EFAMA

European Fund and Asset Management Association

# FACT BOOK 2022

**20TH EDITION**

TRENDS IN EUROPEAN INVESTMENT FUNDS

## EFAMA is the voice of the EUR 31 trillion European investment management industry.

Through our 27 national associations and 58 corporate members, we represent the rich diversity of market participants that characterises the European investment management industry. This sets us apart and makes us the natural interlocutors of European policymakers.

We can also rely on the expertise of our 26 associate members, mainly consultancies, asset servicing companies and law firms.

**EFAMA's purpose is to:**

a. promote optimal conditions for the European fund and asset management industry in its efforts to create value for investors;

b. influence and support the ongoing development of the regulatory environment including the European Single Market;

c. promote the interests of its members among stakeholders;

d. build confidence and trust in the industry;

e. promote scientific research concerning the industry.

**To that effect, we carry out activities such as:**

- building confidence and trust in the industry by supporting the development of, and adherence to, high professional standards which recognise the interests of investors;
- providing an effective voice for the industry by developing and maintaining a strong reputation and relationships with key stakeholders;
- promoting the professional interests of members and providing services to enable members to contribute to, and benefit from, the Association's work;
- promoting the realisation of an effective European Single Market through engagement with the relevant EU institutions and national authorities;
- representing the industry in European and international policy and regulatory discussions;
- promoting and conducting research and data collection concerning the industry and act as a trusted source of data;
- disseminating information and issuing publications;
- organising conferences, seminars, workshops, etc. at international and national levels.

**Authors:**

*Bernard Delbecque, Senior Director*

*Vera Jotanovic, Senior Economist*

*Thomas Tilley, Senior Economist*

*Hailin Yang, Statistician*

**2021 was an exceptional year for the Asset Management industry**, and this 20th edition of our EFAMA Fact Book reflects this admirably. UCITS funds attracted a historic level of net sales of EUR 812 billion, driven by record-breaking net inflows into equity funds (EUR 405 billion), well above the previous 2017 record (EUR 162 billion). The successful roll-out of Covid vaccines over the course of 2021 and its positive impact on economic growth, stock markets and investor confidence played a key role in this outcome, as did the growing demand for the sustainable investment solutions offered by fund managers.

The Fact Book also highlights another remarkable development: after years of very low fund purchases, **the net acquisitions of investment funds by European retail investors reached a record level** of EUR 245 billion in 2021. The low interest rate on deposits and the advantages of investing in investment funds in terms of investor protection, risk diversification, sectoral and geographical exposure, real return and the evolution of fund costs can explain this positive development.

**2022 is a different story and will continue to be extremely challenging.** The war in Ukraine, growing concerns about the current levels of inflation and the expected effects of monetary policy tightening have negative impacts on businesses and Asset Management is not immune. Whilst the decline in net sales and net assets observed since the beginning of the year will force fund managers to adapt their business model and control their costs, I am convinced that UCITS and AIFs will remain leading savings and investment solutions for European investors in the future.

As inflation rises, households are consistently losing purchasing power. This is why, more than ever, **fostering retail participation in capital markets should be a key priority for the European Commission**. Unfortunately, little progress has been achieved on this front since the launch of the Capital Markets Union (CMU) project in late 2015. Between 2016 and 2021, the amount of bank deposits held by European households increased by EUR 3,054 billion to EUR 13,375 billion, while the share of deposits in household financial wealth rose from 37% to 38.3%. We hope the Commission will propose in its upcoming retail investment strategy meaningful measures **to help citizens understand the benefits of investing in capital market instruments over a long-term horizon** – the energy transition being a tremendous opportunity in this regard. Obviously, a lot also needs to be done at national level to **provide incentives to save for the long term and to strengthen financial literacy and investor education**.

This latter point is critical, as a survey of the participants in a recent CMU conference organised by the European Commission highlighted. To the question of which areas should the EU address to help retail investors take advantage of opportunities of capital markets, financial literacy topped the list, followed by value for money of investment products, quality of advice and disclosure. This underlines **the relevance and value of EFAMA's continuous work in the investor education space**. In this regard, this year's edition of our Fact Book is being made available online free of charge for the first time. This will make the wealth of data included in this document easily accessible to a much broader audience, including policymakers, journalists, industry experts and scholars.

**These are just a few of the many topics covered in our Fact Book**: debates over the Sustainable Financial Disclosure Regulation (SFDR), performance of active and passive funds, sustained decline in the costs of all UCITS types, review of the ELTIF regulation, impact of inflation on bank accounts, proposals to amend the money market funds regulation… All these topics are at the heart of EFAMA's advocacy priorities and are crucial elements to consider in any assessment of the outlook for the European fund industry.

**To conclude, I would like to thank EFAMA's Research team for their unwavering commitment to the Fact Book. I also want to express my gratitude to our member associations, whose country reports and national statistics are key ingredients in the continuing success of the Fact Book. Last, but not least, a warm thank you to the sponsors of the Fact Book whose financial support allowed EFAMA to make the Fact Book available free of charge. Enjoy your read!**

**Naïm Abou-Jaoudé**
**EFAMA President**

# PART 1

# RECENT DEVELOPMENTS IN THE EUROPEAN INVESTMENT FUND INDUSTRY

**Boxes**

# ABBREVIATIONS

| | |
|---|---|
| **AIF** | Alternative Investment Fund |
| **AIFMD** | Alternative Investment Fund Managers Directive |
| **AMLD** | Anti-Money Laundering Directive |
| **ARIS** | Absolute Return Innovative Strategies |
| **AuM** | Assets under Management |
| **BIS** | Bank for International Settlements |
| **CBF** | Cross-Border Fund |
| **CCPs** | Central Counterparties |
| **CMU** | Capital Markets Union |
| **CNAV** | Constant Net Asset Value |
| **EBA** | European Banking Authority |
| **EC** | European Commission |
| **ECB** | European Central Bank |
| **EFC** | European Fund Classification |
| **EIOPA** | European Insurance and Occupational Pensions Authority |
| **ELTIF** | European Long-term Investment Funds |
| **EMT** | European MiFID Template |
| **ESAs** | European Supervisory Authorities |
| **ESG** | Environmental, Social, and Governance |
| **ESMA** | European Securities and Markets Authority |
| **ESRB** | European Systemic Risk Board |
| **ETF** | Exchange-traded Fund |
| **EU** | European Union |
| **DLT** | Distributed Ledger Technology |
| **DORA** | Digital Operational Resilience Act |
| **FTT** | Financial Transaction Tax |
| **GDP** | Gross Domestic Product |
| **IBOR** | Interbank Offered Rate |
| **ICI** | Investment Company Institute |
| **ICPF** | Insurance Corporations and Pension Funds |
| **IFRS** | International Financial Reporting Standards |
| **IIFA** | International Investment Funds Association |
| **IMF** | International Monetary Fund |
| **IMMFA** | Institutional Money Market Funds Association |
| **IOSCO** | International Organisation of Securities Commissions |
| **LVNAV** | Low Volatility Net Asset Value |
| **MiFID** | Markets in Financial Instruments Directive |
| **MIFIR** | Markets in Financial Instruments Regulation |
| **MMF** | Money Market Fund |
| **MMFR** | Money Market Fund Regulation |
| **NAV** | Net Asset Value |
| **NCA** | National Competent Authority |
| **NFRD** | Non-Financial Reporting Directive |
| **OECD** | Organisation for Economic Co-operation and Development |
| **OFI** | Other Financial Intermediaries |
| **OTC** | Over-the-counter |
| **PAI** | Principal Adverse Impacts |
| **PDCNAV** | Public Debt Constant Asset Value |
| **PEPP** | Personal European Pension Product |
| **PRIP** | Packaged Retail Investment Product |
| **QIF** | Qualifying Investor Funds |
| **SFDR** | Sustainable Financial Disclosure Regulation |
| **SFTR** | Securities Financing Transaction Regulation |
| **SIF** | Specialised Investment Fund |
| **SME** | Small and medium-sized enterprises |

| | |
|---|---|
| **SRD** | Shareholder Rights Directive |
| **VAT** | Value-added Tax |
| **VNAV** | Variable Net Asset Value |
| **UCITS** | Undertakings for Collective Investment in Transferable Securities Directive |

# CHAPTER 1: KEY FINDINGS AND FIGURES

## THE EUROPEAN INVESTMENT FUND INDUSTRY IN 2021 AT A GLANCE

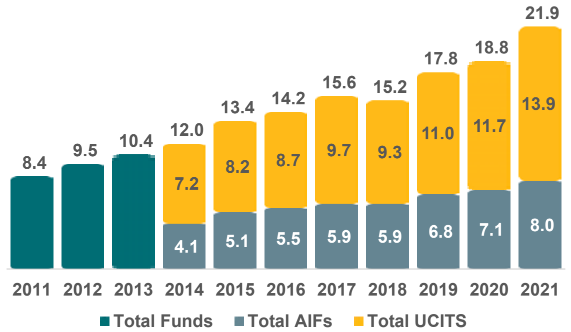
Net assets of **UCITS** and **AIFs** at end 2021

**EUR 21.9 trillion**

UCITS
**EUR 13.9 trillion**

AIFs
**EUR 8 trillion**

Net Assets of European Investment Funds
(EUR trillions)



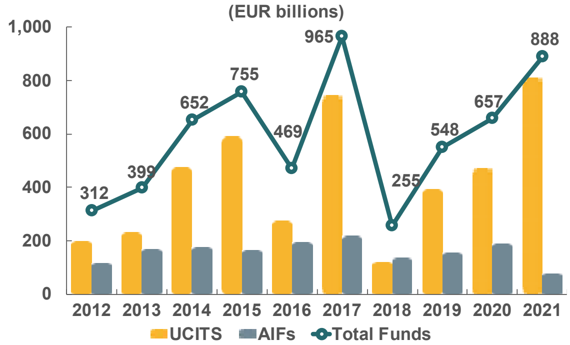

Net sales of **UCITS** and **AIFs** in 2021

**EUR 888 billion**

UCITS
**EUR 812 billion**

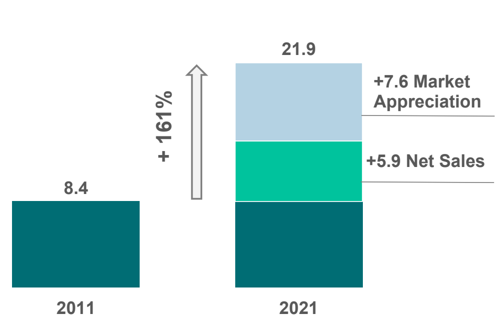
AIFs
**EUR 75 billion**

Net Sales of UCITS and AIFs
(EUR billions)

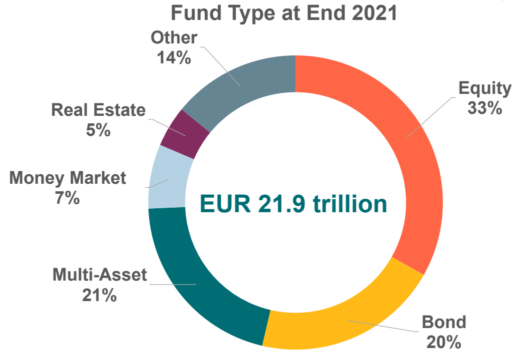



**161%**
of UCITS and AIF **net asset growth** since end 2011

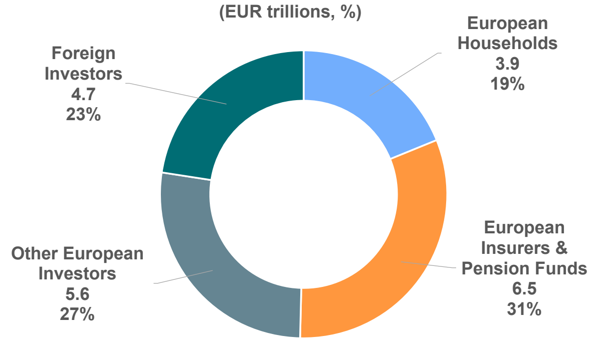
Growth in UCITS and AIF Assets
(EUR trillions, %)




Net Assets of European Investment Funds by Fund Type at End 2021

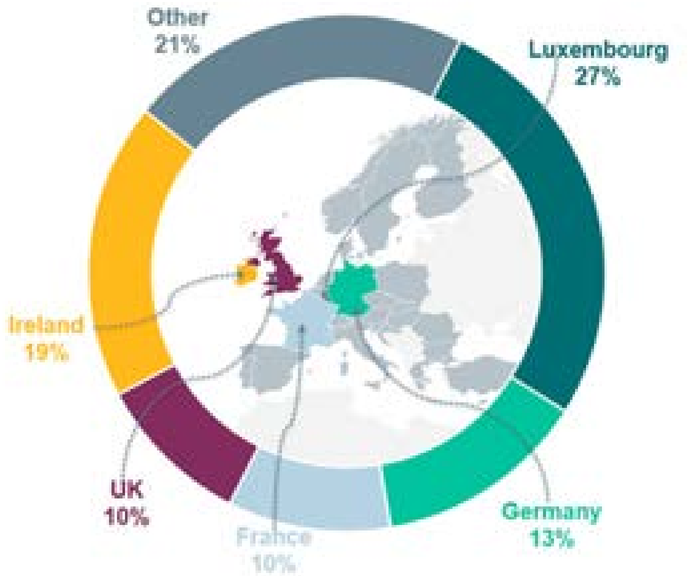



Main Investors in UCITS and AIFs at End 2021
(EUR trillions, %)



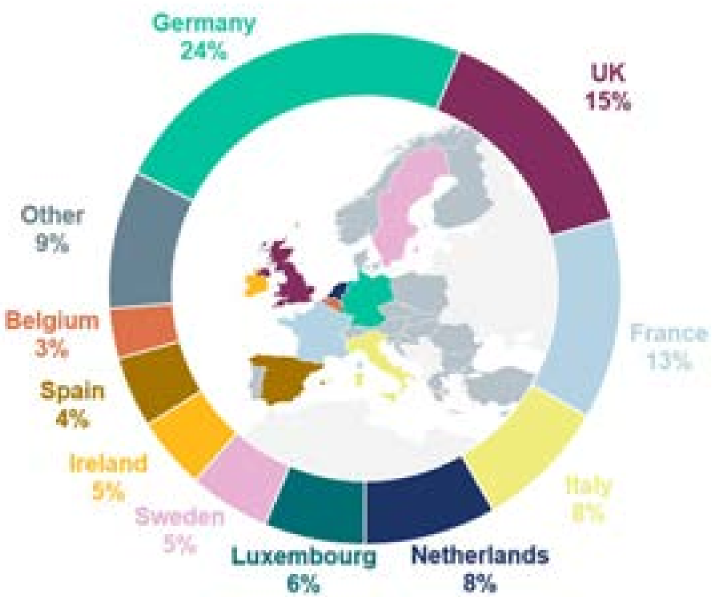
## WHERE ARE EUROPEAN FUNDS DOMICILED?

### Top Country Shares in UCITS and AIFs Net Assets at End 2021




## WHO IS BUYING FUNDS IN EUROPE?

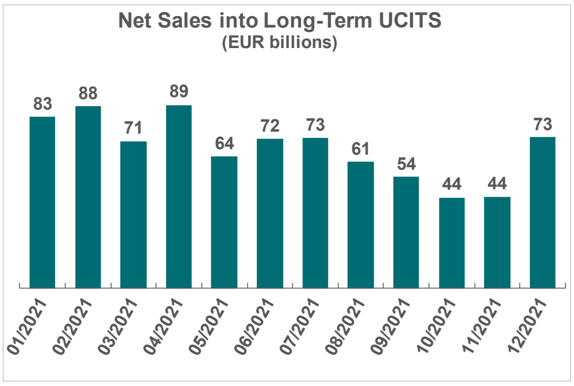
### Top Country Shares - Fund Ownership in Europe at End 2021



# HOW HAVE THE NET SALES OF UCITS AND AIFS EVOLVED IN 2021?

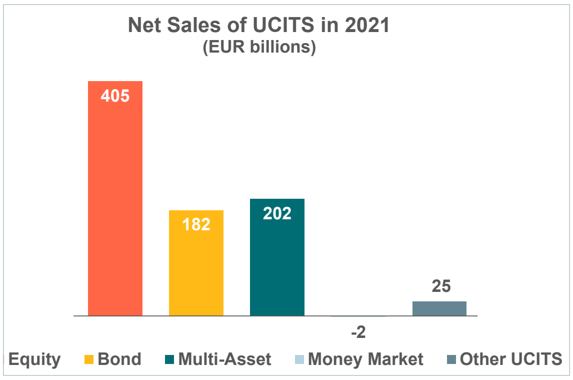
## Steady net sales of long-term UCITS throughout 2021 resulted in record net sales.

More than EUR 40 billion of long-term UCITS were purchased each month in 2021. This led net sales of UCITS to an all-time record of EUR 812 billion. Positive growth prospects and buoyant financial markets attracted investors to long-term UCITS. In addition, the successful roll-out of Covid vaccines over the course of 2021 boosted not just immune systems but also investor confidence.



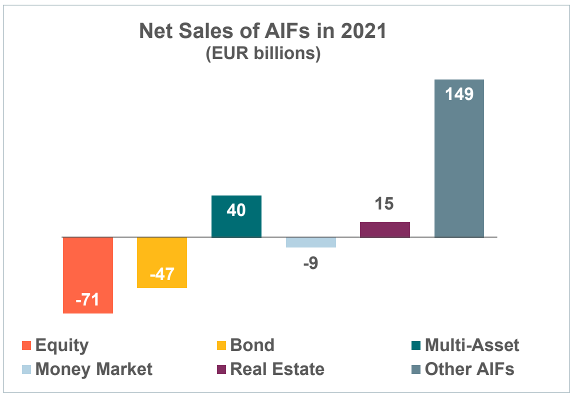

## 2021 was marked by record-breaking net sales of equity UCITS.

UCITS investors were very much in a 'risk-on' mode in 2021, as equity funds attracted about half of total UCITS net inflows. The excellent performance of global stock markets throughout the year helped explain these stellar inflows. Net sales of MMFs ended the year in negative territory as the strong economic recovery and continued low or negative short-term interest rates discouraged MMF investors.




## Net sales of AIFs in 2021 were impacted by Dutch pension funds moving away from AIFs.

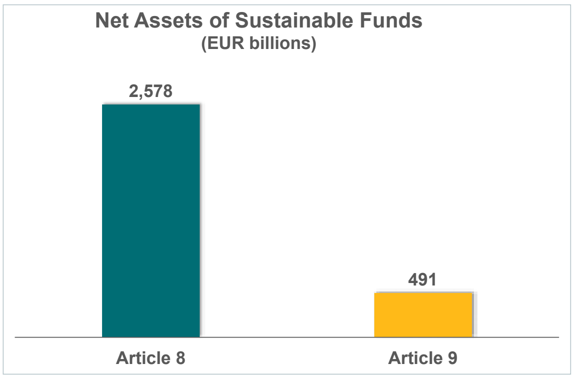
AIFs net sales dropped to EUR 75 billion, a level not observed since 2008 and significantly lower than in 2020 (EUR 187 billion). Equity and bond AIFs registered net outflows in 2021, mainly as a consequence of the decision taken by several large Dutch pension funds to stop managing their assets within AIF wrapper structures and instead make use of segregated mandates.



# WHAT ARE THE LONGER-TERM TRENDS IN THE EUROPEAN INVESTMENT FUND INDUSTRY?

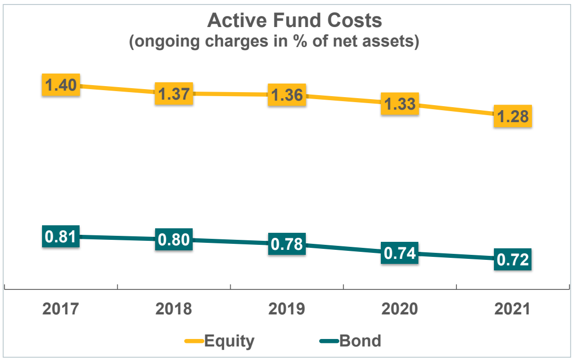
### Sustainable investing has grown to meet the increased investor demand for sustainable financial products.

Net assets of sustainable UCITS funds reached EUR 3.1 trillion at the end of 2021. This resulted in the share of sustainable funds in the total net assets of UCITS amounting to 24% in 2021. Net assets of SFDR Article 8 funds corresponded to EUR 2.6 trillion, while SFDR Article 9 funds reported EUR 491 billion of net assets at the end of 2021.



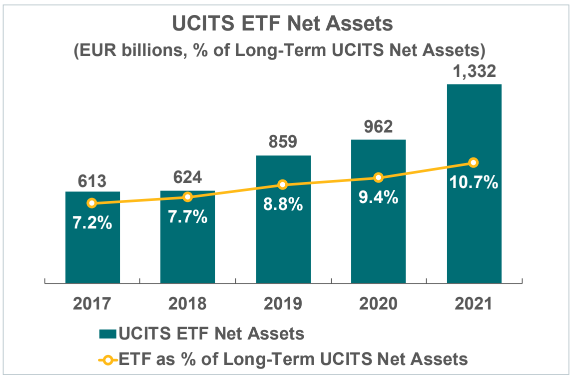

### The cost of UCITS continues to fall for all UCITS categories and fund types.

During the period 2017-2021, the average cost of actively managed equity and bond funds decreased by 9% and 11%, respectively. This trend is expected to continue in the future, as increased transparency on fees and pressure from passive funds will remain in force.




### Exchange-traded funds (ETFs) continue their steady growth path.

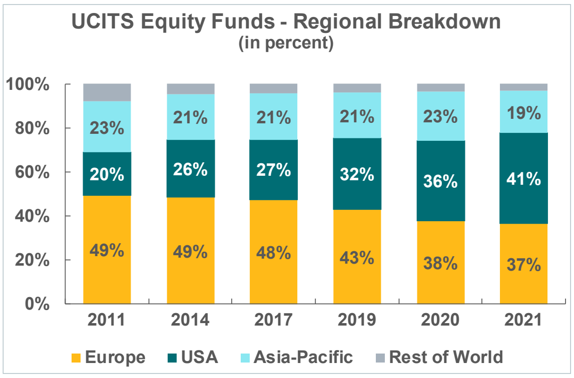
Due to their attributes of liquidity and low costs, the popularity of ETFs has steadily increased in recent years. Net assets of UCITS ETFs rose from 7.2% of long-term UCITS net assets in 2017 to 10.7% at the end of 2021. The share of index funds also grew gradually over the same period, from 6% to 8%.



## HOW HAS THE ASSET ALLOCATION OF UCITS CHANGED IN THE LAST DECADE?

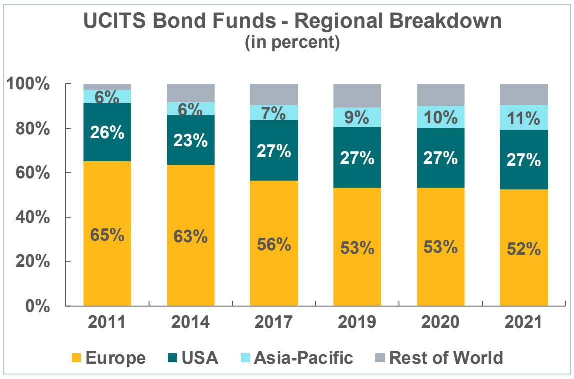
### The share of European stocks has been steadily declining in the asset allocation of UCITS equity funds.

As the European share of stocks declined, the share of American stocks increased. This is a direct consequence of the generally higher growth rates of US and Asian stock markets and the corresponding increased purchases of those stocks by UCITS managers. The evolution in 2021 was particularly striking, with the share of US stocks surging to 41% and the share of Asian stocks dropping to 19%, as mainly Chinese stock markets declined.



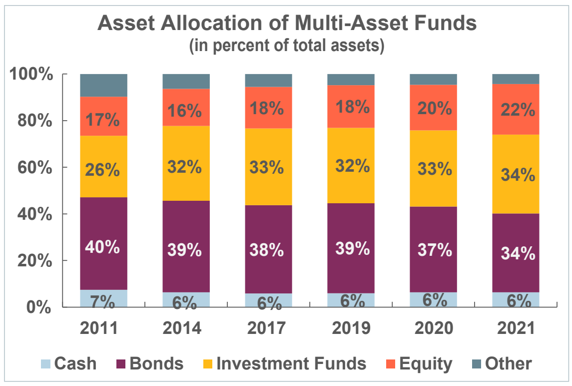

### More than half of the holdings of bond UCITS at the end of 2021 are European-issued bonds.

Some 52% of the bonds held by UCITS bond funds at the end of 2021 were issued in Europe. Looking at the evolution in the past decade, the steadily rising share of bonds issued in the Asia-Pacific region is noticeable. This can be explained by UCITS managers and investors searching for higher yields in Asian markets, as interest rates in Europe have been historically low, or even negative, in recent years.




### Multi-asset funds increasingly invest in other funds.

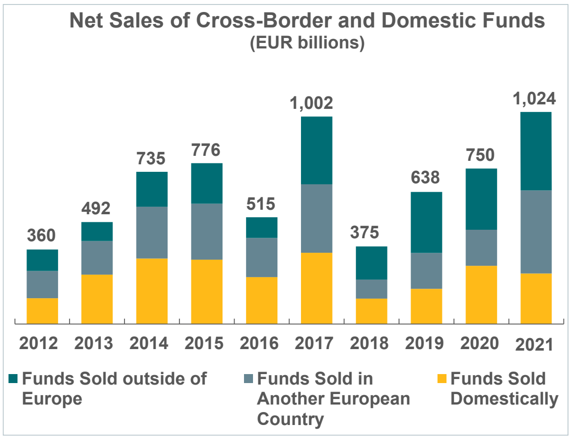
The share of directly held equity in the asset allocation of multi-asset UCITS remained stable at around 17% over the 2011-2019 period, climbing to 22% in 2021. At the same time, the share of funds managed in multi-asset funds increased continuously, indicating that multi-asset fund managers are increasingly relying on the expertise of other fund managers.



# WHO INVESTS IN EUROPEAN FUNDS?

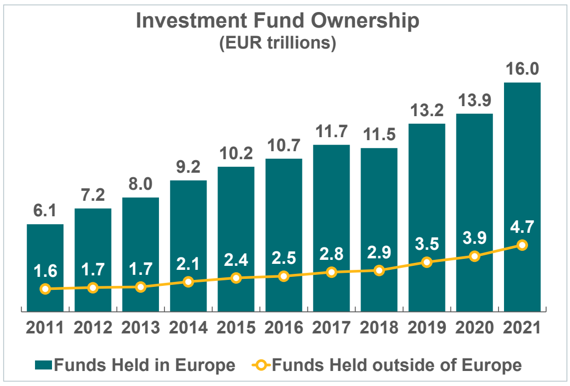
## Investors outside Europe are major clients of the European investment fund industry.

European funds can be sold in their country of domiciliation or abroad (cross-border), either in another European country or outside of Europe. Over the last 10 years, the net sales of funds sold outside Europe averaged 34% of total fund net sales, compared to 33% for cross-border funds sold in Europe as well as for domestic funds.



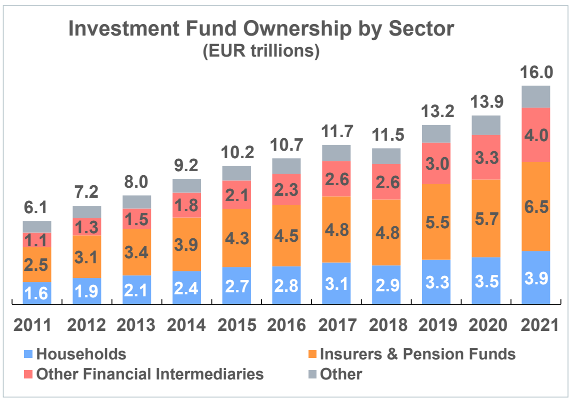

## Total fund ownership by European investors crossed the EUR 16 trillion threshold in 2021.

Net assets of UCITS and AIFs owned by European investors amounted to EUR 16 trillion at the end of 2021, compared to EUR 6.1 trillion in 2011, an increase of 150% over 10 years. Also, the net assets of European funds owned by non-European investors rose strongly, from EUR 1.6 trillion in 2011 to EUR 4.7 trillion in 2021, confirming the popularity of UCITS in Asia and South America.




## Insurers and pension funds, households and other financial intermediaries (OFIs) are the main types of fund investors in Europe.

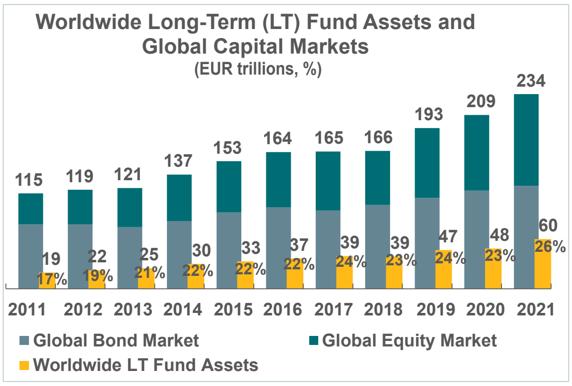
Insurers and pension funds are by far the largest investors in Europe. At the end of 2021, they held approximately EUR 6.5 trillion of UCITS and AIF net assets. OFIs, which are in large part long-term investment funds, have seen their fund holdings increase to EUR 4 trillion at the end of 2021. Households are the third main type of fund investor. Fund holdings by European households increased from EUR 1.6 trillion in 2011 to EUR 3.9 trillion in 2021, an increase of 144%.



## WHAT HAPPENED IN THE GLOBAL INVESTMENT FUND MARKET?

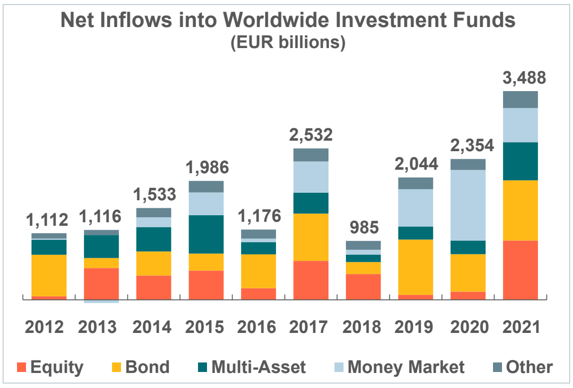
### Investment funds play a growing role in financing the global economy.

The share of funds in global capital markets grew from 17% in 2011 to 26% in 2021. The reasons behind this evolution vary between regions. In the United States, growth was driven by the increasing popularity of mutual funds in the US retirement system. In Europe, the success of the UCITS brand contributed strongly to its growth. In emerging economies, fund growth coincided with the overall development and deepening of domestic capital markets.



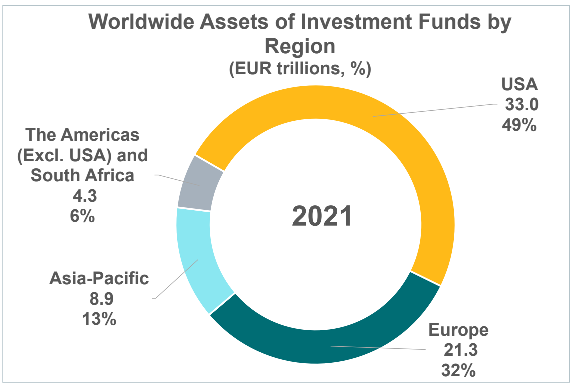

### Net sales of worldwide funds rose to an all-time record in 2021, thanks to strong inflows in all major types of funds.

Net sales of bond funds amounted to more than a trillion in 2021 (EUR 1,005 billion), the highest recorded. Following two years of lacklustre demand, the net sales of equity funds also climbed to a record high (EUR 992 billion). Net inflows into multi-asset funds were EUR 636 billion, compared to EUR 225 billion in 2020. Net sales of MMFs, on the other hand, more than halved in 2021 compared to the record 2020 inflows.




### Europe is the second-largest fund domicile, accounting for 32% of the worldwide investment fund assets.

The United States is the largest domicile for regulated open-ended investment funds, with a 49% market share at end 2021. The Asia-Pacific region accounted for 13%, with China the leading country with a 4.6% share, followed by Australia (3.6%) and Japan (3.2%). In the Americas (excluding the US), Canada and Brazil are the largest markets, with shares of 3.3% and 2.5%, respectively.

