority of the cross-border marketing involving mainly 2-3 Member States. Moreover, the burden from distributing in more than one EU jurisdiction is disproportionately bigger for smaller, start-up or more specialised funds.

According to the latest data of the EFAMA's Fact Book 2016[3], at end 2015 the share of "true" cross-border funds in Europe, i.e. funds sold by fund promoters outside their home market, either elsewhere in Europe or in other parts of the world, was 30% of total European investment fund assets, which is a considerable increase from 18% recorded at end 2005. The important rise in the share of cross-border funds over the last decade shows their significant potential for the EU single market. Still, there is important room for improvement. Identifying the reasons that hinder cross-border

3 EFAMA Fact Book 2016, Part 1.4.6 Cross-border fund business, page 48

> « We need practical solutions that maintain legal certainty and stability for market participants without imposing additional regulatory requirements. »

market for investment funds and the areas where further improvement is necessary, can be beneficial for further strengthening the potential of investment funds in the EU Single Market.

The consultation paper of the European Commission sought concrete input on a number of identified areas where the biggest challenges are presented for asset managers and investors, concretely:

- Marketing restrictions, which can become barriers due to different requirements on financial promotion and consumer protection across national EU jurisdictions;
- Distribution costs and regulatory fees, in particular as to their significant differentiations across the EU both in scale and calculation methods;
- Special administrative arrangements foreseen by some national regimes for marketing to retail investors and when this additional regulatory layer may not be justified by the added value for local investors;
- Barriers that hinder the use of online and direct distribution across borders, given the increasing use of online platforms to distribute funds;
- The absence of aligned notification processes to the competent authority of the home and the host Member States and the additional costs and time-burden that this causes;
- The importance of different tax treatments for cross-border business.

The consultation ended in October 2016. EFAMA submitted a thorough and extensive response highlighting the critical role of investment funds for a well-functioning EU Single Market and focusing particularly on the areas where further improvement is necessary to the benefit of the end-investors and the competitiveness of the European industry.

From the asset managers' perspective, the key principles when tackling the remaining barriers to cross-border distribution of funds should be:

- enhancing legal clarity and transparency, which will allow the necessary predictability and bring down costs,
- efficiently dealing with gold-plating and additional regulatory layers at local level,
- moving forward with a level playing field,
- promoting consistency in the area of tax treatment of funds,
- safe-guarding the competitiveness of the EU asset management sector.

In achieving those targets, EFAMA stressed its support for practical solutions that do not impose additional requirements, as that would avoid unnecessary regulatory burden and maintain legal certainty and stability for market participants. In this sense, EFAMA pointed out that proposals for Level 1 legislative changes, in particular to the AIFM and the UCITS Directives, should be a last-resort means for the European Commission, to the extent that no alternative non-legislative solutions, such as Guidelines and Q&A, would be effective.

Based on the responses received, the Commission will be preparing a set of regulatory and non-regulatory actions in the course of 2017.

According to its report on accelerating the Capital Markets Union and addressing national barriers to capital flows published in March 2017, further action is to be anticipated on pre-marketing and reverse solicitation, where the European Commission welcomes further work by Member States on identifying a common understanding of such practices, as well as on promoting convergence for notification procedures, administrative arrangements and regulatory fees. Moreover, during the EC hearing on the CMU-mid-term review in April 2017, the Commission announced its plans to propose a "legislative package" that will aim to eliminate regulatory and administrative obstacles to the cross-border distribution of investment funds.

EFAMA will build its views on this forthcoming proposal and engage in the subsequent debate.

2. Packaged Retail and Insurance-based Investment Products (PRIIPs)

In March 2016 the European Supervisory Authorities published their final advice to the European Commission on the PRIIPs Level 2 implementing measures. The Commission, in turn, followed up with the publication of the long-awaited Regulatory Technical Standards (RTS) at the end of June 2016. While the majority of these technical rules were well drafted, EFAMA believed that a certain number of measures had the potential to make meaningful comparisons between different investment products more difficult.

The European Parliament, too, had concerns with a number of elements of the RTS which, MEPs believed, undermined the agreement achieved in the Level 1 Regulation. These concerns included, among others, doubts about the correct representation of future performance scenarios and whether insurance products needed to request PRIIPs-specific data from underlying fund products, such as UCITS, which are exempted from producing the PRIIP KID, at least, until 31 December 2019.

The rejection of the RTS by the European Parliament meant that further revision to the draft RTS were necessary, thus casting doubt on the Regulation's original tight implementation timeline by the end of 2016. As detailed implementing measures are essential for the product manufacturers to implement the PRIIPs Regulation, EFAMA joined alliances with other European financial associations, calling the European institutions to delay its application. Towards the end of 2016, the European co-legislators agreed with these concerns and subsequently postponed the date of application by one year to 31 December 2017.

Throughout 2016, EFAMA consistently highlighted its concerns regarding the Level 2 discussions. Unfortunately, not all of them were heeded, in particular the concern that disclosing past performance, which would typically show whether an investment product was able to meet its objectives, were no longer allowed in the PRIIP KID (as compared to the UCITS KIID) and the inaccurate calculation method for transaction costs, which could lead to the disclosure of negative costs. In short, these flaws in the PRIIPs framework may result in making meaningful comparisons between different products more difficult, if not impossible.

In early 2017 the European Commission made targeted revisions to its original proposal in order to address the outstanding European Parliament's concerns. These revisions were ultimately approved by the Council and Parliament in April 2017. While some worthy improvements were made to the original texts, in particular EFAMA's concerns with regards past performance and transaction costs, were not considered and are therefore still unresolved. These concerns were typically shared by investor representatives, Better Finance and CFA Institute.

EFAMA has systematically expressed its strong opposition to the proposed rules regarding the above issues, and instead suggested workable solutions that would achieve the overall objective of providing investors with the right information. We have expressed our serious disappointment and concern that the PRIIPs RTS make asset managers provide investors with incorrect information about the key characteristics of an investment product. EFAMA will certainly raise these outstanding concerns ahead of the Commission's review of the PRIIP KID in 2018.

The Regulation will apply from 1 January 2018. European asset managers continue the work on this complex and costly implementation project, faced with an extremely tight deadline. In the meantime, the many outstanding questions remain to be clarified by the European Supervisory Authorities and the Commission through guidelines and Q&As to make implementation possible. EFAMA will continue its technical work to assist them in this task in the best possible way before the PRIIP KID is to be distributed in January 2018.

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

Distribution and Investor Protection

In April 2016 the Commission published the draft implementing measures for MiFID II and MiFIR which included many long-awaited details regarding the treatment of inducements, the new product governance rules for product manufacturers and distributors and the new disclosure regime for costs and charges. Due to the large number of implementing measures and still outstanding issues in 2016, it became clear that a postponement of the application of MiFID II and MiFIR by one calendar year until 03 January 2018 was unavoidable. In June 2016 the European co-legislators agreed to this postponement, which was strongly endorsed by the European asset management industry.

In 2016 many discussions revolved around the new product governance rules which require a definition of a product's target market. While asset managers designing their funds are outside the scope of MiFID II, its distributors operating under MiFID II are required to define a target market on their own, if none is provided by the fund manufacturer. EFAMA therefore has been working intensively to develop a concept to allow this essential information flow from manufacturers to distributors.

At the end of 2016 ESMA acknowledged that the complexity of the topic required further input and published a public consultation. In its response, EFAMA expressed its broad support of ESMA's proposals and considered them to be well-balanced in many aspects, but highlighted some concerns, in particular ESMA's suggestion that sales outside the target market should only be of limited occurrence (which could severely inhibit an investor's portfolio diversification) and its suggestion to apply the product governance requirements to discretionary portfolio management services (which would render the service meaningless).

Member States must now implement MiFID II and MiFIR into their national laws by 3 July 2017. The framework becomes applicable from 03 January 2018. In the meantime, ESMA is expected to release further Level-3 guidance, in particular, on product governance (i.e. target market) together with further Q&As (such as costs and charges disclosures).

Capital Markets

With regards to capital markets, considering the delays in the publication of the level two measures in the OJCE, the main topics raised by the ESMA's advices and draft RTS remained somewhat theoretical and were (i) the application of the rules to non-equity instruments and (ii) liquidity issues.

Regarding the application of the rules to non-equity instruments, the main underlying principle imposed by the legislators is the fair treatment of all investors, especially end-investors. This principle will be enforced by the regulators through different angles such as transparency on prices, accessibility of data and the requirements imposed on trading venues.

From an EFAMA's perspective, the new transparency regime is an improvement in terms of investors' protection. However, especially when applied to fixed income instruments, the new market rules are challenging the current market's organisation. The fear is that, if the rules are not adequately set, transparency requirements might become detrimental to the investors by increasing the costs (due to excessive reporting requirements) or reducing substantially the investment options (by suppressing access to vital information such as dedicated Investment Research at a reasonable cost for investors and for investment firms).
Regarding the regime of Investment Research, the text has significantly improved between the first Consultation Paper issued by ESMA and the proposed regime that was published at the end of March 2016. Additionally, several National Competent Authorities provided more detailed interpretation of the rules through consultations of the respective markets. Despite those clarifications, the actual application of those rules (especially to non-equity instruments) still leaves a series of questions unanswered.

Regarding the definition of liquidity, the main issue is the ability to define the velocity of execution of transactions according to the instrument and the size of the transaction on this instrument. In the light of CMU, an important focus is made on the assessment of liquidity in corporate bonds markets.

From an EFAMA's perspective, we envisage the liquidity issues from two different angles: (i) Market stability and (ii) the Market liquidity. The latter appears to be treated differently according to investment firms' organisation.

Going forward, EFAMA will (i) closely monitor the implementation process and possible issues that could come especially in the application of the reporting requirements (with a focus on identifiers such as LEI or the use of ISIN codes for every financial instrument); and (ii) discuss the implication of new technologies, especially the possible use of Distributed Ledger Technologies for different types of reporting (and maybe for trading purposes at a later stage).

« EFAMA has been working intensively to develop a concept about target market to allow this essential information flow from manufacturers to distributors. »

4. Money Market Funds

Over three years after the European Commission published its legislative proposal on the Money Market Funds Regulation ('MMFR'), a political agreement was reached in December 2016 under the Slovak Presidency of the European Union.

The new MMFR Regulation as agreed by the trilogue parties creates three types of MMFs: VNAV MMF, Low-Volatility NAV MMF (LVNAV MMF) and public debt CNAV MMF. In a nutshell, LVNAV MMFs can value their assets using the amortised cost method under a constrained framework; liquidity fees or redemption gates are also required when liquidity level falls under certain thresholds. Public debt CNAV MMFs must invest 99.5% of their assets in public debt instruments of Member States and third countries; they can value their assets by using the amortised cost method and must also apply fees or gates when liquidity level falls under a certain level.
EFAMA engaged in discussions throughout the legislative process to put forward its views on the elements which we believe were essential to achieving a workable outcome for investors and managers alike in both CNAV and VNAV MMFs.

The final agreement was, in our view a more workable outcome than the initial proposal for European investors, MMF managers and the Capital Markets Union more generally. However, there continues to be a number of concerns on the potential consequences of different parts of the agreement.

EFAMA welcomed the three categories of MMFs created by the Regulation: VNAV MMF, LV NAV MMF and public debt CNAV MMF in different currencies.

In terms of CNAV MMFs, we welcomed the creation of the LVNAV product which has the possibility of offering investors a real alternative to European CNAV Prime MMFs. Equally important is the retention of a workable government CNAV regime in different currencies. For the VNAV industry, a number of serious operational challenges have been minimised. However, the MMFR is by no means a panacea for either the industry or investors in MMFs.

One noteworthy remaining concern for both sides of the industry however are the liquidity calculations of MMFs. EFAMA believes that the lack of a principles-based approach on liquidity will make it difficult to determine whether the arbitrary thresholds set in the final political agreement will be workable in different market scenarios.

EFAMA also regretted that the EU legislators rejected the proposal for MMFs being able to operate as funds of funds, an important mechanism used by many VNAV managers for diversification purposes, and we remain concerned about how the exemption from the 10% diversification limit of assets in deposits would work.

Finally, there are some practical difficulties with the 'Know Your Customer' requirements and the periodic reviews of the internal credit quality assessments. It remains to be seen whether smaller players on the market will be able to continue operating, given the more elaborate compliance and disclosure requirements, combined with low business margins.

Formal approval of the political agreement by the European Parliament and Council of Ministers was ongoing in the first half of 2017. Publication in the Official Journal of the European Union was expected, at the time of writing, end of May/June 2017.

EFAMA will closely monitor and seek to engage on the relevant Level 2 measures on MMFR.

5. Securitisation Regulation

In September 2015, the European Commission published legislative proposals on securitisation, a key pillar of the EU's flagship Capital Markets Union initiative, in an effort to revive flagging European securitisation markets. While the Council of Ministers finalised its position three months later, the European Parliament process ran throughout 2016, culminating in December 2016 with a successful vote in the ECON Committee.

EFAMA put forward key messages which, in our view, were essential for ensuring that the needs of the end investor were met:

- Support of a 5% retention rate in line with global standards;
- Recognition that ABCP is a different instrument than term ABS;
- The ability for UCITS funds to continue being able to invest in non-EU securitisations;
- The need for UCITS funds to have an adequate grandfathering regime of existing positions;
- In terms of due diligence and disclosure, required third-party certification for qualification as 'STS' and clear disclosure of compliance with the STS criteria;
- Proportionate application of a sanctions regime.

Since the start of 2017, Trilogue negotiations on the securitisation package have been underway under the Maltese Presidency of the EU, who aim to conclude the process by end of June 2017.

EFAMA will continue to engage in the Trilogue discussions on the securitisation package until its conclusion.

6. Prospectus

The entry into force of the Prospectus Regulation can be beneficial for further opening up capital markets for investors of all sizes, but it should at the same time ensure adequate level of information and lift unnecessary burdens for investment funds that are already subject to the AIFMD disclosure requirements.

In 2016, a final agreement was reached between the EU institutions on the *Regulation on the Prospectus to be published for securities that are offered to the public or admitted to trading on a regulated market.* This agreement is considered as one of the major achievements up to date of the CMU initiative, as it is targeted at simplifying rules for companies seeking to raise money via capital markets and is focusing on smaller companies, frequent issuers, as well as already listed companies.

In brief, the main changes in the finally agreed text of the Regulation include:

- the addition of a new type of prospectus, the EU growth prospectus, available for SMEs, non-SMEs (small mid-caps) admitted to an SME growth market or small issuances by unlisted companies with up to 499 employees,

- a frequent issuer regime available for frequent participants in capital markets,

- reducing of the approval times from 10 days to five, and

- a "lighter" prospectus available for those issuers already admitted to stock markets and SME growth markets and for their follow-up issuances.

Moreover, drafting a Prospectus is foreseen as mandatory only for capital raisings and crowdfunding projects above €8 million, whereas below that threshold, issuers can raise capital in accordance with rules set for local growth markets. Prospectus summaries are further rationalised in their language, length and content and paper prospectuses will no longer be required, unless there is a specific request by a potential investor. Finally, a European online prospectus database will be operated free of charge by ESMA allowing further transparency for investors.

Prospectuses help asset managers to acknowledge and assess the specific and material risks factors pertaining to the issuer and its securities. Throughout the legislative discussions on the proposed Prospectus Regulation, EFAMA underlined that any simplification of the prospectus content, welcome as it may be, should not be to the detriment of the investor's level of knowledge on the risk factors. Ensuring the right balance between these two key elements will be the most important challenge for the upcoming Level 2 legislation that will be further specifying the details of the Prospectus content.

Moreover, a key point for EFAMA was its proposal to exclude closed-ended investment funds from the scope of the Prospectus Regulation. However closed-ended funds were kept in the scope by the final agreed text of the Regulation. EFAMA had argued that they are already subject to the AIFMD disclosure requirements, which ensure the adequate level of disclosure to both professional and retail investors in those funds. A third layer of disclosure via the Prospectus Regulation does not grant any added value to the transparency regime of those funds, but only constitutes an unnecessary burden and creates additional costs for the funds and its investors. EFAMA considers that there are still merits in trying to enable a proportionate treatment of those funds by the Prospectus Regulation at Level 2.

In February 2017 the European Commission mandated ESMA to provide its technical advice on possible delegated acts to supplement certain elements of the Regulation on Prospectus. ESMA will be launching two consecutive consultations to seek market participants' input within the first semester of 2017.

> **« The entry into force of the Prospectus Regulation can be beneficial for further opening up capital markets for investors of all sizes, but it should at the same time ensure adequate level of information and lift unnecessary burdens for investment funds that are already subject to the AIFMD disclosure requirements. »**

7. Regulation on European Venture Capital Funds (EuVECAs) and on European Social Entrepreneurship Funds (EuSEFs)

The modification of the EuVECAs and EuSEFs regulatory regimes is an encouraging step towards more long-term investment strategies. However, the market success of these products lies above all on their readiness to respond to the interests and needs of different types of investors and to provide them with the right incentives.

As a follow up to its previous investigative work on EuVECAs and EuSEFs and the ways to further support their uptake by investors, which seemed to have fallen short its original expectations, the European Commission presented in July 2016 legislative proposals to review the two respective Regulations.

