

EPFSF Breakfast Discussion

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Will changes to the UCITS Directive open the market?

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1. Will changes to the UCITS directive open the market?

There are 4 changes to the UCITS directive which are no-brainers and which are obviously welcome sources of improvement for investors.

Fund mergers, master-feeder funds, streamlined fund certification and key investor information.

- European funds are small and fragmented. There are currently 36,000 UCITS in Europe. In the US, 8 000 funds – Average €7000bn (2007) – Similar size. Fund mergers, master-feeder fund structures will allow for the pooling of assets.
- A fund based in one country (a feeder) can invest its assets in a fund registered where the actual management takes place (the master).
- Cross-border mergers are a route to economies of scale
- Fund passporting should also improve as notification procedures are streamlined. It takes time to bring a product to market across all European countries (2 months, sometimes longer).
- The fund's home regulator will have 1 month to send a notification letter to the host regulator.
- A simplified prospectus, from 100 pages down to a short, 3-page document with key facts for retail investors. Local marketing requirements will still apply. Key contents will be standardised.

2. Management passport and cooperation mechanism between national supervisors. Will it reduce the investor protection? - This will be the end of a fiction. How does it work today most of the time?

- You have a UCITS domiciled in Luxemburg, with a Luxemburg-based investment management company. This one is a subsidiary of an investment management company based in Frankfurt, Germany or in London, England, for example, or elsewhere. Through delegation arrangements investment management is delegated from Luxemburg to London and Frankfurt. This is the reality.
- Investors who believe that the management company of the fund is active in all aspects of investment management are given the wrong impression, because this is not the case.
- The management passport will ensure greater transparency for the investor, who will know which company is actually in charge of investment management.

3. The recommendation issued by Cesr also makes us confident that the necessary cooperation between national supervisors will occur.

- . This is not new: split supervision already exists with Euronext.
- . Adequate harmonisation measures are of course required.
- . There must be cooperation between the relevant authorities.
 - 1) Regulators should have the power to conclude bi/multilateral cooperation agreements
 - 2) Permanent structures, such as colleges of supervisors, should be established.
 - 3) Management company competent authority should be able to request the cooperation of the depository and UCITS competent authorities for verification investigations. Localised presence of the depository adds one extra layer of comfort.
 - 4) Authorities should exchange information - be able to request documents from the respective authority of the UCITS and from the management company.

4. Regulators will certainly have to rebalance their supervisory functions

- **Management committee supervisor**
- **UCITS supervisor**

The most important point is the quality of the advice and service provided to the investor.

The logic of distribution (the public to which the UCITS is sold) will prevail over

- o Administrative logic – where the fund is licensed
- o Group logic, where headquarters are located
- o Financial centre logic, where headquarters are located
