

LETTERS TO THE EDITOR & RESPONSES

February 20, 2015

The Best Days Lie Ahead

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(As [published in Funds Europe](#), 20 February 2015)

During the past two decades, the regulated fund industry has experienced tremendous growth. According to ICI Global research, global assets in mutual funds have increased from \$4 trillion (€3.5 trillion) in 1993 to \$28.9 trillion in September 2013.

Many factors help explain this, including strong and appropriate regulation, deep and liquid capital markets and the rise of defined contribution (DC) systems. Yet the best days lie ahead because of three key roles funds play: as investment products, as retirement savings vehicles, and as a key component in developing capital markets.

Rising per capita income in developing countries could significantly increase the demand for long-term regulated funds, because as per capita income rises, fund use increases. This is partly because an expanding middle class benefits from well-diversified investment products that can help them save for future goals.

One such goal is retirement. In the face of demographic and fiscal pressures, many developed countries have supplemented or replaced their retirement system with a DC system. These same pressures will increase the importance of DC plans in the developing world and provide access to the benefits that funds offer.

Regulated funds also play an important part in creating robust capital markets by providing a flexible, stable source of financing for businesses, infrastructure and governments. As emerging market countries seek new capital to sustain their growth –and investors in developed economies look for promising opportunities – it is likely they will come together through regulated funds.

Funds offer substantial advantages to investors worldwide. They are professionally managed, well regulated, transparent, diversified and cost-effective. To ensure investors and markets in developing countries benefit from regulated funds, three things need to happen.

First, if policymakers are to develop appropriate regulation, they need to understand the role that funds play in capital markets. To do so, they need empirically based data about regulated funds. The International Investment Funds Association (IIFA) has collected and published statistics on fund flows for nearly 20 years. IIFA is now providing the International

Organization of Securities Commissions with detailed statistics on global fund trends.

Second, as financial markets become more interconnected, it is crucial that regulators work together to avoid conflicting or duplicative rules that make it difficult for funds to serve investors and the markets.

Finally, policymakers need to learn more about how funds can help meet retirement savings challenges around the world. Funds have many features that serve retirement savers well, and they should be offered in as many jurisdictions as possible.

Fund sponsors also have an important part to play in helping regulators and investors understand the advantages of fund investing. For example, the fund industry should continue to promote sound policies that strengthen its products for the benefit of investors. Our associations worldwide must serve as an effective mechanism for dialogue with the regulatory community.

As president and chief executive officer of ICI – the world’s largest association of regulated funds – I have witnessed the progress made when funds, fund associations and regulators collaborate and learn from one another. To take advantage of the growth that lies ahead, the fund industry and policymakers must keep working together to innovate, champion appropriate regulation and create opportunities to work towards a global regulatory climate that will strengthen funds and benefit investors.

In October, Paul Schott Stevens was appointed chairman of the International Investment Funds Association

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