The proposals seek to increase the interest into venture capital and social projects by widening the investor base and bringing in broader range of managers permitted to manage and market funds using the "EuVECA" and "EuSEF" labels, including the larger managers authorised under the AIFMD. In addition, the range of companies in which those funds are authorised to invest is expanded to include small and medium-sized enterprises listed on a SME growth market, as these are defined in the MiFID Directive. Also an explicit prohibition of imposition of any national barriers to cross-border marketing of those funds is foreseen in order to enhance their passport and therefore, their attractiveness to investors.

Moreover, the Commission has been considering ways in which to use EU budgetary support to further attract the interest of institutional investors to such project and for that reason has launched a pan-European venture capital fund of funds. It will also be providing technical assistance to Member States to improve market-based finance, focused on venture capital as well.

The legislative debate has been rather fast in the Council, where a common approach was adopted by the end of 2016, proposing only limited modifications to the Commission's original proposal. The Council amendments focus in particular on the EuVECAs and EuSEFs own capital requirements, which the Council is asking to clarify and strengthen. On the other hand, the Council's agreement reinforces the potential for cross-border distribution by strengthening the cooperation between the national competent authorities of the fund and of the asset manager and prohibiting any additional fees or charges by the host authorities in relation to the marketing of the fund.

In the current regulations which the Commission is now aiming to revise, there is a limited number of asset managers allowed to manage those funds, and both labels seem to remain of limited attractiveness for AIFs and UCITS investors. The improvements suggested by the European Commission aim to bring AIFMs into the scope of both Regulations. EFAMA has welcomed this and is engaging in the current legislative debate, stressing in particular that the proposed modification can further encourage a shift to more long-term investment strategies. Still, for EFAMA the decisive factor will be the readiness of both types of funds to respond to the interests and needs of different types of investors and to provide them with the right incentives.

In March 2017, the ECON Committee of the European Parliament adopted its report on the proposals on EuVECAs and EuSEFs which is to a large extent aligned to the Council's position. The Maltese Presidency of the European Union anticipates an agreement of the trilogues negotiations by the end of June 2017.

8. Responsible Investment / Sustainable Finance

2016 was an important turning point for sustainable finance / responsible investment in the EU policy space, with a clear appreciation by the European Commission that sustainable finance is central to a successful Capital Markets Union framework. This culminated in December 2016 with the creation by the European Commission of a High-Level Expert Group on sustainable finance, made up of various stakeholders including asset management representatives, to help develop a comprehensive European strategy on sustainable finance.

EFAMA published its report on Responsible Investment in September 2016, showcasing the European asset management industry's role and involvement on responsible investment. The report also details country-by-country descriptions of the legal frameworks and various private sector initiatives in relation to responsible investment in different Member States. Throughout 2016, EFAMA also answered various consultations on responsible investment issues at both EU and global level, on long-term and sustainable investment, non-financial reporting guidelines and climate related financial disclosures. Our key messages focus on:

- Support for transparency in disclosure: ESG investing is a young, innovative and still developing field and EFAMA does not see any room for standardisation of RI/ESG investing or for strict regulatory requirements, which, in our view, would make ESG investment a compliance issue. In EFAMA's view, enhanced disclosure is key to fostering the responsible investment market.

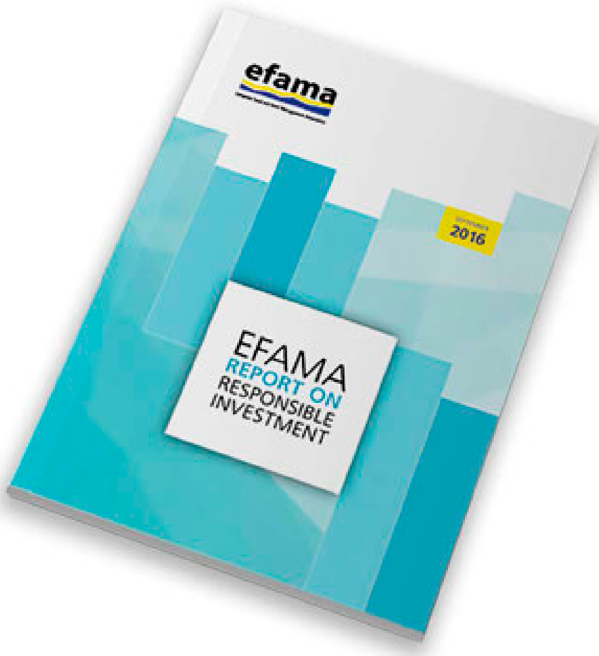
- Reporting by companies: Lack of standardisation of disclosure frameworks in relation to reporting of ESG information by companies remains an obstacle to ESG integration.

- Fiduciary duty: There is no legal impediment for the integration of ESG into the investment process, provided the focus is on the best interest of the beneficiaries.

- Responsible investment and performance: Responsible investment can be a risk management tool, however there is no statistically relevant outperformance or underperformance of responsible investment strategies, in other words: it is neutral to performance.

The European Commission created in 2016 a High-Level Expert Group on sustainable finance, and announced its final composition in December 2016. Three EFAMA members are also members of the Expert Group. The Group began meeting in January 2017.

EFAMA will be engaging with the work of the EC Expert Group and will in that context, be developing EU-wide asset management views on relevant responsible investment matters.



9. ESAs Review

In April 2017, the European Commission launched a Public Consultation on the operations of the European supervisory authorities, focusing on four areas: tasks and powers, governance, supervisory architecture and funding. Among others, the EC is seeking views on whether ESMA should have direct supervisory powers on pan-European investment funds, whether EBA and EIOPA should merge, following a so-called twin peak approach, and whether the ESAs should be fully funded by industry. A 6 week consultation period with stakeholders was opened at the end of March 2017, after which the Commission may decide to take action by way of a legislative initiative.

10. Fintech Consultation

The theme of technology applied to the provision of financial service and solutions (i.e. "Fintech") has been a central feature of the regulatory debate in the course of 2016.

At European Level, already in December 2015, the Joint Committee of the European Supervisory Authorities issued a discussion paper on the automation of financial advice, in view of better understanding the phenomenon and decide which, if any, regulatory and/or supervisory action would be required. EFAMA responded in March 2016, highlighting that the term "automated advice", while spanning numerous applications, also lent itself to multiple interpretations. Although the take-up of technology in the offering of financial services had entered an exploratory phase and offers untapped potential in many areas (both for consumers and institutions alike), it will be important for future regulations to strive for a harmonised framework of investor protection across the various Fintech applications.

The European Commission published its Green Paper on retail financial services, which sought views about whether the use of Fintech would change the offering of retail financial services.

EFAMA was also engaged in the discussion and work of the IOSCO Affiliate Members' Consultative Committee (AMCC), where an *ad hoc* Task Force on Fintech was constituted in March of 2016 to support the work of the IOSCO Committee on Emerging Risks (CER) by providing industry insights into the various Fintech applications. In June 2016, EFAMA responded to an internal AMCC survey, highlighting automated advice, distributed ledger technology, artificial intelligence and automated regulatory reporting as being the four most promising areas for technological applications for the European asset management industry. Responses to the survey fed intothe AMCC report and shared with the CER in September 2016. The AMCC's contributions, along with those of the CER and of other IOSCO policy committees, where later merged into a single *IOSCO Research Report on Financial Technologies (Fintech)* published in February 2017 (see *infra*).

As a follow-up to June 2016 Green Paper, the European Commission launched on 23 March 2017 a broad and extensive Consultation entitled "*FinTech: a more competitive and innovative European financial sector*", seeking views to further develop the Commission's policy approach towards technological innovation in financial services. The consultation seeks stakeholders' perspectives on new technological impacts on the European financial services sector, both from the perspective of providers of financial services and consumers. Furthermore, the consultation raises the issue of whether the current European regulatory and supervisory framework is able to foster technological innovation in line with three core principles: (i) technological neutrality, (ii) proportionality and (iii) integrity. The feedback will help the Commission to gauge how Fintech can make the EU Single Market for financial services more competitive, inclusive and efficient.

Noteworthy is also the European Parliament's own draft initiative report on the influence of technology on the future of the financial sector presented in January 2017 and expected to be finalised towards the end of May 2017.

11. Review of the AIFM Directive

Following its decision to go for a country-by-country assessment regarding the potential extension of the AIFMD passport to non-EU AIFMs and AIFs, ESMA published in July 2016 its Advice providing guidance to the EU institutions on U.S, Guernsey, Jersey, Hong Kong, Switzerland, Singapore, Australia, Bermuda, Canada, Cayman Islands, Isle of Man and Japan.

For the majority of them the advice given is positive with no major obstacles for the extension of the passport being reported, apart from the Isle of Man, Bermuda and Cayman Islands, in the case of which no definitive advice is given due to the absence of an AIFMD-like national regime for investor protection and the lack of effective enforcement of national regulatory regimes that are still to be implemented.

In September 2016 ESMA published a revised advice clarifying some points with respect to the assessment of the Isle of Man, still with no change as to its general advice regarding this jurisdiction. In the case of the U.S. there is one main obstacle reported in relation to differentiated market conditions that could apply to the EU funds dedicated to professional investors and therefore leading to potential risks of an unlevel playing field between EU and non-EU AIFMs.

Therefore, instead of providing a general positive advice, ESMA offers three different options as a way to deal with this existing obstacle. There is also a pending condition for Australia to extent its national "class order relief" to AIFs and AIFMs of all EU Member States prior to the extension of the AIFMD third country passport to that jurisdiction.

In addition to those non-EU countries, ESMA has gathered intelligence and will continue its efforts related to a number of other non-EU jurisdictions, including Bahamas, Brazil, British Virgin Islands, Curacao, Mexico, Mauritius, South Africa, South Korea, Thailand, US Virgin Islands, Malaysia, Egypt, Chile, Peru, India, China and Taiwan. The objective would be either to agree on a Memorandum of Understanding with those jurisdictions or to monitor the evolution at national level.

ESMA's advice is the first step for the extension of the AIFMD passport to third country AIFMs and AIFs, which has to be followed by delegated acts proposed by the European Commission and adopted by the European Parliament and the Council.

In October 2016 the ECON Committee of the European Parliament held a Hearing in the context of the Scrutiny of Delegated Acts and Implementing Measures by the EU institutions, where ESMA confirmed its continuing work on assessing a third group of non-EU countries and putting in place a new framework at the time the passport will be extended to non-EU countries. In this regard, the role of ESMA on supervising the passport process on an ongoing basis will have to be further reviewed and perhaps strengthened.

In the same hearing, the European Commission also confirmed that it is in the process of evaluating the new ESMA advice, while also assessing a number of other aspects that were not part of ESMA's mandate, such as the compliance with standards from the OECD tax convention and the large anti-tax avoidance strategy in which the Commission is engaged. To this end, the Commission has presented a scoreboard of indicators for third party countries and uncooperative tax jurisdictions. At the time of writing this report, there is no concrete reference on the timeline for the drafting and the adoption of the delegated acts that would lead to the application of the AIFMD third country passport.

AIFMD Review

Six years after its entry into force, and four years after the end of the date for transposition into the national jurisdictions, the Commission is to commence by 22 July 2017 a review of the application and the scope of the AIFM Directive, on the basis of a public consultation and in light of the discussions with competent authorities.

Ahead of that, the Commission launched in end of March 2017 a public procurement for a general survey on the functioning of the AIFMD rules and the experience acquired in applying them to be carried out by an independent service provider until the end of 2017.

Based on this survey, a public consultation will be probably launched in early 2018, which will then lead to a report to be submitted to the European Parliament and the Council on the main conclusions from the consultation and any concrete proposals for next steps. The absence of a concrete deadline foreseen for the submission of that report and of a requirement to accompany the report with proposals for legislative amendments provide the European Commission with sufficient time and content-flexibility.

According to article 69 of the AIFMD, the main focus of the Commission's analysis should be put on the Directive's impact on investors, AIFs or AIFMs, in the Union and in third countries, and the extent to which the objectives of the AIFMD have been achieved. It shall also take due account of developments at international level and discussions with third countries and international organisations. A non-exhaustive list of the current regulatory developments at the EU and international level that can be relevant in terms of the AIFMD review includes the international discussions on liquidity management, leverage measures and structural vulnerabilities of the asset management sector, the CRD/CRR new legislative rules covering asset managers that are subsidiaries to credit institutions (in particular the remuneration rules), discussions on sub-types of AIFs, such as loan funds and the debate on asset segregation at the ESMA level.

Moreover, there is an on-going discussion on ways to further address the remaining obstacles for cross-border distribution of funds that may lead to potential legislative amendments related to reporting requirements, marketing provisions, administrative arrangements and regulatory fees. It is however EFAMA's understanding that if necessary such modifications will be introduced in a more urgent way and via a separate targeted legislative proposal (not in the context of the AIFMD review).

12. The UCITS V Directive

"UCITS V" Level 2

2016 saw the finalisation of the Level 2 delegated Regulation, implementing the "UCITS V" Level 1 revision of the Directive. Due to protracted delays, the final Regulation was only published in the EU Official Journal on 24 March 2016, almost one week after Level 1 Directive's transposition deadline of 18 March 2016. Following EFAMA's joint actions with other industry bodies to highlight the considerable difficulties in adhering to the aforementioned transposition date, the Level 2 Regulation allowed a postponement until 13 October 2016 for industry to meet the requirements of the combined UCITS Level 1 and Level 2 provisions.

ESMA Guidelines on Sound Remuneration Practices

On 31 March 2016, ESMA published the final version of its 'Guidelines on sound remuneration policies under the UCITS Directive and AIFMD', applicable to managers' full performance periods after 1 January 2017. The Guidelines were accompanied by a separate letter to the Commission, European Parliament and Council on the application of the principle of proportionality in the context of tailoring the variable remuneration pay-out process applied to asset management subsidiaries within larger banking groups consolidated under CRD/CRR. Although ESMA defends existing requirements of both Directives and draws out clear distinctions with the functioning of credit institutions, ESMA concluded that legislative changes to the Directives could be considered to further clarify their interaction with a soon-to-be-revised CRD/CRR framework. Subsequently, on 23 November 2016, the Commission published its "CRDV/CRR II" proposal, containing a revised set of remuneration principles to apply to all consolidated subsidiaries of bank parent entity (see *infra*).

ESMA Consultation on Asset Segregation

Firstly, of particular relevance for UCITS (and AIFMs) in the second-half of 2016 was a second ESMA Consultation on asset segregation and custody services published on 15 July 2016, in which ESMA extended the scope of the consultation also to UCITS (its first consultation of December 2014 had focused exclusively on segregation requirements for AIFs).

Secondly, ESMA's consultation also sought to address the treatment of CSDs under specific circumstances as potentially subject to the UCITS/AIFMD rules of depositary delegation (cum liability regime). EFAMA participated in an ESMA roundtable on both these topics. EFAMA's position has been to clarify that individual account segregation throughout the sub-custody chain, at a level beyond the minimum requirements of both Directives, would not further increment the degree of client asset protection. Conversely, adverse impacts on collateral liquidity and greater operational risks along the sub-custody chain were also brought out in EFAMA's response to argue against the disproportionate use of individual account segregation (as proposed by some minority stakeholders). Relevant to the treatment of CSDs, EFAMA acknowledged that there were instances where certain types of (I)CSDs deserved to be covered under the UCITS/AIFMD depositary delegation provisions.

UCITS Share Classes

On 6 April 2016, ESMA published a second Consultation (*Discussion Paper*) on UCITS share classes. The *Discussion Paper* for a second time raised the prospect of limiting the use of non-FX hedged share classes for UCITS funds on the basis of four core principles. Recalling several of its core arguments from EFAMA's response to ESMA's previous *Discussion Paper* of December 2014, EFAMA maintained that UCITS share class hedging should not be limited to only FX factor risks.

Moreover, a wider use of other types of hedging overlays promised to improve economies of scale and the overall competitiveness of the European UCITS industry as a whole (see *infra*).

Removal of Cross-Border Barriers to Fund Distribution

Finally, EFAMA actively engaged with the European Commission in the course of 2016, notably on the occasion of its CMU-related consultation on the removal of cross-border barriers to the distribution of funds within the EU, as published on 2 June 2016.

The course of 2017 promises to witness further developments on some of the key outstanding topics for UCITS fund regulation, as outlined above.
Concerning UCITS and AIFM remuneration, in the context of the ongoing discussions among the EU co-legislators, EFAMA has proposed a number of targeted amendments to the relevant provisions of the Commission's "CRDV" proposal and will continue to meet with both Council and European Parliament representatives to advocate its position and monitor the ongoing process.

Related to the work of ESMA on asset segregation, the European asset management industry is keen to learn of the outcome of the ESA's final decision, in view of possibly triggering a future amendment to the relevant Level 1 provisions of both UCITS and AIFMD.

