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Summary of a survey of AFG member companies on the implementation of the UCITS IV Directive

The UCITS IV directive adopted on 13 July 2009 will usher in major regulatory changes for the European asset management industry. Indeed it contains measures that can spur commercial development and cost-cutting.

To cater for its members' expectations, provide insights and stimulate industry preparations, the French Asset Management Association (AFG) commissioned a survey from Euroland Consulting in order to determine how its members foresee the implementation of the UCITS IV Directive.

A total of 68 management companies accounting for 90% of all assets managed in collective investment schemes responded to a Euroland questionnaire between the end of May and early June 2010. In addition, some 15 interviews were carried out.

Eight key points emerge from the responses:

1) **The vast majority of management companies surveyed are internationally active and many others plan to follow suit.** 71% of firms already have foreign clients. Among the 29% with a purely domestic client base, 32% intend to build up a foreign clientele. In addition, 26% already manage non-French funds (by delegation). Of the ten largest firms, nine already have foreign establishments.

2) **The survey identified two groups of management companies concerned by UCITS IV:**

- Management companies that already operate internationally and use the "product passport" to export funds. The directive will not alter their strategies but it will provide them with a combination of convenience and cost-cutting which they find attractive. They are unlikely to relocate their management facilities, although some teams may be merged.
- Management companies with little or no international presence. The directive will give them the opportunity to conduct an international development strategy without incurring significant capacity costs or legal fees.

3) **The "product passport" is widely acclaimed.** More than two thirds of companies intend to use the “product passport” to sell more French funds abroad. This large number reflects an aggressive determination to benefit from the harmonisation of the market in order to grow market share in Europe.

4) **The management company passport will be used chiefly to create foreign-domiciled funds** (42% of companies plan to create such funds). The decision to merge teams has not been taken yet (16%) or has been ruled out (28%). A minority (5%) intends to do so eventually. The remaining 49% are not concerned.

5) **Feeder funds will be set up as UCITS.** 38% of respondents have already set up master/feeder structures in France. This reflects both the experience acquired by French management companies and the appeal of this technique. Under the new directive, the respondents intend to use funds currently domiciled in France as masters (87%) and to create feeder funds in other European countries. There are high expectations for clarifications and technical adjustments to the French tax regime. Management companies will also take advantage of the directive to convert their French feeder funds into UCITS (26%).

6) **Two of the main criteria concerning the domiciliation of feeder funds, and also of master funds, are client demand and local presence.** This has three consequences:

- the current domiciliation of master funds may change at the request of major institutional clients;
- the creation of local feeder funds will be heavily influenced by demand from investors and distributors;
- the directive will be implemented before the end of June 2011, therefore one of the top priorities, both for management companies and for the AFG, should be to inform investors and distributors about the benefits to be derived from the directive.

7) **Unless significant progress on tax treatment at European level is made in the coming year, the complexity and cost of tax friction will be a major impediment and deter cross-border mergers**, regardless of where funds are domiciled.

8) **The Key Investor Information Document (KIID), which will replace the simplified prospectus, is deemed a useful document.** The KIID is seen as a "good" disclosure document (75%) that will make funds easier to compare (67%). Moreover, 26% of the companies that assessed the cost of implementing the KIID considered it to be "high" and 40% deemed it "average".

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