

# UCITS IV, a directive designed to help structuring the industry on a European scale?

On January 13 2009, a proposal for the UCITS IV directive was approved by the European Parliament and the Council of the European Union. The directive aimed to allow collective investment schemes to operate freely throughout the EU on the basis of a single authorization from one member state, and was scheduled for implementation in 2011.

A study performed by Eurogroup Consulting and with Double Effect shows that according to the asset management industry, this directive will not meet its initial goal, but will provide a positive change for the fund industry. The study was performed among 78 respondents from 10 countries, together representing 46% of the total European industry assets under management. A first part of this study examines the overall European marketing of funds. The growth potential across Europe should not be overestimated. When looking closely at existing markets and usage of funds it appears that:

- Specific local needs and local regulation require that local management is adjusted to these needs
- Taxation systems remain unique for each country
- Cross border distribution of funds is still costly; especially for small and medium sized asset managers
- A large part of distribution remains concentrated in the hands of insurance and banking groups
- Cross border management of assets has already taken place; for example by management delegation



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Furthermore the current directive only provides a partial answer to the cross border distribution issues. The management passport; the key investor document (KID) and a faster notification procedure will certainly increase transparency and decrease time to market of new funds. However as long as tax discrepancies within the European Union remain unchanged, and other distribution costs are not significantly addressed by the directive, it will not meet its intended objective.

The survey carried out amongst European asset managers further strengthens the previously mentioned beliefs. According to the interviewed asset managers the UCITS IV directive is not about expanding abroad and will not primarily lead to lower costs for investors. It rather provides a powerful marketing tool through the implementation of cross-border master-feeder structures. This is in line with the earlier raised argumentation that the opportunities of the directive lie in domestic sales not in cross-border growth.

At the same time the survey results for service providers show a slightly different picture. They plan a significant expansion of their country coverage as a result of the new UCITS IV directive. The intrinsic motivation lies however not in the directive itself. It is well understood that the competition amongst service providers drives them to implement these changes quickly. Failure to do so is likely to result in a deterioration of the organizations competitive edge.

All these results show that the UCITS IV directive is not believed to reach its intended goal: allowing investment schemes to operate freely throughout the European Union. It is also not believed to spark an expansive growth of European fund distribution. The directive does provide a positive change for the fund industry: increased transparency in the industry and sales opportunities for asset managers. Overall, the immediate results may well prove to be different from the directive's intentions. ●