With regard to UCITS share classes, ESMA published its final Opinion on 30 January 2017. Although in part expected, the outcome represents an evident "step back" for those among our industry's clients needing to hedge non-FX factor exposures (e.g. duration), all while being invested into a larger underlying asset pool. With non-FX hedging overlays deemed non compatible with the ESMA principles, initial set-up costs and ongoing charges will become inevitable burdens linked to the creation of new UCITS fund compartments to cater to investors' demands. A negative fall-out is also expected in terms of competitiveness for the European industry, as well as by making cross-border investment into funds more difficult and in a way that is at odds with the broad objectives of the CMU.

EFAMA expects that certain of the above topics are likely to be scoped into a possible formal review of the UCITS Directive in the course of 2018.

13. Debate around Vulnerabilities from Asset Management Activities

FSB Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities

2016 marked a turning point in the FSB's work on assessing the alleged "systemic" vulnerabilities of the asset management industry in the broader context of global markets.

Following two prior consultations in the course of 2014 and 2015 on devising an assessment methodology to identify and designate non-bank, non-insurance, global systemically important financial institutions (G-SIFIs), the FSB, working jointly with IOSCO, sensibly modified its approach to focus no longer on individual entities, but on their activities instead. In this light, a new FSB consultative document was issued on 22 June 2016 for the purpose of gathering additional stakeholder views around a set of four potential "structural vulnerabilities" intrinsic to asset management activities:

- Liquidity mismatches between fund investments and redemption terms and conditions for open-ended fund units;
- Leverage within investment funds;
- Operational risk and challenges at asset managers in stressed conditions; and
- Securities lending activities of asset managers and funds.

In its response to the consultative document in September 2016, EFAMA reiterated many of the earlier arguments, supported by more recent evidence, to confute some of the FSB's remaining underlying assumptions. In particular, EFAMA stressed the diversity of funds' investment audiences to demonstrate that asset managers' clients are by far less "monolithic" than certain regulators assumed when attempting to justify the likelihood of "run risks" or the hypothesis of a "first-mover" advantage. While looking more closely at the professional asset management industry, both FSB and IOSCO standard-setters were reminded of the need to also consider other significant types of asset-owners which were directly responsible for the bulk of the global investable universe, e.g. sovereign wealth funds, pension funds, insurance companies, etc.

In an effort to effectively tackle the problem with "data gaps" raised by IOSCO, EFAMA supported the development of a common global reporting template for funds to report a set of their key characteristics across borders, while also leveraging on the LEI framework under the aegis of the FSB, as well as the UTI and UPI initiatives being pursued under the hat of CPMI-IOSCO.

Concerning the prospect of implementing "system-wide stress-testing" to improve the monitoring of financial markets' resilience to collective selling by funds and other market actors, EFAMA argued that such a "top-down" approach would not be workable, given the sheer complexity and diversity of both markets and market players, coupled with evident data gaps and myriads of subjective/behavioral assumptions that could simply not be modelled. For similar reasons, EFAMA held that the FSB's proposal for a "simple and consistent" leverage measure for funds was also not practical, suggesting that IOSCO rather consider some of the existing leverage indicators across a few jurisdictions as a starting point for further analysis for the purpose of monitoring financial stability.

As per its previous responses, EFAMA provided additional arguments to address the overstated concerns linked to operational risks in the transfer of individual investment mandates under stressed market conditions, as well as those stemming from the availability and size of client indemnification programmes for those (few) asset management companies also lending securities as agents.

EFAMA echoed some of these views at a September 2016 FSB roundtable organised by market supervisors involved in the FSB/IOSCO work.

On 12 January 2017, the FSB published its final policy recommendations to address "structural vulnerabilities" from asset management activities. Overall, the 14 recommendations were well-received by the buy-side industry to the extent these did not call for substantial regulatory reviews of existing standards and further mandated IOSCO to develop additional guidance on some aspects by end-2017/end-2018. Of the four categories of perceived "vulnerabilities", concerns tied to liquidity mismatches and use of leverage within funds have deserved a priority.

As to liquidity mismatches, EFAMA welcomed the FSB's revised language and recognition of several risk-mitigants highlighted in previous responses. Positive was also for certain recommendations to recognise some flexibility for national authorities to take action only "where appropriate" or "where relevant", including the possible consideration of system-wide stress-test by judging the relative "systemic" importance of actors in each jurisdiction and once more complete data sets become available. IOSCO has been tasked to revise its existing 2013 Principles on liquidity risk management and develop additional guidance by the end-2017.

Regarding leverage, the corresponding recommendations call for an improved collection of data on leverage in funds in view of their aggregation across jurisdictions, as well as the identification of consistent measures to gauge fund leverage, building on methods already available. These should be identified and/or developed by IOSCO by the end-2018 (see *infra*).

Use of Leverage by Investment Funds

At international level, the use of leverage in investment funds has been debated in 2016 in the context of financial stability and the vulnerabilities that can be caused by asset management activities. In its consultation document published in June 2016, the FSB made reference to the risks that leverage used by investment funds can create and/or amplify by transmitting the financial distress encountered by a fund to its counterparties (i.e. counterparty channel), or through interconnections with its investors and its funding of other financial intermediaries and businesses (i.e. interconnectedness channel) or by rendering a fund more sensitive to adverse changes in asset prices and potentially forcing assets' sells in order to obtain liquidity and deleverage (fire sales channel). Still, in that same context of financial stability, the European Systemic Risk Board (ESRB) stated in July 2016 that, in spite the environment of low interest rates that has prevailed in recent years, there was generally conducive to "search-for-yield" behaviour and, thus, leverage, evidence on investment funds "*remains scarce at this stage.*"[4]

Use of leverage by investment funds in Europe is already significantly regulated, notably by the AIFMD and the UCITS Directive, as well as by 2010 CESR Guidelines on Risk Measurement and the Calculation of Global Exposure and Counterparty Risk for UCITS. The three leveraged calculation methods foreseen in the EU legislation are gross method, commitment method and VaR metrics. Apart from those rules, the AIFM and UCITS Directives also foresee specific regulatory requirements and processes on sound and effective risk management which have to be consistent with the risk profiles and rules of the funds which are managed. Moreover, AIFMD entails a number of detailed requirements to disclose leverage-related information to investors and regulators.

The European regulatory framework also includes specific rules regarding leverage monitoring for systemic risk purposes, allowing regulators to collect data for the purposes of identifying the extent to which the use of leverage contributes to the build-up of systemic risk in the financial system, risks of disorderly markets or risks to the long-term growth of the economy, share them with other relevant competent authorities and with ESRB, the latter being able to use such data to monitor market trends and financial stability. This information should be passed on to ESMA as well and be used for monitoring purposes, also with the power for ESMA to act upon them in exceptional circumstances and when necessary to ensure the stability and integrity of the financial sector.

4 ESRB, Assessing shadow banking-non-bank financial intermediation in Europe, No 10/ July 2016, point 3.2.1 Leverage

In that context, EFAMA stressed in its response to the FSB consultation that risks of financial distress and spill-over effects, as well as potential contribution to pro-cyclicality and liquidity risks deriving from the use of leverage, as the ones referenced in the FSB report do not correspond to material risks posed by the majority of the investment funds in Europe. EFAMA reiterated its support for the EU model for measuring leverage, arguably the most advanced currently at global level, as it consists of a matrix of different measures ensuring a realistic representation of a fund's economic exposure and allowing regulators to draw the right conclusions for financial stability purposes. As regards the objective to aggregate data in order to improve direct comparisons across funds, EFAMA pointed out that given the broad range of investment vehicles and strategies any simple aggregation of data for all investment funds irrespective of the specificities of each fund category cannot result in meaningful aggregations and therefore in a substantial monitoring for financial stability purposes.

- International level: in the Final Recommendations published as part of its report on Structural Vulnerabilities in the asset management sector in January 2017, the FSB opted to remove the reference to a "simple and single" leverage measure, asking IOSCO to identify instead "consistent measures of leverage" in funds to facilitate more meaningful monitoring of leverage for financial stability purposes, as well as to develop more risk-based measures and to collect national/regional aggregated data on leverage across its member jurisdictions. The IOSCO Committee on Asset Management (C5) has constituted a small Sub- Working Group to discuss on the FSB Recommendations on leverage and the C5 mandate on data gaps (C5 SWG on Leverage), in which EFAMA is participating as an industry representative.
- European level: the ESRB's working group on investment funds will work throughout 2017 on leverage. This is one of its three work streams (along with data gaps and liquidity mismatches), with the key objective of building upon the existing matrix of different calculation models in the EU.

EFAMA/AMIC Joint Paper: EFAMA will prepare a joint paper with AMIC on the use of leverage by investment funds in Europe.

Review of the EU Macro-prudential Policy Framework

On 1 August 2016, the European Commission published a consultation document on the review of the EU macro-prudential framework that had been put in place in the aftermath of the 2008 financial crisis.

The document emphasised the review of the existing prudential framework built around the systemic nature of credit institutions, at the cornerstone of which lies the CRD/CRR. It also raised the prospect for a review of the current EU institutional set-up and the opportunity of extending the ESRB's "institutional and analytical capacity" into the non-bank/market-based financing space.

In its response[5], EFAMA noted the need for a more robust and fact-based assessment of the asset management industry by prudential supervisors, and notably the ESRB. In this regard, it would be essential to have more reliable, complete and comparable data sets between jurisdictions for macro-prudential supervisors to use and thus avoid frequent biases against non-bank actors. It would also be important to recognise the financial stability mandate of ESMA as well as of the NCAs, as per numerous pieces of EU legislation, notably the AIFM Directive. From

5 EFAMA response to the European Commission consultation document Review of the EU macro-prudential policy framework: http://www.efama.org/Publications/Public/16-4065_EFAMA%20response%20to%20EC%20consultation%20on%20macro-prudential%20regime%20review.pdf

a governance perspective, EFAMA cautioned the Commission against the ESRB's overdependence on the ECB when making assessments and recommendations regarding non-bank actors, while also advocating a greater role for European securities markets supervisors in the institutional set-up of the ESRB/ECB, as well as within both their own respective secretariats. These views were further echoed during a public hearing organised by the Commission on 7 November 2016 that EFAMA attended.

A formal proposal for the review of the EU macro-prudential framework is expected to be published by the Commission in the autumn of 2017.

14. Remuneration Principles for Asset Managers

ESMA Guidelines

Following up on EBA's final report on Guidelines for sound remuneration policies under CRD IV and related Opinion released in December 2015, ESMA adopted on 31 March 2016 its final Guidelines on sound remuneration policies under the UCITS Directive and AIFMD, accompanied by a letter addressed to the EU co-legislators.

The ESMA Guidelines provide that, where management companies are part of a bank-owned group, the specific UCITS/AIFMD rules should apply with no exception. However, ESMA also admits instances where individuals of the management company could become subject to their parent's own prudential remuneration requirements under CRD IV. The letter further acknowledges the diverging interpretations of the EBA and ESMA and re-instates the importance of the principle of proportionality in light of the agency nature of the asset management business. At the same time, the letter envisages future legislative changes as a mean to ensure a consistent application of remuneration requirements for asset managers across the entire breadth EU legislation, thus also foreshadowing the upcoming amendment proposals to the CRD/CRR by the Commission.

European Commission CRD/CRR Package

On 23 November 2016, the Commission published its awaited proposal to amend the CRD/CRR regime. With regard to the proposed amendments to the remuneration provisions of the Directive (Art. 92 *et seq.*), EFAMA noted that these further restrict the application of proportionality compared to the existing text in force.

In general, with regard to the specific topic of remuneration, EFAMA maintains that a "copy/paste" of remuneration principles applicable to credit institutions would be hugely disproportionate for those asset management companies that, in Europe, are part of a CRD-licensed parent institution. For these subsidiaries, the application of the relevant sectoral provisions of the UCITS/AIFM Directives (as further specified by the accompanying ESMA Guidelines) should be maintained in light of the fundamental difference between the "agency" nature of asset managers' activities and the "principal" nature of banks. In particular, the pay-out of the variable remuneration components for asset managers should be adjusted on the basis of multi-year performance assessment periods and of "risk-taking" that is strictly limited, not only by the existing EU legislation, but also by the investment mandate conferred by investors to the manager. Remuneration requirements (as a "bonus cap" for instance) intended to curb excessive "short-termism" are therefore at odds with the long-term focus and fiduciary role of asset managers. EFAMA will continue to carry these key messages forward by continuing its engagement with the EU and other international bodies in the course of 2017.

International Level

With respect to other international bodies, 2016 also saw remuneration policies in the securities/non-bank industry attract the interest of the FSB and IOSCO, which have established an expert group to work jointly for a dual purpose: (i) survey the application of the FSB's 2009 *Principles for Sound Compensation Practices and Implementation Standards* in the securities industry, and (ii) supplement these *Principles* with additional recommendations based on findings relating to the relationship between remuneration incentives and conduct risk.

In order to better inform their work, the FSB and IOSCO organised an industry roundtable on 13 December 2016 attended by EFAMA. The event proved useful for the buy-side industry to re-iterate the key characteristics of its business model to justify its remuneration practices compared other financial institutions. The inputs will prove useful to prepare a report for the G20 Leaders' summit in July 2017. It is also expected that the aforementioned recommendations will be consulted upon in the course of 2017.

15. Investment Firms Prudential Review

Following its Report on Investment Firms of December 2015 in response to the European Commission's earlier Call for Advice, the EBA has acknowledged important differences between the different business models for a variety of investment firms and those of banks. Within the context of an upcoming CRD/CRR review, the EBA consulted on various occasions with industry stakeholders in the course of 2016 to gradually define a revised prudential framework for investment firms, i.e. one less complex, more risk sensitive and more proportionate than the current one under the CRD/CRR. A specific chapter of the review is also dedicated to remuneration requirements for investment firms, in view of assessing whether the same framework currently applicable to credit institutions is appropriate.

A public consultation in the form of a Discussion Paper was published by the EBA on 4 November 2016 to gather further views from industry stakeholders. The consultation outlined the contours of a future prudential regime for investment firms, among which professional asset managers discharging their "agency" business as a core service to clients, based on a range of incremental risk factors implied by the specific activity of the investment firm itself. A public hearing and follow-up roundtable were also attended by EFAMA at the EBA premises on 1 December 2016, in view of facilitating the preparation of its own response.

In its response[6] to the Discussion Paper on 2 February 2017, EFAMA welcomed the proposal, "tiering" investment firms into three main categories and as an important step in the direction of further separating bank from non-bank actors and activities, thus removing much confusion around the appropriateness of CRD/CRR requirements for non-bank entities. For investment firms providing portfolio management as a core service, with minimal or no use of their own balance sheet, EFAMA has favoured an alignment of the future prudential regime with the existing relative requirements for UCITS and AIF management companies. Recognising the fiduciary nature of the firms' activities, the resulting prudential capital calibrations should be primarily focussed on addressing the underlying operational risks to the firm itself, rather than on the risks implied by the size of the assets managed or under advice on behalf of third-party clients.

6 http://www.efama.org/Publications/Public/MiFID-MiFIR/EFAMA_Response_EBA_new_prudential_regime_MiFID_firms.pdf

A final report from the EBA advising the European Commission is expected by end-June 2017. The Commission is expected to further organise targeted discussions with industry stakeholders in view of tabling a legislative proposal towards the end of 2017.

EFAMA deems it critical for the EU co-legislators to successfully integrate the Commission's proposal for investment firms into the ongoing negotiations of the broader "CRDV/CRDII" banking reform package.

16. Review of EMIR

EMIR (European Market Infrastructure Regulation on OTC derivatives, central counterparties and trade repositories) is the implementing regulation at EU level of the G20 requirements[7] set in September 2009 in Pittsburg to control the use of OTC derivatives.

It notably includes the following obligations: (i) Reporting to all derivatives transactions to trade repositories (including organisational requirements for Trade repositories and the duty to make certain data available to the public and relevant authorities); (ii) Central Clearing for certain classes of OTC derivatives (including organisational, conduct of business and prudential requirements for CCPs); and (iii) Application of risk mitigation techniques for non-centrally cleared OTC derivatives (such as transaction netting or margining of transaction i.e. the provision of financial guarantees to reduce counterparties and market risks).

The entry into force of those requirements has been phased in different steps, based on the nature of the requirement and the type and size in trading of the counterparties. The reporting of the OTC derivatives transactions is applied since February 2012. Mandatory clearing of some instruments by the largest counterparties started on 21 June 2016.

The implementation of the EMIR requirements by UCITS and AIFs management companies proved very challenging, in particular given the various intermediaries and service providers that have to interact in the collateral fund chain (e.g. custodian, external collateral manager, (external) portfolio manager, counterparties, valuation service provider). In that context, EFAMA advocated to guaranteeing a regime of exchange of margins in a way that was consistent with the current European market infrastructures, demonstrating the need for counterparties trading in Europe to post margins on T+1 rather than be forced to settle the margins on T+1.