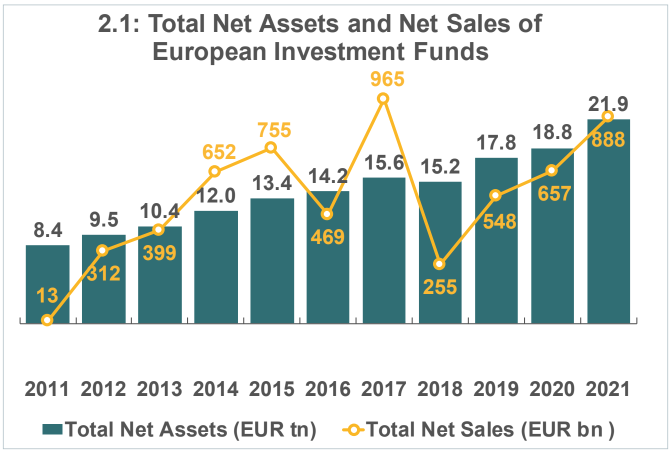


# CHAPTER 2: INVESTMENT FUNDS IN EUROPE BY FUND DOMICILE

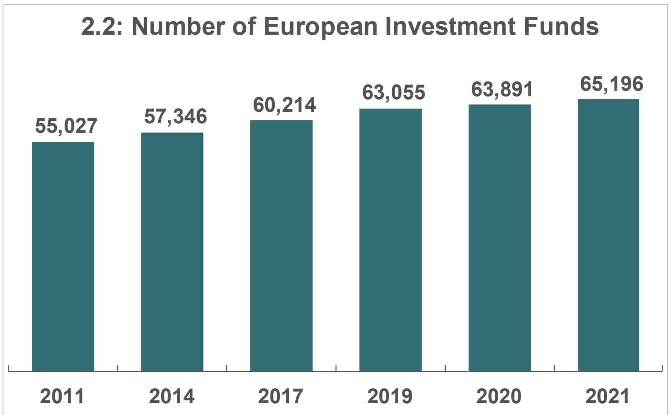
## 2.1 OVERVIEW

This chapter provides an overview of the evolution of the European investment fund industry.[i] It looks at trends in the net asset growth and net sales of funds domiciled in Europe and in individual European countries. Special attention is given to the asset allocation of different types of funds and to ESG UCITS.

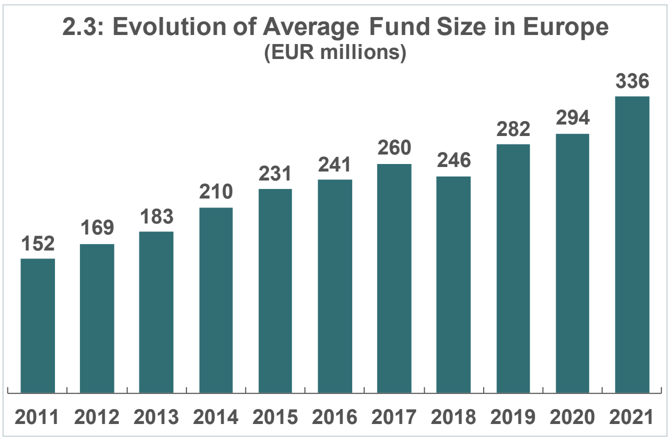
**Net assets and net sales of funds.** Overall, 2021 was an excellent year for the European fund industry. Net assets finished the year 16.4% higher than at end 2020, reaching EUR 21.9 trillion. Net sales ended the year at EUR 888 billion, a level not seen since 2017.



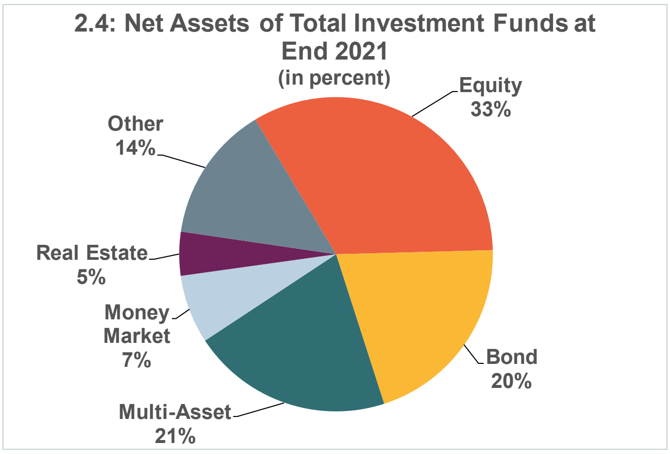

**Number of investment funds.** The number of European-domiciled funds increased by 18.5% from 2011, reaching more than 65,000.




**Average fund size.** Despite the growth in number of funds, the average size of a European investment fund also continued to increase, as net sales and market appreciation outpaced the creation of new funds. Over the last decade, average fund size has more than doubled, from EUR 152 million in 2011 to EUR 336 million in 2021.




**Breakdown by type of fund.** Investment funds are classified by the nature of their main investments. At the end of 2021, equity funds represented 33% of total investment fund net assets, followed by multi-asset funds (21%), bond funds (20%), other funds (14%), money market funds (7%) and real estate funds (5%).




**Country shares in 2021 and 2011.** The table on the next page shows the size of the investment fund industry in both 2021 and 2011. It compares the evolution of market share for each fund domicile.

**Top five country shares.** The same five countries (Luxembourg, Ireland, Germany, France and the UK) continue to hold the largest market shares in Europe. Combined, the net assets of these five countries amounted to 79% of European investment fund assets in 2021, roughly equal to their 2011 combined market share of 79%.

**2.5: Net Assets of Nationally Domiciled UCITS and AIFs (1)**
**(EUR billions. %)**

| Members | Total Assets 2021 | Market Share 2021 | Total Assets 2011 | Market Share 2011 | Members | Total Assets 2021 | Market Share 2021 | Total Assets 2011 | Market Share 2011 |
|---|---|---|---|---|---|---|---|---|---|
| Europe | 21,900.3 | 100% | 8,376.6 | 100% | Finland | 159.0 | 1% | 55.4 | 1% |
| Luxembourg | 5,859.5 | 27% | 2,096.5 | 25% | Liechtenstein | 68.0 | 0.3% | 30.0 | 0.4% |
| Ireland | 4,067.8 | 19% | 1,055.3 | 13% | Poland | 65.6 | 0.3% | 25.9 | 0.3% |
| Germany | 2,912.6 | 13% | 1,133.6 | 14% | Portugal | 31.0 | 0.1% | 22.1 | 0.3% |
| France | 2,231.5 | 10% | 1,387.3 | 17% | Turkey | 27.9 | 0.1% | 20.3 | 0.2% |
| United Kingdom | 2,135.5 | 10% | 807.0 | 10% | Hungary | 21.3 | 0.1% | 10.5 | 0.1% |
| Netherlands (2) | 1,036.1 | 5% | 496.8 | 6% | Malta | 20.5 | 0.1% | 8.3 | 0.1% |
| Switzerland | 892.3 | 4% | 275.5 | 3% | Czech Republic | 18.3 | 0.1% | 6.0 | 0.1% |
| Sweden | 610.4 | 3% | 150.4 | 2% | Greece | 12.5 | 0.1% | 6.2 | 0.1% |
| Denmark | 367.0 | 2% | 139.0 | 2% | Romania | 9.9 | 0.04% | 3.1 | 0.04% |
| Italy | 358.3 | 2% | 201.0 | 2% | Slovakia | 9.4 | 0.04% | 3.2 | 0.04% |
| Spain | 347.1 | 2% | 156.9 | 2% | Cyprus | 7.7 | 0.04% | - | - |
| Austria | 229.5 | 1% | 137.5 | 2% | Slovenia | 4.7 | 0.02% | 1.8 | 0.02% |
| Belgium | 211.3 | 1% | 84.7 | 1% | Croatia | 3.5 | 0.02% | - | - |
| Norway | 181.1 | 1% | 61.8 | 1% | Bulgaria | 1.3 | 0.006% | 0.2 | 0.003% |

(1) UCITS and AIF combined for 2021. UCITS and Non-UCITS combined for 2011.

(2) 2011 Data for the Netherlands is estimated on the basis of ECB data.

**UCITS and AIFs.** European investment funds can also be classified according to the EU Directive that regulates their activities, i.e. the UCITS or AIFM Directive.

**The UCITS Directive** (Undertakings for Collective Investments in Transferable Securities) refers to the EU Directive that established a 'single license' regime for collective investment schemes exclusively dedicated to assets raised from investors. UCITS benefit from a 'passport', which allows them - subject to notification - to be offered to investors in any jurisdiction of the European Economic Area once registered in an EU Member State.

**The Alternative Investment Fund Managers Directive** (AIFMD) created a framework for all investment funds that are regulated in accordance with specific national requirements without fulfilling the UCITS Directive. The AIFMD also established a 'UCITS-like' regime, with authorisation and ongoing supervision, as well as a passport for distributing AIFs to professional investors across Europe.[ii]

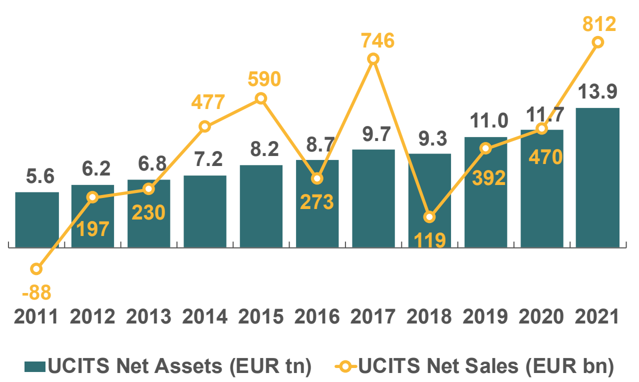
**UCITS and AIF market shares.** UCITS funds accounted for 63% of the total investment fund market at the end of 2021, down from 71% a decade ago. Two reasons explain the increasing relative share of AIFs. First, AIF assets regularly recorded higher growth rates than UCITS, particularly during periods of market turmoil, such as in 2011 or 2018. Second, there was a change in EFAMA classification in 2014 when the AIFMD came into force. This led to a reassignment of EUR 800 billion of assets from UCITS to AIFs.

## 2.2 THE UCITS MARKET

### 2.2.1 Overview[iii]

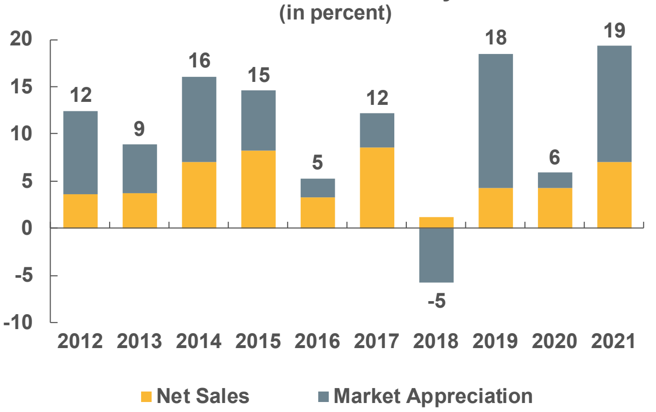
**Net assets and net sales of UCITS.** The evolution of UCITS net assets and net sales generally mirrored the evolution of the stock and bond markets. Strong performances of global capital markets tend to result in years with high net fund sales and strong net asset growth, as was the case in 2017 and 2019. 2021 was a truly exceptional year as net sales of UCITS surged to an absolute record (EUR 812 billion).

2.6: Net Assets and Net Sales of UCITS



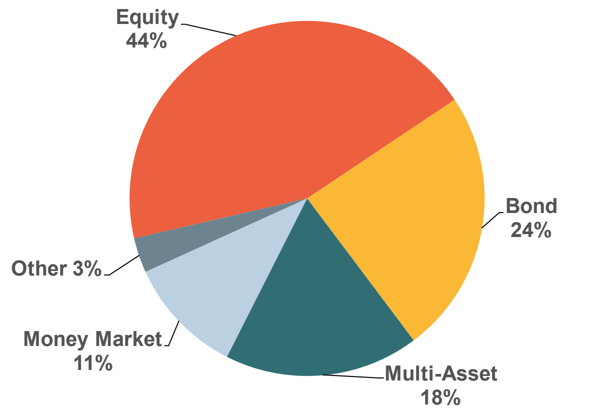

**Breakdown of net asset growth.** Breaking down the yearly net asset growth allows for differentiation between the effect of net sales and market appreciation. Net asset growth of UCITS also broke a record in 2021 (19%), driven by strong price increases in the stock markets and record net sales over the year.

2.7: UCITS Asset Growth by Source
(in percent)



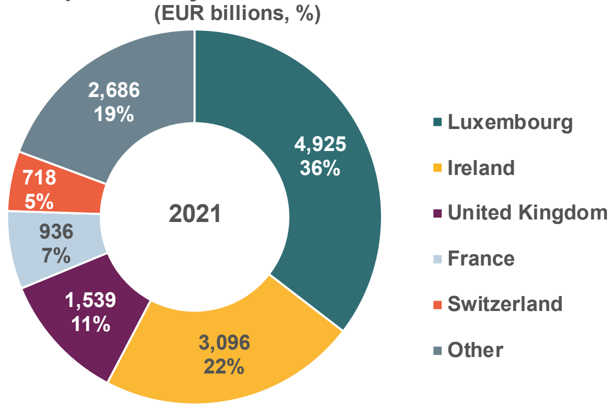

**Breakdown by type of UCITS.** Equity funds accounted for the largest share (44%) of UCITS assets at end 2021. Bond funds were next with a market share of 24%. Multi-asset funds (18%) and money market funds (11%) were third and fourth, respectively. The remaining 3% of assets were other UCITS.

2.8: Net Assets of UCITS at End 2021




**The top five domiciles for UCITS** at the end of 2021 were Luxembourg (36%), Ireland (22%), the UK (11%), France (7%) and Switzerland (5%). Combined, these countries accounted for 81% of the total European investment fund assets in 2021.

2.9: Top 5 Country Shares in UCITS Assets
(EUR billions, %)




**Net asset of UCITS by domicile.** The table on the next page shows the net assets of UCITS per domicile at end 2021; it also shows their respective market shares and 2021 net asset growth. For the first time since the great financial crisis, none of the 29 European domiciles registered a decrease in net assets, as stock markets performed strongly across the board. With outliers in

Bulgaria (45.9%) and Poland (1.1%), the 2021 net asset growth in most European countries varied between 15% and 30%.

**Net sales of UCITS by domicile.** Net sales were positive in all but one of the 29 European domiciles in 2021. The two largest domiciles in terms of net assets also attracted the highest net sales over the year. Luxembourg (EUR 348 billion) and Ireland (EUR 238 billion) combined accounted for more than 70% of the total net inflows into UCITS in 2021. The UK (EUR 43 billion), Switzerland (EUR 34 billion), Spain (EUR 28.5 billion), and Germany (EUR 27.5 billion) also registered strong net sales.

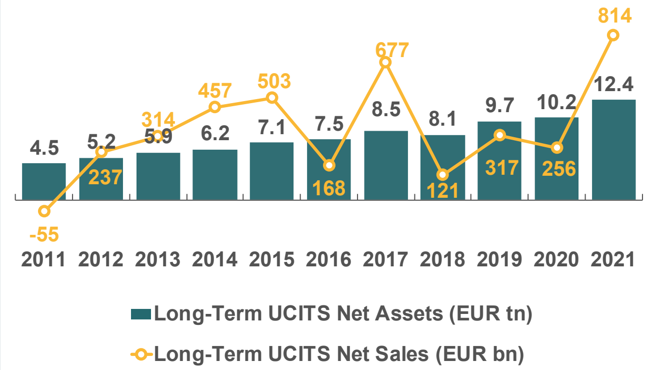
**2.10: Net Assets and Net Sales of UCITS by Country**

| Country | Net Assets of Nationally Domiciled UCITS at End 2021 | | | Net Sales of Nationally Domiciled UCITS | |
|---|---|---|---|---|---|
| | EUR bn | Market Share | Growth Rate | in 2021, EUR bn | Accumulated 2017 - 2021 |
| Austria | 106.0 | 0.8% | 17.8% | 9.3 | 13.3 |
| Belgium | 208.5 | 1.5% | 29.0% | 15.7 | 23.8 |
| Bulgaria | 1.2 | 0.01% | 45.9% | 0.3 | 0.5 |
| Croatia | 2.9 | 0.02% | 18.7% | 0.4 | -1.6 |
| Cyprus | 0.5 | 0.003% | 16.9% | 0.01 | 0.3 |
| Czech Republic | 16.2 | 0.1% | 19.5% | 1.4 | 4.9 |
| Denmark | 186.5 | 1.3% | 18.2% | 11.6 | 41.1 |
| Finland | 139.6 | 1.0% | 19.4% | 7.9 | 11.0 |
| France | 936.0 | 6.7% | 5.0% | -4.8 | 72.2 |
| Germany | 527.6 | 3.8% | 26.2% | 27.5 | 72.3 |
| Greece | 8.1 | 0.1% | 29.9% | 1.5 | 1.9 |
| Hungary | 1.5 | 0.01% | 15.9% | 0.1 | -0.03 |
| Ireland | 3,095.8 | 22.3% | 22.5% | 237.7 | 995.0 |
| Italy | 258.5 | 1.9% | 7.2% | 5.9 | 4.0 |
| Liechtenstein | 32.9 | 0.2% | 14.9% | 0.5 | 1.0 |
| Luxembourg | 4,924.5 | 35.4% | 18.4% | 347.7 | 935.2 |
| Malta | 3.4 | 0.02% | 26.3% | 0.2 | 0.7 |
| Netherlands | 47.8 | 0.3% | 20.4% | 0.2 | -7.0 |
| Norway | 181.1 | 1.3% | 27.0% | 13.7 | 34.7 |
| Poland | 27.3 | 0.2% | 1.1% | 0.04 | 3.8 |
| Portugal | 18.9 | 0.1% | 35.9% | 4.1 | 7.8 |
| Romania | 4.5 | 0.03% | 12.6% | 0.46 | -0.5 |
| Slovakia | 6.7 | 0.05% | 16.2% | 0.8 | 1.6 |
| Slovenia | 4.3 | 0.03% | 33.9% | 0.5 | 0.7 |
| Spain | 304.0 | 2.2% | 23.1% | 28.5 | 71.7 |
| Sweden | 579.8 | 4.2% | 27.3% | 18.5 | 57.4 |
| Switzerland | 718.4 | 5.2% | 21.3% | 33.7 | 117.1 |
| Turkey | 18.0 | 0.1% | 24.9% | 6.0 | 9.9 |
| United Kingdom | 1,538.7 | 11.1% | 19.6% | 43.4 | 67.0 |
| **Europe** | **13,899.1** | **100.0%** | **19.3%** | **812.5** | **2,539.6** |

### 2.2.2 Long-term UCITS

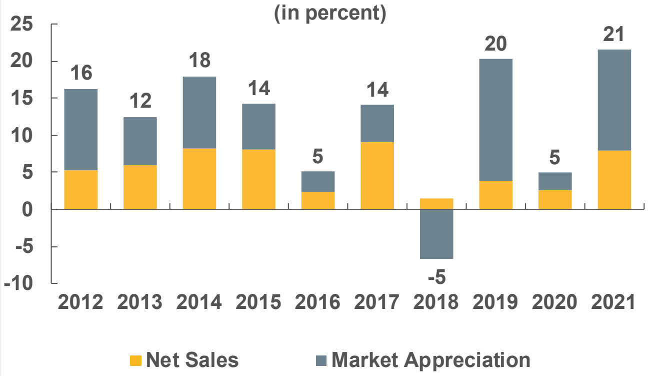
**Net assets and net sales of long-term UCITS.** Net assets of long-term UCITS, which exclude money market funds (MMFs), increased to EUR 12.4 trillion in 2021 from EUR 10.2 trillion in 2020. Net sales amounted to EUR 814 billion, an all-time record. Compared to 2020 (EUR 256 billion), net sales of long-term UCITS grew sharply, pushed up by positive growth prospects and buoyant markets. In addition, the successful rollout of Covid vaccines over the course of 2021 boosted not just immune systems but also investor confidence.

2.11: Net Assets and Net Sales of Long-Term UCITS



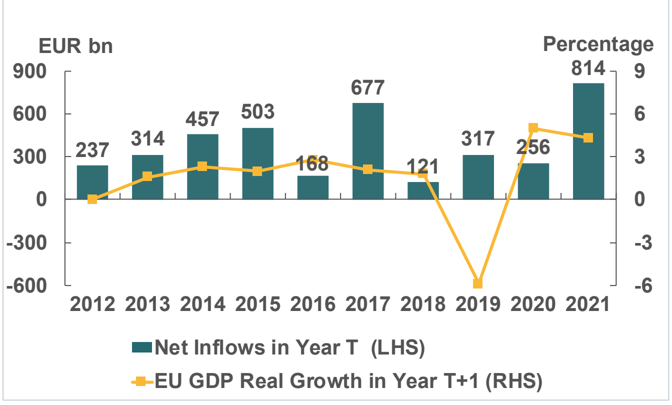

**Breakdown of net asset growth.** Net assets of long-term UCITS rose by 21% in 2021, the strongest yearly asset increase of the decade, with only 2019 registering a comparable asset growth (20%). However, compared to 2019, when asset growth was predominately driven by market appreciation, net sales played a larger part in the 2021 asset growth.

2.12: UCITS Long-Term Asset Growth by Source
(in percent)




**Net sales of long-term UCITS and real GDP growth.** Until recently, there was a positive correlation between net sales of long-term UCITS in year T and GDP growth in year T+1. One potential explanation for this is that investors' views on the economic outlook influence their demand for long-term UCITS. This correlation has become much less clear cut in recent years, most probably due to the increase in uncertainty and unforeseen 'shocks', which made it difficult for investors to reliably predict economic growth. For example, Brexit and Donald Trump's election resulted in unforeseen investor caution during 2016. Similarly, investors were caught totally unaware by the 'black swan' event of the COVID-19 pandemic in 2020.

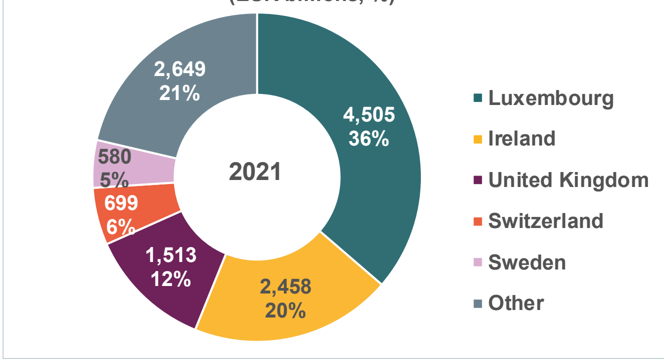
2.13: Real Growth and Long-Term UCITS




Source: Eurostat, IMF and EFAMA

**Top five domiciles for long-term UCITS.** Luxembourg is the largest long-term UCITS domicile in Europe (36%), followed by Ireland (20%), the United Kingdom (12%), Switzerland (6%) and Sweden (5%). The remaining European countries accounted for about 21% of the market.

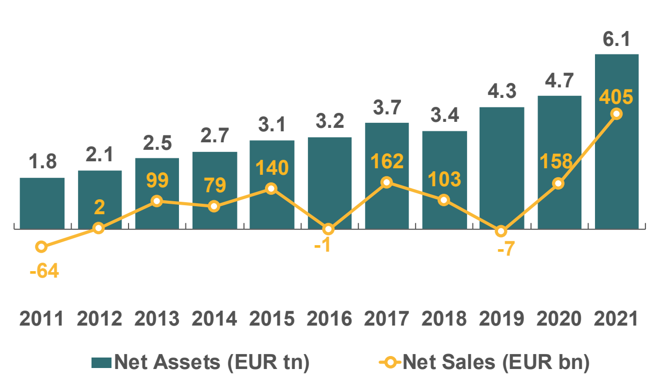
2.14: Top 5 Country Shares in Long-Term UCITS Assets
(EUR billions, %)



## 2.2.3 UCITS equity funds

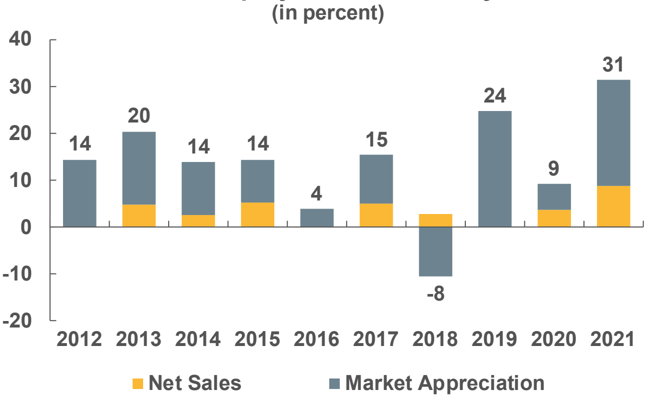
**Net assets and net sales.** 2021 was an exceptionally good year for global stock markets, with the MSCI world index increasing by 22.3%. Net assets of equity UCITS mirrored this development, ending the year at EUR 6.1 trillion, significantly up on the EUR 4.7 billion in 2020. Net sales of equity funds amounted to EUR 405 billion in 2021, the highest yearly inflows ever.

2.15: Net Assets and Net Sales of Equity Funds



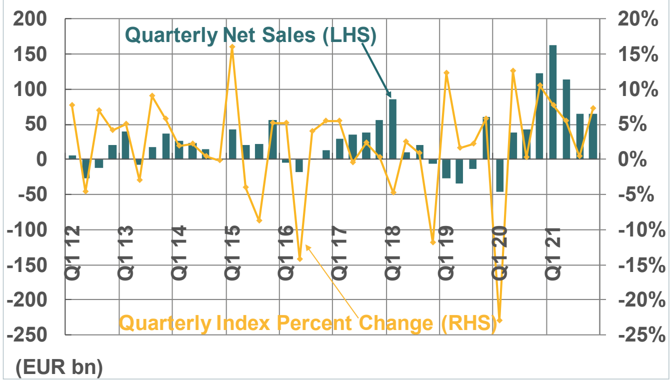

**Breakdown of net asset growth.** The 2021 asset growth of equity UCITS was the highest of the decade by far (31%). This was due to a combination of extraordinary net sales - as noted above - and exceptional market appreciation, which was the second-strongest of the decade (23%).

2.16: UCITS Equity Asset Growth by Source (in percent)




**Demand for equity funds and the stock markets.** Inflows into equity funds usually closely track the stock market evolution, with stronger inflows in equity funds when stock markets rise, and vice versa. The correlation between the quarterly percentage changes in the STOXX Europe 600 index and the net sales of European equity funds was 0.39 over the 2012-2021 period. In recent years, with stock market volatility increasing, this correlation has become somewhat more pronounced, reaching 0.42 in 2019-2021.

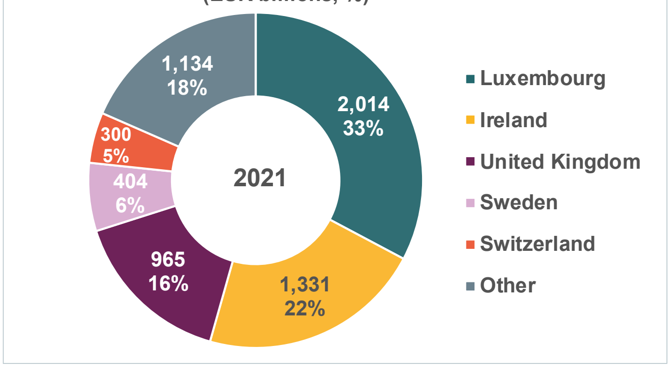
2.17: STOXX Europe 600 Index and Equity Fund Net Sales




Source: Deutsche Börse Group and EFAMA

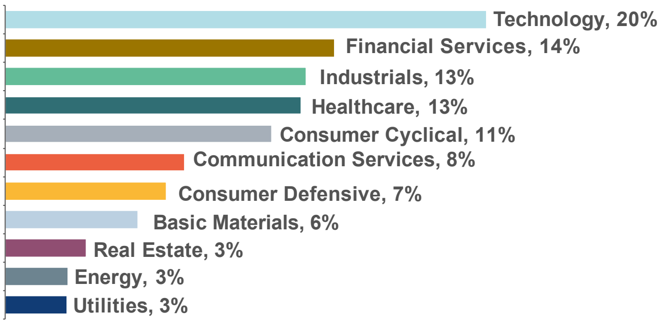
**The five leading domiciles for UCITS equity fund assets** in 2021 were Luxembourg (33%), followed by Ireland (22%), the UK (16%), Sweden (6%) and Switzerland (5%).

2.18: Top 5 Country Shares in UCITS Equity Fund Assets (EUR billions, %)




**Industry sector breakdown.** Examining the industry sector breakdown of the stocks held by equity funds, technology companies represented the largest sector at 20% of the total at the end of 2021. This was followed by financial services (14%), industrials (13%), healthcare (13%) and consumer cyclical (11%).

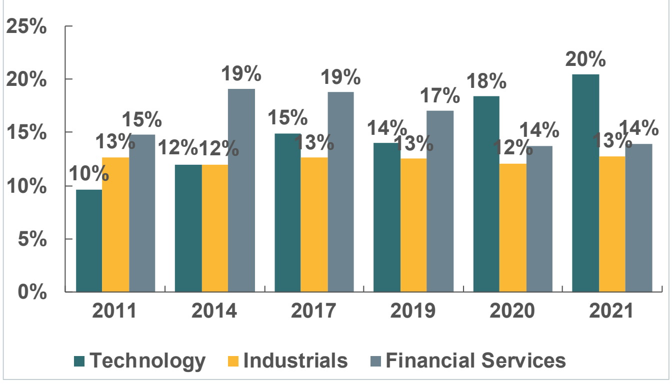
**2.19: UCITS Equity Funds - Sector Breakdown**
(at end 2021, in percent)




Source: Morningstar

**Evolution of industry sector breakdown.** An exceptionally strong increase in the technology sector share can be observed, doubling from 10% in 2011 to 20% at the end of 2021. This mirrors the extraordinary stock market performance over the last decade, but in particular that of the last two years of major global technology companies such as Alphabet, Apple, Amazon and Microsoft.

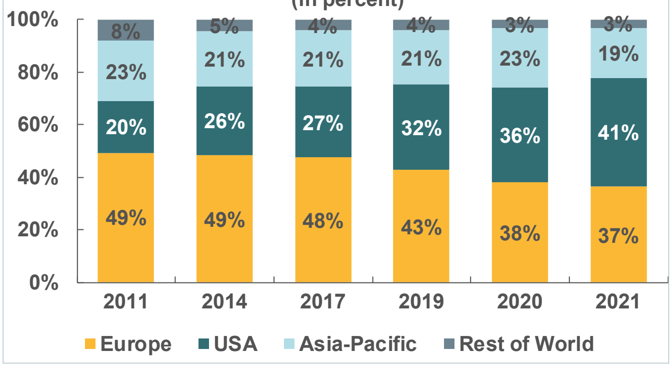
**2.20: Evolution of Sector Shares - UCITS Equity Funds**
(in percent)




Source: Morningstar

**Regional breakdown.** Equity funds assets can also be broken down by region[iv]. The share of European stocks has been steadily declining in the asset allocation of UCITS equity funds, while the share of Asian and mainly American stocks is increasing. This is a direct consequence of two factors: (i) the stronger perfromance of US stock markets than that of European markets, and (ii) the success of the UCITS brand outside of Europe, combined with the greater demand of international investors for U.S. stocks. The evolution in 2021 was particularly striking, with the share of US stock surging from 36% in 2020 to 41% at end 2021. European investors mainly used ETFs to increase their exposure to the US stock markets.[v] Rather than European equities, which held up reasonably well in 2021, it was mostly the share of Asian equities that declined during 2021. The Chinese market share in particular dropped, as that market suffered from troubles in the property sector and increased U.S.-Chinese tensions.

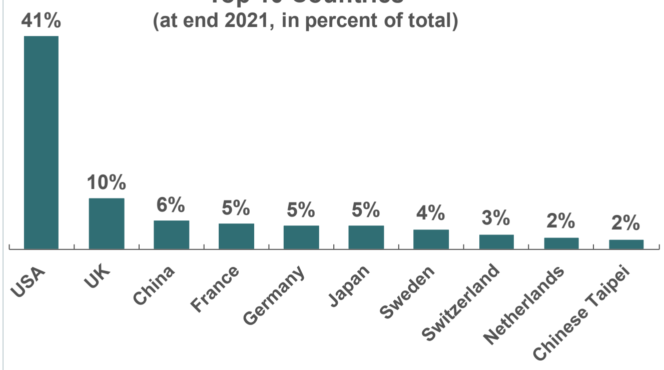
**2.21: UCITS Equity Funds - Regional Breakdown**
(in percent)




Source: Morningstar

**Country breakdown.** All of the top-ten countries represented in the portfolios of European equity funds host stock exchanges with large market capitalisations, and are home to several large-cap companies. Five countries of these top 10 countries are European: the UK (10%), France (5%), Germany (5%), Sweden (4%), Switzerland (3%) and the Netherlands (2%).

