

Open Hearing on initial orientations for deepening the single market for UCITS investment funds

Welcome

Interpretation channels:



German 1



English 2



French 3



Italian 4



Spanish 8

Please turn off your mobile telephone

European Commission 
Internal Market & Services DG

Welcome address

by

David Wright

Director, Financial Services policy and Financial Markets,
European Commission

European Commission 
Internal Market & Services DG

Where are sessions held?

GASPERI Room (this room):

10.35-11.45 Notification Mechanism

11.45-13.00 Management Company passport

14.30-15.45 Simplified Prospectus

MANSHOLT Room (ground floor)

10.35 – 11.45 Mergers

11.45-13.00 Pooling

14.30-15.45 Private Placement

PLENARY SESSION IN GASPERI ROOM: 16.00-16.30

Opening address

by

Alain Leclair

Chairman, Association française de la gestion financière, AFG

European Commission 
Internal Market & Services DG

Session 1

Notification mechanism

Session 1

Notification mechanism

Opening Remarks

by

Piotr Swistun

Asset Management Unit, EC

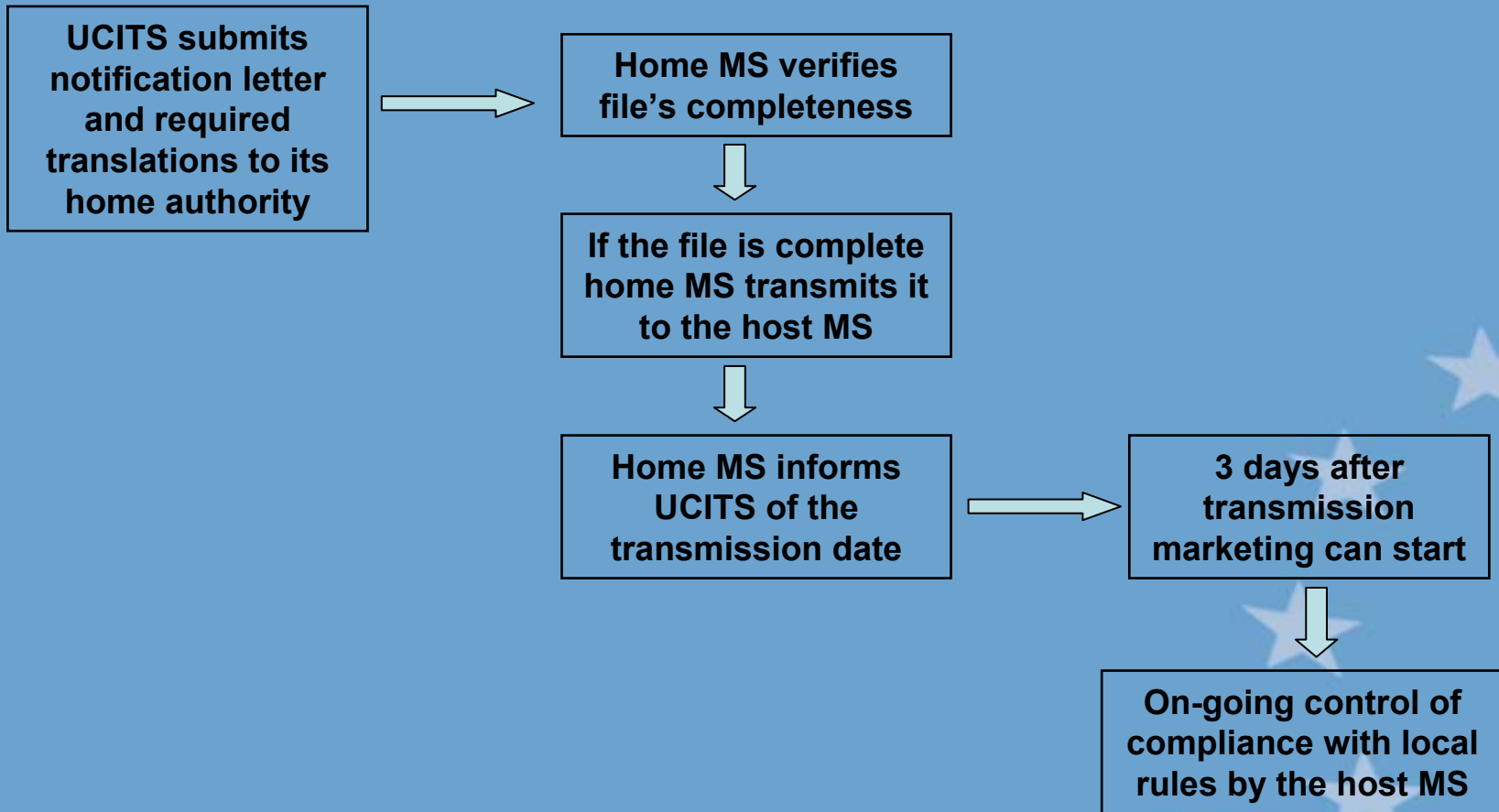
Key objectives of modifications

- **Ensure smooth functioning of the UCITS passport**
 - Remove administrative obstacles and uncertainty to the marketing of UCITS in a host Member State
- **Reduce UCITS time-to-market while maintaining high levels of investor protection**
 - Streamlining notification procedure