The obligation to provide variation margins was due to enter into force on 1 March 2017. However, because of the time needed to put in place the documentation, market participants had major difficulties in finalising the execution of the related contracts with counterparties. Considering the impact of this issue on its members and on the derivatives markets globally, EFAMA coordinated a number of actions and communications with several other European and American buy-side associations with the aim of protection the capabilities for funds and asset

7 G20, Pittsburg, Sept. 2009: "(…) To make sure our regulatory system for banks and other financial firms reins in the excesses that led to the crisis. Where reckless behavior and a lack of responsibility led to crisis, we will not allow a return to banking as usual. We committed to act together to raise capital standards, to implement strong international compensation standards aimed at ending practices that lead to excessive risk-taking, to improve the over-the-counter derivatives market and to create more powerful tools to hold large global firms to account for the risks they take. Standards for large global financial firms should be commensurate with the cost of their failure. For all these reforms, we have set for ourselves strict and precise timetables. We designated the G-20 to be the premier forum for our international economic cooperation. We established the Financial Stability Board (FSB) to include major emerging economies and welcome its efforts to coordinate and monitor progress in strengthening financial regulation (…)."

managers to maintain margining for new transactions. Those efforts, jointly with similar ones from other actors of the derivatives' industry, succeeded in convincing national competent authorities in Europe and abroad as well as international ones to consider a temporary principle based control.

At the time of writing, the European Commission is set to release its EMIR review before the summer.

EFAMA is supportive of the regime of variation margins as proposed in ESMA's Regulatory Technical Standard on risk mitigation techniques for non-centrally cleared transactions. Nevertheless, we will be seeking for a better treatment of repos for funds. Asset managers and regulated funds are providing collateral on "own assets", with limited capabilities to use leverage. Therefore, the margining regime must be well calibrated and rules should allow the use of repo to provide eligible collateral.

EFAMA will actively engage in the review of EMIR putting forward its views, closely monitor the implementation of the trading obligation for derivatives under MiFIR as well as the implementation of the clearing obligations and risk mitigation tools under EMIR. We will also continue our efforts to facilitate the use of a diversified and high quality liquid asset as collateral.

17. CCP Recovery and Resolution

After a protracted delay, the European Commission published a proposal for a regulation on the recovery and resolution framework for CCPs on 28 November 2016. The proposal aptly reflects the main principles of the FSB's and of the CPMI-IOSCO's own consultative reports issued earlier in the course of 2016.

Following the publication of the Commission's proposal, EFAMA prepared a position paper in March 2017 on the key aspects of the proposed regulation from a European buy-side perspective.

These mainly relate to the greater emphasis end-investor interests would deserve in the text of the proposal, especially in the form of greater guarantees against the recourse to variation margin gains haircutting (VMGH) as a loss allocation tool in both recovery and resolution phases. Second-tier considerations for EFAMA are a clearer distinction between default loss and non-default loss events for the CCP, as well as around the importance of the resolution authority's early intervention powers. Negotiations in EP and Council have begun in early 2017, and EFAMA will be engaging in the legislative phase to convey the views of asset managers.

18. Benchmarks and Indices

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

After more than three years of negotiations, the Benchmark Regulation was agreed by the Council and the European Parliament by the end of 2015 and published in the OJ of the EU in June 2016.

For investment funds, which the Regulation qualifies as supervised entities, the main requirements that apply are (1) making use of benchmarks that are already authorised or registered according to the Regulation - therefore the ones that will be included in the ESMA register -; (2) ensuring that their Prospectus is referencing the benchmarks used and (3) maintaining at all times robust written plans setting out the actions that they would take in the event that a benchmark they use materially changes or ceases to be provided.

What is also important is the reference of investment funds in one separate category of the defined cases of use, i.e. a concrete case of use is the *"determination of 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".* In that way, the mere use of an index, by an investment fund, even of a bespoke index, which is a modified or combined index, for performance assessment or tracking purposes does not constitute an administrator. This is of particular importance given that, contrary to a user, a benchmark administrator is involved in the production, calculation, and contribution to data on which benchmarks are based and for that reason are obliged to comply with a more significant number of the Regulation's requirements.

As the Regulation will effectively apply as of January 2018 and given the extensive number of implementing measures that have to be in place by then, ESMA held three public consultations in 2016, both on its technical advice regarding the Commission's delegated acts and the draft Regulatory Technical Standards that will be specifying several provisions of the Regulation. EFAMA acknowledged some useful modifications in ESMA's Technical Advice published in November 2016, which included guidance on some of the most important topics from the investment funds' perspective.

- Firstly, the definition of what constitutes an index made available to the public, according to which an *index that might be accessibly to a "potentially indeterminate number of (legal or natural) persons outside of the provider's legal entity"* is to be considered a public one. That would bespoke indices open only to a predetermined number of recipients will not fall in the scope - of the Regulation. That will result in avoiding unnecessary costs for those indices, which as they are not accessible to the public are by nature of less risk for the stability of the market.

- Secondly, the use of the latest available NAV of a fund for the measurement of the overall value of a benchmark (when this particular benchmark is used by a fund). EFAMA welcomes ESMA's clarifications that no additional reporting requirements will be placed on a fund and that any relevant information on the fund's NAV can be obtained via alternative private providers of information or data calculated by market operators.

- ESMA considers that the transitional provisions foreseen in ESMA's advice allow investment funds to use indices that after January 2018 will be not considered as compliant. It is also ESMA's understanding that those cases are sufficiently covered by the grandfathering clause covering not only the existing indices used by investment funds, but also all indices that investment funds will be using until January 2020.

- EFAMA has also stressed the need to allow the right transparency related to the input data of indices in order to allow further financial stability and confidence on benchmarks used by asset managers, but equally important to enable investment funds to comply with their own disclosure requirements as they are foreseen in the ESMA Guidelines on ETFs and other UCITS issues (ESMA/2014/937/EN)[8]. As they stand, ESMA Guidelines request for information on input data of all indices used by UCITS funds, even though under the recently adopted Regulation, benchmark administrators are not required to provide them to users, making thus asset managers dependent upon the good will of each index administrator. Given, however, that the new regulatory framework foresees the right level of transparency, no user should be brought in the position to be requested to provide more input data than the ones for which the Benchmark Regulation is requesting for transparency and therefore more input data than the ones a benchmark administrator is requested to provide to the public and its users. For that reason, EFAMA believes ESMA should seek to align its Guidelines to the relevant requirements of the Benchmark Regulation.

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

In March 2017, ESMA published its final RTS referring among other topics to the issue of transparency, however these were only restricted to the methodology aspects and not on the input data, as the latter was not in the scope of its mandate from the Level 1 Regulation. EFAMA will seek further alignment between the ESMA Guidelines and the Benchmark Regulation via modifications to the relevant parts of the ESMA Guidelines.

Moreover, the Commission will launch in the second quarter of 2017 a second round of consultation on the delegated acts covered by the ESMA technical advice, where there may be some further developments, in particular as to the definition of what is an index made available to the public.

19. Anti-Money Laundering

ESAs Joint Guidelines on Anti-Money Laundering Directive (AMLD)

The draft Joint Guidelines on Anti-Money Laundering Directive issued by ESAs in October 2015 included in their Chapter 9 sectorial guidelines for providers of investment funds and the application of their due diligence duties in respect to that Directive.

In June 2016, based on worrying feedback by its members, EFAMA addressed a letter to the ESAs highlighting that the treatment of intermediation in the distribution process of fund shares needed to be better reflected in these Guidelines. EFAMA also pointed out the fact that certain third country jurisdictions should be allowed to have an equivalence status vis-a-vis their AML/CTF rules and therefore be assessed as jurisdictions of a lower risk status. EFAMA has been working since on the upcoming ESAs Guidelines, in particular as to the identification of the beneficial owner.

EFAMA has been discussing its views with EBA and ESMA and presented them the EFAMA Position Paper[9], which is setting out the asset management industry's views on the different distribution models in Europe and the entities that, due to their proximity to the end-investor, should be in charge of identifying the beneficial owners. It also offered a clear analysis as to how the beneficial owner is to be determined not via identifying a quantitative threshold rather than on the basis of a qualitative assessment on the criteria for identifying the controlling person – in alignment with the international FATF standards. Furthermore, on third country equivalence, EFAMA stressed that the AMLD as it stands at Level 1 allows the possibility of equivalence for jurisdictions outside the EEA, which would justify that processes such as the simplified due diligence (SDD) should be applicable also for third country jurisdictions whose AML/CTF rules are considered equivalent and therefore of lower risk.

9 http://www.efama.org/Publications/Public/EFAMA_Paper_AML_Joint_Guidelines.pdf

European Commission Proposal on AML

On the legislative Proposal published by the Commission in July 2016 modifying the previous AMLD, EFAMA engaged in the debate and prepared concrete suggestions asking for a more qualitative assessment of the beneficial ownership, going thus against the new proposals by the Commission to make this assessment dependent on very low shareholding thresholds for the identification ownership. In its common position adopted in December 2016, the Council has endorsed the need for a higher threshold and for that to be an indicative criteria when assessing the beneficial ownership of end-investors.

- In March 2017 EFAMA submitted further comments to the ESAs regarding the draft Joint Guidelines and Section 9 on the due diligence requirements for asset managers. The main goal of this second submission was to provide the ESAs with further detailed information as to the market distribution models and the links of asset managers to the end-clients.

- On the AMLD legislative proposal, the ECON Committee of the European Parliament voted in favor of decreasing the threshold when assessing the beneficial ownership of a fund's investor. The upcoming trilogues will determine whether the Council's or the Parliament's approach will prevail in the final agreement.

20. Non-Bank Financing - Regulation on Securities Financing Transactions (SFTR)

In November 2015, the Regulation on the transparency of securities financing transactions (SFTR) was published in the Official Journal of the European Union. SFTs are any transaction in which securities are used as collateral for a cash transaction. SFTs allow market participants to access secured funding and are an essential funding tool in the European Union. The aim of SFTR is to enable supervisors to closely follow market trends and the growth of activities in shadow banking so that they identify vulnerabilities in the financial sector, trade repositories will be the tool to collect the data. The reporting requirements are by and large in line with EMIR, there is a simplified registration process for EMIR compliant TRs.

EFAMA's key messages on SFTR are the following:

- The amount of information to communicate and the level of details required are excessive (regulated funds already have to adhere to the reporting obligations of securities financing transactions as required by the UCITS/AIFM Directive, Central Banks and national regulators).
- There is a need to ensure extensive reporting integration (all reporting requirements should capitalise on pre-existing data collection processes).
- There are no benefits in envisaging a regime of mandatory haircut on collateral exchanges.
- The ESMA's 2012 Guidelines on ETFs and other UCITS issues (as revised in 2014) are creating major difficulties to the use of SFT to transform asset in portfolios into assets that are eligible to collateralise those portfolio and should therefore be amended.

- On 21 April 2017, ESMA published its final report on technical standards under the Securities Financing Transactions Regulation (SFTR) and amendments to EMIR. ESMA's final standards set out provisions on SFT reporting, data collection and availability. It also defines access levels for different public authorities and exchange of data on sanctions between authorities.

- ESMA expects the SFTR implementing measures to enter into force by the end of 2017. Firms would have to start reporting their SFTs to TRs twelve months after the publication of the implementing measures in the Official Journal, while the reporting obligation itself would be phased-in over nine months.

EFAMA is supportive of every measure that helps reinforcing stability in markets. Providing complete and exact data to the regulators is a key element to guarantee that stability and prevent any systemic issue.

Nevertheless, we will also seek at ensuring that the information required are meeting the objectives of transparency in a way relevant to the appropriate addressees.

21. Revision of the Shareholders' Rights Directive

In April 2014, the European Commission published the Revision of the Shareholders' Rights Directive to encourage long-term sustainability of EU companies and encourage shareholder engagement as an essential pillar of the European economy's long-term financing. Following a lengthy trilogue process and a period of stagnation, a political agreement was reached in December 2016 under the Slovak Presidency of the European Union.
EFAMA approached this file through the lens of the asset manager's fiduciary duty, that is – to achieve the best long-term interest of their clients by actively engaging with the companies in which they invest on their behalf. Our key messages included:

- The need to avoid overlap with sectoral legislation;
- Support for proportionate and effective disclosure requirements for asset managers;
- Concern over the dilution of shareholders' automatic right to vote on related party transactions;
- Support for more effective transmission of information between shareholders and companies;
- Questions regarding the legal clarity of the financial and tax disclosure requirements (country-by-country reporting) in the Parliament report.

Formal approval of the political agreement by the European Parliament and Council of Ministers took place in the first half of 2017, with publication in the Official Journal of the European Union expected shortly thereafter. Member States have two years to implement this Directive after its entry into force (it will enter into force 20 days after publication in the Official Journal).

EFAMA is undertaking work to revise its Code of External Governance to ensure its alignment with the newly revised legislation on Shareholders Rights. EFAMA will also closely monitor work by the European Commission on Implementing Acts on Chapter IA of the new legislation in relation to the identification of shareholders, transmission of information and facilitation of the exercise of shareholders rights.

22. Solvency II Reporting Templates

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 in 2015 a template (so-called Tripartite template, or TPT) to assist insurers with Solvency II reporting obligations. The template provides data on the underlying assets of the investment funds insurers are invested in. The objective of the template is to simplify and standardise the process of delivering the necessary data insurers need for the solvency capital requirement (SCR) calculation and for the quantitative reporting templates (QRTs).

The template was launched in October 2015, and completed in October 2016 by an updated Q&A document to address questions raised by some stakeholders. Both the TPT and the Q&A are available on the EFAMA website.[10]

The review of the template is scheduled for June 2017. It will aim to capture EIOPA taxonomy changes and policies regarding investments in infrastructure. In principle, a review of the TPT will be undertaken at least once a year, to accommodate regulatory changes and any operational issues / requirements raised by users.

10 The updated communication material as well as the TPT template itself can be downloaded through the following link: https://www.efama.org/Publications/Public/Solvency%20II/16-4068_Solvency%20II%20Tripartite%20Data%20Exchange.pdf

23. The Volcker Rule

In 2016, EFAMA continued its dialogue with the US authorities to address outstanding concerns raised by the so-called Volcker Rule, in particular the risk for a large portion of EU funds 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.

In July 2015, the US Volcker Rule agencies had released much welcomed guidance ("FAQ 14")[11] providing substantially all the relief that had been requested for foreign public funds (notably UCITS).

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.

During the course of the year, in close cooperation with the European Banking Federation, and with the support of the European Commission, EFAMA undertook a number of actions to alert the US Volcker agencies on the importance and urgency of providing relief to those foreign non-public funds by providing interpretive guidance well before the expiry of the conformance period on 21 July 2017. These actions included two meetings with the US Volcker agencies in Washington, as well as several joint written submissions with the EBF to support our case and recommend practical solutions (including an extension of FAQ 14 to foreign private funds and the so-called "SOTUS opt-in" solution).

As of the date of writing this annual report, the above issue was still outstanding and, in light of the political context in the United States, it was unclear if it could be resolved before the deadline of 21 July 2017.

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

TAXATION

- In 2016, the discussions in Council among the 10 participating Member States on the proposed Financial Transaction Tax (FTT) have continued but no agreement was reached.
- Regarding its Base Erosion and Profit Shifting (BEPS) project, the OECD published in the first quarter of 2016 two relevant discussion drafts dealing with BEPS Action 6. On 24 November 2016 the OECD adopted the multilateral convention composed of the multilateral instrument (MLI) and explanatory statements.
- The European Commission published a proposal for an Anti-Tax Avoidance (ATA-) Directive on 28 January 2016. The Directive was adopted by the Council on 20 June 2016.
- The European Commission continued its work on tackling withholding tax issues. The "Experts group on barriers to free movement of capital", composed of Member States experts, recognised withholding taxes as one of the main barriers to the free movement of capital and agreed on a number of actions to solve these issues.

1. Financial Transaction Tax (FTT)

On 11 October 2016 the 10 participating Finance ministers (Austria, Belgium, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia and Spain) met in Luxembourg. Whereas at that time the group seemed close to an agreement on the core principles of the FTT, the next planned discussion (expectedly to formalise the agreement) at the ECOFIN meeting on 06 December 2016 was however postponed. In response to the seemingly reactivated discussions of the Finance ministers in October, EFAMA circulated in December 2016 an updated position paper on FTT to all relevant stakeholders in all EU institutions (European Commission, European Parliament, Council). In this letter EFAMA reiterated its deep concerns and serious objections to the FTT, stressing that the FTT could distort the creation of a Single Market for capital. The FTT would be a tax on European consumers, as there is no doubt that it will be borne by consumers as investors.
In its position paper EFAMA commented on the major concerns regarding the FTT[12]:

- Double Taxation
- Treatment of Pension Funds
- Increased Cost of Capital
- Extra-territorial effects with respect to derivatives and portfolio management activities
- Tax rate
- Increased systemic risk
- Damage of market making activities
- Tax collection / Joint and several liability

The main point for discussion in the early 2017 meetings was whether pension funds would be exempted as originally requested by Belgium and Slovakia. After a meeting of the EU10 Finance ministers in March, it was agreed that Belgium, Slovenia, and Slovakia would discuss an option that would allow countries to "opt-out" of levying financial transactions within their respective pension industries.

12 The technical details of the EFAMA views can be found at: http://www.efama.org/Publications/fttpositionpaper.pdf

2. Base Erosion and Profit Shifting (BEPS)

OECD Initiatives on BEPS Action 6

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

The discussion draft on pension funds included proposed changes to Articles 3 and 4 of the OECD Model Tax Convention, and to the Commentary on these Articles. These changes sought to ensure that a pension fund is considered to be a resident of the State in which it is constituted for the purposes of tax treaties (regardless of whether that pension fund benefits from a limited or complete exemption from taxation in that State).

