INVESTMENT COMPANY INSTITUTE

MEMO# 11610

February 7, 2000

FURTHER AMENDMENTS TO UCITS DIRECTIVE PROPOSED BY COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS OF EUROPEAN PARLIAMENT

1 In 1998, the European Commission issued two proposals to amend the Directive that regulates collective investment funds. See Memorandum to International Committee No. 30-98 (Sept. 16, 1998). 2 See Memorandum to International Committee No. 45-99 (Nov. 1, 1999). 3 The Committee's proposal also would require UCITS to disclose that they invest in other UCITS and non-UCITS funds. [11610] February 7, 2000 TO: INTERNATIONAL COMMITTEE No. 5-00 RE: FURTHER AMENDMENTS TO UCITS DIRECTIVE PROPOSED BY COMMITTEE ON ECONOMIC AND MONETARY AFFAIRS OF EUROPEAN PARLIAMENT ____ Attached is a copy of the report of the Committee on Economic and Monetary Affairs of the European Parliament ("Committee"), issued on February 1, 2000, recommending further amendments to the Directive relating to the regulation of collective investment vehicles.1 As previously noted, on October 18, 1999, the Institute submitted a comment letter to the Committee in connection with its experts meeting.2 The Institute recommended that the Committee not adopt the proposal by the Parliamentary Committee on Legal Affairs and Citizens' Rights to prohibit UCITS from investing in non-UCITS funds. In addition, the Institute recommended that the Committee consider expanding the proposed amendments to the Directive to permit master-feeder arrangements. As recommended by the Institute's letter, the Committee's report recommended that UCITS be permitted to invest in other collective investment undertakings as well as in other UCITS. The Committee, however, did not propose to permit member states to authorize master-feeder arrangements. The Committee's proposal would allow investments by UCITS in other UCITS and non-UCITS funds subject to certain qualitative and quantitative conditions. First, the proposal would require that non-UCITS funds be subject to supervision equivalent to UCITS, that investors in non-UCITS funds be afforded protection equal to that provided to investors in UCITS, and that non-UCITS funds issue annual and semi-annual reports. Second, the proposal would prohibit a UCITS from investing more than 10% of its assets in units of a single UCITS or non-UCITS fund and more than 30% of its assets in non-UCITS funds in the aggregate. Finally, the proposal would prohibit a UCITS from investing in another UCITS or non-UCITS fund that, in turn, invests more than 10% of its assets in units of other UCITS or other collective investment undertakings.3 The European Parliament is expected to vote on the Committee's proposed amendments on February 18, 2000. Jennifer S. Choi Assistant Counsel Attachment