 - Reinforce co-operation between supervisors

Supervisory responsibilities of a home/host Member State

- **Areas covered by the UCITS Directive – reserved field**
 - Host Member State cannot question authorisation given in other Member State
 - Supervisory power over product features reserved for a home Member State
- **Non-harmonised areas relating to marketing of UCITS**
 - Subject to host Member State supervision
 - Greater responsibility of distributors
 - Distribution of obligatory disclosure in a host Member State subject to local rules

Notification procedure



Notification procedure

Key features

- Regulator-to-regulator communication
- Limited number of documents to be filed
- Electronic filing
- Reduced delays
- Simpler translation requirements (based on Prospectus Directive):
 - notification letter & attestation: international finance language
 - key investor information: local language
 - other docs: local language or international finance language
- Host MS' control of compliance with local rules ex-post
 - emergency powers for a host Member State
- Reinforcement of supervisory co-operation

Session 1: Notification Mechanism

Moderator:

Dr. Wolfgang Mansfeld, Member of the Board, Union Asset Management Holding AG and President BVI

Panellists:

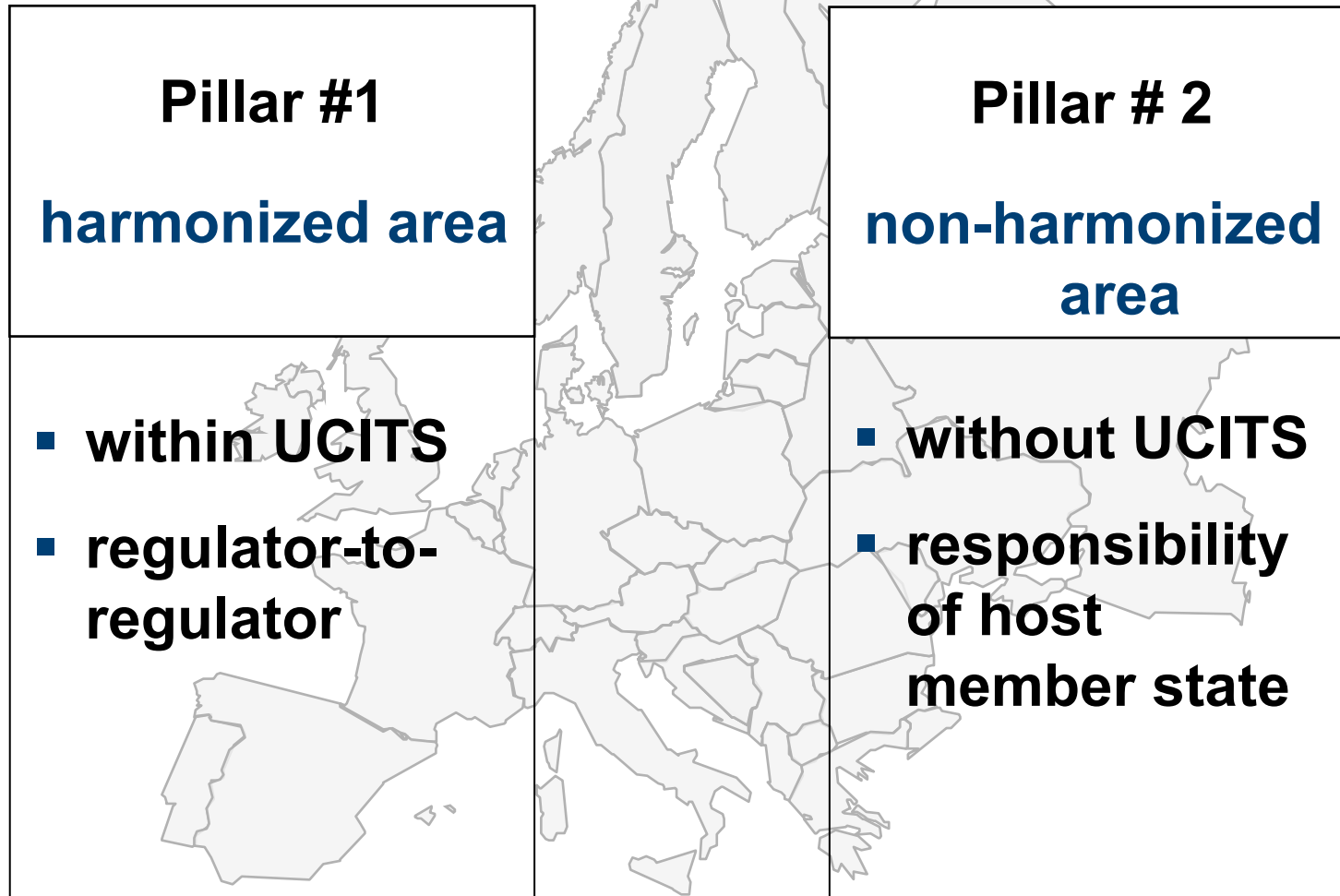
Mike Champion, Head of Product Development, Schroder Investment Management Ltd