- EFAMA and PensionsEurope submitted a joint letter to the OECD, noting that some parts of the definition in the OECD proposal seem to fall short, and proposing what we believed were workable amendments. Besides, a section concerning CIVs/ Non-CIVs as well as section concerning the "Limitation on Benefits" (LOB) clause for pension funds were included to draw the attention of the OECD to related specific issues.

- On 24 November 2016, the OECD adopted the multilateral convention composed of the multilateral instrument (MLI) and explanatory statements. The MLI includes the so-called treaty-related minimum standards (including Action 6). In this context the OECD adopted some of the main amendments regarding entities or arrangement providing retirement benefits, EFAMA and PensionsEurope proposed.

- The discussion draft on the treaty-entitlement of non-CIVs included 28 specific questions (e.g. asking for a concrete definition of "non-CIV" or "widely held") related to concerns, identified in comments received on BEPS Action 6, as to how the new provisions included in the Report on Action 6 could affect the treaty entitlement of non-CIV funds as well as to possible ways of addressing these concerns that were suggested in these comments or subsequently.

- EFAMA prepared comments to this discussion draft, mainly asking for a broader definition of CIVs.[13] Regulated investment vehicles that are sold to the public or that are open-ended and capable of having an unlimited number of investors should qualify as CIVs, irrespective of the legal form and the kind of assets the vehicle is invested in. The definitions for CIVs that have been provided so far are not sufficient. The concern is that the consequences of this lack of definitions is legal uncertainty. In addition, EFAMA further explained the concerns in connection with Limitation of Benefits (LOB) Clauses.

In the first quarter of 2017 the OECD published a follow-up discussion draft on Non-CIV examples. EFAMA sent a response letter to the OECD, using the possibility and comment not only on the examples but also on the general situation of investment funds after the implementation of BEPS Action 6. EFAMA asked again for a clearer and extended definition of CIVs and called for continued vigilance on the part of the OECD so that the practical implementation by tax authorities does not lead to real impact on investment flows.

13 The technical details of the EFAMA views can be found at: http://www.efama.org/Publications/Public/Tax%20in%20general/EFAMA%20letter%20on%20Treaty%20entitlement%20of%20Non%20CIVs.pdf

EU Initiatives – Anti-Tax Avoidance Directive

The European Commission published a proposal for an Anti-Tax Avoidance (ATA-) Directive on 28 January 2016. The Directive was adopted by the Council on 20 June 2016. It contains minimum standard rules against tax avoidance practices directly affecting the functioning of the Internal Market in line with the BEPS project of the G20 and the OECD. It lays down these anti-tax avoidance rules in five specific fields:

- Interest limitation rule
- Exit taxation
- General anti-abuse rule ("GAAR")
- Controlled foreign company ("CFC") rules
- Framework to tackle hybrid mismatches.

EFAMA's position paper[14] circulated in April 2016 to EU institutions details its concerns regarding the fact that the ATA Directive does not have specific rules for investment funds which leads inevitably to legal uncertainty and may have significant unintended consequences for investor outcomes. In addition, EFAMA reflected on the proposed anti-tax avoidance rules in the specific fields.

14 The technical details of the EFAMA views can be found at: http://www.efama.org/Publications/16_4028_EFAMAPP_ATADirective.pdf

3. Withholding tax

On 28 January 2016, the European Commission published its recommendation on the implementation of measures against tax treaty abuse (in the framework of the Anti-BEPS Tax Avoidance package), in which it recommends those Member States that aim to include a general anti-avoidance rule in their treaties (based on the OECD BEPS work on Action 6) to insert a Principal Purpose Test ("PPT") clause rather than a Limitation On Benefits ("LOB") clause.

> « For EFAMA the easiest solution would be the abolishment of WHT for payments made for UCITS and AIFS within the EU and partner jurisdictions. »

EFAMA commented on this recommendation but also on the implementation of TRACE for the purpose of simplifying withholding tax ("WHT") procedures.[15]

EFAMA argued that WHT relief procedures are often cumbersome and time and resource intensive. The time and costs of WHT recovery in many cases still act as a deterrent for investment funds to invest in other than their residency states. WHT recovery processes are defined and applied at national level. A lot of difficulties arise due to these inconsistent WHT recovery procedures. TRACE has been designed to improve efficiency for claiming treaty benefits for investors and EFAMA understands that TRACE could be a way to overcome withholding tax issues.

15 The technical details of the EFAMA views can be found at: http://www.efama.org/Publications/Public/Tax%20in%20general/16-4026_EFAMA%20position%20paper%20-%20WHT%20-%2006_07_2016_web.pdf

> « The time and costs of WHT recovery in many cases still act as a deterrent for investment funds to invest in other than their residency states. »

EFAMA is therefore supportive of a TRACE implementation or any other alternative that provides additional information to investors. EFAMA, however, believes that it would be helpful to have European WHT rules in advance of the implementation of TRACE. We believe investment funds should always be entitled to Double Tax Agreements, which is not currently the case, so that the fund itself will always be considered as the beneficial owner and is therefore able to claim benefits in its own right. For EFAMA the easiest and justifiable solution would be the abolishment of WHT for payments made for UCITS and AIFS within the EU and partner jurisdictions.

With regard to the recommendation of the European Commission, EFAMA welcomed the fact that the European Commission is encouraging Member States to implement a general anti-avoidance rule based on a PPT rather than the adoption of a LOB clause which would mean more cases where the lack of data about underlying beneficial owners is problematic (resulting in most investments funds operating on a cross-border basis being deprived from treaty access). However, divergence in the interpretation of a PPT by different tax administrations can undermine and create further uncertainty on the ability of UCITS and comparable AIFs to meet treaty qualification.

The European Commission (EC) has been committed for a long time to tackling withholding tax issues. The EC's Member States Experts group on barriers to free movement of capital has recognised withholding taxes as one of the main barriers to the free movement of capital and is planning actions to tackle Withholding Tax issues. On 27 February 2017, the EC issued the report "Accelerating the capital markets union: addressing national barriers to capital flows", presenting nine best practices in connection with Withholding Tax refunds and reclaim procedures that the expert group had identified. In addition, the EC is drafting a Code of Conduct for relief at source from withholding tax procedures, which is planned to be finalised by the end of 2017.

PENSIONS

Pension policy remained high on the political agenda of the European Commission in 2016, in particular because the Capital Markets Union initiative includes a proposal to create a pan-European Personal Pension Product (PEPP). EFAMA has been very active in promoting the PEPP and engaging with the European Commission and key stakeholders to contribute to the development of a meaningful EU framework.

EFAMA has also engaged in the policy discussions on the revision of the IORP Directive.

1. The Pan-European Personal Pension Product

EIOPA's Advice and Commission's Consultation

On 26 April 2016, EFAMA responded to EIOPA's Consultation on the development of an EU Single Market for personal pension products.[16] The EIOPA final advice to the EU Commission was published in 6 July.[17] EFAMA was pleased to see that EIOPA's advice was aligned with EFAMA's position.

On 27 July 2016, the European Commission launched a Consultation on a possible EU framework for personal pensions.[18] EFAMA participated in this consultation and shared five key messages:

- A European framework for an EU personal pension will reduce the negative impact of varying national legal requirements and therefore create opportunities for cross-border distribution, economies of scale and lower costs.
- EFAMA agrees with EIOPA and the OECD that life-cycle strategies are well-suited default options, whereas minimum return guarantees can impose significant costs in terms of average forgone retirement wealth accumulation.
- All available distribution channels could potentially be used to offer the PEPP, including direct face-to-face and online distribution channels.
- No advice should be mandatory, but optional for the individual. In particular, providers should be allowed to sell a "simple" PEPP default option without advice.
- The demand for the PEPP will depend on the tax incentives provided by Member States at national level, as well as on the flexibility to accommodate the needs and preferences of consumers, in particular regarding the choice of the payout option.

« EFAMA welcomes the Commission's persistent efforts to create an EU Single Market for personal pensions. »

16 More information on this consultation can be found here: https://eiopa.europa.eu/Pages/News/EIOPA-consults-on-the-development-of-an-EU-Single-Market-for-personal-pension-products.aspx

17 More information on this consultation can be found here: https://eiopa.europa.eu/Pages/News/EIOPA-advises-on-the-development-of-an-EU-single-market-for-personal-pension-products-.aspx

18 More information on this consultation can be found here: http://ec.europa.eu/finance/consultations/2016/personal-pension-framework/index_en.htm

European Commission Hearing

- In its Communication on the Capital Markets Initiative of September 2016, the European Commission confirmed its support for the PEPP by noting, in particular, that "*an EU personal pension product would increase competition between pension providers, enable services to be sold into bigger markets and create economies of scale that should benefit savers.*"[19]

- To gather more feedback from stakeholders, the Commission organised a public hearing on 24 October 2016 to discuss how to overcome barriers to a greater uptake of personal pension savings.[20] The fund industry was represented on the three panels, including by Bernard Delbecque, Senior Director, Economics & Research at EFAMA.

- Three Commissioners (Valdis Dombrovskis, Marianne Thyssen, and Jyrki Katainen) confirmed the Commission's support for the creation of a PEPP. The Director-General of DG FISMA at the European Commission - Olivier Guersent – concluded the hearing by noting that "this type of product (PEPP) is important and missing".

EFAMA offsite two-day meeting on the PEPP

In order to develop further EFAMA's position on the design of a PEPP framework, EFAMA organised a two-day meeting in October 2016. During that meeting, a number of experts from EFAMA's corporate members and national associations exchanged views on specific operational issues that a fund manager will have to deal with when offering the PEPP in the domestic market and on a cross-border basis.

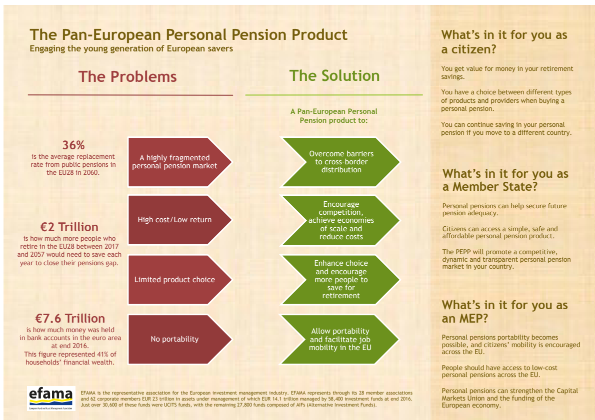
The discussions highlighted, in particular, the important role that distributors will have to play to create awareness around the benefits of the PEPP and stimulate potential demand. Participants also agreed that the PEPP should be developed using a "UCITS-like" regulatory regime given the success of the UCITS as a cross-border financial product.

The offsite also gave the participants the opportunity to exchange views with Nathalie Berger, the European Commission's Head of the Insurance and Pensions Unit, who attended a part of the two-day workshop.

Lunch roundtable event on the PEPP

Under the umbrella of Invest Week, EFAMA co-organised, on 2 December 2016, a Lunch Roundtable on the PEPP with Better Finance - the European Federation of Investors and Financial Services Users – and the Federation of European Securities Exchanges (FESE).[21]

In her presentation, Natalie Berger highlighted the importance of having stakeholders' support for this initiative and encouraged those present to engage with Member States and national authorities.



19 See http://ec.europa.eu/finance/capital-markets-union/docs/20160914-com-2016-601_en.pdf.

20 More information on the public hearing can be found here: https://ec.europa.eu/info/finance-events-161024-personal-pensions_en

21 More information on the Roundtable on the PEPP can be found here: http://www.investweek.eu/pepp-cmu

The EC launched a tender to commission a study on the feasibility of a European personal pensions framework. This study was commissioned to EY in 2016, and aims at mapping the tax regimes applicable to personal pensions products within the 28 EU Member States. In addition, the study should analyse the feasibility of implementing a policy framework to foster simple, efficient and competitive personal pensions within the EU.

EFAMA was invited to participate in a *Feasibility Workshop on the PEPP* hosted by the European Commission and organised by Ernst Young (EY) on 15 February 2017. The goal of the workshop was to gather feedback from participants on key topics to help EY finalise a study on PEPP.

At the workshop, EY pointed out that it sees the possibility for the assets under management (AuM) accumulated in PEPPs to grow to EUR 2 trillion over a 10 years period. To reach this level of AuM, Member States will have to offer tax incentives to stimulate the demand for the PEPP. EY also recognised that the market potential will not be the same across the EU.

EY study will feed into the Commission's work to finalise its impact assessment. It is expected that the Commission will publish its legislative proposal for the creation of a PEPP framework at end June 2017.

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.

The Economic and Monetary affairs committee (ECON) rapporteur, Brian Hayes MEP, issued his draft report in July 2015 and the ECON Committee adopted its final text in January 2016. The trilogues started immediately thereafter and a provisional political agreement between the Council and the Parliament was reached in June 2016. The final text, which was approved by the European Parliament in November and by the Council in December, was published on 23 December 2016 in the Official Journal of the EU.[22] Member States have until 13 January 2019 to transpose the Directive into their national laws.

EFAMA engaged with the Council and the Parliament throughout the trilogue discussions, and is pleased that its main concerns have been addressed in the final text, i.e.

- The remuneration rules set in the text avoid an overlapping with the existing remuneration requirements for investment firms and investment managers.
- There is no reference to a possible revision of the capital requirements for IORPs.
- The text ensures that annuities are not favoured over other payout solutions.
- The text leaves to Member States the decision to require IORPs to appoint depositaries.

22 The final text of the IORP II Directive can be found here: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2016.354.01.0037.01.ENG&toc=OJ:L:2016:354:TOC

INVESTOR AND FINANCIAL EDUCATION

Over the past number of years much has been done in the field of regulating financial information and advice. However, if consumers do not have the basic knowledge to understand these concepts, then that regulation may be in vain. Therefore, it cannot be stressed enough that there is a clear need to improve investor education. This is why EFAMA continues to advocate the view that more efforts and resources should be devoted to investor and financial education. We would welcome greater ambition on the part of the European Commission, in particular in the context of the Capital Markets Initiative. This is necessary if we want households to save more for retirement and invest in capital markets.

Since 2015, EFAMA has been 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. Paul Andrews was its Chairman before he became Secretary General of IOSCO. EFAMA defends the view that IFEI should cooperate further with IOSCO and the OECD to ensure that the initiatives of the three organisations are complementary and consistent with one another. EFAMA also supports IFIE efforts to enhance the visibility of its work, especially in Europe.

More recently, in February 2017, EFAMA joined the European Banking Federation and seven other European organisations and associations to create a new European Platform for Financial Education. This initiative aims to promote the need for financial education and to boost financial literacy in Europe, particularly among young people and entrepreneurs. It also seeks to encourage EU-level leadership in the field. The members of the Platform participated in a panel discussion at the Brussels kick-off for European Money Week on 27 March. More than 100 people attended the event. Bernard Delbecque represented EFAMA on the panel.

STATISTICS AND ECONOMIC RESEARCH

In 2016, EFAMA continued to report key information and reliable statistics through a range of regular releases on the European asset management and investment fund industry. This work is carried out in close collaboration with EFAMA's member associations, which are the official providers of statistics to EFAMA. EFAMA is also responsible for providing the International Investment Funds Association (IIFA) with statistics about the European investment fund market.

1. Investment Fund Statistics

International Statistics

In 2016, EFAMA continued to collect data under the new international fund classification which took effect in Q1 2015. The new classification was formulated by the IIFA Board to include all open-ended, substantively-regulated investment funds by domicile. Under the new classification, ETFs, guaranteed/protected funds, institutional funds and real estate funds.

In 2016, EFAMA reclassified its historical data according to the new classification and submitted this data to the IIFA in order have an extended historical time series under the new classification. Most domiciles were reclassified back to 2011, with the largest domiciles being reclassified as far back as 2008. This new historical time series will appear in future publications of EFAMA, the ICI and the IIFA.

European Statistics

2016 is the second consecutive year in which EFAMA collected data under the new regulatory fund classification for European statistics which took effect in Q4 2014. Under the old classification, UCITS were defined in EFAMA's statistics as publicly offered, open-ended funds investing in transferrable securities and money market instruments. Non-UCITS were defined as all other nationally regulated funds. With the introduction of the AIFMD and its EU passport, EFAMA decided to define UCITS and AIF according to the regulatory definition, i.e. investment funds strictly complying with the UCITS Directive will be classified as UCITS and all other funds will be treated as AIF funds. In the new classification, the main categories of UCITS and AIF are based on their main underlying assets (equity, etc.).

EFAMA expanded the number of domiciles reported in its statistics in 2016. The newest additions are Cyprus, whose industry association (Cyprus Investment Funds Association) was inaugurated as an official member association of EFAMA along with Croatia (Association of Investment Fund Management Companies) at the 2016 EFAMA Annual General Meeting in Malta. EFAMA's reports now include data on 29 European domiciles (28 member associations plus Poland).

