

VIDEO

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Focus on Funds: Funds, Investors Confront Risks to Popular Global Model

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The global success of UCITS could be at risk from attacks on its global regulatory framework, as well as European proposals to impose heavy-handed oversight on the nascent field of sustainable investment. In the March 16, 2018, edition of *Focus on Funds*, ICI Global Chief Counsel Jennifer Choi explains how these regulations could affect fund managers and investors.

Transcript

Stephanie Ortvals-Tibbs, ICI director, media relations: Might Brexit related politics shrink Europe's asset management industry and leave UCITS fund investors with less choice and higher costs? That's a distinct possibility, as the European Commission considers rule changes that could throw a wrench into the works of one of Europe's vital economic engines. ICI Global Chief Counsel Jennifer Choi explained what's afoot.

Jennifer Choi, chief counsel, ICI Global: UCITS is a global brand. It's sold not only in the European Union [EU], but in many jurisdictions around the world. In fact, more than a third of the assets in UCITS are purchased by investors outside of the European economic area. And unfortunately, there's a proposal by the European Commission that could do real damage to the UCITS brand.

Ortvals-Tibbs: It is surprising, in some ways, that the Commission would look at something that could threaten UCITS, given its success. What exactly is the Commission thinking about doing?

Choi: They are looking at delegation, and they are thinking about imposing an additional, or duplicative, layer on how the delegation is authorized. And with that, there could be some real restrictions on how asset managers delegate portfolio management.

Ortvals-Tibbs: What's troubling is that it looks like the way they're considering this, as you said, is kind of a bifurcated approach between countries in the EU and countries outside of the EU—even though UCITS has been a global investment vehicle.

Choi: It's puzzling to us why they are treating third-country entities differently from EU entities in terms of delegation. They're allowing national regulators to continue to authorize delegation to EU member states, but having this additional, new layer for delegation *outside* the European Union.

Ortbals-Tibbs: So if it that happens, we're going to see real change for third-country users of UCITS, and it's going to be something that fund managers are going to have to really reconsider.

Choi: It's a real problem for global asset managers. Over the years, asset managers have learned to capitalize on efficiencies, and try to tap into talents around the world. And you won't be able to do that if you're restricting portfolio management within a specific location. The cost will be raised for investors, as well as losing the expertise that they could get from around the world.

Ortbals-Tibbs: We're quite engaged on that issue. We're also starting to look at another issue that is coming out of the Commission: they are studying what they might do around environmental social governance issues—ESG issues—and mutual funds.

Choi: Our members are very engaged in that area and they are responding to investor demand. That's an area that is growing in terms of investor interest, especially among Millennials, and our members are responding to that with products that meet investor interest.

Unfortunately, the Commission is thinking something more prescriptive than that, and thinking about a uniformed approach to ESG investing. We think that's inappropriate, because people's objectives, interests, and needs are different. And as a fiduciary, you need to take those individual interests into account when you invest on behalf of clients.

Additional Resources

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