

Financial services: Commission proposes improved EU framework for investment funds

The European Commission has proposed an important revision of the EU framework for investment funds, which provides consumers with access to professionally managed investments on affordable terms. These funds, known as 'UCITS' (Undertakings for Collective Investment in Transferable Securities) at the end of last year accounted for over €6.4 trillion of assets in total which is equivalent to half of the Union's GDP and represents 11.5% of European household financial assets. The new provisions will increase the efficiency of the current legislative framework in a number of key areas. First, it will allow UCITS managers to develop their cross-border activities and generate savings consolidation and economies of scale. Currently EU funds are on average 5 times smaller than US funds and the cost of managing them are twice as high as in the US. Second, investors will benefit from a greater choice of investment funds operating at lower costs. Third, the proposal also seeks to improve investor protection by making sure that retail investors receive clear, easily understandable and relevant information when investing in UCITS. These improvements will help reinforcing the competitiveness of UCITS on global markets. Currently 40 % of UCITS originating in the EU are sold in third countries, mainly Asia, the Gulf region and Latin America. As part of the Commission's Better Regulation Strategy and its firm commitment to simplify the regulatory environment, the new Directive will replace 10 existing directives with a single text. The proposal now passes to the European Parliament and Council for consideration.

Internal Market and Services Commissioner Charlie McCreevy said: "*The UCITS proposal represents a real breakthrough for investment funds in Europe. The enhanced regulatory environment will reduce unnecessary costs and bureaucracy in cross-border operations and improve investor protection. The expected benefits of this package to the EU industry are estimated to more than €6 billion. We expect these benefits to lead to lower costs for investors. During the last years, we have carefully identified the areas where improvement in existing provisions needed to be introduced. This was done on the basis of an extended consultation process and in-depth cost-benefit analysis. This legislative package should ensure that the UCITS rulebook continues to be a success story in Europe and also in other parts of the world, like Asia or Latin America, where the UCITS brand is widely sold and highly valued.*"

The proposed changes to the UCITS Directive will:

- Remove administrative barriers to the cross-border distribution of UCITS funds: Current burdensome notification procedures can take several months before completed. They entail unnecessary red-tape and administrative costs estimated to around €45 million. The new notification procedure will be reduced to a simple, electronic, regulator-to-regulator communication. The distribution of units of funds will start immediately after such communication.

- Create a framework for mergers between UCITS funds and allow the use of master-feeder structures: Fund mergers will be allowed, on both a domestic and a cross-border basis, and their authorisation procedure will be harmonised, as will the required level of information to be provided to investors. Subject to approval and the appropriate information of investors, a UCITS fund (feeder) will be allowed to fully invest its assets into another fund (master). It is estimated that these new management opportunities will allow UCITS to make up to €6 billion in savings and economies of scale. These could in turn be shared with investors in the form of lower investment costs.
- Replace the Simplified Prospectus by a new concept of Key Investor Information (KII): KII will be contained in a short document conveying key facts to retail investors in a clear and understandable manner so as to assist them in taking an informed investment decision.
- Improve cooperation mechanisms between national supervisors. As regards the "management company passport" (i.e. the possibility for funds authorised in one Member State to be managed remotely by a management company established in another Member State), the most recent consultation process has revealed that there are a series of potential supervisory and investor protection concerns. These need to be tackled if the MCP is not to lessen the protection of retail investors or endanger the UCITS brand - traditionally considered to be a European "gold standard" for investor protection. The Commission has therefore decided to consult the Committee of European Securities Regulators (CESR) on these issues. A mandate to CESR will be sent out today. CESR will be invited to provide advice that will help the Commission to develop provisions permitting the introduction of a management company passport under conditions that are consistent with high level of investor protection. In that regard CESR will be invited to advise the Commission by 1 November 2008 on the structure and principles which could guide potential future amendments to the UCITS directive which may be needed to give effect to the UCITS management company passport. Following that advice the Commission will come forward with an appropriate proposal in time to allow for its adoption during the current legislature.