Additionally, EFAMA expanded the scope of data that is regularly reported in its quarterly report. Starting in the European Quarterly Release of Q3 2016, EFAMA introduced new data on ETF. There is a strong demand in the industry for data on this type of fund.

2. EFAMA's Publications

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

The 14th edition of the annual Fact Book was published in September 2016. As usual, the Fact Book provides an in-depth analysis of how assets and net sales have developed over the past decade, who the main holders of investment funds are, where investments funds are domiciled in Europe and the rest of the world, and what the prospects for the future are. As in its previous editions, the Fact Book also includes country reports which offer 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 Annual Asset Management Report (9th edition)

The EFAMA Asset Management Report focuses on assets professionally managed in Europe, as opposed to assets domiciled in Europe. It provides a snapshot of the European asset management industry across both the retail and institutional landscape, with a distinction between investment funds and discretionary mandates assets. It is a free-of-charge report, available on EFAMA's website.

The 9th edition will be available in May 2017. This edition presents new data for 2014 and 2015, with an estimation of the asset growth in 2016. It also covers data on expanded group of countries, with the Czech Republic, Denmark and Slovenia participating in the study for the first time. The report also includes an expanded section on the Capital Markets Union (CMU) initiative, and the role that asset managers play 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-nine 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, while also presenting 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-nine 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, while 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.

EFAMA Director General, Peter De Proft, addressing the EFAMA Investment Management Forum 2016

EFAMA AND ITS MEMBERS

EFAMA's profile has changed significantly over the past years. Today, and after the Brexit discussion even more so, 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 strike 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 ten 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 EC, EP, ESMA, EIOPA, FSB, ECB, IOSCO, EPFSF, etc.

EFAMA is proud that in these budgetary difficult times, the number of corporate members increased to over 60 at the end of 2016.

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 those fields which are increasingly 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 2016 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 2016

Panel session on Brexit effects on European asset management industry, left to right: Jeffrey Tessler (Deutsche Börse Group), David Wright (Chair, Eurofi), Sylvie Goulard MEP, Chris Cummings (The IA), Qiumei Yang (ICI Global Asia Pacific), William Nott, EFAMA Vice President (Moderator)

The 22nd EFAMA Investment Management Forum took place on 16-17 November 2016 in Brussels. It brought together close to 220 investment managers, policymakers and other stakeholders of the industry from 25 different countries.

Alexander Schindler closing the EFAMA Investment Management Forum 2016

The conference's main themes were: supporting growth, adapting to the unexpected Brexit situation and attracting international investors. It is important to stress that the European asset management industry is playing a growing role in managing savings and strengthening growth in Europe.

With the UCITS, PRIIPs and AIFMD framework, legislators and authorities are trying to realise an ambitious agenda, playing the card of the investor's trust.

At the same time the distribution framework in the digital era is facing fundamental changes and challenges: fintech, regtech, blockchain and other technology drivers are quickly gathering pace.

Day 1 of the conference also reflected on the future of the Personal European Pension Product and, of course, on the potential effects of Brexit on the European asset management industry and its investors.

Lord Hill, previous EU Commissioner for financial services, shared most interesting reflections on the Brexit issue as Keynote Speaker at the conference Gala Dinner.

Day 2 went international, with views from IOSCO, Commission and regulators on the systemic importance of asset management and fund and market liquidity. 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 2017.

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

Olivier Guersent, Keynote Speaker, Director General, DG FISMA, European Commission

Steven Maijoor, Chair of ESMA, Keynote Speaker at EFAMA Investment Management Forum 2016


Lord Hill speaking at the Gala Dinner


EFAMA Vice President, William Nott, Gala Dinner

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 and was elected Vice-Chair by ESMA's SMSG.

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 workstreams and must be consulted on technical standards and guidelines and recommendations. In addition, the Stakeholder Group is expected to notify ESMA of any inconsistent application of European Union law as well as inconsistent supervisory practices in the Member States.

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.

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.

In 2016, 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 3 occasions in 2016 in full before being replaced by the new group: meetings were held on 3 February, 5 April and 26-27 May. The Summary of Conclusions of the SMSG meetings, the SMSG's 2016 work programme, advice and letters submitted to ESMA can all be found at https://www.esma.europa.eu/about-esma/governance/smsg.

2. EFAMA and the European Insurance and Occupational Pensions Authority (EIOPA)

EIOPA started its operations in January 2011, in accordance with the new European financial supervision framework. EIOPA maintains a close dialogue with representatives of the industry, consumers and academics, through two Stakeholder Group: the **Insurance & Reinsurance Stakeholder Group** (IRSG) and the **Occupational Pensions Stakeholder Group** (OPSG), which include 30 members each.

The stakeholder groups were established to facilitate EIOPA's consultation with stakeholders in Europe on issues such as regulatory and implementing technical standards as well as guidelines and recommendations that apply to the insurance and occupational pensions industry. Members of the stakeholder groups can submit opinions and advice to EIOPA on any issue related to its task. Additionally, the stakeholder groups are expected to notify EIOPA of inconsistent application of European Union law as well as inconsistent supervisory practices in the different European member states.

In early 2016, EIOPA's Board of Supervisors finalized the selection procedure for the renewal of the OPSG, and appointed Bernard Delbecque, Senior Director at EFAMA, as a member of the EIOPA OPSG for a 2.5 year mandate as of April 4. The fact that Bernard contributed to all initiatives taken by EFAMA to promote the creation of a single market for personal pensions and strengthen the effectiveness of the IORP Directive has been critical to Bernard's appointment.

At the inaugural meeting of the new OPSG, the Group elected Matti Leppälä, Secretary General of PensionsEurope, as the Group's Chairman, and Bernard Delbecque, as the Group's Vice-Chairman. In this capacity, Bernard is able to make use of his experience in the pensions area to contribute effectively to the work of the OPSG and the development of a true Single Market for both occupational and personal pensions. He is also able to convey positions that take into account the viewpoints of EFAMA's members.

Since its launch in April 2016, the OPSG has produced numerous Reports, Opinions, Feedback Statements and Positions Papers on a wide range of issues, such as big data and pensions, communications to occupational pension scheme members, personal pensions, risk assessment and transparency for IORPs. These papers can be found in the EIOPA library at https://eiopa.europa.eu/about-eiopa/organisation/stakeholder-groups/opinions-feedback-from-the-eiopa-stakeholder-groups.

In addition to its written advices to EIOPA, the Group has had exchange of views with EIOPA's senior management on various topics on importance to EIOPA's missions, including EIOPA Consumer Trends Reports, the feasibility of creating a pan-EU framework for occupational DC pensions, the 2017 IORP Stress Test, EIOPA Financial Stability Report and the performance and fees of long-term and pension savings products.

Since its creation, the new OPSG met on 28 April 2016, 30 June 2016, 4 October 2016, 28 November 2016 (in a joint meeting with the IRSG and EIOPA Board of Supervisors), 28 February 2017 and 26 April 2017. The Summary of Conclusions of the OPSG meetings, the related documents, the OPSG Work Plan and Organization can all be found at https://eiopa.europa.eu/about-eiopa/organisation/stakeholder-groups/occupational-pensions-sg.

3. 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.

4. 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 2016. 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 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 56 in June 2016, 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 2016 EFAMA provided speakers for several events:

- 20 January 2016: "Review of the European System of Financial Supervision"
- 24 May 2016: "Forthcoming Action Plan on Retail Financial Services"
- 21 June 2016: "Follow-up to Action Plan on CMU"

- 13 July 2016: "Financial Education", with EU Vice-President Valdis Dombrovskis
- 28 September 2016: "The British Referendum on the EU: result and consequences"
- 6 December 2016: "Impacts of regulatory reforms on market liquidity"

Each of these discussions was attended by approximately 60 to 120 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.

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 2016 meeting was co-chaired by Paul Stevens, President and CEO of the ICI, and Alexander Schindler, President of EFAMA. The key topics discussed were:

- EU policy and regulatory developments;
- Update on U.S. SEC international activities;
- Recent U.S. regulatory developments – DOL fiduciary rule, liquidity management, funds' use of derivatives;
- Insights for managers distributing funds cross-border;
- Global perspectives – funds and retirement saving plans.

2. The 30th International Investment Funds Associations (IIFA) Conference in Japan

The International Investment Funds Association (IIFA)[23] gathers more than 40 investment fund associations from across the world. Its 2016 Annual Meeting was hosted by JITA, the Japanese Investment Trust Association, and took place in Osaka on 24-26 October 2016.

The 3-day conference examined a number of topics including the role of investment funds in the changing economic and social environment, systemic risk issues in asset management, responding to investors' needs, distribution and fees. Other important themes discussed were fund governance, fiduciary duty and responsible investment, and retirement and pension solutions for investors. Of course, the issues of information technology, cybersecurity and regtech were analysed in different workstreams.

23 For more information see: www.iifa.ca

3. The Cumberland Lodge Conference

The Cumberland Lodge Financial Markets Conference has become an important annually held international event where senior industry representatives, regulators and policymakers are able to debate the key issues impacting the financial services industry in a unique setting. The discussions are cross-sectoral as in addition to investment management banking, insurance and asset management are also represented. EFAMA has for more than 10 years now been a co-sponsor of the event, facilitating from its part the evolution of the event.

The 2016 conference was organised on 10-11 November and chaired by David Wright, Chairman of Eurofi. The conference examined the financial services reform in a Brexit environment, and tried to analyse the risks and challenges ahead.

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 8th EFAMA-ICI Industry Roundtable in Brussels on 15 November 2016, to complement the discussions at the EFAMA-ICI joint May meeting. Discussions at the 2016 roundtable and dinner focused on market liquidity and the implications for funds, asset managers and investors, as well as money market funds. The possible implications of Brexit on the asset management industry were also debated.

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 2016 have been cyber-security, the potential of financial technology applications or "fintech", improving available data on European investment funds, compensation practices in the securities industry, as well as targeted inputs addressing the alleged "structural vulnerabilities" of asset management activities in support IOSCO's joint work with the FSB.

As in 2015, with regard to the cyber-crime phenomenon, EFAMA continues to participate 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 second slightly enhanced survey was conducted in the course of 2016. Results may in the future possibly feed into a policy initiative of the IOSCO permanent committee (Committee 5) responsible for investment management.

With regard to the topic of "fintech", EFAMA is part of the AMCC's internal Task Force on Fintech, created to support the work of the IOSCO Committee on Emerging Risks (CER) by providing industry insights into the various forms of "fintech" applications. In June 2016, EFAMA responded to an internal AMCC survey, highlighting automated advice, distributed ledger technology, artificial intelligence and automated regulatory reporting as being the four most promising areas for technological applications for the European asset management industry. Responses to the survey were merged into a consolidated AMCC report and shared with the CER in September 2016. The AMCC's contributions, along with those of the CER and of other IOSCO policy committees, where fed into a single *IOSCO Research Report on Financial Technologies (Fintech)* published in February 2017.

At the end of 2016, the IOSCO Affiliate Members Consultative Committee (AMCC) was invited to work together with IOSCO C5 Committee on the issue of leverage in investment funds and to establish a Mirror Group in which EFAMA participates. The aim of this Mirror Group is to help the members of the C5 Committee better understand leverage in investment funds prior to the finalisation of the IOSCO consultation paper.

As in previous years, EFAMA has continued to play a very active role in 2016 as a key stakeholder in the evolving joint work of the IOSCO / FSB around the alleged systemic relevance of the asset management industry.

EFAMA

EUROPEAN INVESTMENT FUND DEVELOPMENTS IN 2016

256
10,000
8,000
6,000
4,000
2,000
4
5
6
7
8
9
10
11
12
FIG.8
100
90
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EUROPEAN INVESTMENT FUND DEVELOPMENTS IN 2016

1. Introduction

2016 was another record year for the European investment fund industry, with net assets of European investment funds rising to an all-time high of EUR 14,142 billion.[1] Net assets of UCITS increased to EUR 8,658 billion, while net assets of AIF rose to EUR 5,483 billion.

Investment fund assets per inhabitant registered a 5.7% increase to reach EUR 27,300 billion, compared to EUR 25,850 billion at end 2015 and EUR 18,540 at end 2012. Nets assets of European investment funds represented 87% of GDP[2] at end 2016, up from 82% at end 2015. This indicator highlights the important role played by investment fund managers in the European economy, as managers of long-term savings, investors in financial markets, shareholders in European companies, providers of short-term funding for many European corporations and of direct and indirect employment.

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

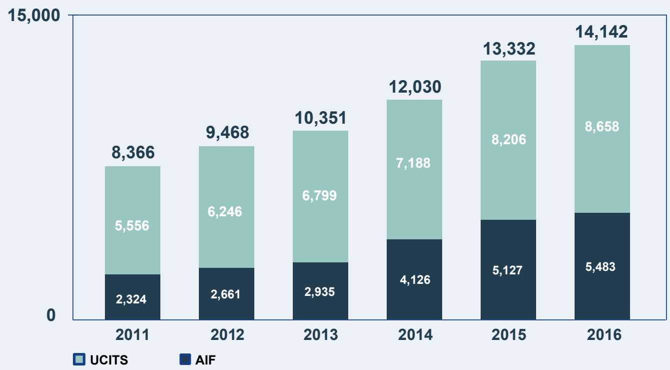
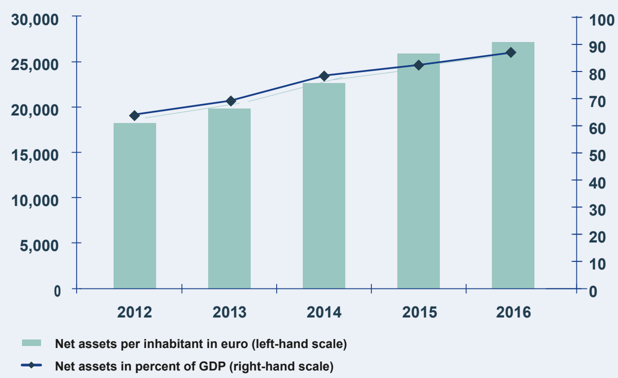


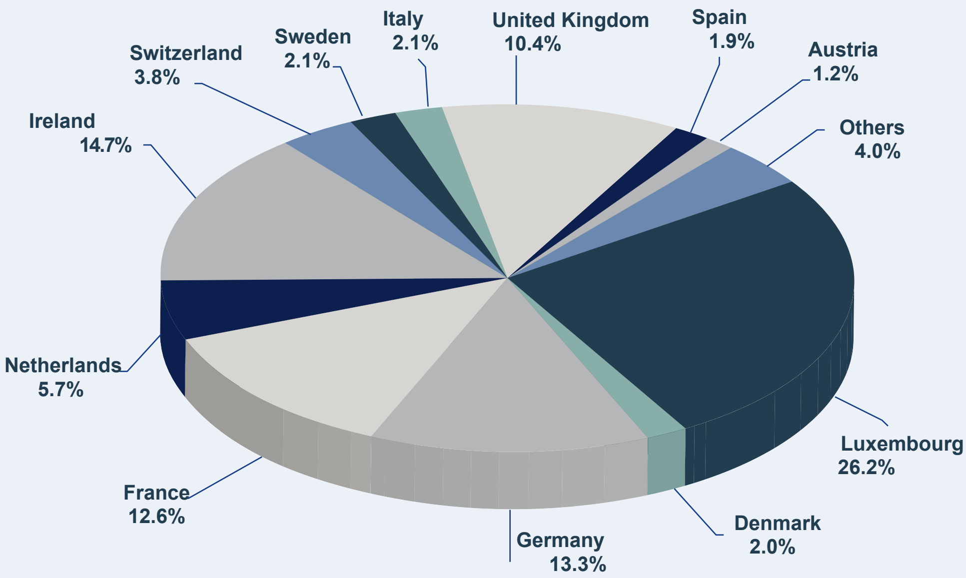
Chart 2. Trends in Investment Funds in Europe



Five countries held market shares greater than 10% at end 2016: Luxembourg, Ireland, Germany, France and the United Kingdom. Added together, these top five countries held a cumulative share of more than 77% of the industry's assets at end 2016.

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. Funds domiciled in the Netherlands are included in the total net assets figures for the years 2011-2014, but are excluded from the UCITS and AIF categories due to unavailability of data.
2 Aggregated GDP of all reporting EFAMA countries.

Chart 3. The European Investment Fund Market
(Breakdown of nationally domiciled funds at end 2016)



2. Developments in the UCITS industry in 2016

Total UCITS net assets increased by 5.5% in 2016 to stand at EUR 8,658 billion at year end, its highest point to date. This growth marked the fifth successive year of growth for UCITS net assets. Strong asset growth was seen across all categories of UCITS in 2016. Of the mainstream categories, the largest growth was seen in bond funds, which increased 8% thanks to a surge in investor demand. Money market funds also posted strong growth in 2016 (6%), whereas equity funds and multi-asset funds posted a smaller increase (3%).