**2.22: UCITS Equity Funds - Asset Allocation - Top 10 Countries**
(at end 2021, in percent of total)

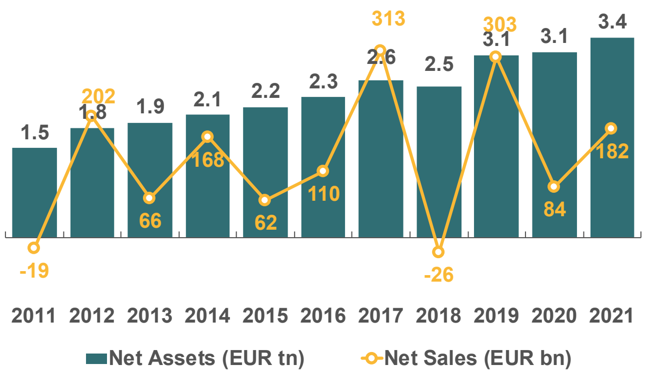



Source: Morningstar

## 2.2.4 UCITS bond funds

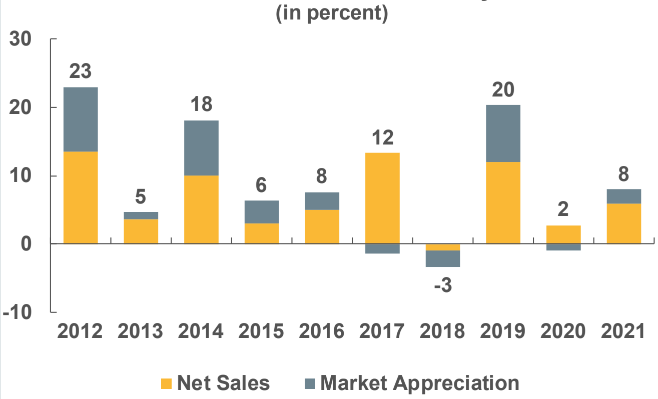
**Net assets and net sales.** After the lacklustre 2020, when net assets of bond UCITS grew only slightly, 2021 was a better year. Net assets at the end of the year stood at EUR 3.4 trillion compared to EUR 3.1 trillion at the end of 2020. Net sales also picked up, rising to EUR 182 billion from EUR 84 billion in 2020. Yet those sales were far from the levels of 2019 (EUR 303 billion) or 2017 (EUR 313 billion).

**2.23: Net Assets and Net Sales of Bond Funds**



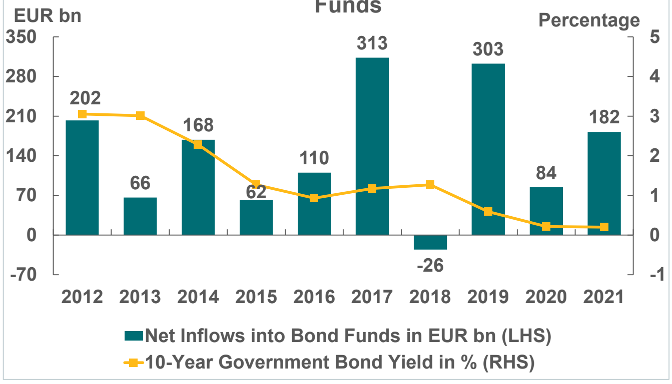

**Breakdown of net asset growth.** Bond fund net assets grew by 8% in 2021 compared to the 2% in 2020. However, considering the decade as a whole, net asset growth was only average. Market appreciation of bond UCITS amounted only to 2%, as bond prices stayed relatively flat over the year.

**2.24: UCITS Bond Asset Growth by Source**
(in percent)




**Demand for bond funds and long-term interest rates.** Traditionally, demand for bond funds tends to show a negative correlation with the evolution of long-term interest rates. This correlation has become much less pronounced over the last years, as interest rates approached zero and investors started to shift more of their assets towards riskier debt securities.

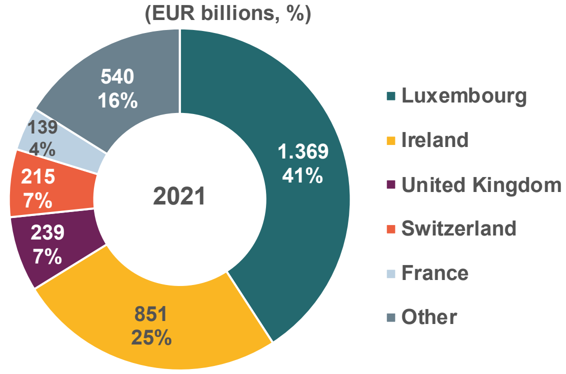
**2.25: Interest Rates and Net Inflows into Bond Funds**




Source: ECB and EFAMA

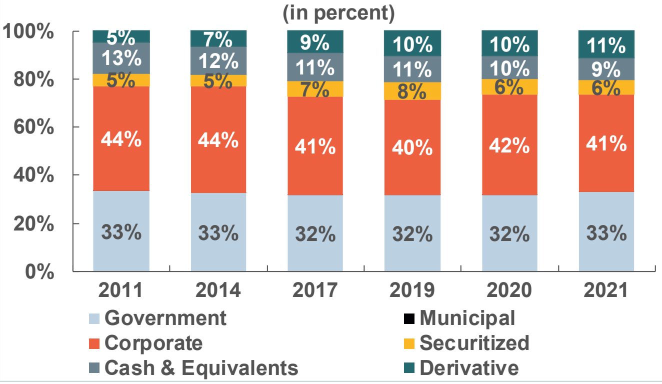
**Breakdown by domicile.** Luxembourg had by far the largest market share of UCITS bond fund net assets (41%), followed by Ireland (25%), the UK (7%), Switzerland (7%) and France (4%).

**2.26: Top 5 Country Shares in UCITS Bond Fund Assets**
(EUR billions, %)



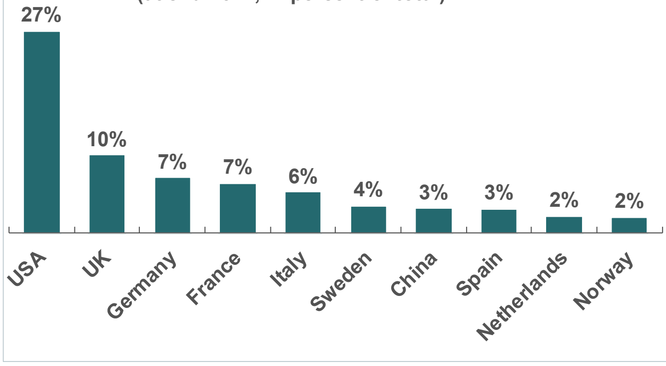

**Asset allocation.** Corporate bonds accounted for 41% of the net asset holdings of UCITS bond funds at the end of 2021. Sovereign debt represented 33%, while derivatives and securitised debt accounted for 11% and 6%, respectively. Bond funds held 9% of their assets in cash and cash-like equivalents.[vi] These percentages have not shifted significantly in recent years.

**2.27: Evolution of Sector Shares - UCITS Bond Funds**
(in percent)




Source: Morningstar

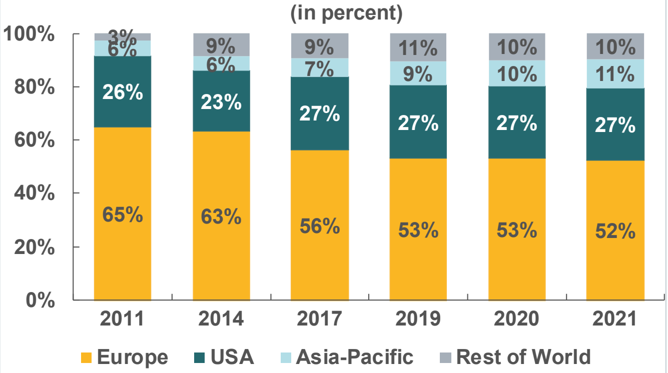
**2.29: UCITS Bond Funds - Asset Allocation - Top 10 Countries**
(at end 2021, in percent of total)




Source: Morningstar

**Regional asset breakdown.** An overview of the bond holdings by geographical region[vii] shows that 52% of the bonds held by UCITS bond funds at the end of 2021 were issued in Europe. The United States accounted for 27%, with Asia-Pacific and the rest of the world accounting for 11% and 10%, respectively. Looking at the evolution, the steadily rising share of bonds issued in the Asia-Pacific region is noteworthy. This can be explained by UCITS managers and investors searching for higher yields in Asian markets, as interest rates in Europe have been very low, or even negative, in recent years.

**2.28: UCITS Bond Funds - Regional Breakdown**
(in percent)

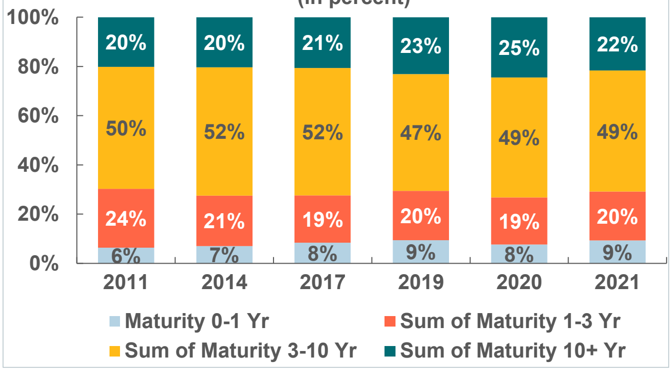



Source: Morningstar

**Country breakdown.** Some 27% of bond assets were issued in the United States. The UK (10%) and the three other large European countries - France (7%), Germany (7%) and Italy (6%) - complete the top five. Eight of the 10 largest countries in terms of bond asset allocation are European. China appeared in the top ten, accounting for 3% of all UCITS bond holdings.

**Evolution of maturity.** The asset allocation by maturity of the bond holdings of bond UCITS has remained broadly stable over the past 10 years. However, one noticeable trend is the gradual increase in short-term securities (less than one year) from 2011 to 2019, as the yield curve turned flat or even negative.

**2.30: Evolution of Maturity Type Breakdown - UCITS Bond Funds**
(in percent)

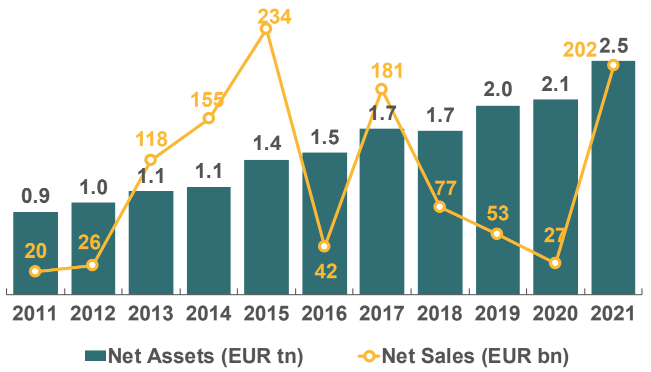



Source: Morningstar

### 2.2.5 UCITS multi-asset funds

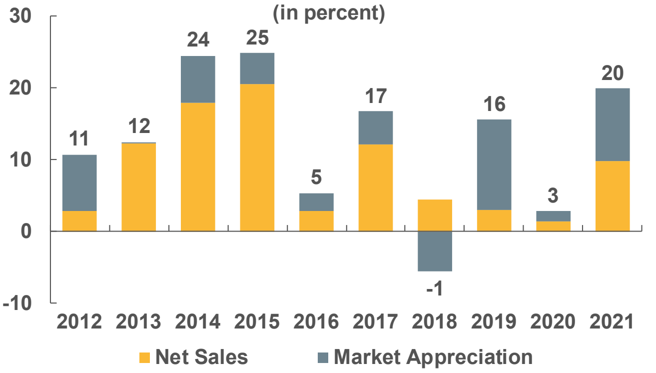
**Net assets and net sales.** Net assets of multi-asset UCITS ended the year at EUR 2.5 billion, rising strongly compared to 2020 (EUR 2.1 trillion). Net sales of multi-asset funds also picked up markedly following four years of muted net inflows. In 2021, net sales amounted to EUR 202 billion, as investors rediscovered the diversification benefits offered by multi-assets funds. Considering the past decade as a whole, 2021 net sales were the second-highest after the 2015 record net inflows (EUR 234 billion).

**2.31: Net Assets and Net Sales of Multi-Asset Funds**



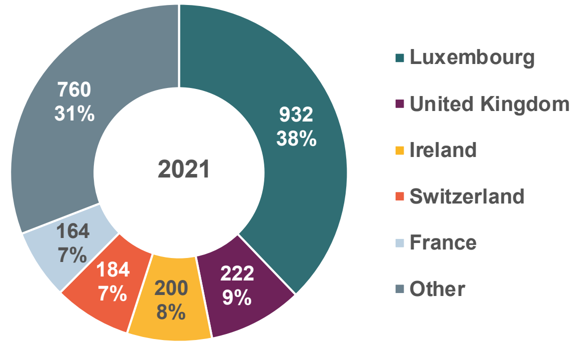

**Breakdown of net asset growth.** Net asset growth of multi-asset funds amounted to 20% in 2021, the highest growth since 2015. A breakdown of the total asset growth shows that about half of the total asset growth can be attributed to market appreciation and half to net sales. The solid growth in 2021 contrasts sharply with the subdued growth of 2020 (3%).

**2.32: Multi-Asset Fund Asset Growth by Source**
(in percent)



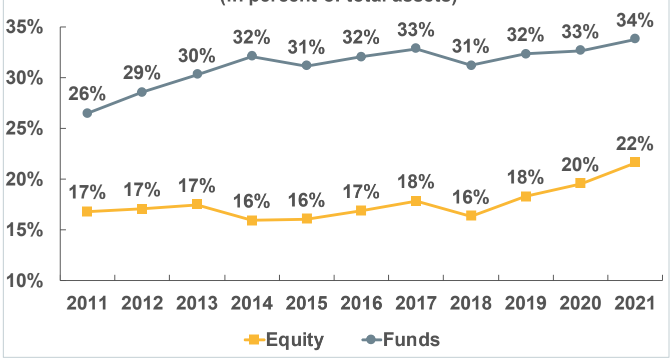

**Breakdown by domicile.** In the UCITS multi-asset fund market, Luxembourg held the largest market share (38%), followed by the UK (9%), Ireland (8%), Switzerland (7%) and France (7%). The remaining European countries have a relatively large share of the multi-asset UCITS market, accounting for 31% of the total.

**2.33: Top 5 Country Shares in UCITS Multi-Asset Fund Assets**
(EUR billions, %)




**Asset allocation.** Examining the asset allocation of multi-asset funds, the share of directly held equity remained stable at around 17% during the 2011-2019 period, only to climb to 22% in 2021. At the same time, the share of other funds managed in multi-asset funds increased continuously, from 26% in 2011 to 34% in 2021, indicating that multi-asset fund managers have been steadily increasing the equity exposure of their funds, not only by investing directly in stocks but mainly via the use of other funds. A large proportion of multi-asset UCITS are fully-fledged funds-of-funds.

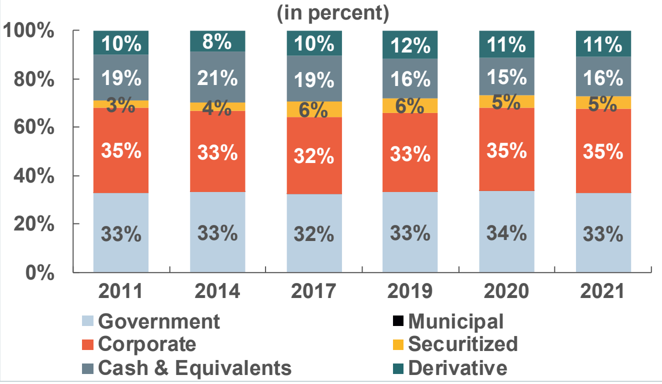
**2.34: Asset Allocation of Multi-Asset Funds**
(in percent of total assets)




Source: ECB

**Asset allocation of bond holdings.** We can break down the debt holdings of multi-asset funds by type of debt instrument.[viii] Corporate bonds accounted for 35% of the total holdings at the end of 2021, substantially lower than the 41% share in the asset holdings of bond funds. Sovereign bonds represented 33%, a similar percentage to that of bond funds. Multi-asset funds held 16% of their debt investment in cash-like equivalents, compared to only 9% cash in the asset allocation of bond funds. Derivatives and securitised debt accounted for 11% and 5%, respectively. Looking at the evolution over the last decade, the increasing shares of derivatives and securitised debt becomes apparent.

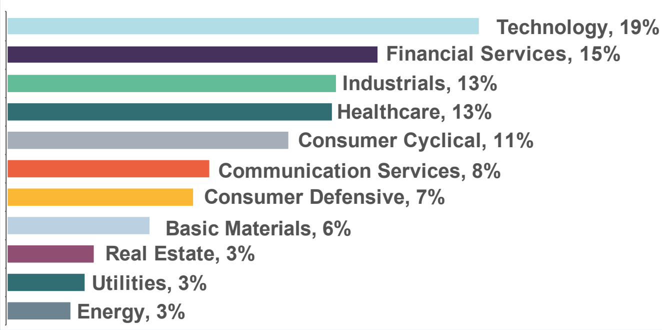
**2.35: UCITS Multi-Asset Funds - Sector Breakdown of Bond Funds**
(in percent)




Source: Morningstar

**Equity holdings - Industry sector breakdown.** Looking at the industry sector breakdown of stocks held by multi-asset funds,[ix] technology companies represented the largest sector at 19% at the end of 2021. These were followed by financial services (15%), industrials (13%) and healthcare (13%). The sector breakdown of multi-asset funds at the end of 2021 is largely similar to that of equity funds.

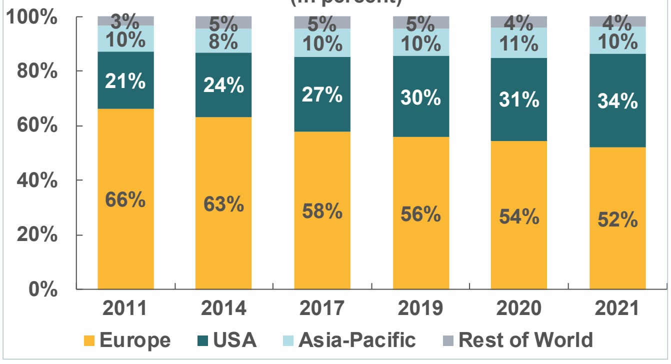
**2.36: UCITS Multi-Asset Funds - Sector Breakdown of Equity Funds**
(at end 2021, in percent)




Source: Morningstar

**Regional breakdown.** As with equity and bond funds, we can also examine the asset holdings of multi-asset funds, combining their equity and debt holdings by geographical region. This geographical breakdown has changed significantly since 2011. Europe's share has steadily decreased, from 66% in 2011 to 52% in 2021. Over the same period, the share of assets issued or listed in the United States has increased from 21% to 34%. The share of the Asia-Pacific region has remained relatively stable over the past decade at about 10%. The same economic fundamentals applying to the equity UCITS drove this trend: better-performing stock markets in the US.

**2.37: Evolution of Multi-Asset Funds - Regional Breakdown**
(in percent)

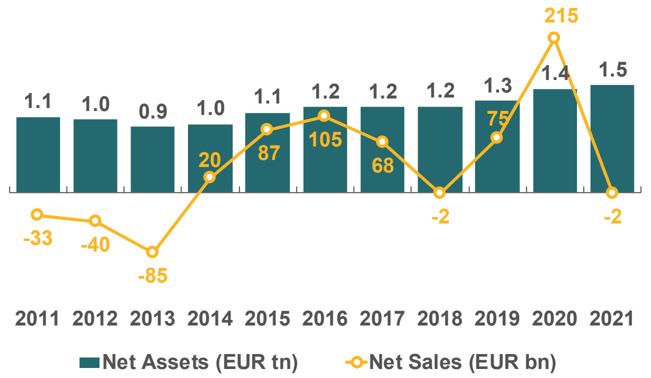



Source: Morningstar

## 2.2.6 UCITS money market funds

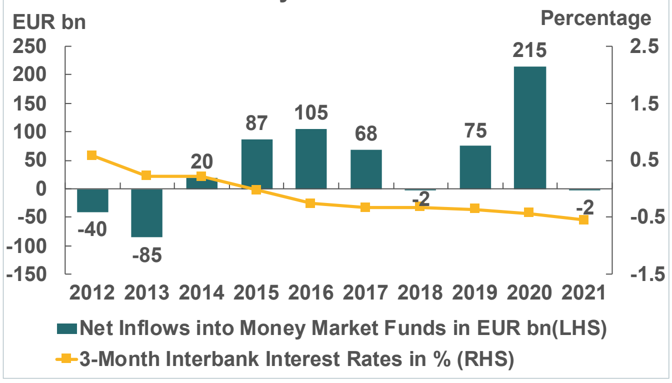
**Net assets and net sales.** Net assets of MMFs increased only slightly in 2021 (EUR 1.5 trillion), following two years of solid increases. MMFs also stopped attracting net inflows, as net sales turned negative (EUR 2 billion) against a background of strong economic recovery and continued low interest rates. The small net outflows of 2021 stand in stark contrast to the record inflows the previous year (EUR 215 billion), as investors responded to the economic uncertainties surrounding the pandemic by rushing into MMFs.

**2.38: Net Assets and Net Sales of Money Market Funds**




**Demand for MMFs and short-term interest rates.** There used to be an inverse relationship between the inflows into MMFs and short-term interest rates. This correlation has become much less pronounced in recent years, as short-term interest rates dropped below zero. In this low-to-negative interest rate world, investors seeking safety or liquidity still consider MMFs a good investment solution for dealing with uncertainty; investors' response to the pandemic in 2020 has confirmed this.

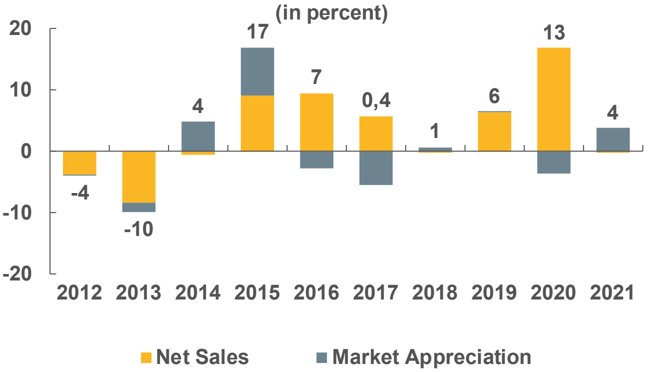
**2.40: Interest Rates and Net Inflows into Money Market Funds**




Source: ECB and EFAMA

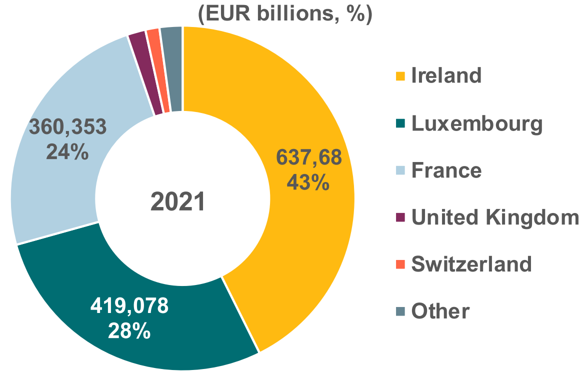
**Breakdown of net asset growth.** Net asset growth of MMFs amounted to 4% in 2021, which was solely attributable to market appreciation, as net outflows were close to zero. Compared to long-term UCITS, MMF asset growth reflects net sales rather closely, as the valuation of the short-term instruments that MMFs mainly invest in varies little over time. Exchange rate effects can, however, have an impact on MMF asset growth.

**2.39: Money Market Fund Asset Growth by Source**
(in percent)




**Breakdown by domicile.** The MMF market is dominated by three domiciles. Ireland held the largest market share of UCITS MMF net assets (43%), followed by Luxembourg (28%) and France (24%). Combined, they represent 95% of the European total.

**2.41: Top 5 Country Shares in UCITS Money Market Fund Assets**
(EUR billions, %)



**MMFR.** The EU Money Market Fund Regulation (MMFR) was adopted in 2016 and came into full effect in January 2019. The Regulation introduced a specific authorisation procedure for all MMFs managed or marketed in the EU, along with prescriptive rules for eligible assets, portfolio diversification, the credit quality of fund holdings, risk management obligations, stress-testing, asset valuation and NAV calculation rules. In addition, the MMFR sought to improve transparency by specifying disclosure obligations to investors and reporting obligations to national competent authorities.

**Types of MMFs.** The MMFR distinguishes between three main categories of money market funds:

- Public Debt Constant Asset Value (PDCNAV) MMFs
- Low Volatility Net Asset Value (LVNAV) MMFs
- Variable Net Asset Value (VNAV) MMFs.

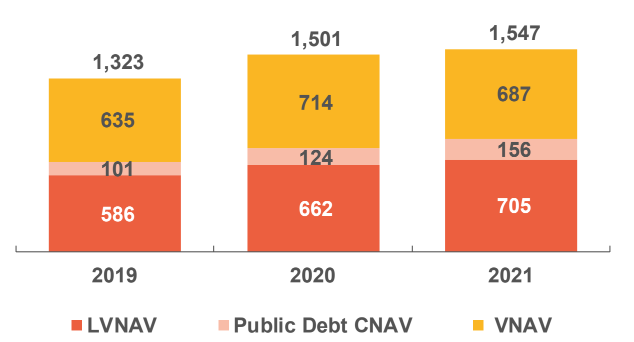
Aside from these categories, the MMFR also distinguishes between Short-term and Standard MMFs. Short-term MMFs are required to adhere to tighter investment rules than Standard MMFs. All three types of funds may be categorised as Short-term MMFs: Public Debt CNAV, LVNAV and Short-term VNAV. Standard MMFs must be variably priced, therefore making all Standard MMFs VNAV funds.

**PDCNAV and LVNAV MMFs** use amortised cost accounting - provided certain conditions are met - to value all of their assets and maintain a net asset value (NAV), or value of a share of the fund, at €1/£1/$1. Public Debt CNAV MMFs must invest a minimum of 99.5% of their assets in public debt. Units/shares in an LVNAV MMF can be purchased or redeemed at a constant price, as long as the value of the assets in the fund does not deviate by more than 0.2% from par.

**VNAV MMFs** refer to funds that use mark-to-market accounting to value some of their assets. The NAV of these funds will vary with the changing value of the assets and - in the case of an accumulating fund - by the amount of income received.

**Evolution by type of MMF.** PDCNAV and LVNAV grew in both 2020 and 2021. Net assets of regular VNAV increased strongly in 2020, but decreased in 2021 as outflows that year were mainly concentrated in that segment of the MMF market.

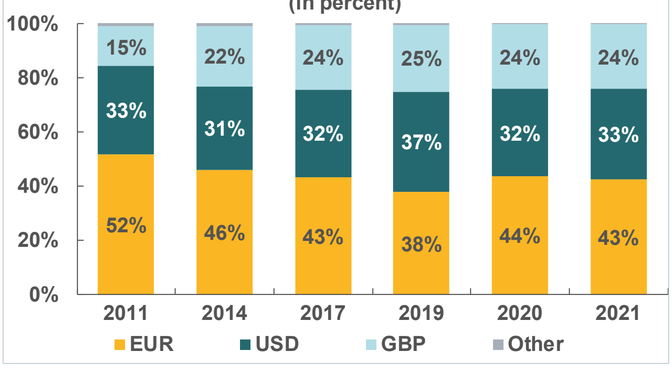
**2.42: Breakdown by Type of Money Market Funds**
**(EUR billions)**




Source: IMMFA and EFAMA

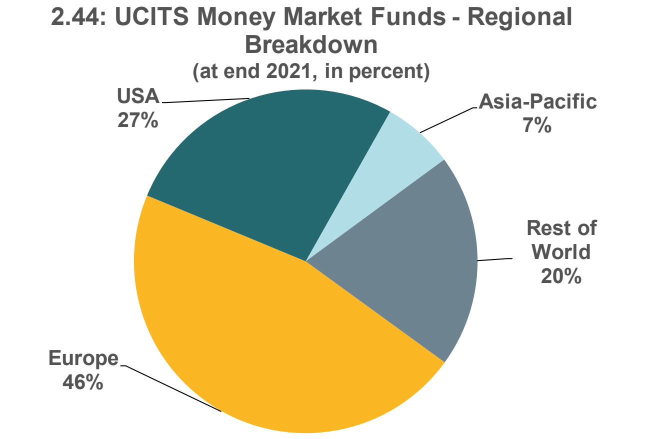
**Currency breakdown - evolution.** MMFs can also be broken down by base currency.[x] Three main base currencies accounted for 99.5% of UCITS net assets at the end of 2021. EUR was in first place with 43% of net assets, followed by USD (33%) and GBP (24%). The share of EUR-dominated MMFs has been falling, from 52% in 2011 to 38% in 2019. Consequently, the market shares of USD- and GBP-denominated MMFs rose over the same period, edged up by generally higher interest rates in those currencies. This trend reversed in 2020, when the market share of EUR-dominated MMFs shot up again, and the share of USD MMFs dropped.

**2.43: UCITS Money Market Funds - Currency Breakdown**
**(in percent)**




Source: Morningstar

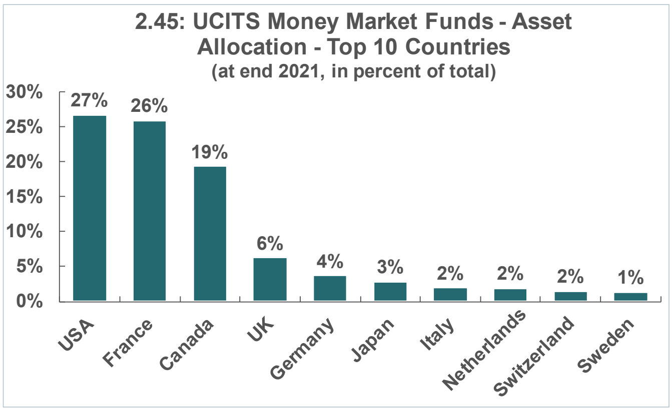
**Regional breakdown.** An overview of the 2021 holdings of MMFs by geographical region[xi] shows that 46% of the short-term paper held by UCITS MMFs was issued in Europe. The United States accounted for 27% and Asia-Pacific for 7%.




Source: Morningstar

**Country breakdown.** Following the United States (27%), short-term securities issued in France made up 26% of the MMF assets at the end of 2021. Canada (19%), the United Kingdom (6%) and Germany (4%) complete the top five. Comparing the asset breakdown by base currency and issuing country shows that MMFs with the USD or GDP as a base currency invested a substantial proportion of their assets in securities issued in a non-base currency country.

Often, countries such as Canada or Japan (or companies based there) issue short-term debt in a major currency to attract more international investors. MMFs can also invest in non-base currency-denominated debt and hedge the currency exposure. The MMFR does require all non-base currency exposures to be fully hedged.




Source: Morningstar

## Box 1
## Public debt ratios for European MMFs:
## Is the European short-term public debt market large enough?

The market turmoil of March 2020 led some categories of European MMFs to experience significant withdrawals, with consequent liquidity concerns. However, the overall European MMF industry, aided by the comprehensive nature of the EU MMFR framework, proved robust during this recent crisis.[1] Yet both the ESRB[2] and ESMA[3] have made proposals aimed at amending the MMFR, in order to make MMFs more resilient. While a number of those would indeed deliver a more resilient MMFR industry, such as the recommendation to de-link liquidity thresholds from the possible imposition of fees and gates, others would prove impractical, where not plainly unfeasible.

Among these latter categories is the ESRB's recommendation for additional public debt liquidity requirements for VNAV and LVNAV funds. Accordingly:

- Short-term VNAV should have at least 5% of additional public debt assets.
- Standard VNAV should have at least 10% of additional public debt assets.
- LVNAV should have at least 15% of additional public debt assets.

Although ESMA believes that the additional public debt liquidity buffer should be optional, it nevertheless considers that the ESRB's recommendations could provide a good working basis for these calculations.