Jean-Marc Goy, Counselor to the Director General, Commission de Surveillance du Secteur Financier

Marta Kłosińska, Advisor to the Chairman of the Polish Financial Supervision Authority

Robert Slange, Legal Counsel, ROBECO

Streamlined Notification – Based on 2 Pillars



Pillar # 1: Harmonized Area

contains:

**fund authorization, structure, and management;
compulsory information**

regulator-to regulator;

home member state authority in the lead

**marketing to start 3 days after notification letter
has arrived**

Pillar # 2: Non-Harmonized Area

contains:

**national laws and provisions
regarding promotion, selling, etc.
(= residual powers of host member state)**

ongoing supervision

**by host member state „ex post“
(exposure draft proposal, option 2)**

Session 2: Management Company passport

Opening Remarks

by

Olivier Girard

Asset Management Unit, EC

Management Company passport

Objective 1: enable remote management ...

First condition: a new, harmonized approach to fund domicile

- End of domicile based on registered office/ head office criteria, but need to avoid letter box entities
- Replaced by a new definition of fund Home Member State, valid for both corporate and contractual funds
 - Where core administrative functions are actually performed (verification of valuation + shareholder register)
 - Which law is applicable to the fund

Management Company passport

Objective 1: enable remote management ...

Second condition:

- Ensuring not only freedom to provide services/ establishment for management company, as in the past
- But also freedom of fund to elect / be managed by a UCITS management company located abroad and duly authorized

Management Company passport

Objective 2: ...While ensuring effective fund supervision

First condition

- Clear division of responsibilities as to authorization/ ongoing supervision
- Strengthened cooperation mechanisms, including in case of emergency

Second condition

- Obligation on management company to
 - Ensure that fund at all times complies with requirements of fund Home Member State
 - Ensure that depositary/ auditor at all times in a position to comply with their obligations

Management Company passport

Additional clarifications

- What is encompassed in the management company passport
 - Collective portfolio management
 - A definition of marketing
 - Other activities authorized pursuant to the Directive (no changes)
- No need for passport if only marketing of the units of its own funds

Management Company passport

Remote management/ to summarize

In the Fund Home Member State

- Core administrative functions (Either via delegation or via branch)
- Depositary / Auditor

Supervised by: Fund Home MS supervisor

In the Management company Home Member State

- Collective portfolio management
- Other administrative functions
- Marketing

(With possibility of delegation to third countries under Article 5(g))

Supervised by: Management company Home MS supervisor

Session 2 : Management Company passport

Moderator:

Dan Waters, Director of Retail Policy & Asset Management Sector
Leader, Financial Services Authority, UK

Panellists:

Gareth Adams, Executive Director, Fidelity Investments International

Pierre Bollon, Director General, Association Française de la gestion
financière – AFG

Martina Kelly, Head of Policy – Investment Funds, Irish Financial
Services Regulatory Authority

Claude Kremer, Partner, Arendt & Medernach

13.00-14.30 Lunch break



Next session at 14.30

Session 3: Simplified Prospectus

Opening Remarks

by

Christel Vanassche

Asset Management Unit, EC

Improved investor disclosure: how?