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

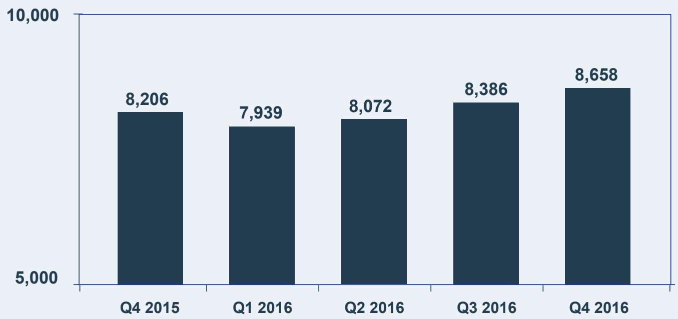


Chart 5. Total Net Assets by type of UCITS (in EUR billions)

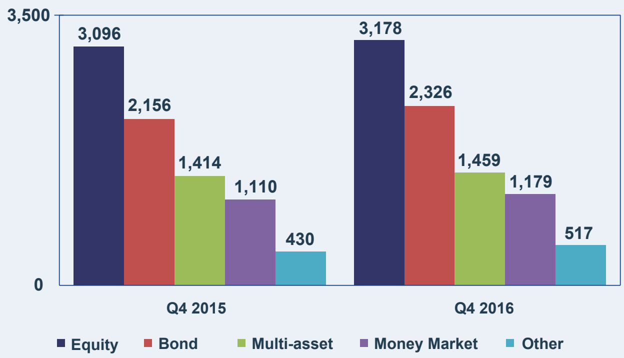
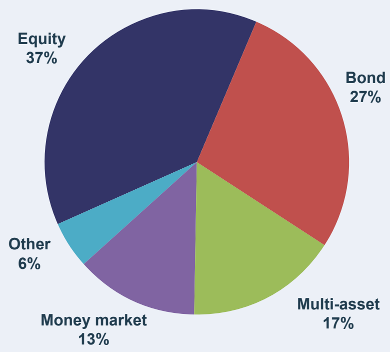


Chart 6. Asset Allocation by UCITS funds at end 2016



Asset allocation of UCITS remained relatively stable in 2016. The share of equity decreased from 38% in 2015 to 37% in 2016, whereas the share of bond funds increased from 26% to 27%. Multi-asset fund holdings remained stable at 17% of UCITS assets. Money market fund holdings decreased to 13% in 2016, from 14% in 2015. The share of "other" fund asset holdings increased from 5% in 2015 to 6% in 2016.

Net sales of UCITS funds totaled EUR 275 billion in 2016. Although lower than in the record-breaking years of 2014 and 2015, this level of net sales of UCITS was higher than in any single year in the 2007- 2013 period. Long-term UCITS recorded net sales of EUR 169 billion, while money market funds registered net sales of EUR 106 billion.

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

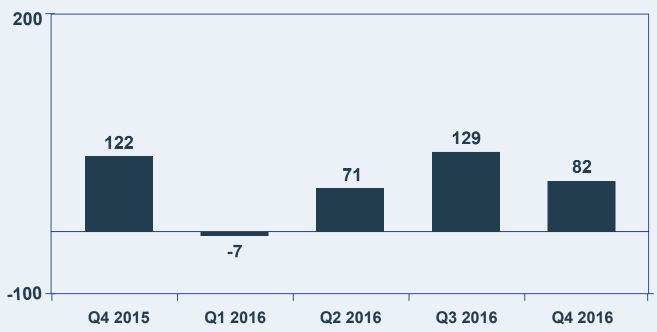
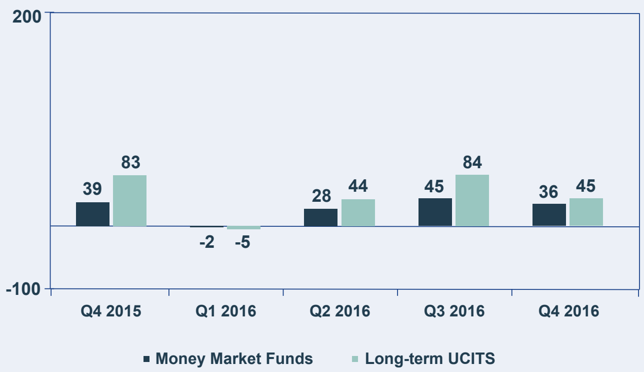


Chart 8. Net Sales of Long-term UCITS and Money Market Funds (EUR billions)



Charts 9a-9f show the demand for UCITS from Q4 2015 – Q4 2016. Bond and money market funds were the clear winners in 2016, with equity and multi-asset funds experiencing lower net sales.

Bond funds enjoyed the largest net inflows in 2016 (EUR 112 billion) on the back of falling long-term interest rates. Money market funds attracted EUR 106 billion as the higher uncertainty and renewed downside risks continued to increase demand for these funds, despite very low returns.

Equity funds suffered net outflows of EUR 8 billion, as equity funds were never able to recover from the stock market sell-off in January. Net sales of multi-asset funds totaled EUR 49 billion, down from EUR 239 billion in 2015, as investors tried to limit their direct and indirect exposure to stock markets.

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

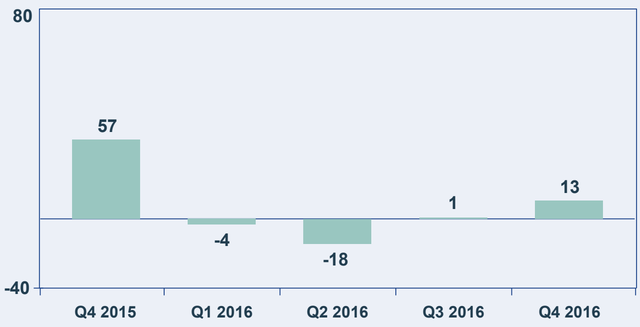


Chart 9b. Net Inflows into Bond Funds
(EUR billions)

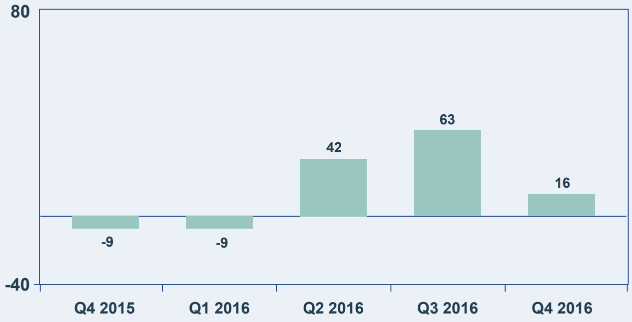


Chart 9c. Net Inflows into Multi-asset Funds
(EUR billions)

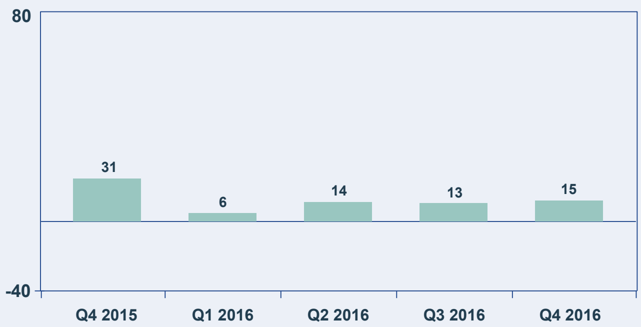


Chart 9d. Net Inflows into MMFs
(EUR billions)

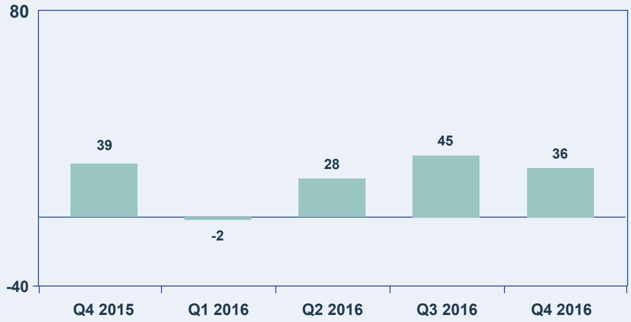


Chart 9e. Net Inflows into ARIS Funds
(EUR billions)

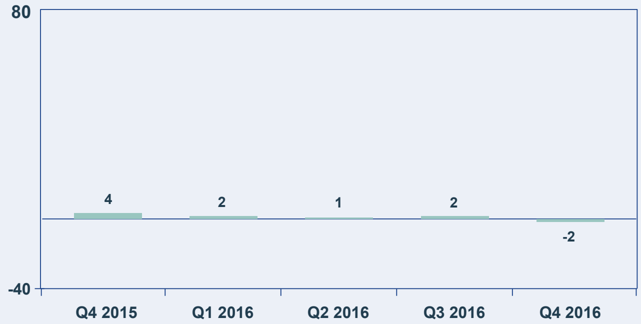
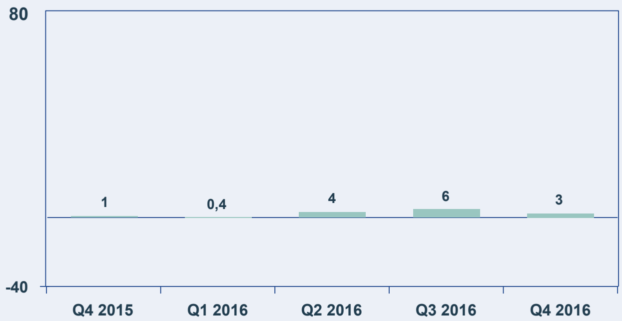


Chart 9f. Net Inflows into Other Funds
(EUR billions)



3. Developments in the AIF Industry in 2016

Total AIF net assets enjoyed growth of 7% in 2016, ending the year at EUR 5,483 billion. 2016 marks the eighth consecutive year of AIF net asset growth since 2008. Net assets of real estate funds experienced the largest increase (12%) among the various categories of AIF funds, ending the year at EUR 582 billion.
AIF equity and multi-asset funds both increased 7% to end the year at EUR 655 billion and EUR 1,391 billion, respectively. Net assets of AIF bond funds increased 5% to EUR 1,017 billion. On the other hand, net assets of money market funds decreased 1% to EUR 88 billion. Other funds, which include funds that do not fall under the other categories or for which information is unavailable, experienced net asset growth of 7%, totaling EUR 1,750 billion at end 2016.

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

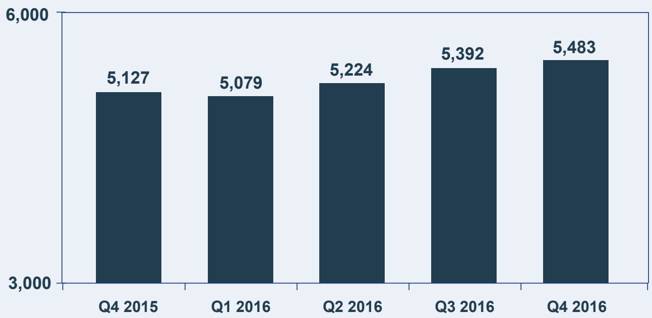
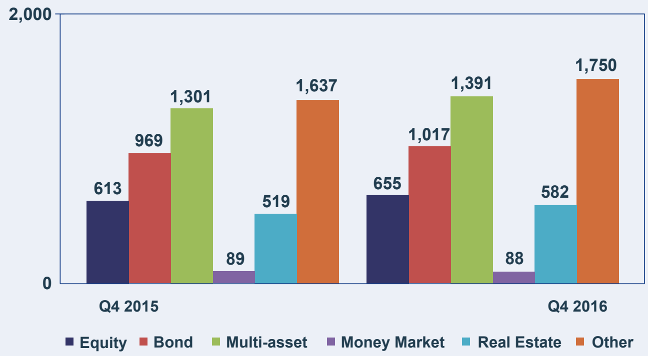


Chart 11. Total Net Assets by Type of AIF
(in EUR billions)



The asset allocation of AIF funds remained stable except for real estate funds, whose share increased from 10% to 11% at end 2016. Net assets of AIF multi-asset funds represented 25% of the total AIF market, followed by bond (19%), equity (12%) and money market funds (2%). The asset allocation of other funds remained steady at 32%.

AIF funds enjoyed strong net sales of EUR 184 billion in 2016. This represented the largest net inflows into AIF funds to date, even larger than the net sales of long-term UCITS. AIF institutional funds, an "of which" category of AIF funds, attracted EUR 138 billion in net sales in 2016.

Chart 12. Asset Allocation by AIF Funds at end 2016

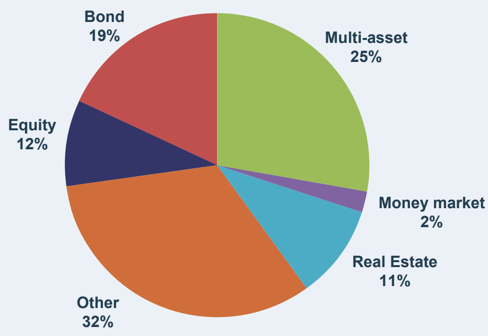


Chart 13. Total Net Sales of AIF
(in EUR billions)

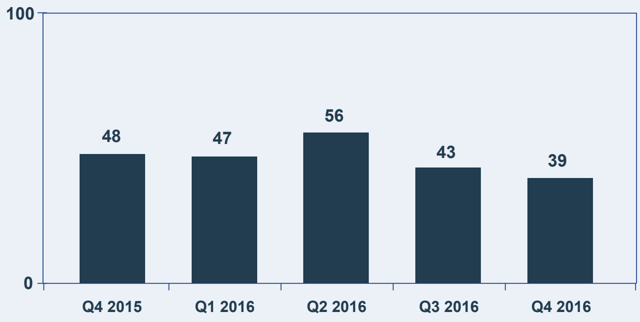
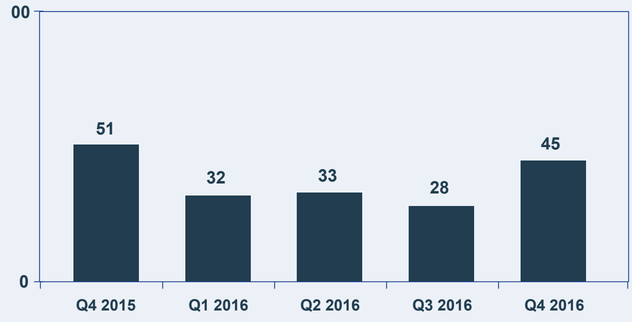


Chart 14. Total Net Sales of Institutional AIF
(in EUR billions)



Charts 15a-15f show net flows to the main AIF fund categories between end 2015 and end 2016 on a quarterly basis. All categories of AIF funds recorded positive net inflows in 2016, but multi-asset funds were the clear winners among the mainstream asset classes with net sales of EUR 64 billion in 2016. Real estate funds (EUR 18 billion), bond funds (EUR 14 billion), and equity funds (EUR 10 billion) followed in this ranking. AIF money market funds registered net sales of EUR 1 billion, and other AIF funds attracted EUR 76 billion in net sales in 2016.