1 EFAMA Markets Insights, Issue #2 - Money market funds in Europe – State of play, October 2020.
2 Recommendation of the ESRB on reform of money markets (ESRB/2021/9), December 2021.
3 ESMA Final Report, ESMA opinion on the review of the Money Market Fund Regulation, February 2022.

These additional liquidity buffers would prove unworkable for two interrelated reasons. First, the data suggest that the portion of the EUR-denominated short-term public debt market for the constitution of an additional public debt liquidity buffer is simply not large enough. Second, other (non-MMF) players, such as banks and other financial institutions, typically rely heavily on high-quality, short-term public debt and could suffer from supply constraints were MMFs to also compete for these.

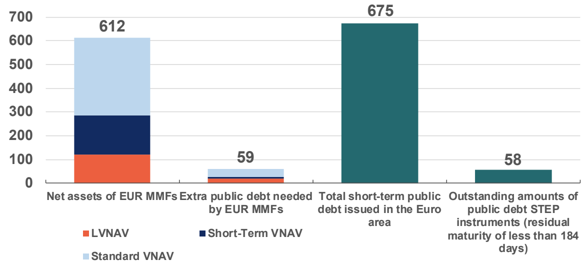
### EUR MMFs and the EUR short-term public debt market

Net assets of EUR MMFs amounted to around EUR 612 billion at the end of 2021, of which 20% were LVNAV and less than 1% PD CNAV; an estimated 53% were standard VNAV and 27% were short-term VNAV. Applying the additional public debt liquidity requirements proposed by the ESRB would result in EUR MMFs requiring approximately EUR 59 billion of additional short-term public debt assets. Total outstanding short-term debt (with less than a year of original maturity) issued in the euro area at the end of 2021 amounted to EUR 675 billion. This would mean that the additional public debt liquidity requirements for EUR MMFs would require 9% of all outstanding EUR short-term public debt. However, the MMFR imposes additional requirements, such as a maximum residual maturity of 190 days for the public debt holdings of short-term MMFs. This will clearly further limit the potential supply of short-term public debt that can be used for additional liquidity buffers. Data on debt with a shorter maturity than one year is hard to find. Data on the STEP (short-term euro paper) market could give an indication. STEP is a quality label for short-term debt, established to foster the integration of the European markets for short-term paper through the convergence of market standards and practices. The total size of the public STEP market with a residual maturity of less than 184 days is EUR 58 billion. However, an important caveat on this data is that several of the largest EUR public short-term debt issuers, such as France and Germany, are not included.

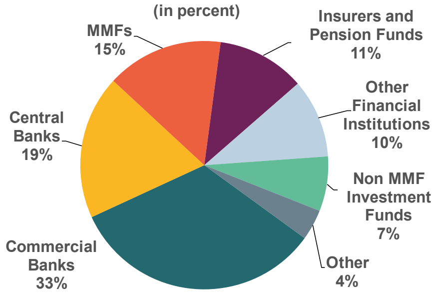
### Supply constraints due to other short-term debts players

Even if the total EUR short-term public debt market were, in theory, large enough to accommodate the additional public debt buffer for MMFs suggested by the ESRB, the above analysis does not take into account the other users of this type of paper. Looking at the types of investors that currently hold EUR short-term public debt, MMFs currently hold only 15% of the available total. Commercial banks are the largest holders of public debt, with about one-third of the total short-term public debt issued in the eurozone. This type of paper plays a crucial role in their liquidity ratios. In addition, other large investors - such as insurers and pension funds (11%) and long-term investment funds (7%) - rely heavily on short-term public debt. A sudden increase in demand for short-term public debt by MMFs – particularly for the more highly rated and shorter-dated segments - could cause significant supply shortages for these other users.

1. EUR MMFs and the Short-Term EUR Public Debt Market at End 2021
(EUR billions)



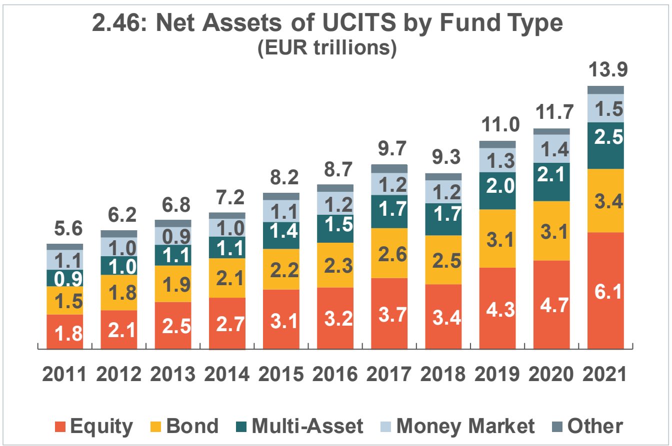

2. Holders of Short-Term Debt in the Euro Area at End 2021
(in percent)



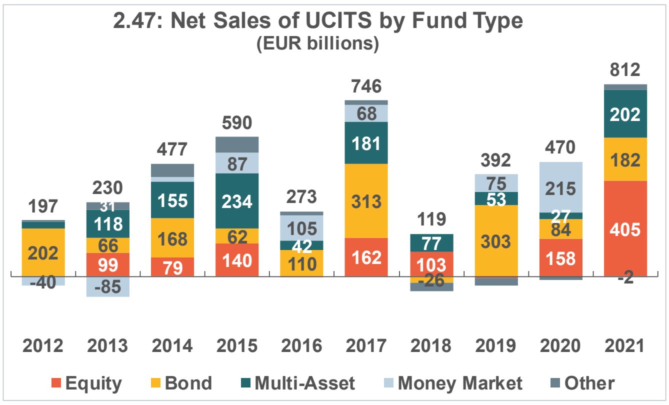

Source: EFAMA, IMMFA and ECB

## 2.2.7 Evolution of UCITS by type of fund

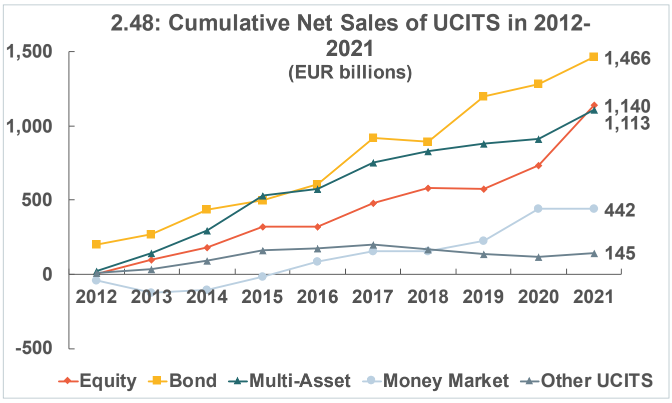
**Net assets by UCITS type.** In general, the evolution of net assets of UCITS by fund type tends to mirror that of the financial markets. Net assets grew during 2012-2017 and 2019-2021, when the performance of the markets was broadly good. When financial markets recorded a fall, such as in 2018, asset growth turned negative. 2021 was an excellent year for the fund industry as all major types of UCITS funds - equity, bond, multi-asset and MMFs – ended the year higher. Equity funds in particular grew strongly, driven by burgeoning stock markets as well as by strong inflows.




**Net sales by UCITS type.** Net UCITS sales have remained positive over the last decade. With the exception of 2016, net sales of all types of long-term funds rose gradually during the 2012-2017 period, reaching a high of EUR 746 billion in 2017. Net sales in recent years were less even. Concerns over an economic slowdown, political uncertainty and rising interest rates resulted in a sharp fall in net sales in 2018 (EUR 119 billion), only to recover again strongly in 2019, aided by robust inflows into bond funds (EUR 303 billion). In 2020, as a result of the pandemic, money market funds recorded the strongest net inflows (EUR 215 billion), as many investors were cautious over how financial markets would evolve after the steep market drop in March of that year. Net sales of UCITS rose to an absolute record in 2021 (EUR 812 billion). The successful roll-out of covid vaccines across most of the world, and the resulting strong economic recovery and buoyant stock markets, explain these exceptional inflows. As investors were very much in a 'risk-on' mode in 2021, net sales of UCITS equity funds reached a new record high of EUR 405 billion while the net sales of MMFs turned negative.



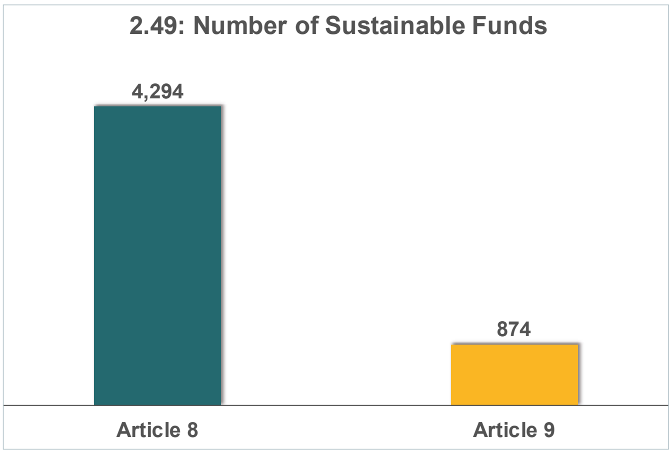

**Cumulative net sales.** Over the last decade, bond funds attracted the greatest cumulative net inflows (EUR 1,466 billion), helped by strong net inflows in 2012, 2017 and 2019. For the first time this decade, cumulative net inflows of equity funds achieved second place, narrowly overtaking multi-asset funds. Total net sales amounted to EUR 1,140 billion, helped by solid net sales in 2015, 2017, 2018, 2020 and particularly the record net sales of 2021. Multi-asset funds fell back to third place, with net sales totalling EUR 1,113 billion over the past 10 years. MMFs attracted cumulative net inflows of EUR 442 billion during 2012-21, thanks to the rebound in net sales that began in 2014 and the strong net sales in 2020. Other UCITS accounted for EUR 145 billion, pushed down by net outflows in the 2018-2020 period.



### 2.2.8 Sustainable UCITS

This section analyses the universe of sustainable UCITS funds, which have been growing rapidly in the last years as a response to the growing demand of investors for sustainable investment solutions. We define sustainable UCITS funds as open-end funds and exchange-traded funds that refer to sustainability strategy, ESG criteria or impact investing in their brochures or offering documents, as indicated by Morningstar, and which fall under the EU SFDR classification of Article 8 or Article 9 funds. The universe is composed of 14% passive funds - including ETFs - with the remaining share being actively managed sustainable funds.

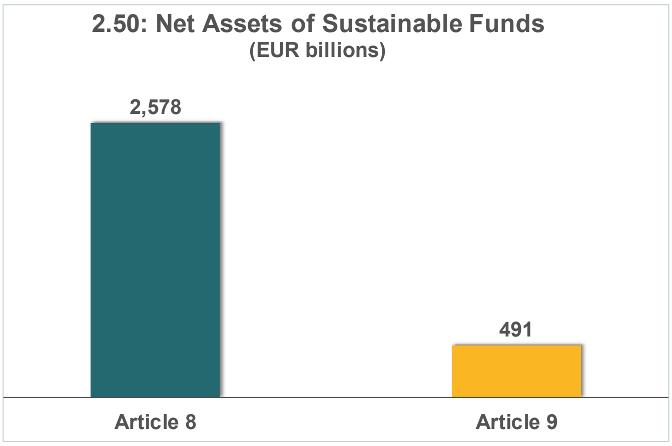
**The number of sustainable UCITS funds.** The number of sustainable UCITS funds in Europe has been growing continuously and amounted to 5,168 in December 2021, according to Morningstar's taxonomy. This corresponds to a share of 18% of the total number of UCITS. This high share of sustainable funds reflects the increasing demand for sustainable investing as well as the fact that fund managers are now actively engaged in reporting the ESG objectives of their funds, which allows commercial data providers to update the list of funds belonging to the universe of sustainable funds.




Source: Morningstar

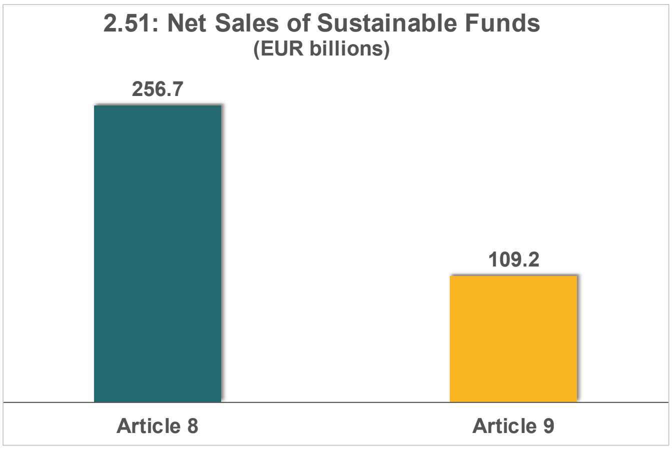
**SFDR.** In accordance with the EU SFDR classification, we analyse SFDR Article 8 and SFDR Article 9 funds, commonly labelled as 'green' and 'dark green' respectively. There were 4,294 Article 8 funds at the end of 2021, compared to 874 Article 9 funds.

**Net assets of ESG funds.** Net assets of sustainable UCITS funds have grown substantially over the last year, reaching a total of EUR 3.1 trillion in December 2021. This resulted in the share of sustainable funds in the total net assets of UCITS of 24% in 2021. The net assets of Article 8 and 9 funds reached EUR 2.6 trillion and EUR 491 billion, respectively, at the end of 2021. The shares of net assets of Article 8 and Article 9 funds in total net assets of UCITS were 20% and 4%, respectively.




Source: Morningstar

**Net sales of sustainable UCITS funds** amounted to an estimated EUR 366 billion in 2021. One-third of these net sales were attributed to Article 9 funds, which is higher than their relative share in the total net assets of sustainable UCITS analysed (16%).




Source: Morningstar

## Box 2
## The Sustainable Financial Disclosure Regulation (SFDR): Overview and current limitations

**Overview of the SFDR framework**

The EU's ambitious legislative programme to integrate environmental, social and governance (ESG) factors within the financial system has considerably reshaped the EU asset management industry in recent years. These regulatory developments, coupled with increased investor demand for financial products that support the transition, have led to a proliferation of financial products marketed as having a degree of ESG characteristics and/or objectives.

As a key part of the EU's sustainable finance policy agenda, the SFDR was introduced to increase transparency on sustainability, in order to prevent 'greenwashing' risks and potential misleading ESG claims by financial market participants. The Regulation imposes mandatory and harmonised ESG disclosure obligations to help investors understand, compare and monitor the sustainability characteristics/ambitions of investment firms and financial products. The SFDR also formally integrates the concepts of sustainability risks (integration of ESG risk into the investment decision-making process) and sustainability impacts (adverse effects of the investment decision on sustainability) into the investment management and advisory processes.

By ensuring clear and comparable transparency for the ESG claims and characteristics of financial products, regulators are seeking to ensure that end investors can make an informed decision according to their sustainability preferences. The end goal of the SFDR is to increase trust in the market for sustainable products in order to increase the amount of capital allocated to sustainable businesses/projects.

These disclosure requirements do not only apply to FMPs that express a certain degree of ESG focus. In fact, many important aspects of the SFDR apply to all asset managers based in or marketing their products in the EU.

The SFDR level 1 rules began applying in March 2021. This led to European asset management companies revising their level of transparency and integrating new concepts into all their processes. Although it was not the regulators' intention for SFDR Articles 6, 8 and 9 to be treated as product labels – as the SFDR fundamentally is a transparency regulation – the implementation of the SFDR has split the EU fund universe into three categories, each setting out specific and prescribed transparency requirements for all products that it covers:

- Article 6, or 'mainstream products'
- Article 8, or 'products promoting environmental or social characteristics'
- Article 9, or 'products with sustainable investment objectives'.

**Current limitations**

- ❖ Continued legal uncertainties

Following the decision of the European Commission to twice defer the application (and the publication) of the SFDR level 2 measures, asset managers will have to continue to apply the SFDR on a level 1 basis until 1 January 2023. This complicates the harmonised operations of the new disclosure regime, as the legal uncertainty around the categorisation of funds and other key aspects of the SFDR persists. In addition, the European Commission's response to the ESAs' Q&A in July 2021 brought little clarification on the key regulatory and legal questions raised by the industry.

For example, the Commission's broad definition of 'promotion' of ESG characteristics in its response to the ESAs' Q&A makes the demarcation between Article 6 and Article 8 products difficult to grasp. In fact, it remains unclear whether complying with national obligations (such as a ban on investing in cluster munitions) or a binding firm-wide ESG exclusion would bring a product into the scope of Article 8. The industry also faces uncertainties over the assessment of the 'sustainable investment' definition, as well as the requirements for Article 9 passive funds with a low carbon emission objective.

While asset managers have already carried out substantial work to comply with the incomplete regulation on a principle-based approach, these outstanding questions and lack of detailed rules inhibit the industry's effort to build and launch coherent sustainable investment solutions compliant with the current and upcoming ESG rules. **This has led to regulatory fragmentation and has caused some confusion for end investors, distorting trust and confidence in the new regime.**

- National fragmentation

The absence of clarification at the European level has also led to national fragmentation, to the detriment of end investors. In fact, a number of EU Member States have adopted national guidelines under the SFDR to ensure the compatibility of national laws and regulations with the new disclosure regime. As a result of the prolonged absence of the level 2 measures under the SFDR and the EU Taxonomy, national regulators developed these guidelines with little information on the direction of movement of the EU framework. As a result, national divergence has emerged in a number of areas, such as setting additional/different minimum requirements for Article 8 products[1] or adopting different approaches on how Article 8 and Article 9 should disclose their Taxonomy alignment as of the beginning of this year.[2]

These divergences have not only created concerns for product manufacturers and distributors regarding the cross-border distribution of ESG products but have also created risks for end investors, who may not be able to access comparable information on their sustainable products of interest. In fact, national differences are **significantly reducing the comparability of sustainable products, thus hindering the development of a large and liquid sustainable investment market that would facilitate the transition to a net-zero economy.**

**Looking ahead**

Another key challenge in the implementation of the SFDR is the evolving nature of the framework and the changes foreseen to key concepts and rules. In fact, while the industry is still trying to grasp and anticipate the upcoming detailed and prescriptive disclosure requirements, European regulators have already announced a number of changes/additional guidance under the SFDR:

- Changes to Article 8

In its Strategy for Financing the Transition to a Sustainable Economy the Commission has introduced the possibility for further changes to the SFDR in 2022-2023. The strategy considers the development of 'minimum sustainability criteria, or a combination of criteria for financial products that fall under the SFDR Article 8, in order to guarantee a minimum sustainability performance of such products and to further strengthen a harmonised application of the Regulation, as well as to incentivise transitional efforts.

1 Some National Competent Authorities (NCAs) have adopted additional national requirements for financial products marketed as having ESG characteristics, i.e. Article 8 SFDR products (e.g. AFM doctrine, BaFIN guidelines, CNMV guidelines and Febelfin label).

2 Despite the lack of level 2 measures of available taxonomy-related data from investee companies, Article 5 and 6 of the EU Taxonomy Regulation started applying as of 1 January 2022 - requesting all Article 8 and 9 funds to disclose their quantitative proportion of Taxonomy alignment. In the absence of EU guidance on how asset managers can comply with these level 1 rules in the absence of more detailed instructions or company data, NCAs had to step in. A number of them have adopted different approaches to the disclosure of taxonomy alignment (requesting a 0% disclosure, requesting the use of a disclaimer, or removing any reference of the EU Taxonomy).

❖ Changes to the PAI

In its Roadmap to Sustainable Finance, ESMA committed to reviewing the list of environmental and social principal adverse impacts (PAI) of investment decisions on sustainability factors, which are included in the final RTS. The industry already faces significant data reliability and availability problems, and the coverage of several of the PAI indicators remains insufficient 'with a wide range of variance in the reported data' and 'low levels of comparability[3].

❖ Further guidance and precision on other key aspects under SFDR

Following the publication of the final RTS, the Commission has published a Q&A document providing clarifications on certain key open questions on how to interpret aspects of the SFDR and the Taxonomy Regulation. Moreover, the EU regulators are expected to deliver a batch of additional guidance under the SFDR. While the contents of this additional guidance – which will probably be in the form of Q&A, developed with the support of the Platform for Sustainable Finance – are still unknown, we expect the Commission to tackle a number of key SFDR concepts that still remain unclear. These could include:

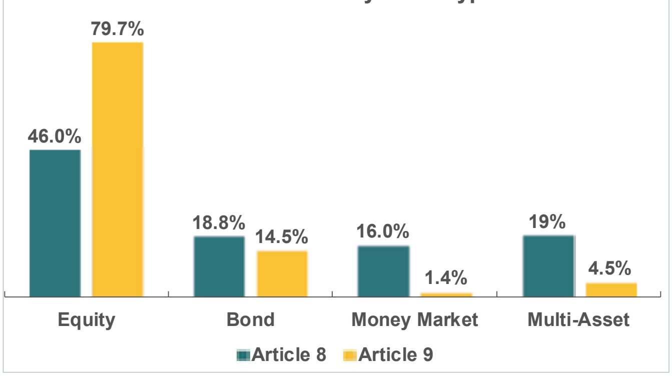
- The design of Article 8 funds – what is the delineation between Article 6 and 8 funds (i.e. PAI consideration, exclusions, etc.).
- The design of Article 9 funds – the potential minimum threshold for sustainable investment, how to categorise a passive fund with a carbon reduction objective.
- PAI consideration – what this consideration should exactly entail.
- Sustainable investment analysis – should the analysis be conducted at the firm level (an investee company) or economic activity level?

While the fund management industry still faces difficulties and uncertainties in the implementation process of the SFDR framework, EFAMA remains confident that these challenges will fade once the regulatory framework is complete and investors have access to the necessary corporate reporting data to comply with their new obligations. We believe that the SFDR will reduce information asymmetries, prevent divergent national disclosures, enhance the comparability of ESG disclosures and foster a level playing field for ESG products within the internal market.

3 Irish Funds (2020, p.16), Principal Adverse Impacts Reporting – Practical insights for the next stage of SFDR implementation.

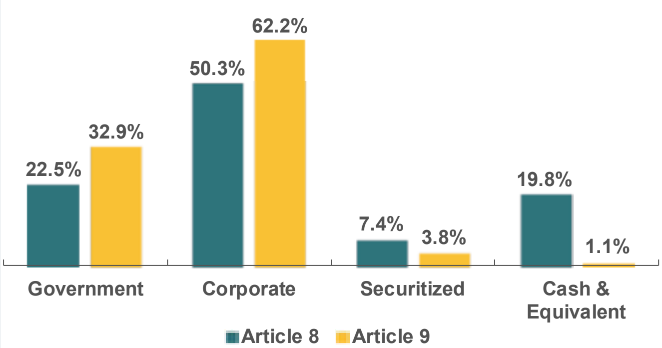
**Net assets by fund types.** Equity funds represent the dominant sustainable fund type. In terms of net assets, Article 8 and Article 9 equity funds accounted for 46% and 78% of the overall sustainable fund universe at the end of 2021. Equity and bond funds made up together roughly 95% of the Article 9 universe. In the Article 8 universe, equity and bond funds had a share of 65%, with the remaining 35% comprised of money market funds (16%) and multi-asset funds (19%).

2.52: Net Assets by Fund Type



**Asset allocation of sustainable bond funds.** Corporate bonds represented the largest part of the bond fund portfolio (50% for Article 8 funds and 62% of Article 9 funds). Government bonds followed with a share of 23% and 33% for Article 8 and Article 9 funds, respectively. This breakdown reflects the high number of green projects being launched by corporate issuers. It is likely, however, that the share of sustainable bonds by supranational institutions will increase in the future, given the importance of post-Covid recovery funds. Another reason for the high concentration of corporate bonds could be the complexity of assessing the sustainable engagement of sovereign institutions.

2.53: Sector Allocation of Sustainable Bond Funds

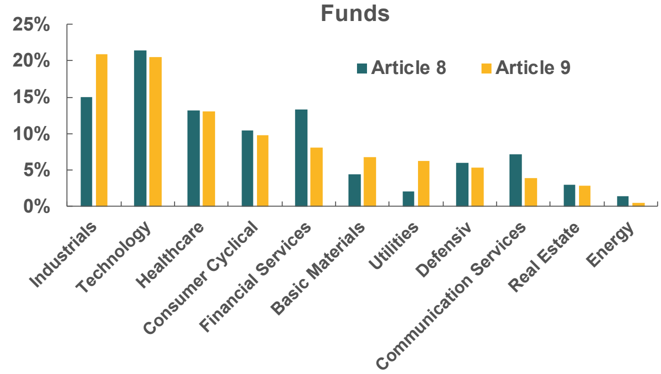



Source: Morningstar

It is also worth noting that Article 8 funds tend to have on average a relatively high share of their portfolios invested in cash and cash equivalents category (20%). This reflects the relatively large number of Article 8 money market funds.

**Asset allocation of ESG equity funds.** Sustainable equity funds are strongly invested in technology, the shares of which were 22% and 20% for Article 8 and Article 9 funds, respectively, at the end of 2021. This can be explained by the development of innovative new technologies aimed at promoting a shift towards a more sustainable economy.

2.54: Sector Allocation of Sustainable Equity Funds



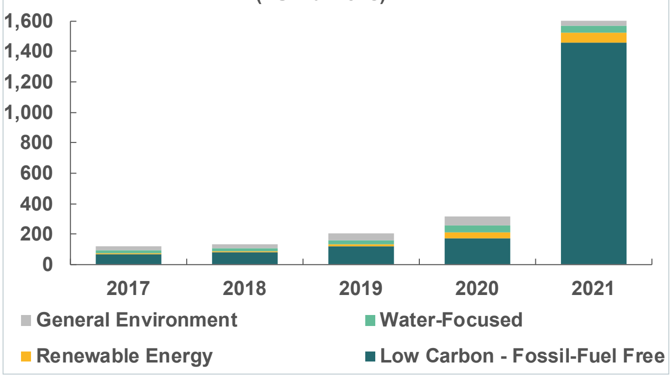

Source: Morningstar

The next sector in which sustainable equity UCITS are strongly invested is the industrials sector (15% for Article 8 and 21% for Article 9 funds), which includes activities in the area of productive engineering. This high share can be explained by the fact that the industry is strongly committed to zero carbon goals.[xii] As expected, European sustainable equity funds are the least-heavily invested in the traditional energy sector. Such portfolio allocation contributed positively to the fairly strong and robust performance of these funds in 2020, when the Covid-19 pandemic negatively affected the energy sector. It is likely, however, that the war in Ukraine and its impact on energy prices will adversely affect the performance of these funds in 2022.

**Impact Investing.** The market of impact funds constitutes a special category of sustainable funds that seek to make a measurable impact on specific issue areas.[xiii]

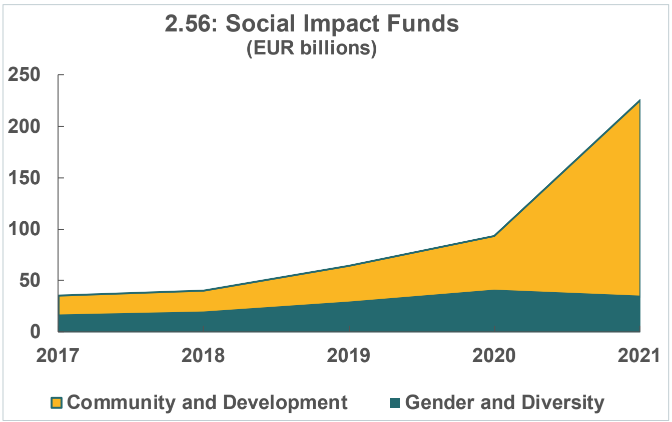
**Environmental impact funds** saw their assets multiply fourteenfold in 2017-2021, reaching EUR 1.7 trillion by the end of 2021. In this category, funds centred around low-carbon emissions dominate in terms of net assets and net asset growth, with their shares making up 88% of the total and their net assets increasing twentyfold in the last five years. Renewable energy funds also grew significantly in relative terms, from EUR 9 billion to EUR 61 billion during 2017-2021.

2.55: Environmental Impact Funds
(EUR billions)




Source: Morningstar

**Social impact** funds have experienced a significant increase in demand. Funds focusing on gender and diversity and community development grew to EUR 225 billion in December 2021, mostly due to the high growth of Community and Development social impact funds.




Source: Morningstar

**Recent trends.** Impact funds have boomed in the last five years and, although social funds have become more popular, environmental impact funds still hold their dominant position in the universe.

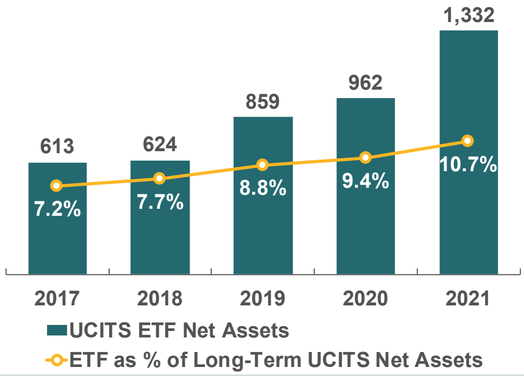
### 2.2.9 UCITS ETFs and Index Funds

**What are Exchange-Traded Funds (ETFs)?** ETFs are pooled investment vehicles with shares that investors can buy and sell on a stock exchange, throughout the day, at a market-determined price. ETFs usually track an index, with a portfolio of securities designed to mirror its rises and falls. They are an increasingly popular investment instrument, thanks to their flexibility, liquidity and cost efficiency, combining the low cost and broad diversification of investment funds with the real-time pricing and trading of equities.

**UCITS ETFs.** In Europe, the vast majority of ETFs are created as UCITS and are therefore subject to a robust regulatory framework. Within EFAMA statistics, ETFs are considered as an 'of which' category, i.e. they are included in their underlying type of fund: equity, bond or other.

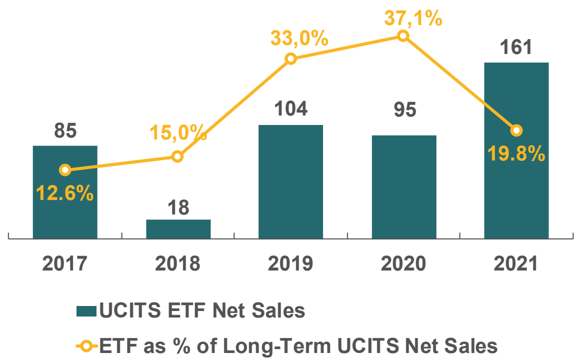
**Net assets of ETFs.** The significance of ETFs has grown steadily over the past five years. Net ETF assets have risen from EUR 613 billion in 2017 to EUR 1,332 billion at the end of 2021, breaching the EUR 1 trillion mark. In relative terms, as a percentage of long-term UCITS net assets, ETFs have also grown significantly, from 7.2% in 2017 to 10.7% at the end of 2021.

**2.57: UCITS ETF Net Assets**
(EUR billions, % of Long-Term UCITS Net Assets)



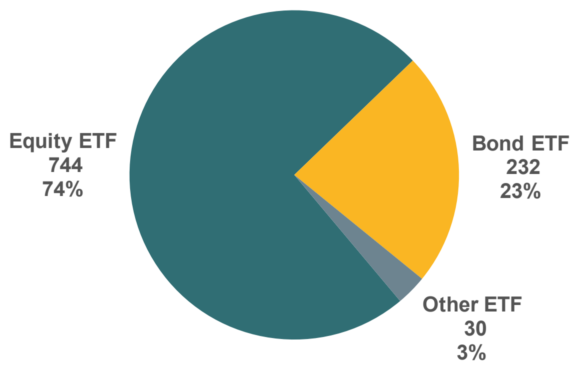

**Net sales of ETFs** reached a record EUR 161 billion in 2021, significantly higher than 2020's EUR 95 billion. Net sales of ETFs expressed as a percentage of long-term UCITS was particularly high in 2019-2020, accounting for more than one-third of all long-term UCITS sales. However, this share fell for the first time in 2021, from 37.1% in 2020 to 19.8% in 2021.

