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Financial services: Commission acts to improve investor protection and efficiency in the EU investment fund market

The European Commission has today completed a programme of improvements to the EU framework for investment funds. These funds known as UCITS (Undertakings for Collective Investment in Transferable Securities) accounted for over € 5 trillion of assets in 2009, which is equivalent to half of EU GDP. The new rules better empower investors by requiring a new standardised fund document, while also setting out in detail the high standards of conduct of business that UCITS fund managers must comply with. In addition, the new rules improve the efficiency of the UCITS market in the EU by introducing and facilitating new possibilities for the pooling of assets from different funds, by simplifying the cross-border distribution of UCITS and by better coordinating the work of national supervisors. The new rules are to take effect from 1 July 2011.

Internal Market and Services Commissioner Michel Barnier said: "Today's package will improve investor protection, cut red tape and further strengthen the global competitiveness of Europe's investment funds. Furthermore, the steps we have taken to enhance transparency and the effectiveness of our rules show that Europe has learned its lessons from the crisis. I hope the hard-won trust we have earned from investors will deepen in the future. With the framework now in place, the hard work of implementation for both supervisors and market participants begins."

The Commission has adopted detailed requirements in the form of four acts (two Directives and two Regulations). Member States now have 12 months to implement the directives, while the regulations will apply from 1 July 2011. These acts cover the following areas:

- Key investor information – a new standardised and harmonised disclosure document designed to empower investors to take effective investment decisions. An implementing Regulation covers the content and form of the document, including the use of plain language and a much more investor-friendly presentation of information about risk. The implementing regulation is supported by detailed methodologies on calculating a fund's level of risk and charges, which have been published today by the Committee of European Securities Regulators (CESR).
- Rules for the conduct of UCITS management companies – an implementing Directive aligns organisational requirements and rules of conduct for investment firms with the standards already applied across much of the financial services through the Markets in Financial Instruments Directive, otherwise known as MIFiD (see IP/07/1625). These rules also cover the prevention, management and disclosure of conflicts of interest. The Directive further obliges UCITS managers to employ sufficiently robust and effective procedures and techniques so that they are able to adequately manage the different types of risk the UCITS might face.

- UCITS mergers and master-feeder structures – an implementing Directive details certain investor protection measures in relation to these asset pooling techniques, and establishes a common approach to the sharing of information between master and feeder UCITS. It also covers detailed rules on the liquidation, merger or division of a master UCITS.
- Notification procedure and supervisory co-operation – an implementing Regulation sets out the details of standard documents and procedures to be used for electronic transmission in the notification procedure (used by a UCITS when it wishes to gain access to the market in another Member State). It also contains common procedures for enhancing supervisory cooperation in their oversight of fund managers' cross-border activity of fund managers.

Now that the new European legal framework for UCITS is complete, the focus switches to Member State competent authorities and market participants to implement the changes and deliver the vital improvements to transparency, efficiency and effectiveness.

Background

Investment funds are investment products created with the sole purpose of gathering investors' capital, and investing that capital collectively through a portfolio of financial instruments such as stocks, bonds and other securities.

Directive 2009/65/EC, which replaces the previous UCITS Directive 85/611/EEC, provides for common rules for setting up and operating investment funds in the EU. Fund managers that comply with these rules may benefit from the right to offer their services cross-border. Investment funds authorised in accordance with the provisions of this Directive may be distributed to investors across the EU after following a defined procedure for notifying the relevant competent authorities.

These implementing measures are split across four separate instruments, which, together with the recast of the UCITS Directive and supporting CESR guidelines, form a package that lays the basis for an efficient and competitive UCITS market for the future which enshrines class-leading investor protection measures. They have been prepared on the basis of advice from CESR. They were approved by Member States and subsequently the European Parliament and the Council. .

More information is available at:

http://ec.europa.eu/internal_market/investment/ucits_directive_en.htm

For CESR's guidelines on the methodology for the calculation of the synthetic risk and reward indicator in the Key Investor Information Document (Ref. CESR/10-673) see: http://www.cesr.eu/index.php?docid=6961

For CESR's guidelines on the methodology for calculation of the ongoing charges figure in the Key Investor Information Document (Ref. CESR/10-674) see: http://www.cesr.eu/index.php?docid=6962