Chart 15a. Net Inflows into AIF Equity Funds
(EUR billions)

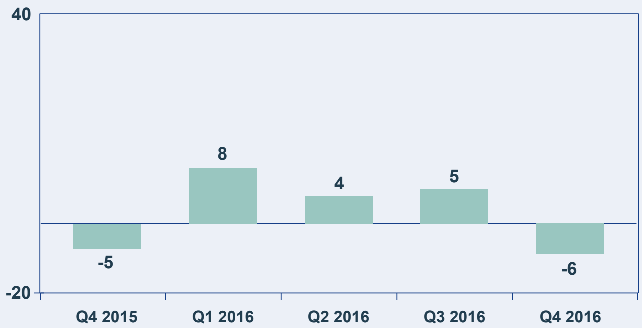


Chart 15b. Net Inflows into AIF Bond Funds
(EUR billions)

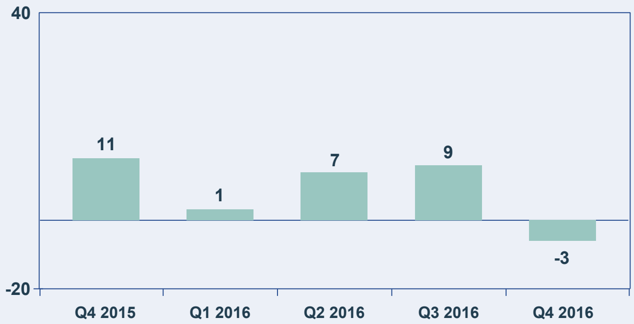


Chart 15c. Net Inflows into Multi-asset Funds
(EUR billions)

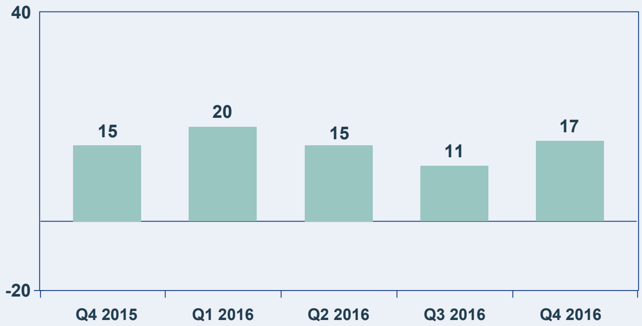


Chart 15d. Net Inflows into AIF MMFs
(EUR billions)

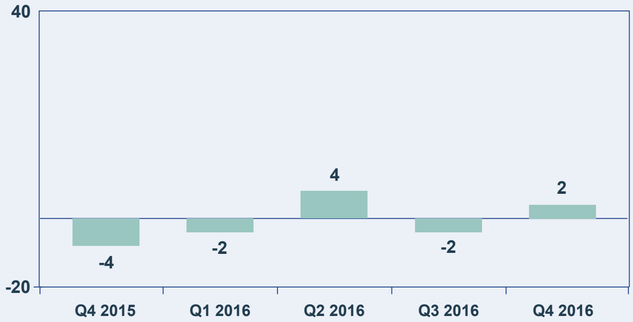


Chart 15e. Net Inflows into AIF Real Estate
(EUR billions)

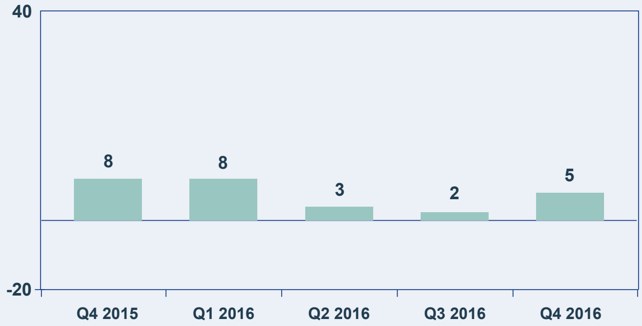
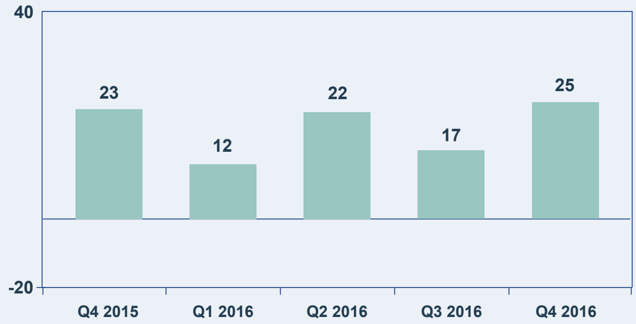


Chart 15f. Net Inflows into Other AIF
(EUR billions)



4. Trends across Europe

UCITS assets in Europe enjoyed growth of 5.5% in 2016, with all but six countries experiencing net asset growth. Amongst the largest domiciles of UCITS, Ireland recorded the largest net asset growth in 2016 (9%), followed by Germany (6%), Luxembourg (6%), France (4%) and the UK, which suffered net asset decreases of 0.4%. Elsewhere in Europe, large UCITS net asset growth was seen in Cyprus (80%), Hungary (41%), Croatia (34%), Bulgaria (29%), Norway (15%), the Czech Republic (14%), the Netherlands (12%), and Finland (10%).

Net assets of AIF funds grew by 7%, reflecting the large net sales that this category of funds enjoyed in 2016. Amongst the five largest domiciles in the AIF industry, Ireland recorded the largest increase in AIF assets at end 2016 (12%), followed by Germany (10%), Netherlands (9%), France (7%) and Luxembourg (5%). Elsewhere in Europe, large increases in net assets of AIF funds was registered in Switzerland (9%), Spain (9%), Finland (8%), Liechtenstein (7%) and Denmark (5%). Although small markets, strong growth was also recorded in Bulgaria (218%) and the Czech Republic (105%).

Luxembourg is the largest domicile in terms of total funds (i.e. UCITS and AIF), with EUR 3,701 billion in investments and a market share of 26 percent at end 2016. Ireland (EUR 2,085 billion; 15%), Germany (EUR 1,886 billion; 13%), France (EUR 1,784 billion; 13%), and the United Kingdom (EUR 1,466 billion, 10%) follow in this ranking.

Net Assets of Nationally Domiciled UCITS and AIF

(EUR millions, at end 2016)

MEMBERS	UCITS ASSETS	% CHANGE[1]	AIF ASSETS	% CHANGE[1]	TOTAL ASSETS	% CHANGE[1]
Austria	80,301	1.4%	93,497	5.0%	173,798	3.3%
Belgium	78,823	1.6%	48;106	-3.3%	126,929	-0.3%
Bulgaria	523	28.5%	8	218.1%	531	29.7%
Croatia	2,439	34.5%	385	-19.0%	2,824	23.4%
Cyprus	108	80.0%	2,069	-10.4%	2,177	-8.1%
Czech Republic	8,554	14.1%	657	104.5%	9,211	17.8%
Denmark	117,455	8.9%	158,514	5.2%	275,968	6.7%
Finland	86,180	9.6%	20,215	7.5%	106,395	9.2%
France	795,696	4.3%	988,134	7.4%	1,783,830	6.0%
Germany	328,484	6.0%	1,557,453	9.7%	1,885,937	9.1%
Greece	4,347	-1.7%	2,743	3.3%	7,090	0.2%
Hungary	667	41.4%	18,065	2.4%	18,732	3.5%
Ireland	1,578,920	9.1%	505,828	11.9%	2,084,748	9.8%
Italy	234,214	3.6%	63,490	-2.3%	297,704	2.3%
Liechtenstein	26,445	2.7%	17,658	6.5%	44,103	4.2%
Luxembourg	3,116,104	5.7%	584,972	4.6%	3,701,076	5.6%
Malta	2,240	-18.2%	7,569	2.1%	9,810	-3.3%
Netherlands	38,294	12.0%	763,564	9.0%	801,858	9.1%
Norway	108,026	14.7%			108,026	14.7%
Poland	21,073	-3.2%	37,635	0.7%	58,709	-0.7%
Portugal	7,207	-4.9%	14,422	-7.4%	21,630	-6.6%
Romania	4,819	4.0%	4,181	-4.0%	9,001	0.1%
Slovakia	4,349	9.4%	1,538	-10.8%	5,887	3.3%
Slovenia	2,464	6.7%			2,464	6.7%
Spain	193,454	4.3%	75,059	8.9%	268,513	5.6%
Sweden	283,468	8.0%	20,407	-11.7%	303,874	6.4%
Switzerland[2]	437,886	6.7%	99,885	9.4%	537,771	7.2%
Turkey[2]	11,647	-1.6%	15,620	-3.7%	27,267	-2.8%
United Kingdom	1,084,231	-0.4%	381,420	-3.7%	1,465,651	-1.3%
Europe	**8,658,419**	**5.5%**	**5,483,096**	**7.0%**	**14,141,514**	**6.1%**

[1] Net sales figure for Belgium is based on an estimation.

[2] Funds domiciled in Turkey and Switzerland that fulfill the UCITS criteria are classified as UCITS in this report.

Net Sales of Nationally Domiciled UCITS and AIF in 2016 (EUR billions)			
COUNTRY	UCITS NET SALES	AIF Net Sales	Total Net Sales
Austria	-1.4	1.9	0.5
Belgium[1]	n.a.	n.a.	-2.5
Bulgaria	0.1		0.1
Croatia	1.2		1.2
Cyprus	0.04	0.1	0.2
Czech Republic	1.0	0.2	1.2
Denmark	7.6	-4.2	3.4
Finland	2.7	1.0	3.6
France	27.7	13.5	41.2
Germany	13.0	97.6	110.6
Greece	-0.3		-0.3
Hungary	0.1	-0.6	-0.5
Ireland	116.9	22.6	139.4
Italy	8.7	-0.2	8.5
Liechtenstein	-0.8	0.3	-0.5
Luxembourg	72.9	25.8	98.7
Malta	-0.5	-0.1	-0.6
Netherlands	-3.4	13.5	10.1
Norway	4.2		4.2
Poland	-0.8	0.3	-0.6
Portugal	-0.4	-0.5	-0.9
Romania	0.1	0.003	0.1
Slovakia	0.2	-0.1	0.1
Slovenia	0.01		0.01
Spain	4.1	10.1	14.2
Sweden	4.1	-0.8	3.3
Switzerland[2]	13.9	3.5	17.4
Turkey[2]	0.7	0.05	0.7
United Kingdom	3.8	0.1	3.9
Europe	**275.1**	**184.1**	**456.7**

[1] Net sales figure for Belgium is based on an estimation.

[2] Funds domiciled in Turkey and Switzerland that fulfill the UCITS criteria are classified as UCITS in this report.

The large majority of countries registered net inflows into UCITS funds in 2016, with Ireland and Luxembourg capturing the largest share, EUR 117 billion and EUR 73 billion, respectively. France registered EUR 28 billion in net sales, followed by Switzerland (EUR 14 billion), Germany (EUR 13 billion) and Italy (EUR 9 billion). Seven countries suffered net outflows in 2016, albeit relatively small: the Netherlands (EUR 3 billion), Austria (EUR 1 billion), Liechtenstein (EUR 1 billion), Poland (EUR 1 billion), Malta (EUR 0.5 billion), Portugal (EUR 0.4 billion) and Greece (EUR 0.3 billion).

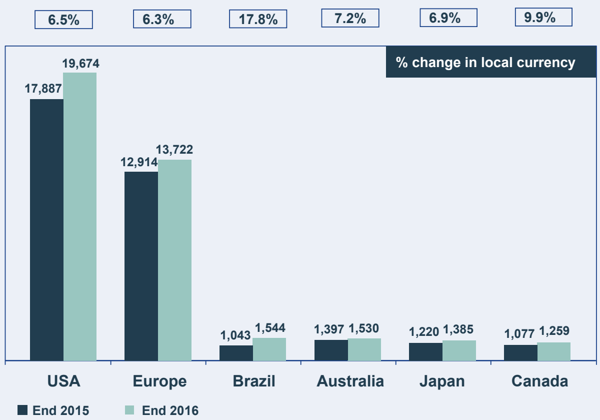
In the AIF market, Germany captured by far the largest net sales (EUR 98 billion) in 2016, reflecting the size of the German AIF market. Luxembourg attracted net sales of EUR 26 billion, followed by Ireland (EUR 23 billion), the Netherlands (EUR 14 billion), and France (EUR 14 billion). Spain closely followed with net sales of EUR 10 billion. The largest net outflows, albeit small, were recorded in Denmark (EUR 4.2 billion), Sweden (EUR 0.8 billion) and Hungary (EUR 0.6 billion).

Ireland attracted the largest net sales of total investment funds in 2016 (EUR 139 billion), followed by Germany (EUR 111 billion), Luxembourg (EUR 100 billion), France (EUR 41 billion), and Switzerland (EUR 17 billion).

5. Trends in Worldwide Investment Fund Assets[3]

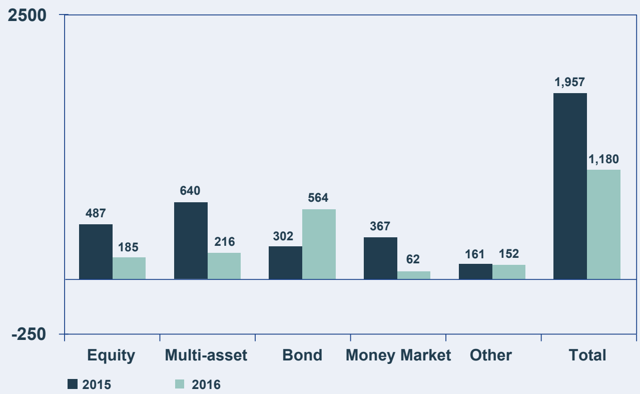
Worldwide investment fund assets under management increased 10% in 2016 to reach EUR 41.3 trillion, with asset growth of 6.3% in Europe. Measured in U.S. dollars, worldwide investment fund net assets amounted to USD 43.5 trillion. Investment fund net assets in the United States rose 9.9% in 2016 when calculated in euro. However, on a U.S. dollar denominated basis, U.S. mutual funds registered a net asset increase of 6.5% on account of the appreciation of the dollar vis-à-vis the euro during the year. Calculated using national currency, Brazil posted strong growth of 17.8%, followed by Canada (9.9%), Australia (7.2%), and Japan (6.9%).

Chart 16. Trends in Worldwide Investment Fund Assets (in EUR billions)



Source: EFAMA, ICI

Chart 17. Net Cash Inflows to Worldwide Investment Funds (in EUR billions)



Source: EFAMA, ICI

Worldwide investment funds registered net sales of EUR 1,180 billion, down from EUR 1,957 billion in 2015. Long-term funds registered EUR 1,117 billion in net sales, down from EUR 1,590 billion in 2015. Money market funds registered net inflows of EUR 62 billion, compared to EUR 367 billion in 2015.

Long-term funds in Europe attracted net sales of EUR 345 billion during the year, compared to EUR 319 billion in the United States.[4] At the same time, money market funds recorded net inflows of EUR 104 billion in Europe during 2016, compared to net outflows of EUR 20 billion in the US. Overall, net inflows into Europe reached EUR 449 billion, compared to EUR 299 billion in the US.

Europe and the US both registered weak net sales of equity funds (EUR 5 billion and EUR 34 billion, respectively). Bond funds attracted stronger net sales in the US (EUR 248 billion) than in Europe (EUR 130 billion), while European mixed-assets experienced greater demand (EUR 102 billion) than in the US (EUR 27 billion). Real estate and other funds accounted only for net sales of EUR 10 billion in the US, compared to EUR 108 billion in Europe.

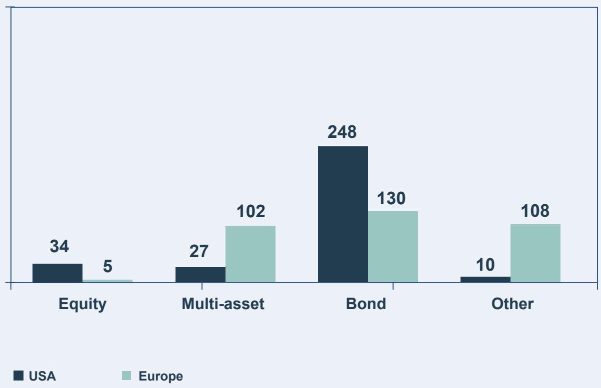
3 The data reported in this section covers all open-ended (i.e. redeemable), substantively-regulated funds. In the United States, this includes mutual funds. In Europe, this includes all UCITS and approximately 92% of all AIF funds as of end Q4 2016.

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

Chart 18. Net Inflows to Investment Funds in 2016
(in EUR billions)

Source: EFAMA, ICI

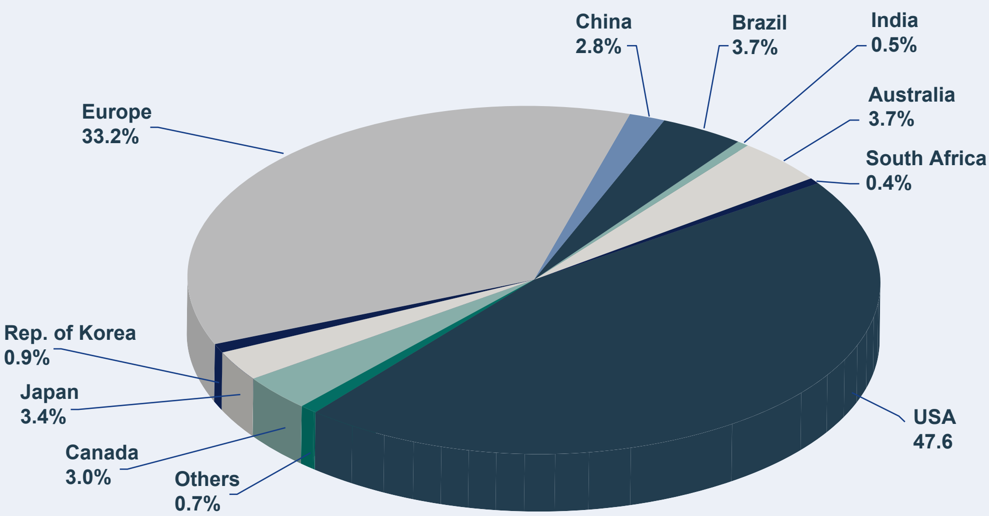
Chart 19. Net Inflows to Worldwide Investment Funds in 2016 (in EUR billions)



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 2016, with 48% and 33% respectively. Brazil, Australia, Japan, Canada, China, Rep. of Korea, India and South Africa follow in this ranking.

Chart 20. Worldwide Investment Fund Assets
(Market share at end of 2016)



Source: EFAMA, ICI

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A LIST OF EFAMA WORKING GROUPS AND TASK FORCES

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Alternative Investments WG
Anti-money Laundering Task Force
Asset Protection WG
Benchmarks Task Force
Corporate Governance WG
Derivatives and SFT WG
Distribution & Investor Protection WG
ELTIF Task Force
Financial Stability & Prudential Requirements WG
International Distribution WG
Market Infrastructures & Trading WG
Responsible Investment WG
Risk Management WG
Securitisation Task Force
Supervision WG
UCITS WG
US Regulation WG

Tax Working Groups

BEPS Task Force
Financial Transaction Tax Task Force
Tax information Reporting WG
Tax Working Group
VAT WG

Economics and Research Working Groups

European Fund Classification Forum / EFC Task Force
Money Market Fund WG
Pensions WG
Statistics WG

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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