**2.58: UCITS ETF Net Sales**
(EUR billions, % of Long-Term UCITS Net Sales)



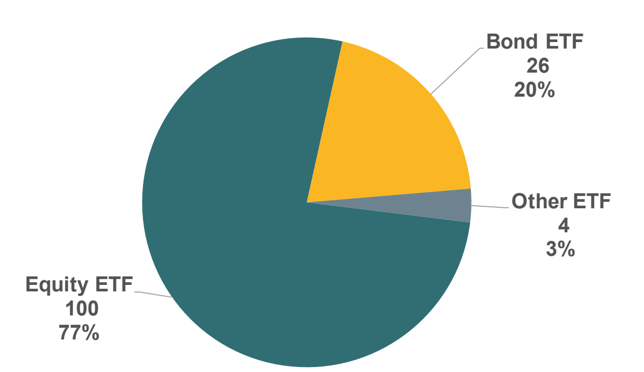

**Breakdown of net assets per ETF type.** Drilling down into the specific types of ETF funds, equity ETFs accounted for almost three-quarters of the total market (74%) at the end of 2021, followed by bond ETFs (23%) and other ETFs (3%). The percentage of equity ETFs shot up from 69% in 2020, driven by the strong performance of global stock markets.

**2.59: Net Assets of UCITS ETF at End 2021**
(EUR billions, %)



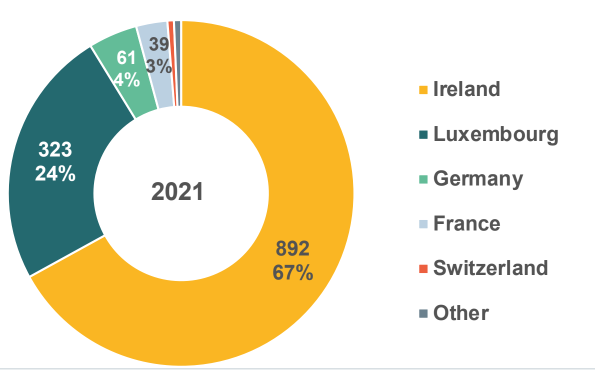

**A breakdown of net sales per ETF type** showed a similar picture to the net assets in 2021. Net sales of equity ETFs accounted for 77% of the total. Bond ETFs represented 20%, with other ETFs making up 3%. This situation was comparable to 2020, when equity ETFs also accounted for the bulk of net sales (67%). In 2019, however, bond ETFs outsold equity ETFs, accounting for 60% of total ETF sales.

2.60: Net Sales of UCITS ETF at End 2021
(EUR billions, %)




**Breakdown by domicile.** The European ETF market is heavily concentrated in one domicile. Ireland accounted for 67% of total European ETFs at the end of 2021. Luxembourg (24%), Germany (4%) and France (3%) followed in the ranking. Other domiciles in Europe are negligible in the ETF market.

2.61: Top 5 Country Shares in UCITS ETF Assets
(EUR billions, %)

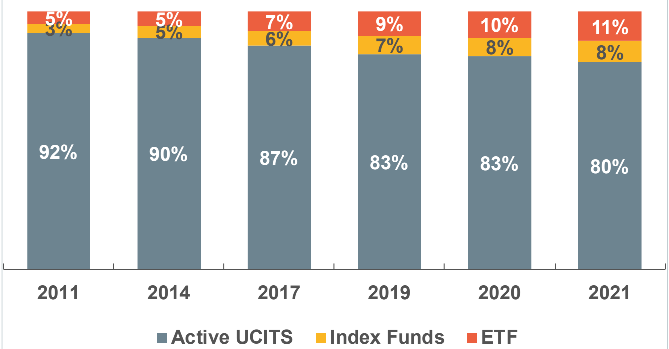



**Index funds.** Another important distinction we can make in the UCITS funds universe, apart from that between ETFs and non-ETFs, is between active funds and index funds. Index funds, often also referred to as passive funds, are funds designed to track a market index by investing in the same securities in the same weightage. The sole aim of an index fund manager is to replicate the performance of the index. On the other hand, in the case of active funds, portfolio managers can adjust the fund's holdings on an ongoing basis, with the aim of delivering a performance that beats the fund's stated benchmark or index.

Active managers use their expertise, coupled with extensive research, to decide which investments their funds should hold. An active approach offers investors the opportunity to earn a return superior to that of an index, or to meet other investment objectives such as limiting risk, managing volatility or altering asset allocations in response to changes in market conditions.

**Breaking down the UCITS market into active funds, ETFs and other index funds,** we can see the increasing share of both ETFs and index funds in recent years, with the market share of index funds more than doubling, from 3% in 2011 to 8% in 2021. The market share of ETFs also more than doubled over that period. The market share of all passive funds, ETFs and index funds combined, grew from 8% in 2011 to 19% in 2021. The main reason behind this growth is the lower cost of passive funds and ETFs (see Box 4, page 46).

2.62: Evolution in the Net Assets of UCITS
(in percent)

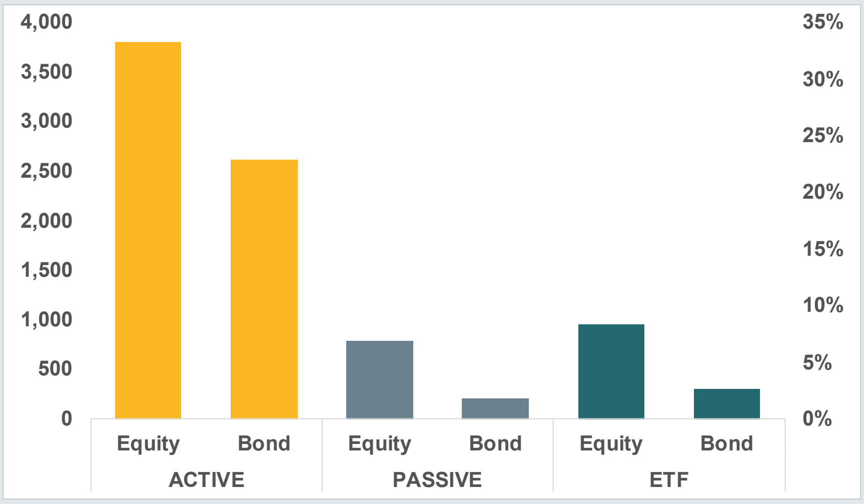



Source: Morningstar and EFAMA

## Box 3
## Strong performance of active and passive funds and ETFs in 2021

In this box, we analyse the performance of active, passive and ETF UCITS across major asset classes. Active funds accounted for 75.6% of the total net assets, compared to 9.8% for passive funds and 14.6% for ETFs. The share of each category of funds represented in this analysis is shown in the chart below.[1]

### 1. Net Assets and Shares of Analysed Fund Categories in Total UCITS
(in EUR billions and percent in total)




Source: Morningstar Direct platform and EFAMA's calculations.

The gross annual performance of active UCITS during the period 2017-2021 was 7.3%, but it differed across fund types. Active equity funds were the top-performing category with an average annual gross performance of 12.4%. Actively managed bond funds recorded an average annual return of 2.5%.

Passive UCITS recorded an average gross annual performance of 9.7% during 2017-2021. Passive equity funds recorded a slightly lower performance than their active counterparts (11.6%). On the other hand, passive bond funds delivered a similar gross performance as active bond funds (2.4%).

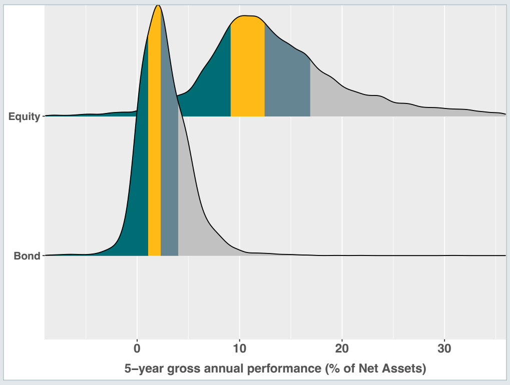
UCITS ETF recorded an average annual gross performance of 8.3% during 2017-2021. Equity and bond ETFs reported a gross performance of 11.1% and 2.2%, respectively.

The charts below show the density distribution of the five-year gross annual performance of funds divided into four quartiles.[2] The charts demonstrate that the performance differences between the higher- and lower-performing funds are significant, reflecting the fact that the fund universe consists of many heterogeneous funds in terms of investment strategy, which differ greatly between issuers, types of securities, geographical exposure, currency and industrial sectors.

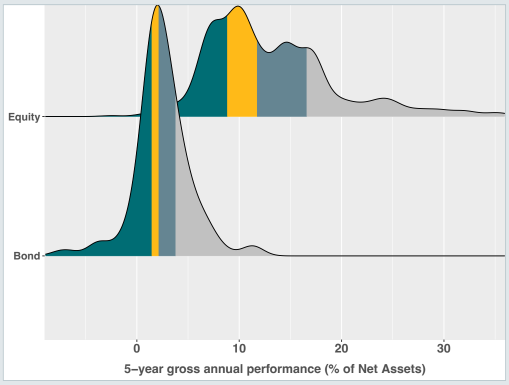
1 We report only the major fund types – bond and equity funds, which make up roughly 68% of the UCITS universe. The remaining fund types include Multi-Asset, MMF and other funds, corresponding to 18%, 12% and 2% of the UCITS universe, respectively.

2 The line separating the second and the third quartiles corresponds to the median.

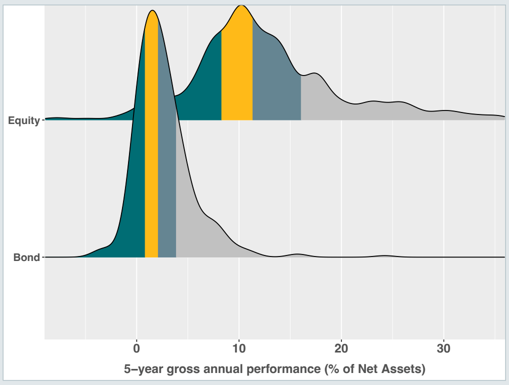
## 2. Active Fund Performance




## 3. Passive Fund Performance




## 4. ETF Fund Performance

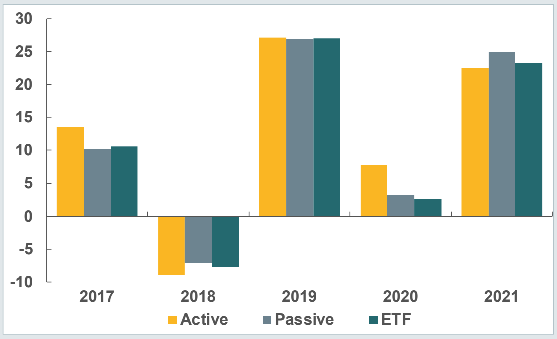



Source: Morningstar Direct platform and EFAMA's calculations.

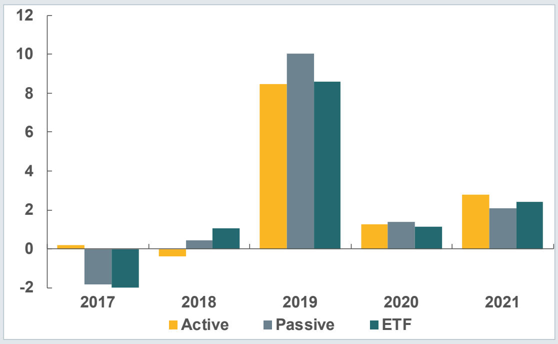
The average annual gross performance of active and passive funds and ETFs, measured on a one-year investment horizon, are shown in the charts below. It is interesting to note that active equity funds outperformed passive funds and ETFs by a significant margin in 2020, when the Covid-19 pandemic led to large market corrections, high volatility and market stress. The gross performance of active equity funds reached 7.9%, compared to 3.2% for passive funds and 2.6% for ETFs.

Chart 6 shows that bond funds have seen a performance evolution similar to that of equity funds, with lower returns in 2017-2018 and higher returns in 2019. This reflects the sharp fall in yields caused by recession fears, which in turn led to a rise in bond prices to 8.5%, 10.0% and 8.6% for active funds, passive funds and ETFs, respectively.

### 5. Annual Gross Performance of Equity Funds
(in percent of net assets)



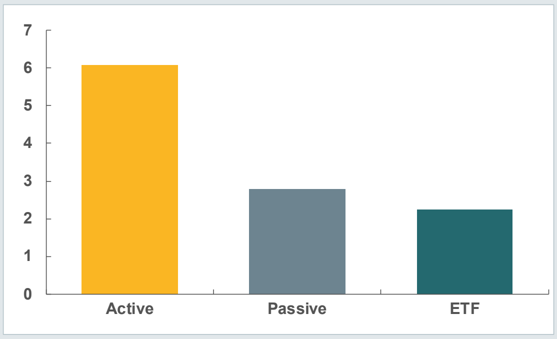

### 6. Annual Gross Performance of Bond Funds
(in percent of net assets)



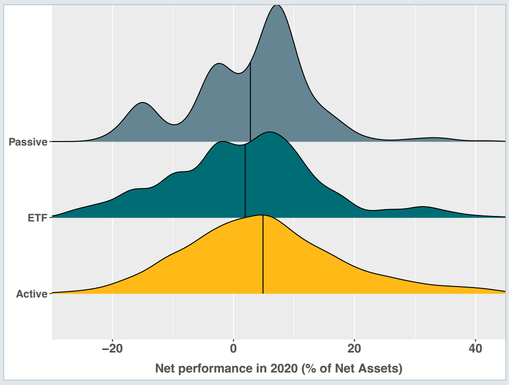

Source: Morningstar Direct platform and EFAMA's calculations.

Net of ongoing costs, active equity funds also outperformed passive funds and ETFs in 2020 on average, as shown in chart 7, with net returns of 6.1% compared to 2.8% and 2.2% for passive funds and ETFs, respectively.[3]

### 7. Average Annual Net Performance of Equity Funds in 2020
(in percent of net assets)




### 8. Equity Funds Net Performance in 2020[4]
(in percent of net assets)




Source: Morningstar Direct platform and EFAMA's calculations.

These findings validate the point of view that – during periods of market stress - active funds outperform their passive counterparts. That said, this finding needs to be interpreted with caution. As illustrated in Chart 8, there is a cohort of active funds that outperform their passive peers and vice versa. Thus, both active and passive funds have a role to play in a well-diversified portfolio in accordance with the objectives pursued and the clients' needs.

3 This analysis allows to challenge ESMA's finding that actively managed equity funds did not, on average, outperform their related benchmarks between 19 February 2020 and the end of June 2020 (see ESMA's 2022 Annual Statistical Report).

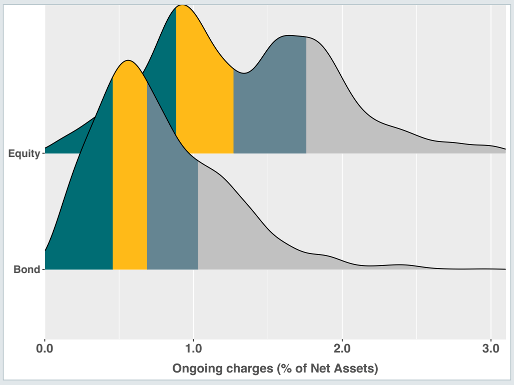
4 The vertical line on the distribution charts corresponds to the simple average of each population of funds.

## Box 4
## Sustained decline in the costs of all UCITS types

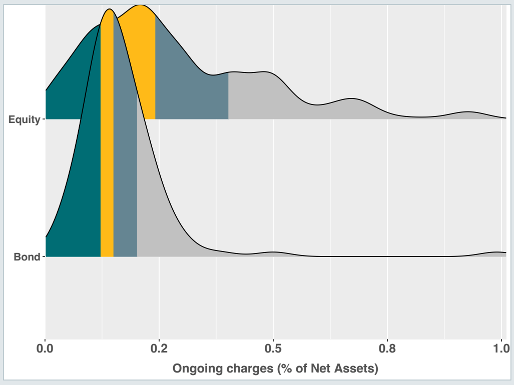
The costs of active and passive UCITS and ETF UCITS differed significantly in 2021. While the average ongoing charge for active funds was 1.19%, the average charge for passive and ETFs stood at 0.32%.[1] Costs also differed between fund types, with bond funds showing lower costs than equity funds, particularly among active funds. This difference was less noticeable for passive funds and almost non-existent for ETFs.

The charts below display the distribution of ongoing charges of actively and passively managed funds and ETFs in major asset classes in 2021. We observe that there are active funds, albeit not many, that charge fees as low as those charged by passive funds and ETFs.

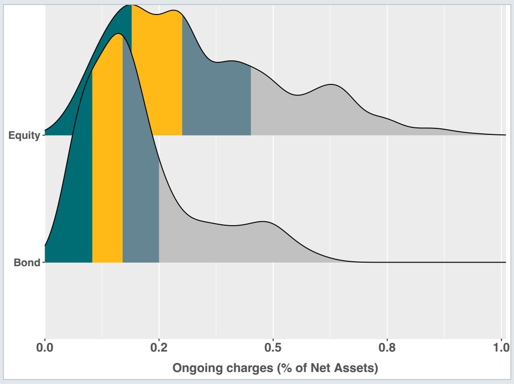
**1. Active Fund Cost in 2021**
(in percent of net assets)




**2. Passive Fund Cost in 2021**
(in percent of net assets)




**3. ETF Fund Cost in 2021**
(in percent of net assets)

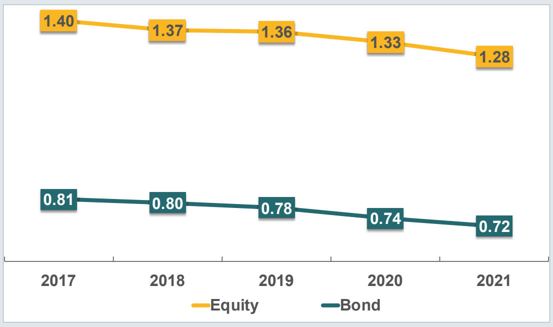



Source: Morningstar Direct platform and EFAMA's calculations.

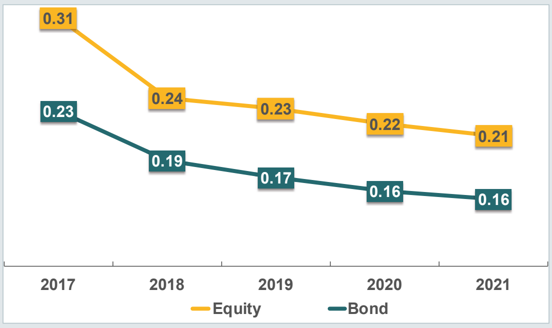
The charts below show that the weighted average of ongoing charges for active and passive funds and ETFs continued to fall during 2021.

1 The average values are calculated based on simple averages, while the weighted average values amounted to 0.92%, 0.19% and 0.23% for active, passive and ETFs, respectively.

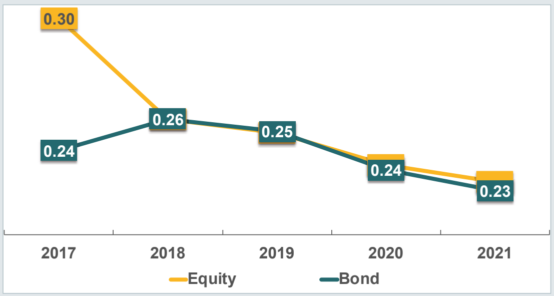
### 4. Active Funds Cost in 2021
(ongoing charges, in percent of net assets)




### 5. Passive Funds Cost in 2021
(ongoing charges, in percent of net assets)




### 6. ETF Funds Cost in 2021
(ongoing charges, in percent of net assets)




Source: Morningstar Direct platform and EFAMA's calculations.

Equity fund costs decreased for the three fund types by 9%, 32% and 22%, respectively during the period 2017-2021.

For bond funds, the greatest decrease in cost in the last five years was observed in passive funds, which fell by 32%, from 0.23% to 0.16%.

The cost of ETFs also declined during the same period, by 22% and 7% for equity and bond ETFs, respectively, converging toward the same level of 0.23%.

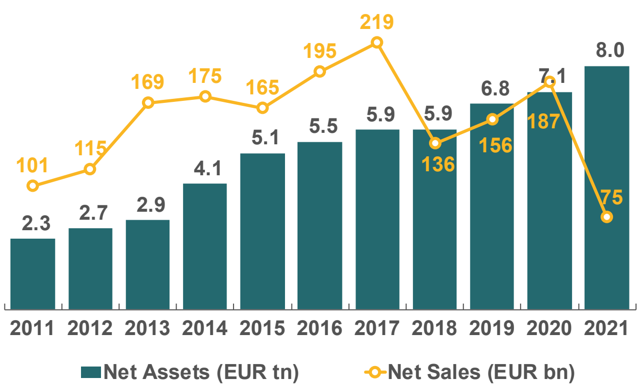
## 2.3 THE AIF MARKET

### 2.3.1 Overview

The evolution of AIFs[xiv] is less overtly influenced by trends in capital markets than UCITS, because AIFs invest a larger proportion of their assets in alternative financial products such as private equity or real estate. In addition, the main buyers of AIFs - pension funds and insurers - often display a counter-cyclical investment behaviour, taking advantage of stock market dips to increase their AIF purchases.

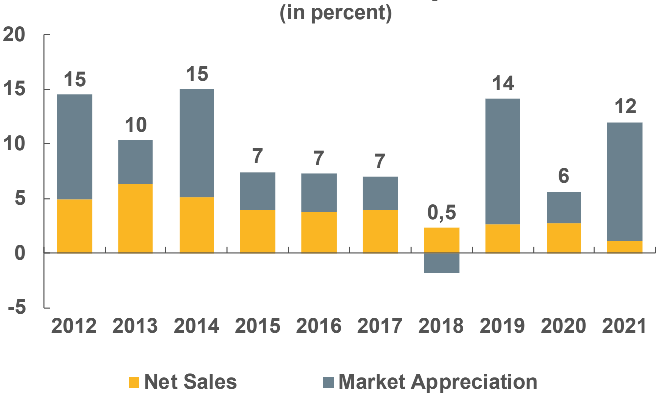
**Net assets and net sales of AIFs.** Net AIF assets rose to EUR 8 trillion in 2021, up from EUR 7.1 trillion in 2020, Net inflows dropped to EUR 75 billion, the lowest of the decade, as Dutch AIFs registered large outflows.

2.63: Net Assets and Net Sales of AIFs



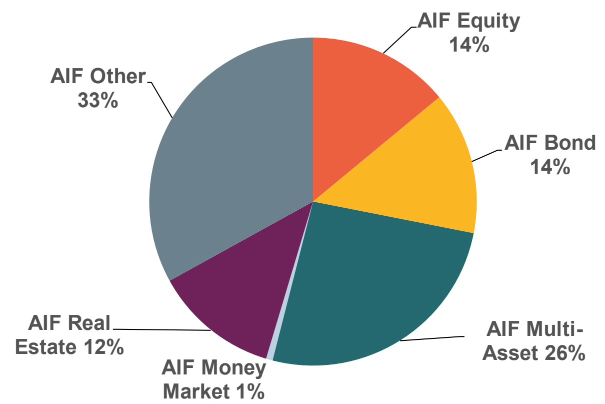

**Breakdown of net asset growth.** Despite the low inflows, net asset growth in 2021 was relatively high (12%). Market appreciation accounted for the majority of that asset growth. AIFs have a lower exposure to equity than UCITS, yet they did also benefit from the strong performance of stock markets in 2021.

2.64: AIF Asset Growth by Source
(in percent)



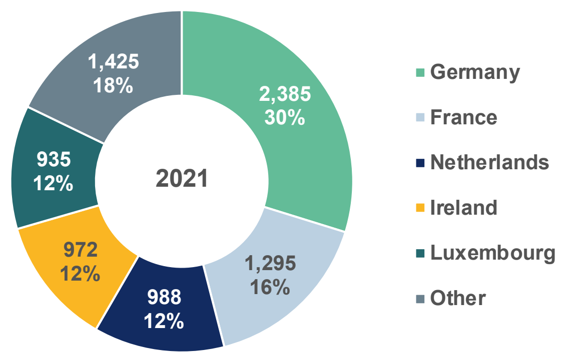

**Breakdown by type of fund.** Following the introduction of the AIFM Directive and corresponding revised EFAMA classification for funds in 2014, AIFs - just like UCITS - can be broken down according to their overall investment strategy. At the end of 2021, 'other' AIFs were the predominant type (33%). Multi-asset AIFs accounted for 26% of the total market, followed by bond AIFs (14%) and equity AIFs (14%) and real estate funds (12%).

2.65: Net Assets of AIFs at End 2021




**Breakdown by AIF domicile.** The five largest domiciles in the European AIF market accounted for a combined 82% of net assets at end 2021. Germany was the largest with a 30% market share, followed by France (16%), the Netherlands (12%), Ireland (12%) and Luxembourg (12%).

2.66: Top 5 Country Shares in AIF Fund Assets
(EUR billions, %)




**Net asset of AIFs by domicile.** The table below shows the net assets of AIFs per domicile at end 2021. It also shows their respective AIF market shares and the 2021 net asset growth. Almost all domiciles registered positive net asset growth in 2021. Those few countries that saw a decline in their net assets, such as Belgium (-71.4%) and Spain (-22.2%), did not register net outflows but had a number of AIFs that were transformed into UCITS. Among the larger AIF domiciles, Ireland (22.1%), the UK (19.8%), Luxembourg (14.7%) and Germany (13.9%) all registered double-digit growth.

**Net sales of AIFs by domicile.** Germany accounted for by far the largest portion of total AIF sales (EUR 105 billion) in 2021, while Ireland (EUR 73 billion) and Luxembourg (EUR 47 billion) took second and third place, respectively. AIFs domiciled in the Netherlands registered substantial net outflows over the course of the year (EUR 157 billion). These were mainly caused by the decision of several Dutch pension funds to stop managing their assets within AIF structures and make more use of segregated mandates.

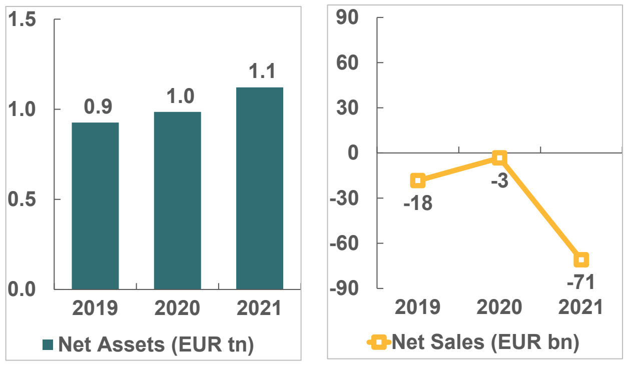
**2.67: Net Assets and Net Sales of AIFs by Country**

| Country | Net Assets of Nationally Domiciled AIFs at End 2021 | | | Net Sales of Nationally Domiciled AIFs | |
|---|---|---|---|---|---|
| | EUR bn | Market Share | Growth Rate | in 2021, EUR bn | Accumulated 2017 - 2021 |
| Austria | 123.5 | 1.544% | 10.8% | 5.9 | 16.5 |
| Belgium | 2.8 | 0.0% | -71.4% | 0.2 | 1.0 |
| Bulgaria | 0.1 | 0.001% | 769.3% | 0.04 | 0.04 |
| Croatia | 0.7 | 0.01% | 11.6% | | |
| Cyprus | 7.2 | 0.1% | 61.5% | 2.2 | 3.6 |
| Czech Republic | 2.1 | 0.03% | 24.2% | 0.3 | 1.0 |
| Denmark | 180.5 | 2.3% | 5.5% | -6.8 | -26.2 |
| Finland | 19.4 | 0.2% | 25.0% | 1.7 | 4.4 |
| France | 1,295.4 | 16.2% | 8.3% | -3.4 | -14.2 |
| Germany | 2,385.0 | 29.8% | 13.9% | 105.4 | 496.1 |
| Greece | 4.4 | 0.05% | 26.3% | | |
| Hungary | 19.7 | 0.2% | 12.1% | 1.9 | 3.4 |
| Ireland | 972.1 | 12.1% | 22.1% | 72.6 | 226.7 |
| Italy | 99.9 | 1.2% | 0.7% | 0.8 | 32.8 |
| Liechtenstein | 35.1 | 0.4% | 32.9% | 3.8 | 11.5 |
| Luxembourg | 935.0 | 11.7% | 14.7% | 46.5 | 143.2 |
| Malta | 17.1 | 0.2% | 39.0% | 3.4 | 7.0 |
| Netherlands | 988.3 | 12.4% | 3.1% | -156.9 | -185.8 |
| Norway | | | | | |
| Poland | 38.3 | 0.5% | 11.1% | 2.2 | -1.1 |
| Portugal | 12.0 | 0.2% | 3.9% | 0.2 | -0.8 |
| Romania | 5.3 | 0.1% | 21.4% | 0.01 | 0.1 |
| Slovakia | 2.7 | 0.03% | 31.8% | 0.4 | 0.9 |
| Slovenia | 0.3 | 0.004% | 86.7% | | |
| Spain | 43.1 | 0.5% | -22.2% | -2.7 | -13.7 |
| Sweden | 30.6 | 0.4% | 24.5% | 1.9 | 2.1 |
| Switzerland | 173.9 | 2.2% | 2.4% | 1.3 | 55.4 |
| Turkey | 9.9 | 0.1% | -16.3% | 0.5 | 1.3 |
| United Kingdom | 596.8 | 7.5% | 19.8% | -5.8 | 8.7 |
| **Europe** | **8,001.2** | **100.0%** | **12.0%** | **75.5** | **773.9** |

### 2.3.2 AIF equity, bond and multi-asset funds

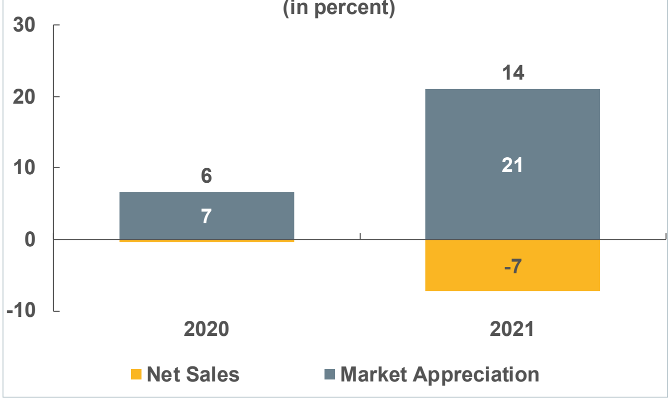
**Net assets and net sales of equity AIFs.** Net assets of equity AIF grew over the past two years, ending the year 2021 at EUR 1.1 trillion. Net sales, however, were negative over the past three years. These negative flows have two main causes. First, the contra-cyclical investment behaviour of certain institutional investors, taking profits in periods of strong growth in stock markets. Second, some large pension funds in the Netherlands decided to stop managing their assets in the form of an AIF and have switched to the use of segregated mandates. As these operations are treated as net outflows, they are the reason behind the sizeable 2021 negative net sales figure.

2.68: Net Assets and Net Sales of AIF Equity Funds



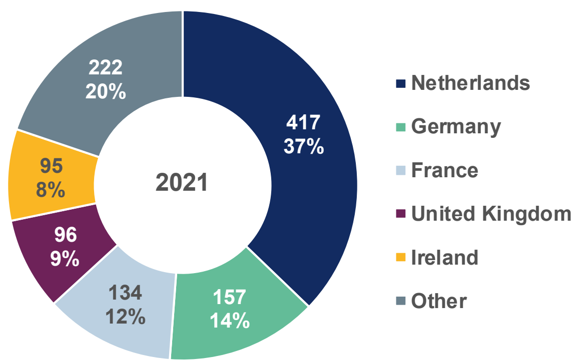

**Breakdown of net asset growth of equity AIFs.** In 2021, a year of strong stock market growth (+21%), net assets of equity AIFs grew briskly (14%), despite significant negative net sales (-7% of net assets). Net asset growth was lower (6%), but still positive in 2020, although net sales were also slightly negative. In general, net asset growth of equity AIFs was lower than that of equity UCITS, but this was solely due to negative net sales during those years. Indeed comparing just the market appreciation of equity UCITS and equity AIFs, those were roughly equal. This could indicate that - at the aggregated level - the asset allocations of equity UCITS and AIFs are broadly similar in terms of geographical and sectoral investments.

