

COMMENT LETTER

July 30, 2004

ICI Comments on Clearing and Settlement Systems Among EU Member States (pdf)

July 30, 2004 Mr. Mario Nava Head of the Infrastructure Unit DG MARKT G1 European Commission B-1049 Brussels Markt-Clearing-Settlement@cec.eu.int Dear Mr. Nava: The Investment Company Institute ("the Institute") appreciates the opportunity to comment to the European Commission ("the Commission") on its communication to the Council and the European Parliament entitled Clearing and Settlement in the European Union ("EU") – The way forward¹. The Institute is the national association of the US investment company industry.² Many of our members manage assets in Europe, including UCITS funds. Our members also have more than 1,000 US funds (with over \$413 billion in assets) that have a global or international focus, and many of these global and international funds invest in Europe. Our comments reflect the experiences of Institute members both investing in European securities and issuing UCITS fund shares. The Institute strongly supports the goal of the Commission, which is "...the creation of EU Securities Clearing and Settlement Systems that are efficient and safe and which ensure a level playing field among the different providers of Clearing and Settlement services." As significant investors in EU securities, our members are of the view that the achievement of an efficient and safe clearance and settlement system in the EU will benefit all investors and further promote a pan-European securities market. In the communication, the Commission defines "Clearing and Settlement" as the full set of arrangements required to finalise a securities or derivatives transaction. The communication does not define the term "securities" although we understand that the Commission's current work will not address the clearance and settlement of capital shares of investment funds. We agree that clearance and settlement of investment fund shares should not be included in this initiative. ¹ www.europa.eu, European Commission, Internal Market, Financial Services, Communication on clearing and settlement 280404.pdf ² The Institute's membership includes 8,643 open-end investment companies ("mutual funds"), 629 closed-end investment companies, 126 exchange-traded funds and 5 sponsors of unit investment trusts. Its mutual fund members manage assets of about \$7.425 trillion. These assets account for more than 95% of assets of all U.S. mutual funds. Individual owners represented by ICI member firms number 86.6 million as of mid 2003, representing 50.6 million households. Mr. Mario Nava July 30, 2004 Page 2 As highlighted by the EU Asset Management Expert Group in its final report, "Financial Services Action Plan: Progress and Prospects," cross-border processing of fund units is a key issue for the asset management industry. We believe that standardizing operational protocols and increasing efficiencies for fund processing could bring significant benefits to fund shareholders. The Institute hopes that the Commission's work on clearance and

settlement of EU-listed securities will not predetermine the systems for the cross-border clearance and settlement of capital shares for investment funds. Because of the unique characteristics of investment fund capital shares -- investment funds typically offer their shares to the public continuously and allow investors to exchange from one fund in the fund family to another -- we believe that the system for clearance and settlement of fund shares should be addressed separately. In 2002, the Institute formed the International Operations Advisory Committee ("IOAC") to provide a forum for our members to work with the providers of clearing and settlement services and the distributors of investment funds on our common goal of achieving standardization and automation of clearance and settlement procedures for investment fund capital shares in the pan-European marketplace. The IOAC has a continuing dialog with FEFSI, which is working to develop pan-European standards relevant to the order processing of investment funds. The Institute supports these industry and other efforts to develop clearing and settlement systems for investment fund capital shares that are efficient and safe and provide a level playing field among the providers of clearing and settlement services for capital shares. We hope to work with all interested parties in devising an improved clearing and settlement system for investment funds in the EU. * * * * * We appreciate the opportunity to comment on the communication from the Commission on clearing and settlement systems in the EU. If you have any questions about our comments, please contact me at (202) 326-5826 or podesta@ici.org. Very truly yours,
Mary S. Podesta Senior Counsel

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