- Objective: concise, relevant product disclosures for potential investors, reduced compliance costs for managers
- Two action levels:
 - Modify the UCITS Directive:
 - High level principles governing disclosures
 - Provide for adoption of legally binding implementing legislation
 - Launch ground-work to prepare content and form of future harmonised disclosures:
 - Request for assistance to the Committee of European Securities Regulators (CESR)

Envisaged changes to Directive (I)

- Fund manager to draw up ‘key investor information’:
 - Product information : enabling investor to take an informed decision (no changes if cross-border use, only translation)
 - Practical information : enabling investor to exercise its rights (changeable in function of domicile of investor)
 - Not necessarily laid down in a specific document
- Distinguish rationale and role of key investor information disclosures from full prospectus
- Clarify status of key investor information in civil liability claims

Envisaged changes to Directive (II)

- Disclosures to reflect different sales contexts:
 - Direct sales versus intermediated sales
 - UCITS wrapped in other products
- Open question: how to ensure that disclosures are effectively used by intermediaries or assemblers who wrap UCITS into another product?
- Delivery methods: durable medium or electronic format
- Principles only : detailed content and format at Level 2, taking into account retail or professional nature of investors and certain specific situations (sub-funds, feeder funds)

Request for assistance to CESR

- Scope: groundwork on detailed content and form of key investor information:
 - Taking into account different sales contexts (impact of MiFID and other relevant EU rules on information disclosure)
 - Structured and pro-active dialogue with key stakeholders
- Timetable: 3-phase approach:
 - By end 2007: develop “ideal” set of requirements (content & format)
 - 2008: Consultation & testing (with focus on consumers/intermediaries testing)
 - By 1st March 2009: finalization of CESR recommendations and proposal

Session 3: Simplified Prospectus

Moderator

Hubert Reynier, Managing Director, Regulation Policy & International Affairs Division, Autorité des marchés financiers

Panellists:

John Chapman, Analyst/Journalist

Jean Cooper, Financial Services Authority, UK

Olivier Eon, Testé pour Vous

Damián Fraire, Head of Business Information Research, Allfunds Bank, Spain

Graziella Marras, Senior Policy Advisor, EFAMA

Tina Wilkinson, Executive Director, BNP Paribas, Luxembourg

CHERIYs vs. TERs

M. John Chapman

TERs (Total Expense Ratios) are the annual management charge plus expenses.

=> TERs alone present a misleading picture of the overall effects of charges. Investors have to combine their effect with entry and exit fees

RIYs (Reductions In Yields) show by how much investment growth is reduced by **the overall effects of all charges and expenses.**

Ex : If investment growth of 10% is reduced by charges and expenses to 7.4 % at year 5, then the RIY at year 5 is 2.6 %.

CHERIYs = **Charges and Expenses Reductions in Yields** show combined effects of initial charges and TERs. The term CHERIYs ("cherries") emphasises that RIYs result from charges and expenses.

Example

Assuming investment growth of 10 % pa, a TER of 1.5%, and varying initial or exit charges :

Initial charges of:-	CHERIYs after:-		
	3 years	5 years	10 years
5%	3,5%	2,7%	2,2%
3%	2,7%	2,3%	2,0%
1%	2,1%	1,9%	1,7%
Exit charge of 2%	2,2%	1,9%	1,7%
No initial/exit charge	1,5%	1,5%	1,5%

- CHERIYs fall with time as the effects of initial charges wears off.
- CHERIYs vary little with different rates of investment growth.

Source: SEC mutual fund cost calculator provides monetary returns, from which CHERIYs calculated.

Chairmen of panels report to plenary

European Commission 
Internal Market & Services DG

Closing Speech

by

Stefan Bichsel

President, EFAMA

European Commission 
Internal Market & Services DG

THANK YOU FOR PARTICIPATING

Do not forget to turn on your mobile telephone

European Commission 
Internal Market & Services DG