

MEMO# 14600

April 4, 2002

EUROPEAN FINANCIAL SERVICES ROUND TABLE'S REPORT ON EUROPEAN FINANCIAL MARKET INTEGRATION

[14600] April 4, 2002 TO: BOARD OF GOVERNORS No. 15-02 INTERNATIONAL COMMITTEE No. 26-02 RE: EUROPEAN FINANCIAL SERVICES ROUND TABLE'S REPORT ON EUROPEAN FINANCIAL MARKET INTEGRATION Attached is a copy of a report commissioned by the European Financial Services Round Table on the benefits of a single European market in financial services that reinforces many of the Institute's policy goals with respect to asset management regulation in the European Union. The report describes the potential benefits of European financial market integration, discusses the obstacles impeding an integrated financial market in the European Union, and makes certain policy recommendations for reform. We understand that the report likely will be given significant consideration by the European Union as it pursues its goal of an integrated financial services market. In January 2000, the Institute's Board of Governors identified two priority areas for the Institute's international program: achieving a true cross-border market for mutual funds (UCITS) in Europe and assuring that ordinary mutual funds can be used as funding vehicles in new defined contribution pension systems. Both of these areas are addressed favorably in the European Financial Services Round Table report. The report describes the significant benefits that greater integration of the financial services market would achieve in large cost savings for the fund industry and its shareholders and observes that achieving greater economies of scale in the mutual fund industry will be helpful in European pension reform because of the important role that fund products will play in retirement systems. The report cites and endorses comments made by the Institute¹ and FEFSI² to the Committee of Wise Men on the Regulation of European Securities Markets on the obstacles to an integrated market for funds. The executive summary of the report states: "For funds the outdated definition of UCITS in the directives limits cross-border marketing of innovative fund products. In addition, the burden of registration in a target market raises the costs for entering a national market. Furthermore, host country responsibility for supervision of advertising and marketing together 1 See Memorandum to International Committee No 33-00, dated September 29, 2000. 2 FEFSI is the trade association of the European fund industry. 2 with tax discriminations hamper the emergence of a unified fund market. The problems are aggravated by distribution channels that are still biased in favour of domestic fund companies." In addition, the report warns of new obstacles to an integrated pension products market if member states implement unique "national" characteristics in pension regimes and criticizes Germany's new "Riester pension products" because of the difficulties existing UCITS funds would have in qualifying as funding vehicles. The report notes that these types of national regulations create new de facto barriers to an integrated market for pension products. The report recommends specific reforms to further financial services

market integration, including: (1) increased efforts to end discriminatory tax practices, (2) greater harmonization of consumer protection rules to increase pan-European marketing strategy and standardized products, and (3) short, medium and long-term regulatory reforms to align administrative practices and standardize regulatory approaches, provide an option for large institutions to elect to be supervised by a pan-European agency, and eventually consider creation of a single supervisory agency. Matthew P. Fink President Attachment (in .pdf format)

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