2.69: AIF Equity Asset Growth by Source
(in percent)



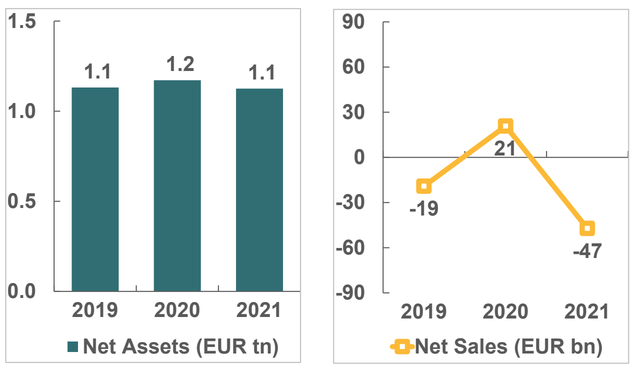

**Breakdown of equity AIFs by domicile.** Looking at the AIF equity market by domicile, the Netherlands, with its large pension fund industry, accounted for 37%, followed by Germany (14%), France (12%), the UK (9%) and Ireland (8%).

2.70: Top 5 Country Shares in AIF Equity Assets
(EUR billions, %)

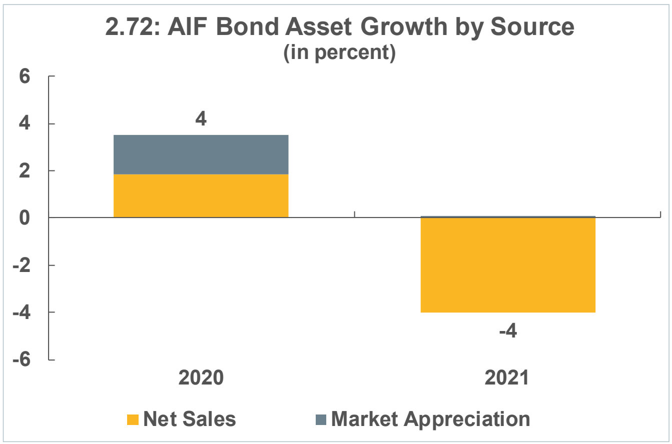


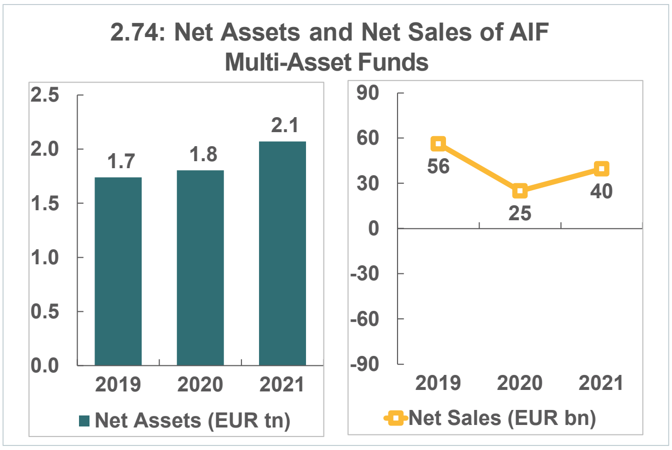

**Net assets and net sales of bond AIFs.** Net assets of bond AIFs declined to EUR 1.1 trillion in 2021, from EUR 1.2 trillion in 2020. Net sales were negative in 2021 and were again driven mainly by Dutch pension funds restructuring their AIF wrappers.

2.71: Net Assets and Net Sales of AIF Bond Funds

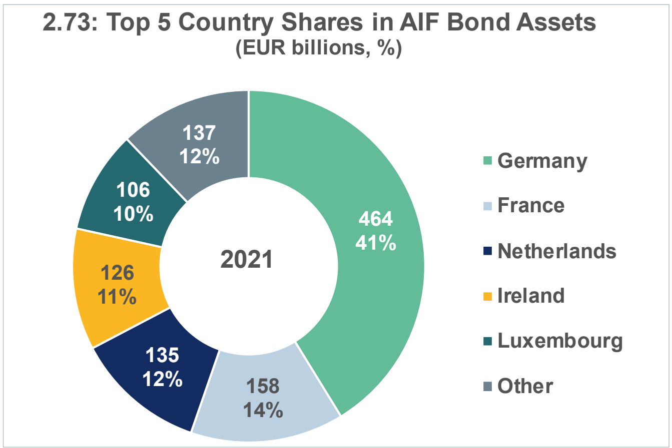



**Breakdown of net asset growth of bond AIFs.** As net sales were negative and bond prices did not move a great deal over the year, the net assets of bond AIFs declined by about 4% over the course of the year 2021. Net asset growth in 2020 amounted to 4%.



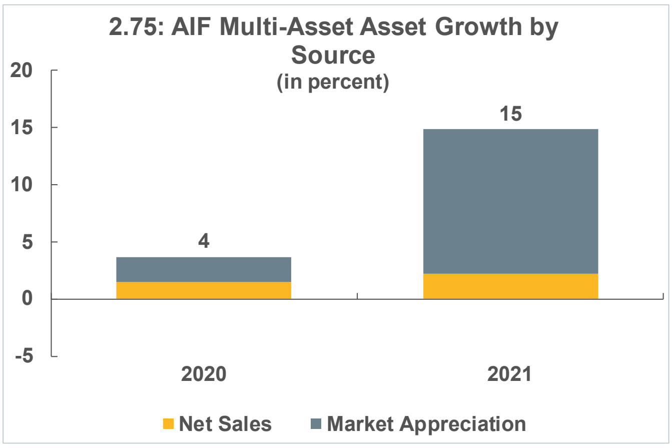




**Breakdown of bond AIFs by domicile.** Germany, with its large institutional 'Spezial fonds' sector, dominates the AIF bond market (41%). It is mainly insurers and pension funds in Germany that make use of these types of funds. France, which also has a large insurance sector, took second place (14%) and the Netherlands (12%), Ireland (11%) and Luxembourg (10%) complete the top five.

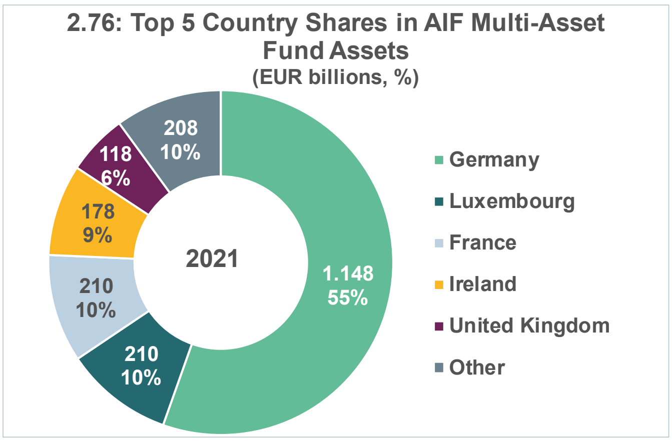



**Net assets and net sales of multi-asset AIFs.** Net assets of multi-asset AIF have grown continuously over the last three years, from EUR 1.7 trillion in 2019 to EUR 2.1 trillion in 2021. Multi-asset AIFs also attracted robust net inflows over the same period.

**Breakdown of net asset growth of multi-asset AIFs.** Net asset growth in 2021 amounted to 15%, mainly due to the strong market appreciation of the equity portion of the asset holdings of multi-asset AIFs.

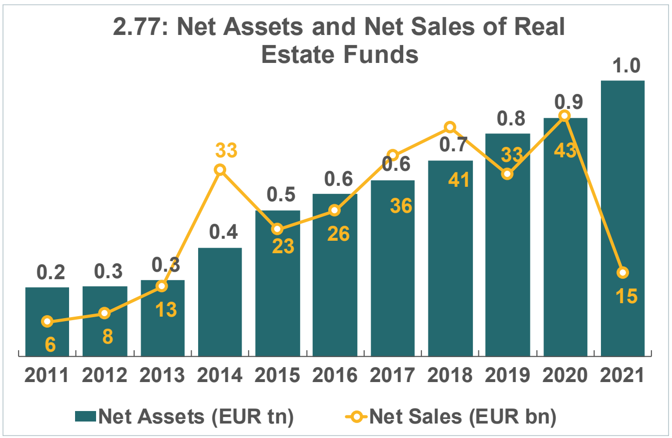



**Breakdown of multi-asset AIF by domicile.** Even more the case than in bond AIFs, German 'Spezial fonds' accounted for the majority of all multi-asset AIFs (55%) at the end of 2021. Luxembourg (10%), France (10%), Ireland (9%) and the UK (6%) followed in the ranking.



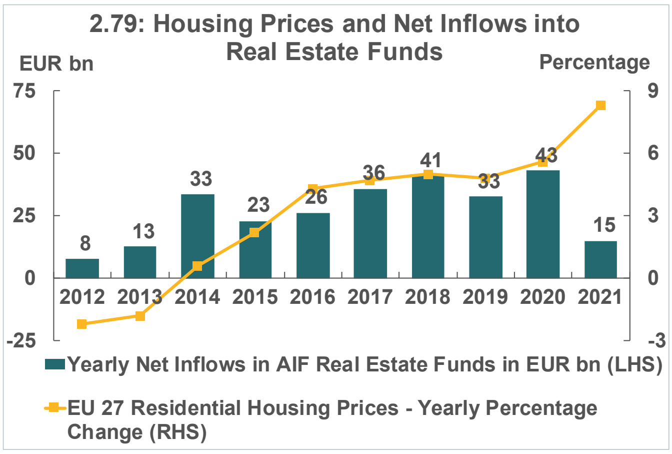
### 2.3.3 Real estate AIFs

**Net assets and net sales of real estate AIFs.** Net assets of real estate funds ended 2021 at a record high of EUR 1 trillion, compared to EUR 900 billion in 2020.[xv] Net inflows fell to EUR 15 billion, from EUR 43 billion in 2020. The low 2021 inflows were heavily influenced by outflows in the Netherlands (EUR 15 billion). Demand for real estate funds is only to a small degree correlated to developments in the broader financial markets.




2.77: Net Assets and Net Sales of Real Estate Funds

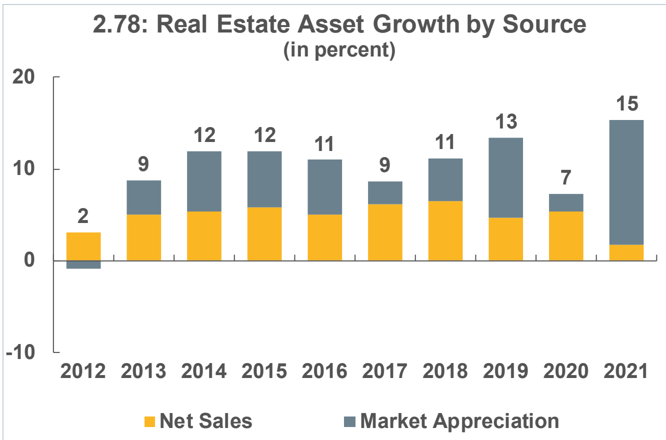
**Demand for bond funds and housing prices.** The demand for real estate funds usually correlates positively with the evolution in housing prices. Strong growth in housing prices tend to coincide with higher net inflows into real estate funds, and vice versa. This correlation broke down in 2021 as house prices rose sharply, but the net sales of real estate funds dropped.




2.79: Housing Prices and Net Inflows into Real Estate Funds

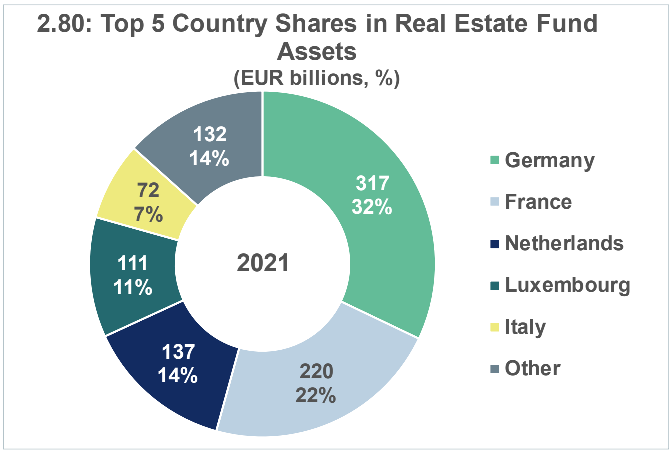
Source: Eurostat and EFAMA

**Breakdown of net asset growth.** Real estate fund asset growth reached 15% in 2021, the highest growth of the decade. As net sales were rather subdued in 2021, the robust 2021 asset growth was mainly a reflection of strong market appreciation over the year. Real estate prices shot up across Europe as lockdown measures were relaxed in 2021 and mortgage interest rates remained relatively low.




2.78: Real Estate Asset Growth by Source
(in percent)

**Breakdown by domicile.** Germany accounted for the largest share of the European real estate fund market (32%). France was the second largest (22%), followed by the Netherlands (14%), Luxembourg (11%) and Italy (7%).

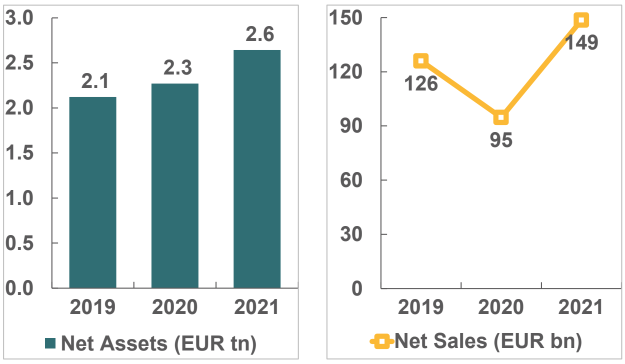



2.80: Top 5 Country Shares in Real Estate Fund Assets
(EUR billions, %)

### 2.3.4 Other AIFs

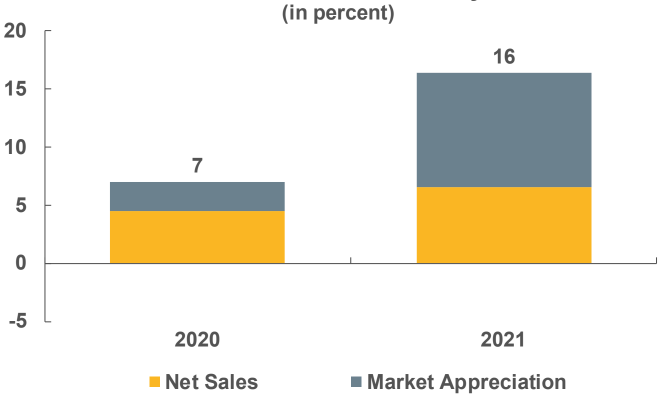
**Net assets and net sales.** 'Other' AIFs are the predominant type of AIFs. These encompass a wide range of fund types, including securitisation funds, private equity funds, debt/loan funds and hedge funds as well as others such as commodities funds. What these funds have in common is that they all invest in alternative, less-liquid assets. Net assets of other AIFs grew briskly in recent years. The asset growth was supported by strong net sales. In most years, net sales of other AIFs accounted for the bulk of total AIF sales.

2.81: Net Assets and Net Sales of Other AIF Funds



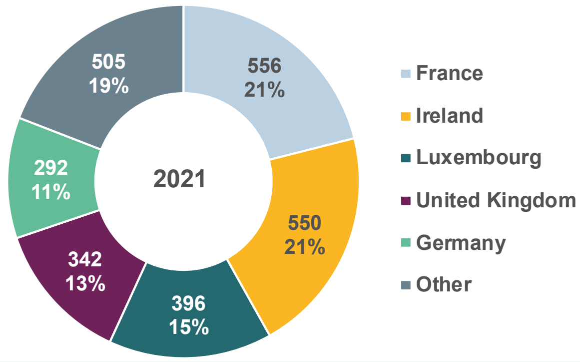

**Breakdown of net asset growth.** Net asset growth climbed from 7% in 2020 to 16% in 2021. The majority of the 2021 asset growth can be attributed to market appreciation, which alone accounted for a 10% asset increase.

2.82: Other AIF Asset Growth by Source
(in percent)



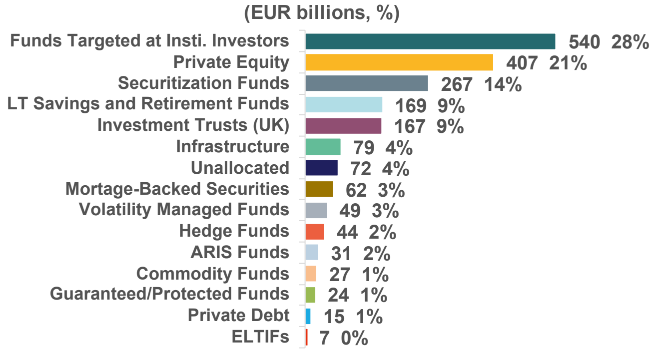

**Breakdown by domicile.** France and Ireland accounted for the largest proportions of the other AIF sector, each accounting for 21%. Luxembourg (15%), the UK (13%) and Germany follow in this ranking.

2.83: Top 5 Country Shares in Other AIF Assets
(EUR billions, %)




**Breakdown of other AIFs.** Using data gathered from various national associations, we can zoom in on the diverse types of funds that make up other AIFs. Other AIF breakdown data for Ireland and Switzerland are unavailable, and are thus excluded from the total. Several of the funds identified as making up a significant portion of other AIFs net assets are specific to one or a couple of European countries. German Spezial funds and Luxembourg SIFs are investment vehicles aimed specifically at institutional investors. These funds are often funds-of-funds, and are mostly classified under other AIFs because they invest in both securities and real assets. Securitisation funds and long-term savings and retirement funds are mainly concentrated in France, whereas investment trusts and volatility-managed funds are unique to the UK. ELTIFs only represent a tiny portion of other AIFs, they are discussed in Box 5 on the next page.

2.84: Estimated Breakdown of Other AIFs at End 2021
(EUR billions, %)



## Box 5
## Review of the ELTIF Regulation: How to make ELTIFs a success?

The European Long Term Investment Funds (ELTIFs) was created in 2015 as a new type of collective investment framework allowing investors - mainly institutional and high-net-worth retail investors - to put money into more long-term, illiquid asset classes such as private equity, infrastructure or private debt.

### Sizing the ELTIF market

The ELTIF market is relatively small; ESMA[1] estimated total net assets of ELTIFs in April 2021 at EUR 2.4 billion. A study by rating agency Scope[2] estimates the total amount of net ELTIF assets between EUR 7.2 billion and EUR 7.5 billion at the end of 2021.

However, compared to the total net assets of other AIFs (EUR 2.6 trillion at end 2021), which encompass all of the more 'illiquid' types of funds, such as private equity, hedge funds and debt/loan funds, this represented 0.01% to 0.03%. The strong increase between the ESMA data of April 2021 and the Scope estimation in December 2021 - which saw net assets of ELTIFs more than triple - could be a hopeful signal for this product.

Only four European domiciles have ELTIFs domiciled: Luxembourg, France, Italy and Spain. The first two account for the vast majority of net assets and number of registered funds.

### ELTIF review

As the take-up of the ELTIF has fallen short, the review of the current regime is imperative to address some of the major obstacles that have undermined the attractiveness of the product since its inception. The review of the current framework promises to transform the ELTIF into a product of choice for a larger (retail) investor audience, all while serving the purposes of the Capital Markets Union (CMU). In order to achieve this, some important adjustments should be made if the ELTIF regime is to reach its full potential as a competitive, long-term investment option.

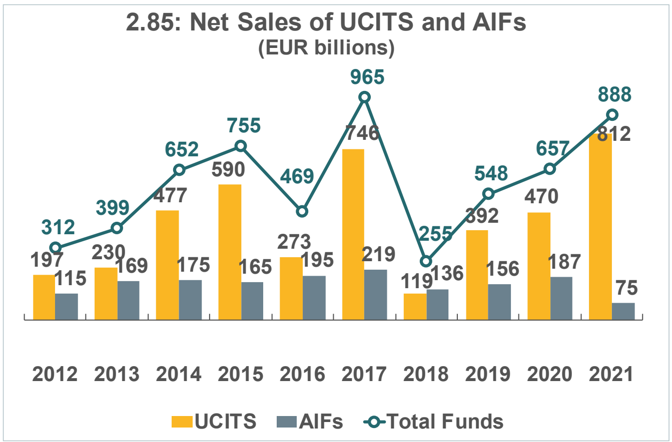
For a successful ELTIF take-up in the future, the following aspects – among others – should be considered:

- Broadening the scope of the current eligible asset universe, thus allowing for more diverse investment opportunities, including fund-of-funds, real assets, financial assets, while increasing the minimum capitalisation (up to EUR 1 billion) for qualified portfolio undertakings to be investable, and lowering the restrictions on real asset holdings to EUR 1 million, etc.
- Reducing the threshold of eligible investment assets to 50% of the ELTIF capital, thus enabling managers to opt for slightly more liquid portfolios (to meet retail clients' liquidity preferences).
- Removing the minimum investment amount (i.e. EUR 10,000) for retail investors, as well as the current 10% exposure threshold for retail investors whose financial portfolios are below EUR 500,000.
- Turning the ELTIF into an 'evergreen' structure alongside the existing closed-end one, by removing current limitations to its lifespan and by introducing appropriate redemption terms, complete with adequate liquidity management tools.
- Addressing tax considerations, including the necessity to ensure the tax-neutrality of the ELTIF structure.

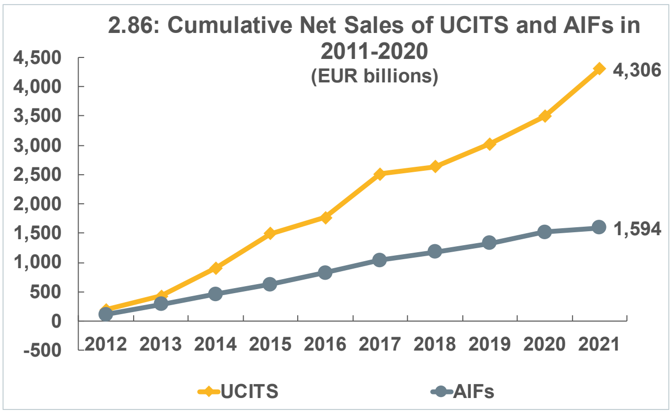
1 European Commission, Commission Staff Working Document, Impact Assessment, November 2021.
2 European ELTIF Study – Market Developments and perspectives, Scope Fund Analysis, April 2022.

## 2.4 TRENDS IN NET SALES AND ASSETS OF UCITS AND AIFS

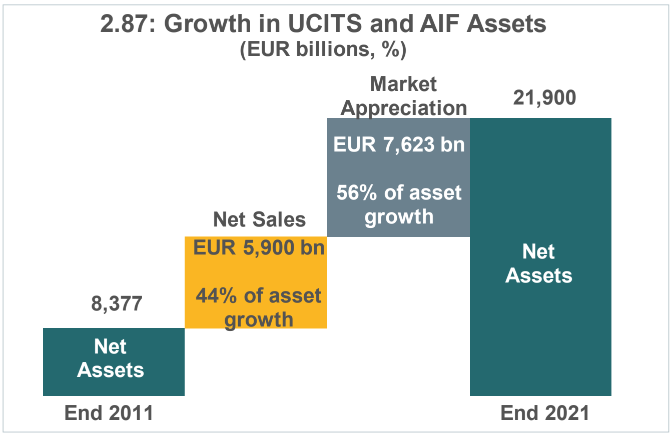
**Net sales of UCITS and AIFs.** Net sales of European investment funds increased for the fourth consecutive year in 2021, with net sales of UCITS surging to a new record.[xvi] These unparalleled net sales of UCITS were driven by a combination of policy actions and investor sentiment. Governments and central banks across the world responded to the continued pandemic by extending the large-scale fiscal and monetary support packages they had set up in 2020. The successful roll-out of Covid vaccines over the course of 2021, also played a role, increasing investor confidence. All this resulted in the very strong performance of global stock markets over the course of 2021, which in turn further fuelled net UCITS inflows.




**Cumulated net sales.** UCITS clearly attracted the highest cumulative net sales over the 2011-2021 period (EUR 4,306 billion), with particularly strong net sales in 2015, 2017, 2020 and record inflows in 2021. Cumulative inflows into AIFs over the same period amounted to EUR 1,594 billion. Compared to UCITS, net inflows into AIFs over the last decade have remained relatively stable, due to sustained demand from institutional investors. Those investors tend to adopt more of a long investment horizon and are therefore less influenced by short-term market uncertainty and opportunities.




**Growth of UCITS and AIFs.** UCITS and AIFs attracted almost 6 trillion (EUR 5,900 billion) in net new inflows during the decade (2012-2021). These cumulated net sales represented almost 44% of the total net asset growth of European investment funds over that period. Market appreciation amounting to EUR 7,623 billion accounted for the remaining increase in net assets.



# CHAPTER 3: CROSS-BORDER FUNDS AND FUND OWNERSHIP

## 3.1 OVERVIEW

This chapter is divided into three main parts. The first part focuses on domestic and cross-border funds. Domestic funds are funds that are sold in their country of domiciliation, whereas cross-border funds are 'exported' and sold from their country of domiciliation to other countries, thanks to their European passport.

In the second part of the chapter, we will turn to the ownership of investment funds, focussing on where funds are bought and who owns them, irrespective of their country of domiciliation.

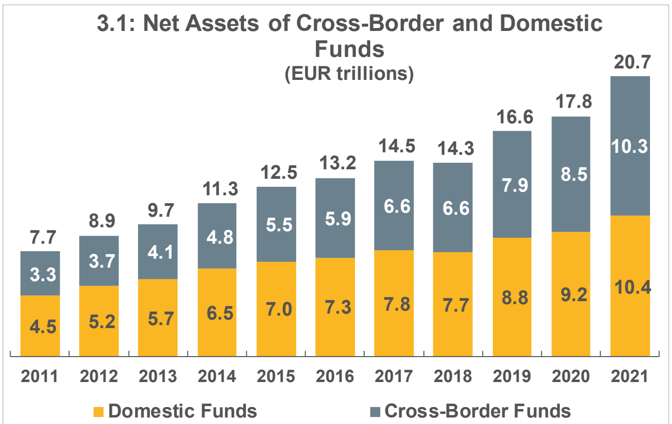
The last section takes a deep dive into the portfolio composition of the main investors in investment funds, i.e. households, insurers, pension funds and other financial intermediaries.

## 3.2 CROSS-BORDER AND DOMESTIC FUNDS

### 3.2.1 The cross-border fund market

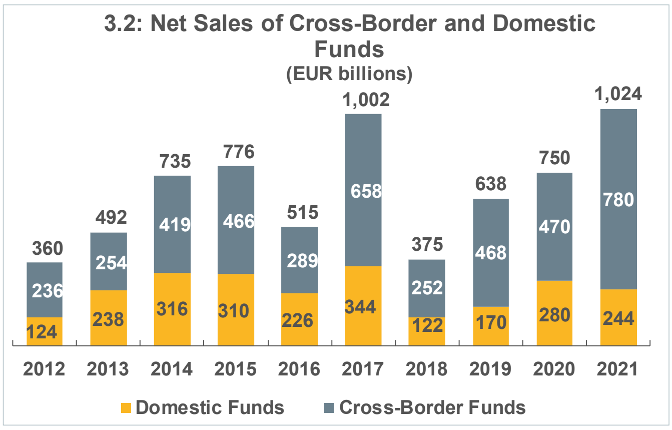
Funds can be sold in the same country where they are domiciled, or they can be sold in a different country. The first type is commonly referred to as domestic or local funds, the second as cross-border funds (CBFs).

**Net assets of cross-border funds** amounted to EUR 10.3 trillion at the end of 2021, compared to EUR 10.4 trillion for domestic funds.[xvii] The share of cross-border fund assets has increased steadily over the last decade, growing from 43% in 2011 to just under 50% by the end of 2021 (49.8%).



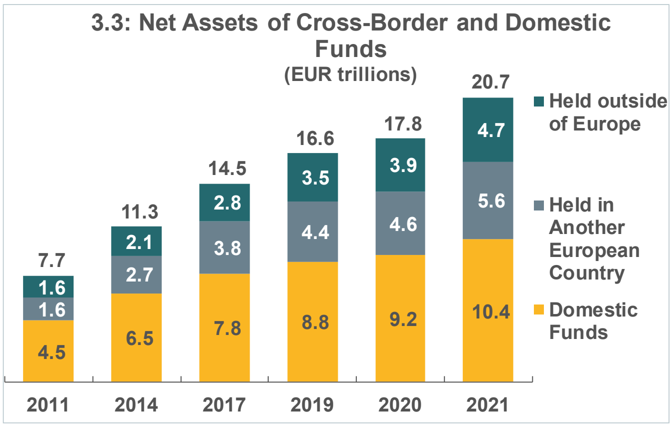

Source: ECB

**Net sales of cross-border funds.** Growth in the market share of cross-border funds is driven by strong demand. Net sales of cross-border funds have outpaced that of domestic funds every year since 2012. In 2021, net sales of cross-border funds were three times higher than those of domestic funds.




Source: ECB

**Cross-border funds inside/outside of Europe.** It is possible to separate cross-border UCITS and AIFs[xviii] into cross-border funds held/sold in another European country and cross-border funds sold/held outside Europe. This split sheds additional light on developments in the European cross-border fund market in recent years.

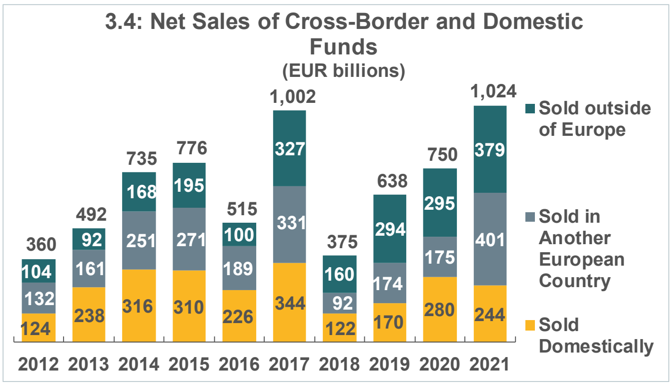



Source: ECB

**Net sales of cross-border funds inside/outside of Europe.** During the 2013-16 period, the strong growth in the cross-border market was mostly attributable to net sales of cross-border funds to other European countries. In 2017, an absolute record net sales year, cross-border sales inside and outside Europe were at similar levels.

**In 2018-2020**, net sales of domestic funds and cross-border funds sold within Europe fell, as European investors reacted to the rise in economic and financial instability. At the same time, net sales of cross-border funds outside Europe remained strong, as the demand for European funds - mainly UCITS - from investors in other parts of the world remained robust. Net fund purchases by European investors recovered in 2020, thanks to a strong rise in the net sales of domestic funds.

**In 2021**, net fund sales within Europe remained high, but shifted again to cross-border funds as the net sales of domestic funds dropped. Net fund sales outside of Europe also remained strong, reaching a record EUR 379 billion.



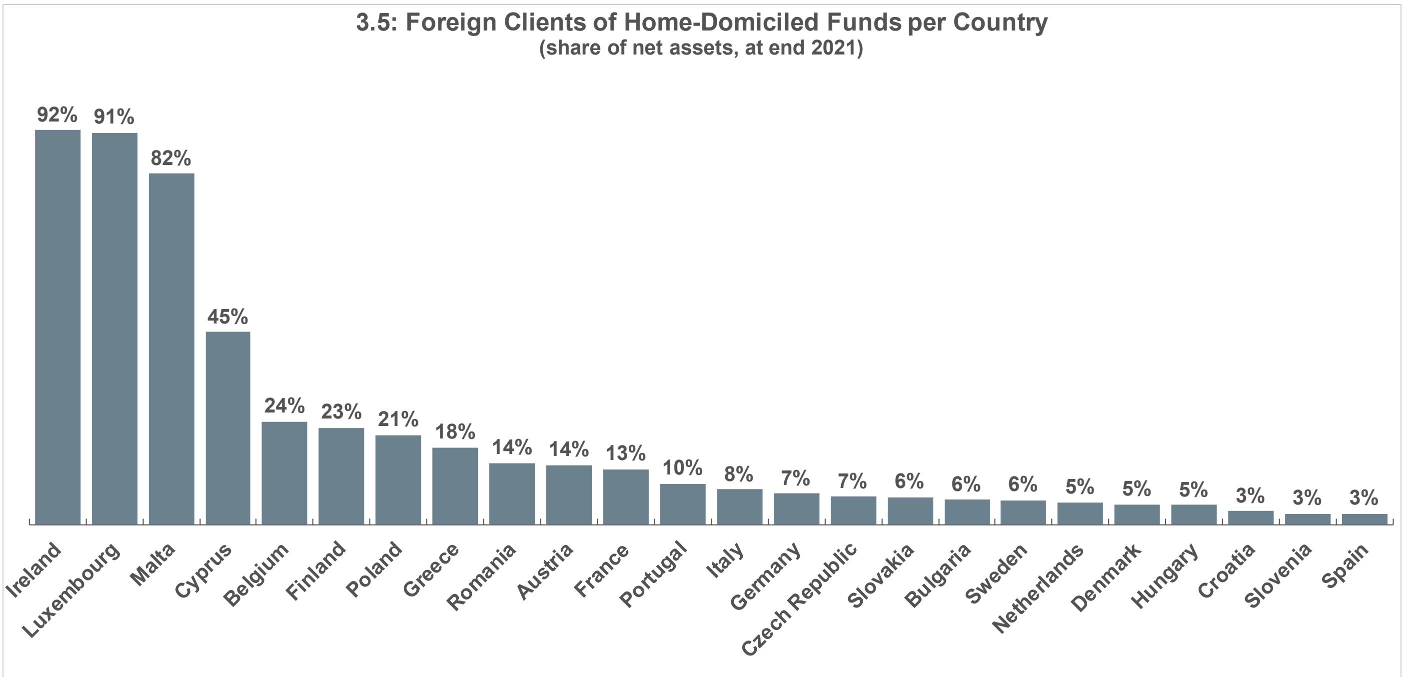

Source: ECB

## 3.2.2 Share of cross-border funds at national level

**Country-level cross-border funds.** Also at country level, we can estimate the respective shares of home-domiciled funds that are sold either domestically or cross-border.