Background

Investment funds are investment products created with the sole purpose of gathering assets from investors, and investing those assets in a portfolio of financial instruments such as stocks, bonds and other securities. In this way, small investors have access to a professionally managed and diversified basket of financial instruments at affordable costs. Investment funds are a long-term savings product widely used by European households. They account for 11.5% of European household financial assets.

UCITS (Undertakings for Collective Investment in Transferable Securities) are investment funds established and authorised in conformity with the requirements of Directive 85/611/EEC. Once authorised, a UCITS fund can be distributed to investors across the EU upon notification to the corresponding national authorities. The Directive has been key to the successful development of the European market for investment funds. Today, UCITS funds manage assets amounting to € 6400 billion (i.e. about half of the EU GDP).

The UCITS Directive lays down common requirements for the organisation, management and oversight of UCITS funds. The Directive defines a list of eligible assets in which a UCITS fund can invest. It also imposes rules relating to the diversification and liquidity of the fund's portfolio. Thanks to these strict requirements, UCITS funds enjoy world-wide the reputation of a well supervised financial product. They have also protected UCITS funds against the severe effects of the recent financial turmoil.

More information is available at:

http://ec.europa.eu/internal_market/investment/legal_texts/index_en.htm

[MEMO/08/510](#)

Annex

UCITS proposed Amendments: Citizen's Summary

1. Introduction

UCITS (Undertakings for Collective Investment in Transferable Securities) are investment funds that have been established under EU law since 1985. Once registered in one EU country, a UCITS fund can be freely marketed across the EU. Managing over €6 trillion in assets in 2007, UCITS have proven to be successful and are widely used by European households. UCITS are also regularly sold to investors outside the EU where they are highly valued due to the high level of investor protection they embody.

2. What is the issue?

- The procedure for marketing UCITS between Member States is too long and bureaucratic. This reduces the cross border flow of funds.
- UCITS disclosure documentation (simplified prospectus) does not currently help investors to make informed assessment on proposed investments.
- Compared to the US, the average size of a European fund is small. Without a consolidation mechanism or the possibility of co-managing funds, the costs of managing UCITS remain high. These costs are passed on to investors.

3. Why is an EU level action necessary?

UCITS were originally set up under EU law. With some of the parts of the law not working properly, amending it would be the best solution.

4. Content of the proposal

The amendments to the UCITS Directive will:

- Remove administrative barriers to the cross-border marketing of UCITS: Marketing can start without delay once the regulator of the fund has notified the financial regulator in the EU country where he wants to sell its product;

- The simplified prospectus will be replaced by the Key Investor Information (KII) concept: This will be a simple document giving key facts to investors in a clear and understandable manner. It will assist them in making an informed investment decision;
- Mergers between UCITS funds will become easier: There will be single rules across the EU on the requirements for authorisation of a fund merger and on the information that will have to be made available to investors;
- Provide for 'master-feeder' structures, where a UCITS fund (feeder) will be allowed to fully invest its assets into another fund (master);
- Improve cooperation mechanisms between national supervisors.

5. Expected benefits from the proposal

The expected economic savings will benefit both industry and investors. Direct ongoing efficiency gains could amount to several billion euros annually. Greater flexibility to organise and manage funds will create new business opportunities and increase the competitiveness of the European fund industry. Preserving the high level of investor protection will reinforce the attractiveness of UCITS within and beyond EU borders. These positive effects will contribute to the Lisbon strategy of creating growth and jobs in Europe.

Investors may share benefits in form of lower investment fees and charges, increased competition and improved product information. Lower costs for managing funds will have positive effects on fund performance. Removing barriers for cross-border marketing of funds will increase the choice of funds for investors or their financial advisors. Faced with increased competition, fund promoters will need to make their offer more attractive to investors. Improved product information will help investors to compare funds and make informed investment decisions.

6. When will the proposal come into effect?

If the proposal is adopted by the EU Council of Ministers and the European Parliament in the second quarter of 2009, its provisions will come into force mid 2011.