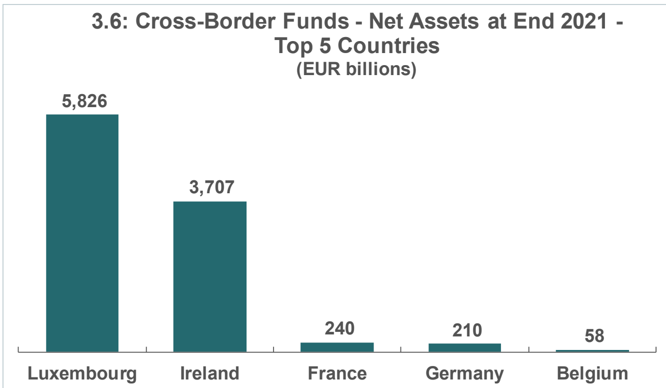
**Mainly domestic-focused markets.** In most European countries, the vast majority of home-domiciled funds are held at home. In 13 countries, more than 90% of the home-domiciled funds are held domestically. Asset managers in these countries mainly focus on their domestic market or they domicile the funds that they sell cross-border in one of the cross-border fund domiciles.

**Cross-border domiciles.** Luxembourg and Ireland are the two main cross-border fund domiciles in Europe. More than 90% of the funds domiciled in these countries were held abroad at end 2021. Both European and global asset managers make use of the economies of scale and expertise available in those countries to domicile their cross-border funds there. Cyprus and Malta can also be considered cross-border fund centres, as more than 45% of their home-domiciled funds were held abroad.



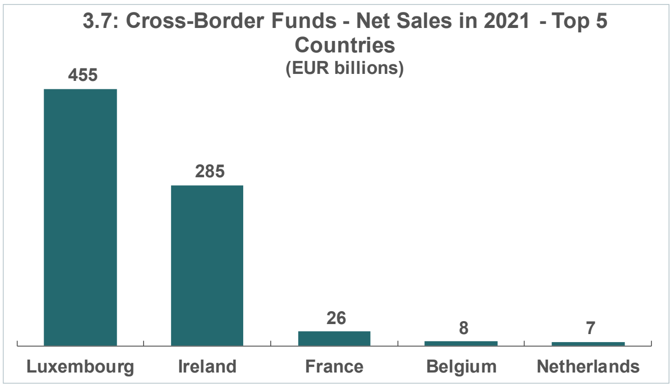

Source: ECB

**Net assets of cross-border funds.** In absolute terms, the net assets of cross-border funds domiciled in Luxembourg and Ireland totalled EUR 5.8 trillion and EUR 3.7 trillion, respectively. Together, they accounted for more than 95% of the total cross-border fund market in Europe at end 2021. Germany, France and Belgium complete the top five, albeit with substantially smaller amounts of cross-border fund assets.




Source: ECB

**Net sales of cross-border funds.** As with net assets, Luxembourg and Ireland also accounted for the lion's share of cross-border fund sales in 2021. Luxembourg recorded EUR 455 billion in net sales, and Ireland EUR 285 billion. France, Belgium and the Netherlands were next in line in terms of net sales of cross-border funds, but with significantly lower amounts.



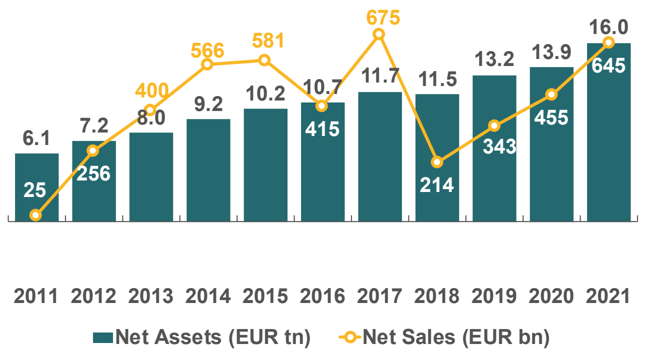

Source: ECB

## 3.3 INVESTMENT FUND OWNERSHIP IN EUROPE

### 3.3.1 Recent developments

**Total fund ownership.** Demand for investment funds in Europe has grown steadily over the last decade.[xix] Consequently, a total amount of EUR 16 trillion of UCITS and AIFs was held by European investors at the end of 2021, compared to EUR 6.1 trillion in 2011. This amount increased by more than 15% in 2021, thanks to a strong market appreciation and robust acquisitions of funds.

3.8: Net Assets and Net Acquisition of Investment Fund Ownership



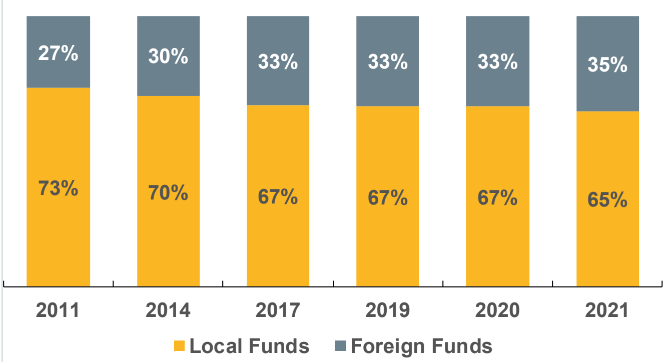

Source: ECB

**Net acquisitions of funds** contributed significantly to the growth of fund ownership. Fund acquisitions were strong in the 2013-17 period, before dropping significantly in 2018.

Since 2019, net acquisitions of funds in Europe have increased gradually each year. Net fund acquisitions in 2021 amounted to EUR 645 billion, a level not seen since 2017.

**Local and foreign funds.** Investors can invest in local funds, i.e. funds domiciled in the same country where they are held, or in foreign funds, i.e. funds domiciled in another European country to where they are held. Local funds accounted for 65% of fund ownership in Europe at the end of 2021, compared with 73% in 2011. This decline in local funds is a direct consequence of the increased purchases of cross-border funds by European investors, as discussed in the previous section (Section 3.2 Cross-border and domestic funds).

3.9: Ownership of Local and Foreign Funds
(in percent of total)

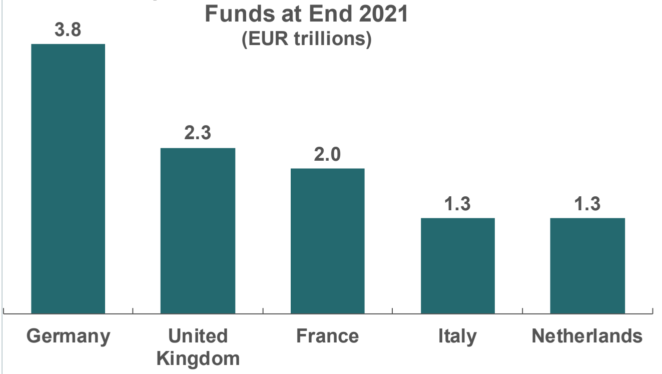



Source: ECB

### 3.3.2 Fund demand at country-level

**Fund ownership per country.** The five countries with the highest level of fund ownership in 2021 were Germany, the UK, France, Italy and the Netherlands. Unsurprisingly, these countries include the four largest European countries, reflecting the relative size of their economies and populations. The Netherlands takes its place as a consequence of the size of its occupational pension fund sector, which holds a significant share of its portfolios in investment funds.

3.10: Top 5 Domestic Markets of Investment Funds at End 2021
(EUR trillions)




Source: ECB

The following table provides estimates of the fund assets holdings in European countries, as well as the market share of each country within Europe. It also breaks down the fund holdings per country by local and foreign funds.

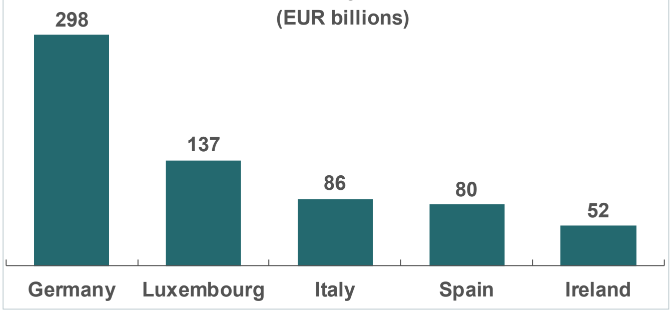
**3.11: Investor Demand for Investment Funds**

| Country [1] | Total Ownership of Investment Funds | | Local Funds | | Foreign Funds | |
|---|---|---|---|---|---|---|
| | Assets(EUR bn) | Market Share in 2021 | Assets | | Assets | |
| | | | EUR bn | % | EUR bn | % |
| Austria | 305 | 1.8% | 198 | 65% | 107 | 35% |
| Belgium | 508 | 2.9% | 182 | 36% | 326 | 64% |
| Bulgaria | 4 | 0.03% | 1 | 29% | 3 | 71% |
| Croatia | 6 | 0.03% | 3 | 57% | 3 | 43% |
| Cyprus | 10 | 0.06% | 4 | 42% | 6 | 58% |
| Czech Republic | 44 | 0.3% | 26 | 60% | 18 | 40% |
| Denmark | 455 | 2.6% | 380 | 83% | 75 | 17% |
| Finland | 333 | 1.9% | 135 | 40% | 198 | 60% |
| France | 2,036 | 11.7% | 1,620 | 80% | 417 | 20% |
| Germany | 3,781 | 21.7% | 2,696 | 71% | 1,084 | 29% |
| Greece | 18 | 0.1% | 7 | 40% | 11 | 60% |
| Hungary | 36 | 0.2% | 27 | 75% | 9 | 25% |
| Ireland | 736 | 4.2% | 325 | 44% | 410 | 56% |
| Italy | 1,341 | 7.7% | 347 | 26% | 994 | 74% |
| Luxembourg | 1,022 | 5.88% | 559 | 55% | 463 | 45% |
| Malta | 15 | 0.1% | 4 | 26% | 11 | 74% |
| Netherlands | 1,338 | 7.7% | 949 | 71% | 389 | 29% |
| Poland | 59 | 0.3% | 51 | 88% | 7 | 12% |
| Portugal | 75 | 0.4% | 32 | 43% | 42 | 57% |
| Romania | 10 | 0.1% | 8 | 84% | 2 | 16% |
| Slovakia | 22 | 0.1% | 9 | 40% | 13 | 60% |
| Slovenia | 9 | 0.05% | 5 | 52% | 4 | 48% |
| Spain | 721 | 4.1% | 365 | 51% | 356 | 49% |
| Sweden | 825 | 4.7% | 620 | 75% | 205 | 25% |
| United Kingdom | 2,331 | 13.4% | 1,848 | 79% | 482 | 21% |
| **Europe (ECB data)** | **16,040** | **92.3%** | **10,403** | **65%** | **5,637** | **35%** |
| Norway | 216 | 1.2% | 181 | 84% | 35 | 16% |
| Switzerland | 1,102 | 6.3% | 892 | 81% | 210 | 19% |
| Turkey | 28 | 0.2% | 28 | 100% | 0.003 | 0% |
| **Total** | **17,386** | **100.0%** | **11,505** | **66%** | **5,881** | **34%** |

1 Data sourced from Eurostat and the ECB, except for Switzerland, Norway and Turkey where the data was provided by national member associations.

**Net acquisitions of funds per country.** Germany, as the largest fund market, recorded the greatest level of net acquisitions in 2021, followed by Luxembourg, Italy, Spain and Ireland. The high rankings of Germany, Italy and Spain reflect their strong domestic appetite for investment funds in 2021, mainly by retail clients and insurers. The strong demand for funds in Luxembourg and Ireland is a result of how investment funds are treated by the ECB as a specific investor category, alongside households, pension funds, insurance companies, etc. Following this approach, investment funds in which other investment funds invest are categorised as funds held locally. Given the size of the fund industry in Luxembourg and Ireland, this represents a substantial segment.

**3.12: Top 5 Net Acquisition of Investment Funds in 2021**
(EUR billions)



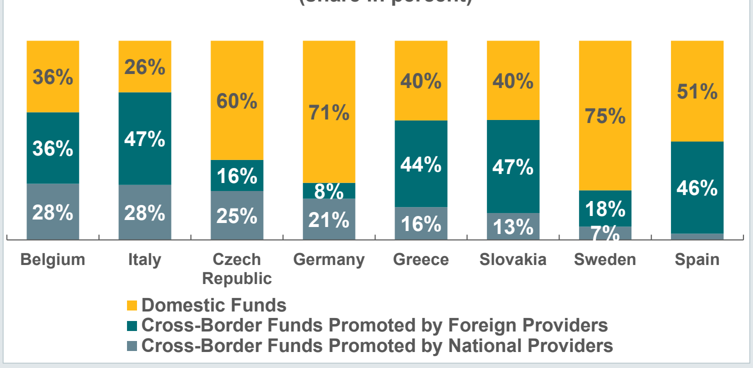

Source: ECB

## Box 6
## How important are round trip funds?

The question of whether funds owned in a particular country are local or foreign does not fully capture the reality of the investment fund market in most European countries. Foreign funds may be promoted by national or foreign providers; those in the former category are often referred to as 'round-trip' funds and the latter as 'true' cross-border funds.

Several national associations do collect data on foreign funds promoted by national providers. By combining this with the data presented in table 3.11, we can distinguish between three types of funds that can be held by investors: domestic funds, foreign funds promoted by national providers and foreign funds promoted by foreign providers. The chart below shows the breakdown between these three types for those countries where data is available.

**1. Breakdown of Investment Fund Ownership in Selected Countries at End 2021**
(share in percent)




Source: ECB and EFAMA

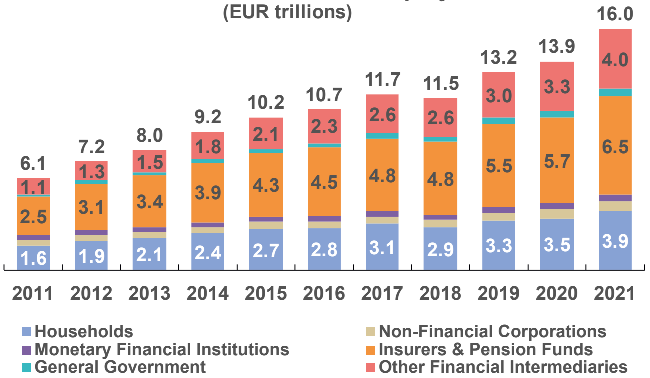
The growth of round-trip funds played an important role in the development of the single market for UCITS. Originally, tax considerations convinced a group of fund managers to domicile their funds in Luxembourg; this was particularly the case for fund managers based in Belgium, Germany and Italy. For the same reason, Ireland also attracted money market funds managed by fund managers based in the UK.

These developments helped Luxembourg and Ireland develop their infrastructure and become hubs for true cross-border funds, and thereby generate economies of scale in the specific activities that must be undertaken to sell UCITS cross-border. Today, these economies of scale benefit both true cross-border funds and round-trip funds.

### 3.3.3 Fund ownership per type of investor

**Different types of investors.** Fund ownership can be broken down by the main type of investor. Monetary financial institutions[xx], non-financial corporations and general governments do not make extensive use of investment funds. Insurance and pension funds, households and other financial intermediaries (OFIs)[xxi] are the main investors into investment funds. Those types of investors together hold more than 90% of total investment fund assets in Europe.

3.13: Investment Fund Ownership by Sector
(EUR trillions)



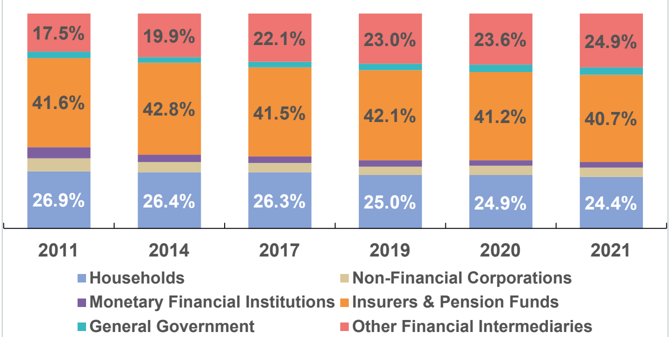

Source: ECB

**Insurers and pension funds** are by far the largest investors in investment funds, holding more than 41% of the total in Europe. Despite solid growth in absolute terms, the share of investment funds owned by this type of investor has remained broadly stable in recent years.

**Households** are the second-largest type of investor in funds, yet their share has gradually declined, from almost 27% in 2011 to 25% in 2018. Their market share stabilised at that level during the 2018-2020 period, but fell to 24.4% in 2021, despite a significant increase in net fund acquisitions by European households that year.

**Other financial intermediaries.** The share of other financial intermediaries has grown steadily, from 17.5% in 2011 to 24.9% at the end of 2021. There are two main reasons behind this rising market share. Firstly, there is the increased use that other financial actors, apart from pension funds and insurers, are making of investment funds in their asset allocation. These other financial intermediaries are a diverse group of financial actors such as holding companies or sovereign wealth funds. The second reason is the fact that long-term investment funds are also considered as OFIs. A large number of long-term funds invest an increasing portion of their assets in other investment funds.

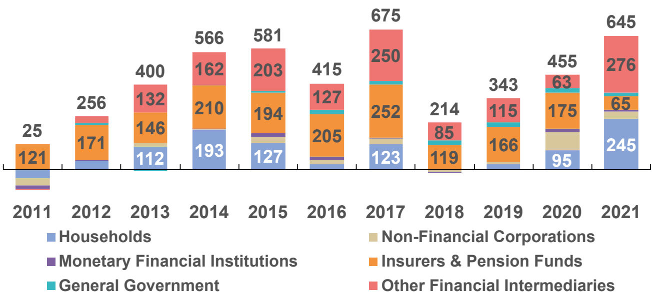
3.14: Investment Fund Ownership by Sector
(share in percent)




Source: ECB

**Net fund acquisitions.** The evolution in fund ownership reflects the pattern of net fund acquisitions. Economic uncertainties and increased volatility in financial markets discouraged retail investors in 2018 and 2019. European households regained their confidence in 2020 and fund acquisitions reached an absolute record in 2021 (EUR 245 billion). Institutional investors such as OFIs, insurers and pension funds, tend to be less wary of short-term volatility, as illustrated by their persistent fund acquisitions over the past decade.

3.15: Net Acquisition of Investment Funds by Sector
(EUR billions)




Source: ECB

**Fund ownership by country.** The table below depicts fund ownership by country at the end of 2021, broken down by type of investor. It provides an insight in how the market for investment funds is structured in each European country. We can distinguish three broad categories of European countries.

Retail-dominated countries are countries where households account for the bulk of fund ownership. Fund ownership by institutional investors plays less of a role in these countries. Examples of retail-dominated countries include Belgium, the Czech Republic, Hungary, Italy, Poland, and Spain. A second category are the European countries where fund ownership is dominated by either the domestic insurance or pension fund sector. These countries often have a large second pillar pension system, such as the Netherlands, Sweden and the UK. Some, such as France or Germany have very well-developed domestic insurance sectors. Retail markets can be important in these countries, but in general they are dwarfed by the institutional market. A third category of countries are those where OFIs dominate domestic fund ownership. These countries are all cross-border fund hubs with relatively small populations. Luxembourg and Ireland, but also Cyprus and Malta fall into this category.

**3.16: Investment Fund Ownership by Sector at End 2021**
(EUR billions)

| Country | Households | Non-Financial Corporations | Monetary Financial Institutions | Insurers & Pension Funds | General Government | Other Financial Intermediaries | Total |
|---|---|---|---|---|---|---|---|
| Austria | 89 | 20 | 15 | 68 | 13 | 100 | **305** |
| Belgium | 277 | 23 | 1 | 105 | 4 | 99 | **508** |
| Bulgaria | 1 | 0.3 | 0.1 | 2 | 0.04 | 1 | **4** |
| Croatia | 2 | 0.2 | 0.1 | 3 | 0.3 | 0.3 | **6** |
| Cyprus | 1 | 1 | 0.1 | 3 | 0 | 5 | **10** |
| Czech Republic | 29 | 2 | 1 | 5 | 0.1 | 7 | **44** |
| Denmark | 105 | 24 | 16 | 194 | 7 | 110 | **455** |
| Finland | 55 | 16 | 2 | 54 | 157 | 49 | **333** |
| France | 304 | 151 | 98 | 919 | 164 | 400 | **2,036** |
| Germany | 1,036 | 240 | 208 | 1,361 | 87 | 850 | **3,781** |
| Greece | 11 | 1 | 0.2 | 5 | 1 | 1 | **18** |
| Hungary | 15 | 4 | 2 | 5 | 1 | 8 | **36** |
| Ireland | 4 | 20 | 2 | 216 | 6 | 487 | **736** |
| Italy | 772 | 37 | 32 | 325 | 43 | 132 | **1,341** |
| Luxembourg | 17 | 5 | 4 | 115 | 2 | 878 | **1,022** |
| Malta | 1 | 1 | 1 | 4 | 0.1 | 8 | **15** |
| Netherlands | 110 | 6 | 6 | 939 | 0.1 | 277 | **1,338** |
| Poland | 32 | 5 | 2 | 11 | 0 | 8 | **59** |
| Portugal | 30 | 5 | 6 | 20 | 6 | 9 | **75** |
| Romania | 5 | 1 | 0.2 | 2 | 0.03 | 1 | **10** |
| Slovakia | 9 | 0.2 | 1 | 8 | 0.0002 | 4 | **22** |
| Slovenia | 4 | 0.4 | 0.3 | 3 | 0.4 | 0.5 | **9** |
| Spain | 409 | 85 | 4 | 84 | 2 | 136 | **721** |
| Sweden | 198 | 26 | 1 | 480 | 29 | 91 | **825** |
| United Kingdom | 390 | 2 | 6 | 1,602 | 0 | 331 | **2,331** |
| **Europe** | **3,906** | **677** | **408** | **6,533** | **521** | **3,995** | **16,040** |

**Net fund acquisitions by country.** In the following table, the net fund acquisitions of each European country by type of investor are depicted. Country-specific fund acquisitions are usually in line with the fund ownership trends presented in the previous table. This means that the largest fund acquisitions per type of investor will usually be in the countries where that specific type of investor accounts for a significant part of total fund ownership. In the retail market, German households purchased the largest amounts of funds (EUR 110 billion). But also retail investors in Italy (EUR 39 billion), Spain (EUR 36 billion) and Belgium (EUR 21 billion) bought sizable quantities of investment funds. Total fund purchases by the insurance and pension fund sector were strikingly low in 2021 (EUR 65 billion), despite sizable acquisitions in France (EUR 42 billion) and Germany (EUR 80 billion). This was mainly a result of strong outflows in one country: the Netherlands (EUR 159 billion). These outflows were not really due to market trends, but rather were mainly caused by the decision of several Dutch pension funds to stop managing their assets within AIF structures and shift to segregated mandates. (See 2.3.2).

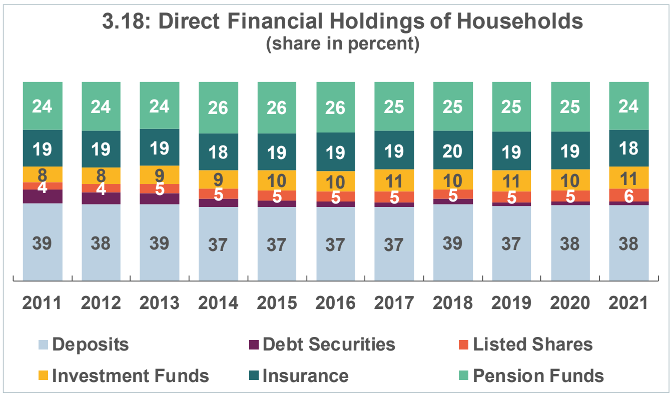
**3.17: Net Acquisition of Investment Funds**
(EUR billions)

| Country | Households | Non-Financial Corporations | Monetary Financial Institutions | Insurers & Pension Funds | General Government | Other Financial Intermediaries | Total |
|---|---|---|---|---|---|---|---|
| Austria | 9 | 4 | -1 | 2 | 1 | 3 | **18** |
| Belgium | 21 | 2 | 0.3 | 4 | 1 | 3 | **31** |
| Bulgaria | 0.4 | 0.1 | 0.03 | 0.1 | 0.03 | 0.4 | **1** |
| Croatia | 0.4 | -0.02 | -0.005 | 1 | 0.02 | 0.1 | **1** |
| Cyprus | 0.1 | 0.1 | -0.01 | 0.2 | 0 | 2 | **3** |
| Czech Republic | 4 | 0.3 | 0.2 | 0.1 | 0.01 | 0.4 | **5** |
| Denmark | 8 | -1 | 1 | -3 | 0.4 | 4 | **10** |
| Finland | 5 | 4 | 0.1 | 2 | 2 | 3 | **16** |
| France | -2 | -18 | -13 | 42 | -3 | -3 | **3** |
| Germany | 110 | 22 | 15 | 80 | 8 | 64 | **298** |
| Greece | 2 | 0.2 | -0.02 | 1 | -0.02 | 0.4 | **4** |
| Hungary | 2 | 1 | 0.4 | 0.1 | 1 | 2 | **7** |
| Ireland | 0.3 | -3 | 0.3 | 19 | -0.1 | 35 | **52** |
| Italy | 39 | 7 | 5 | 26 | 4 | 5 | **86** |
| Luxembourg | 2 | 0.1 | 0.2 | 10 | 0.1 | 124 | **137** |
| Malta | -0.01 | 0.1 | 0.05 | 0.5 | 0.02 | 1 | **2** |
| Netherlands | 5 | -1 | 0.04 | -159 | -0.003 | -6 | **-160** |
| Poland | 3 | 1 | 0.04 | -0.1 | 0 | 2 | **5** |
| Portugal | 5 | 1 | -0.5 | 3 | -1 | 2 | **11** |
| Romania | 0.3 | 0.1 | 0.03 | 0.03 | 0 | 0.1 | **1** |
| Slovakia | 2 | 0.05 | 0.03 | 1 | -0.0001 | 0.2 | **3** |
| Slovenia | 0.5 | 0.1 | 0.1 | 0.4 | -0.03 | 0.1 | **1** |
| Spain | 36 | 14 | 1 | 12 | -0.1 | 17 | **80** |
| Sweden | 11 | 2 | -0.3 | 22 | 1 | 9 | **44** |
| United Kingdom | -20 | 0.1 | 0.2 | 2 | 0 | 5 | **-13** |
| **Europe** | **245** | **36** | **8** | **65** | **15** | **276** | **645** |

# 3.4 LOOK-THROUGH THE FINANCIAL PORTFOLIO HOLDINGS OF EUROPEAN INVESTORS

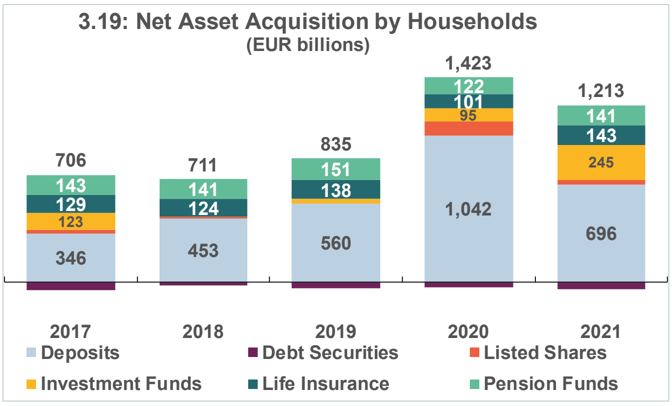
## 3.4.1 Households

**Financial assets of households.** Looking at the financial assets of European households,[xxii] the very high share of deposits stands out. This share declined steadily from 39.2% in 2011 to 37% in 2017, but since then that share has rebounded, mostly due to the increase in stock market volatility in 2018 and the outbreak of the Covid-19 pandemic in 2020. The share of investment funds owned by households has gradually increased from 7.5% in 2011 to 11.2% in 2021, mainly due to a combination of fund acquisitions and market appreciation.




Source: ECB

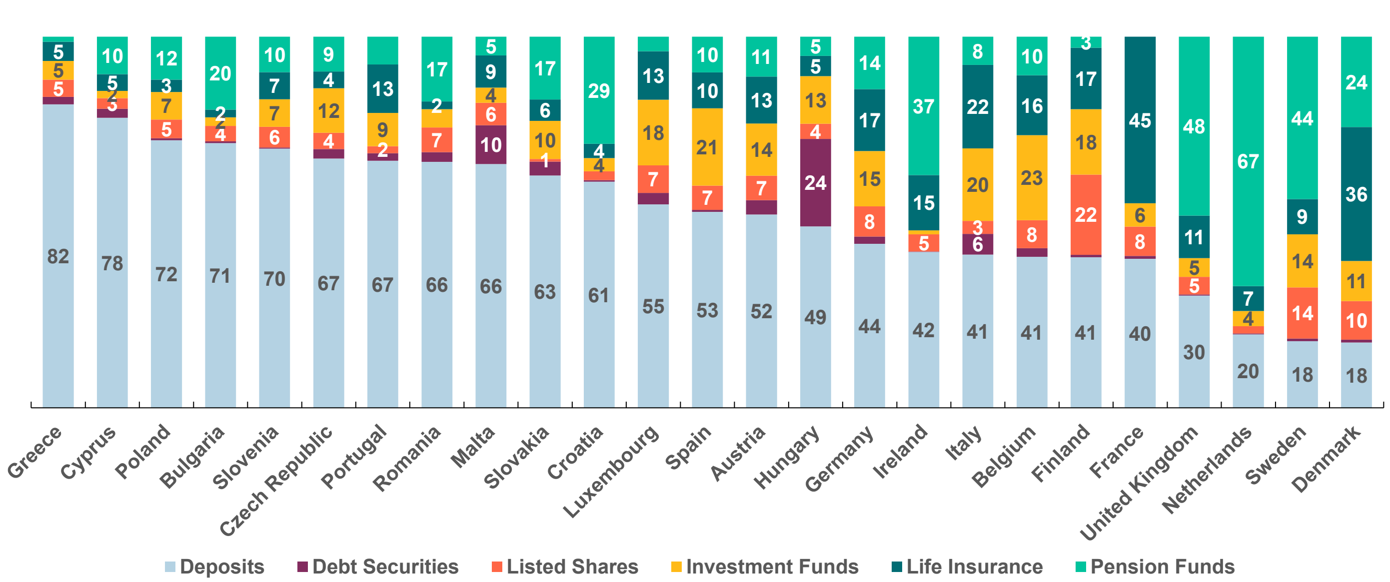
**Net acquisitions of financial assets by households.** Over the past five years, European households continued to save vast amounts of money in deposits, despite the fact that in the prevailing low-interest-rate environment savings accounts generate very low, or even negative real returns. In 2020, European households saved a record EUR 1 trillion in deposits, around double the amount observed in 2019. Inflows into life insurance products and pension funds remained fairly steady as households tend to invest fixed monthly or yearly amounts in these types of products. Households have been steadily exiting from debt securities, a direct consequence of both low interest rates and the limited offer available to retail investors. Investment funds attracted almost no household inflows in 2018 and 2019 as volatility and macroeconomic uncertainty weighted on retail investor confidence. The quick recovery after the market dip of March 2020 restored confidence and led to solid inflows in 2020 (EUR 95 billion) followed by record fund acquisitions in 2021 (EUR 245 billion).




Source: ECB

**Country-level data.** There are significant differences in financial asset allocation across European countries. In general, countries with a lower income level tend to save a higher proportion of their financial assets in deposits. The countries where the share of deposits is the lowest are all countries with well-developed private pension markets, such as the Netherlands, Denmark and Sweden. Households in those countries are holding high shares of pension funds (Netherlands, Ireland) or life insurance products (Denmark, France). Investment funds are the most common way to invest in capital markets for households in many European countries. Direct fund holdings are particularly popular in Belgium (23%), Spain (21%) and Italy (20%). In only two countries (Sweden and Finland) do households invest significant amounts of their wealth directly in the stock market. In Hungary, the promotion of special government securities, only available to households and offering above market interest rates, resulted in the 24% share of savings in debt securities.

**3.20: Direct Financial Holdings of Households - Asset Allocation at End 2021**
(share in percent)




Source: ECB

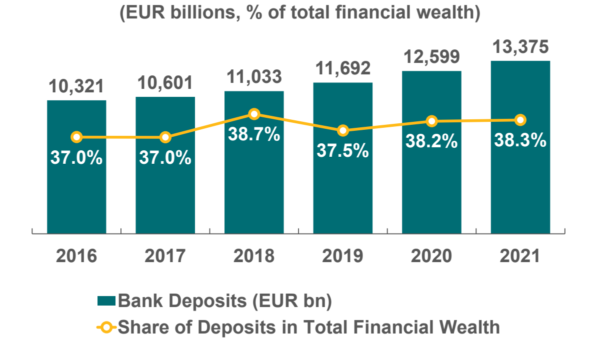
## Box 7
## What does inflation mean for the money in your bank account?

One of the goals of the Capital Markets Union (CMU) is to incentivise European households to put their savings to better use by investing in capital markets. Indeed, savings sitting in a bank account in an environment of ultra-low interest rates gradually lose their purchasing power because inflation causes people's money to be worth less year on year.

Unfortunately, the vast majority of European households continue to keep a disproportionately high share of their wealth in bank deposits. Between 2016 and 2021, the amount of savings held in bank deposits increased - from EUR 10,321 billion to EUR 13,375 billion, as did the share of deposits in household financial wealth from 37% to 38.3%.

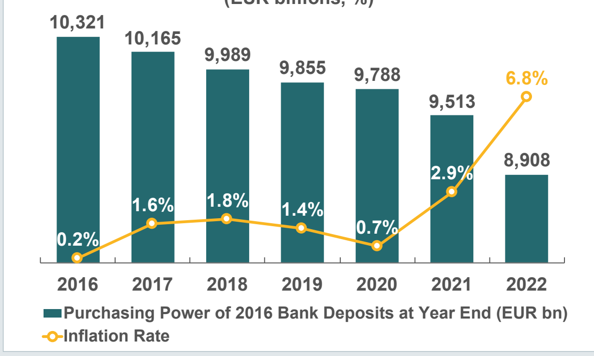
As a result, the purchasing power of bank deposits at the end of 2016 (EUR 10,321 billion) declined to EUR 9,513 billion at the end of 2021. Assuming an average inflation rate of 6.8% in 2022, the loss in purchasing power from 2016 will reach EUR 1,413 billion by the end of 2022.

**1. Bank Deposits Held by European Households**
(EUR billions, % of total financial wealth)




Source: ECB

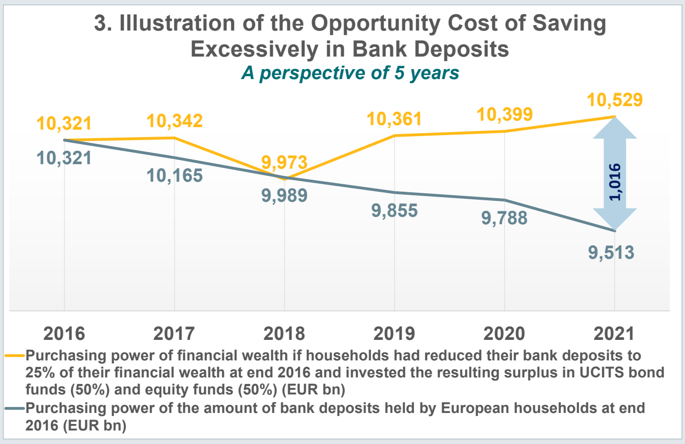
**2. Purchasing Power of 2016 Bank Deposits**
(EUR billions, %)




Source: ECB and IMF

Another way to look at this problem is to calculate what would have happened if households had reduced the share of deposits in their financial wealth to 25% at the end of 2016, and instead invested 50% of the resulting surplus in UCITS bond funds and the remaining 50% in UCITS equity funds.

In this approach, European households would have reduced their bank deposits from EUR 10,321 billion to EUR 6,972 billion at the end of 2016, and invested the residual EUR 3,349 billion. It can be calculated that they would have increased the total purchasing power of their financial wealth to EUR 10,529 billion by the end of 2021.[1]




Source: EFAMA calculations based on ECB and Morningstar Direct data

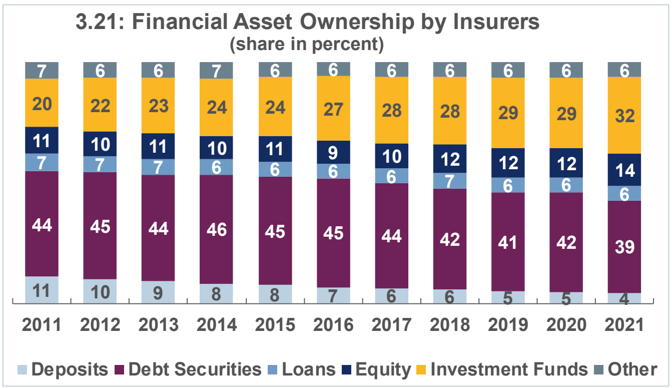
This outcome has to be compared to the EUR 808 billion loss in the real value of wealth suffered by households on the value of their bank deposits at the end of 2016. **The opportunity cost of holding such a high level of bank deposits can therefore be estimated at EUR 1,016 billion.**

In conclusion, inflation can be considered as an implicit 'tax' on bank deposits, particularly in an environment in which interest rates remain ultra-low despite the rise in inflation. This box highlights the potential offered by investments in capital markets for protecting the purchasing power of people's financial wealth. As the vast majority of citizens tend to be myopic and ignore the impact of inflation on their bank deposits, it would be very useful if the European Commission could include new initiatives in its CMU Action Plan to help citizens understand the role of capital market instruments in protecting them against inflation, particularly those savings held with a long-term horizon.

1 This calculation takes into account the annual performance recorded by UCITS bond and equity funds in 2017-2021, net of ongoing charges and inflation.

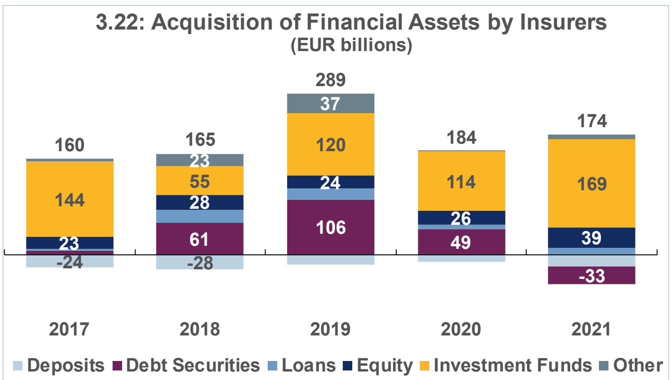
### 3.4.2 Insurers

**Financial assets of insurers.** Insurers are the most important institutional investors in Europe; by issuing insurance policies, they generate substantial sums that need to be invested in the financial markets. Traditionally, insurers tend to invest the bulk of their financial assets in debt securities, because the fixed and predictable income stream generated by this type of assets allow insurers to match their liability and assets streams. Looking at the evolution of the asset allocation of the insurance sector over the past 10 years, we see a marked decline in the share of directly held debt securities, from 44% in 2011 to 39% at the end of 2021. Investment funds on the other hand are taking an increasingly important place, increasing from 20% in 2011 to 32% in 2021.




Source: ECB

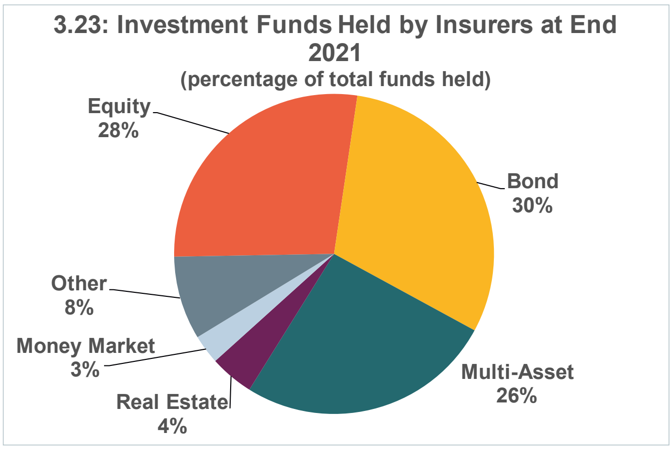
**Net acquisitions of financial assets by insurers.** The shift from directly held debt securities to investment funds becomes even clearer when we look at the acquisitions of financial assets by insurers over the past five years. In three of those years (2017, 2020 and 2021), funds accounted for more than two-thirds of the total acquisition of financial assets over that year. On the other hand, insurers only bought sizable amounts of direct securities in 2019. In 2021, they reduced their exposure to debt securities with purchases of funds rising to a new record.




Source: ECB

**Growing share of funds.** Investment funds are playing an increasingly important role in the asset allocation of insurance companies for two reasons. First, as interest rates fell in recent years, it became increasingly difficult for insurers to find fixed income products that offered a sufficiently high return. Investment funds can provide them with an easy way to expand their sectoral or geographical exposure or diversify risk. Second, the cost of investment funds, particularly in the institutional segment, has dropped significantly in recent years, as products such as ETFs became widely available.

**Types of funds held by insurers.** ECB data allows us to look in depth at the type of funds that euro-area insurers held at the end of 2021. Unsurprisingly, bond funds accounted for the largest share (30%); but equity and multi-asset funds followed with shares of 28% and 26%, respectively. These percentages indicate that the preferred approach of insurers for investing in the equity markets is by acquiring investment funds rather than directly buying stocks.



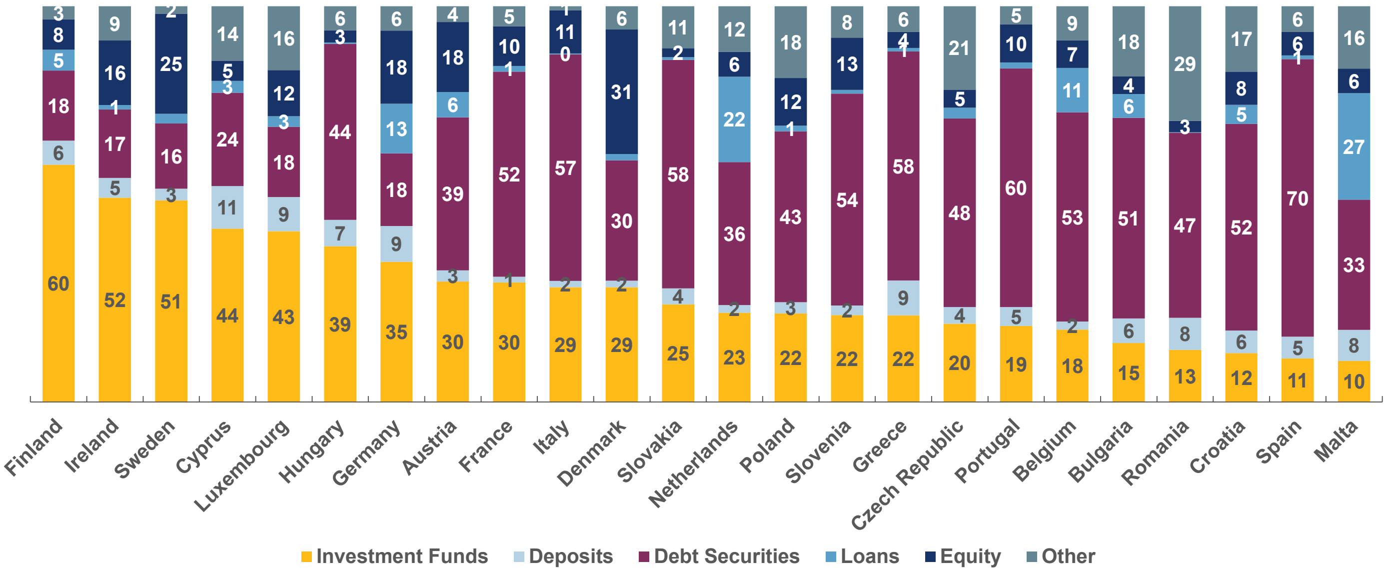

Source: ECB

**Solvency II** is the EU legislation that codifies and harmonises EU insurance regulation. Crucially, it sets out capital requirements for the different asset holdings of insurance companies. The current framework heavily favours investments into traditional, low-risk, debt securities with low- or even zero-capital requirements in the case of holdings of certain government bonds. Investment funds are subject to a look-through approach and treated in the same way as direct investments in the calculation of the solvency capital requirements. All securities held by the insurer, either held directly or indirectly via an investment fund, are subject to their relevant Solvency II market risk requirements.

**Solvency II** review. The decline of interest rates to very low levels has had a negative impact on the overall performance of the investment portfolio of insurers. An easing of Solvency II capital requirements on certain types of long-term equity investments such as private equity or infrastructure investment could boost future income for insurers. At the same time, it could provide additional funding for the European economy, support the post-COVID-19 recovery and the transition to a sustainable economy.

**Country-level data.** In most European countries, insurers hold the largest share of their financial portfolio in debt securities. Insurers in southern and eastern European countries in particular hold large shares of debt securities. In addition, there is a certain home-bias in their debt holdings as they are holding mainly domestic bonds. Insurers in Northern and Western European countries, in particular, smaller countries, tend to have higher shares of investment funds in their portfolio allocation.

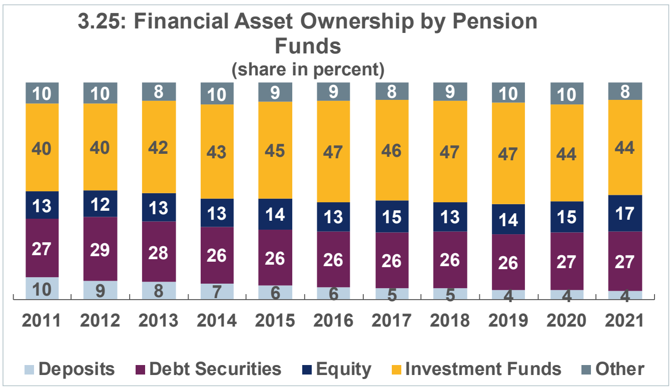
**3.24: Insurers - Asset Allocation at End 2021**
(share in percent)




Source: ECB

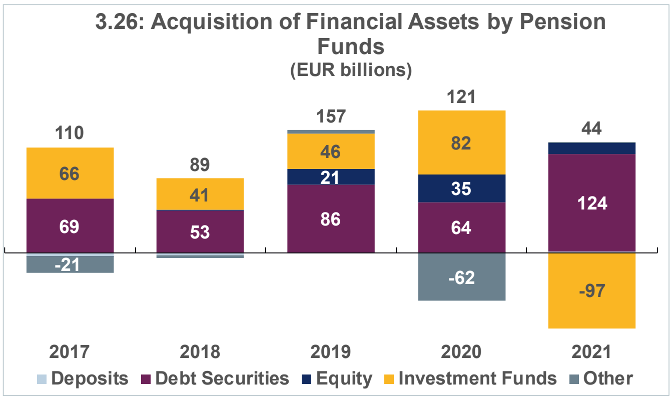
### 3.4.3 Pension funds

**Asset allocation of pension funds.** Investment funds are the dominant asset type in the investment portfolio held by pension funds. The share of investment funds steadily rose from 40% in 2011 to 47% in 2019, only to dip down again slightly to 44% at end 2021. The share of directly held debt securities did not change significantly from 2011 to 2019, whereas that of directly held equity grew to 17% in line with rising stock markets. Pension funds made increased use of funds in their portfolio allocation for the same reasons as insurers. Using funds is an easy way to diversify geographic and sectoral exposure or to diversify risk. Declining costs also make funds increasingly attractive.



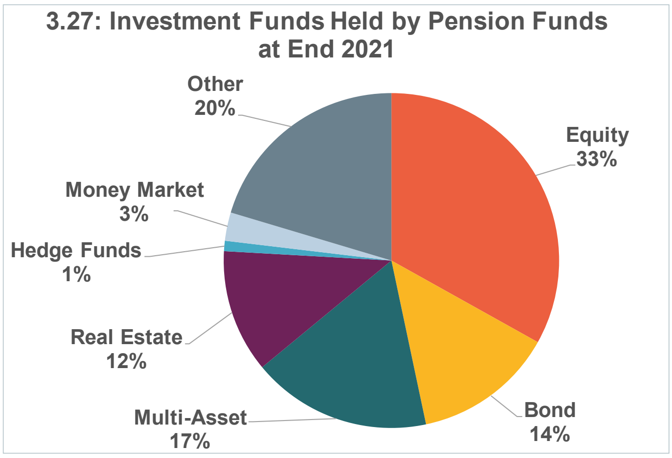

Source: ECB

**Net acquisitions of financial assets by pension funds.** Pension funds continued to invest significant amounts into debt securities over the past 5 years, despite the generally low yield. Direct acquisitions of equity were relatively low, except in 2020 when pension funds took advantage of the sharp fall in global stock markets caused by the Covid-19 outbreak. Pension funds invested heavily in investment funds in every year, except in 2021, when some large Dutch pension funds decided to switch their portfolio from AIFs to segregated accounts. The fact that the Dutch pension fund sector accounts for about 45% of the European total explains why this switch had a severe impact on the overall net acquisitions of investment funds in 2021. Negative acquisitions in other assets such as in 2017 and 2020 are related to financial derivative transactions.




Source: ECB

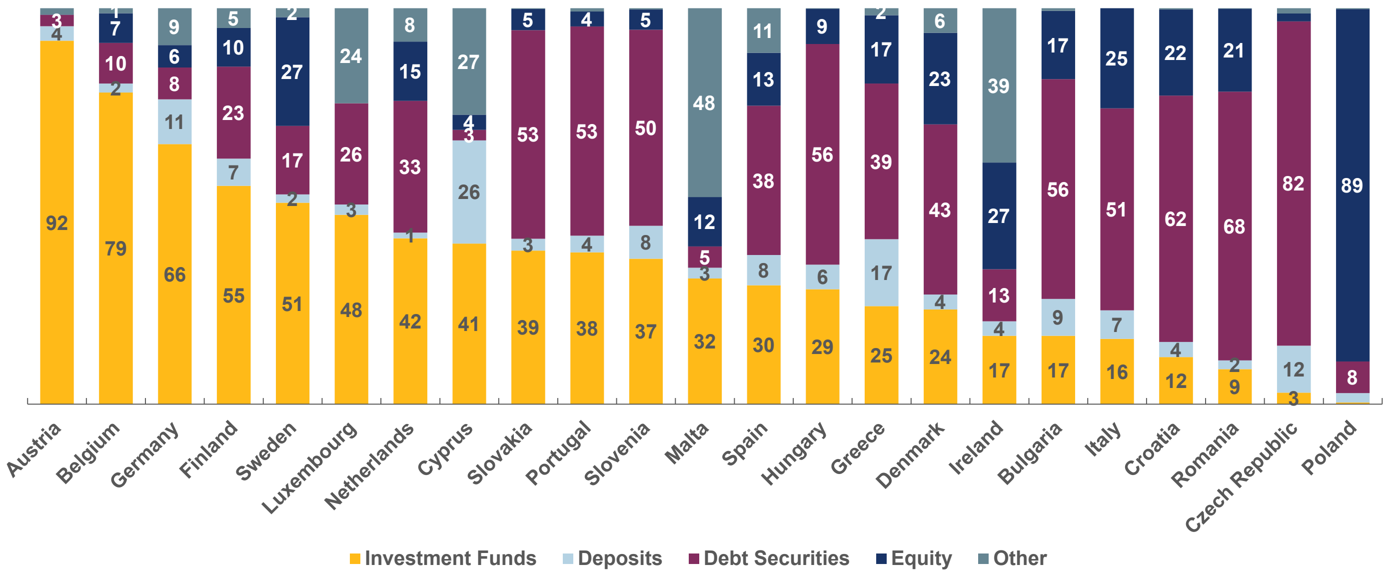
**Types of funds held by pension funds.** Using ECB data, we can also look at the different types of funds that euro-area pension funds were holding at the end of 2021. Compared to insurers, pension funds hold a larger share of equity funds (33%) and significantly lower shares of bond and multi-asset funds. The high shares of other (20%) and real estate funds (12%) are also noticeable. Real estate funds and other funds, which are mainly alternative assets such as private equity, private debt and infrastructure funds, have in common that they invest in more illiquid assets which tend to have a higher or guaranteed yield. Pension funds, with their extremely long-term investment horizon and unconstrained by Solvency II rules, are the ideal clients for these types of funds.




Source: ECB

**Country-level data.** Similar to insurers, pension funds in Southern Europe invest a relatively high share of their assets directly in, often domestic government debt. The exception is Poland where pension funds are by law prohibited from investing in government bonds. Western and Northern European pension funds make more use of investment funds, thus enjoying the diversification benefits these products have to offer.

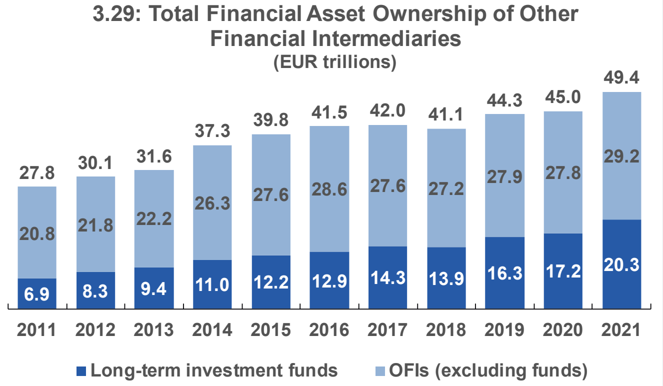
**3.28: Pension Funds - Asset Allocation at End 2021**
(share in percent)




Source: ECB

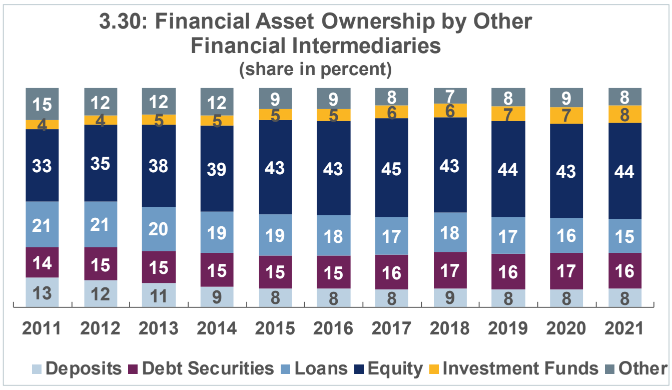
### 3.4.4 Other financial intermediaries

**What are other financial intermediaries?** Other financial intermediaries (OFIs) are a diverse group of financial actors that do not fall into one of the other categories (monetary financial institutions, insurers or pension funds). This includes financial players such as holding companies, central counterparties (CCPs), security and derivatives dealers and sovereign wealth funds. The predominant type of investor among these various financial intermediaries are long-term investment funds. Looking at the total financial assets of OFIs, long-term investment funds accounted for about 41%.



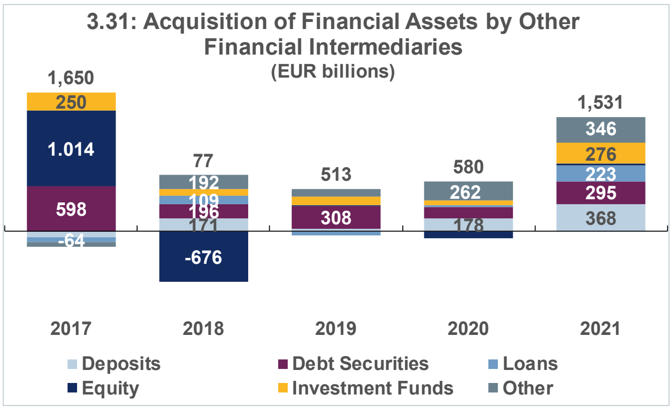

Source: ECB

**Asset allocation of OFIs.** Of all the main types of investors in investment funds, OFIs invest the smallest percentage of their financial assets in investment funds. However, this percentage did double from 4% in 2011 to 8% in 2021. It is mainly the long-term fund portion of OFI that invest in other investment funds. One possible explanation for this rising share could be that active investment funds are increasingly making use of ETFs and passive funds in their portfolio allocation. Equity accounted for 44% of the total asset allocation of OFIs but for the most part, this is not listed equity. For the most part, these are unlisted equity holdings within holding companies and special purpose entities of multinational companies. These are often set up for tax reasons and hold large amounts of equity accounting for all the subsidiary corporations they control.




Source: ECB

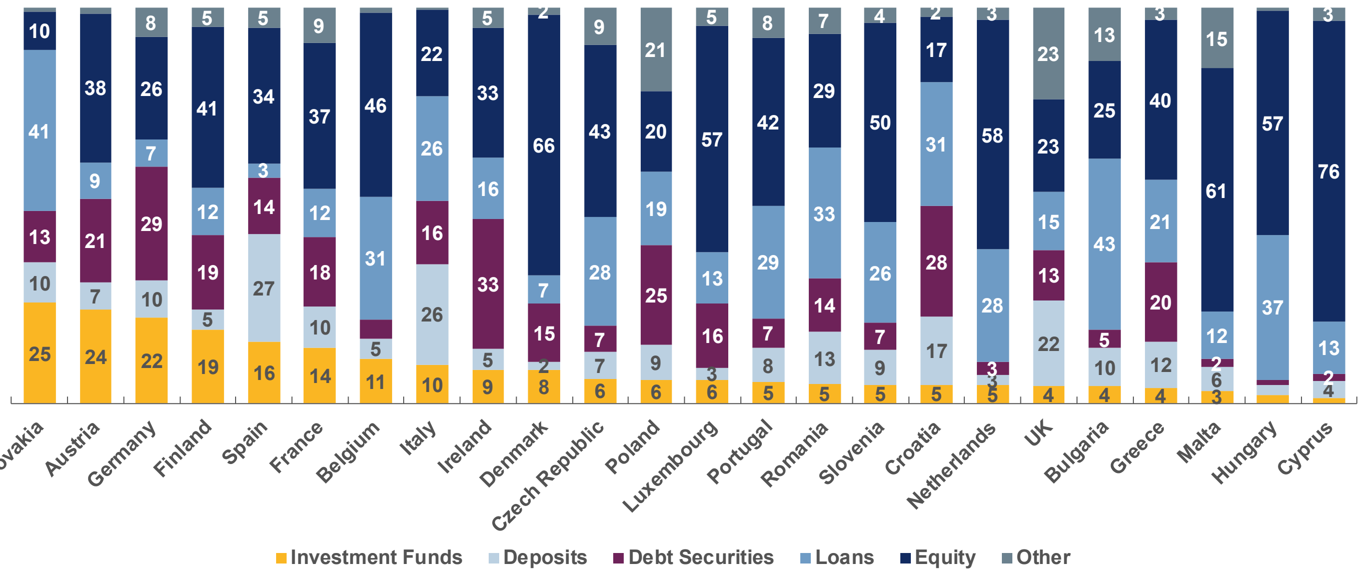
**Net acquisitions of financial assets by OFIs.** Compared to their total net acquisitions of financial assets, the investment fund acquisitions of OFIs tend to be relatively minor. However, in 2021 fund purchases by OFIs amounted to EUR 276 billion, about 18% of total acquisitions of financial assets. It was mainly OFIs in Luxembourg (EUR 124 billion) and Germany (EUR 64 billion) that acquired investment funds in 2021.




Source: ECB

**Country level data.** The asset allocation of OFIs varies significantly across European countries, depending on the predominant type of OFI in each country. More important for the European aggregate are the respective sizes of OFI financial assets in each country.

**3.32: Other Financial Intermediaries - Asset Allocation at End 2021**
(share in percent)




Source: ECB

**OFIs - Long-term funds.** Considering the long-term fund portion of OFIs, the list of countries with the highest amounts of financial assets are the main domiciles of UCITS and AIFs. Luxembourg (33%) and Ireland (19%), account for the lion's share of financial assets, as these two countries are the main cross-border fund domiciles in Europe. The other large fund domiciles, Germany, the UK and France accounted for 14%, 9% and 8% of the total respectively.

**OFIs excluding long-term funds.** Among all other OFIs (excluding long-term funds), the bulk of assets can be found in mainly Luxembourg (29%), the Netherlands (18%) and, to a lesser extent, Ireland (6%). These countries all have a number of large holding companies or headquarters of multinational companies. The UK, with a large concentration of various financial players, such as CCPs, in the City of London, also accounted for a sizable portion of financial assets (21%).

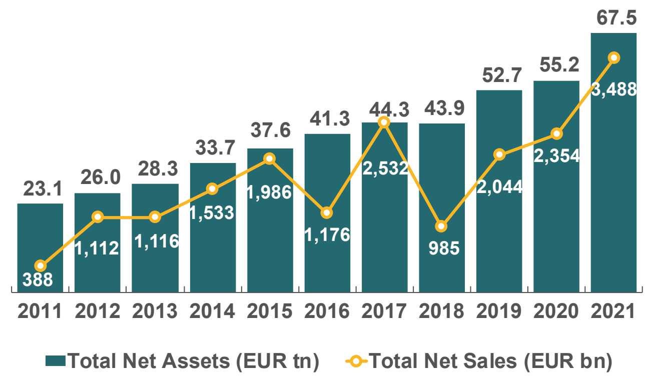
# CHAPTER 4: WORLDWIDE INVESTMENT FUNDS

## 4.1 OVERVIEW

The aim of this chapter is to examine the trends in the fund industry at world and regional level. We will be focusing on four broad geographical regions: Europe, the United States, the Asia-Pacific region[xxiii] and the Americas.[xxiv] The analysis is based on data compiled by EFAMA in association with the International Investment Funds Association (IIFA). This data covers all substantively regulated, open-ended funds domiciled in the reporting countries.

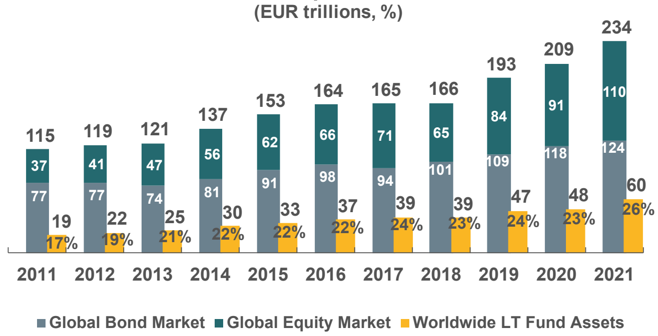
**Net assets and net sales of worldwide investment funds.** Worldwide investment fund assets rose by a record-breaking 22% in 2021 to EUR 67.5 trillion. Net sales of worldwide investment funds also surged to EUR 3,488 billion, from EUR 2,354 billion in 2020. Breaking through the EUR 3 trillion mark, these were the highest net sales ever. Since 2011, worldwide investment fund net assets almost tripled, growing by 192%.

**4.1: Total Net Assets and Net Sales of Worldwide Investment Funds**




**Investment funds and global capital markets.** Long-term investment funds are an important source of financing for companies and governments around the world. Over the last 10 years, investment funds have strengthened their role in the financing of the economy. Using market values for global listed stocks and bonds as a proxy for the total size of global capital markets, we can see that the share of funds in global capital markets grew from 17% in 2011 to a record 26% at end 2021. The reasons behind this gradually growing importance in global financial markets are manifold and vary across regions.

**4.2: Worldwide Long-Term(LT) Fund Assets and Global Capital Markets**
(EUR trillions, %)




Source: BIS, WFE, IIFA and EFAMA

**In the United States**, the strong growth of investment funds has been driven by the increasing popularity of mutual funds in the US retirement system, in particular in 401(k) pension plans. Another reason is the strong demand for ETFs in recent years.

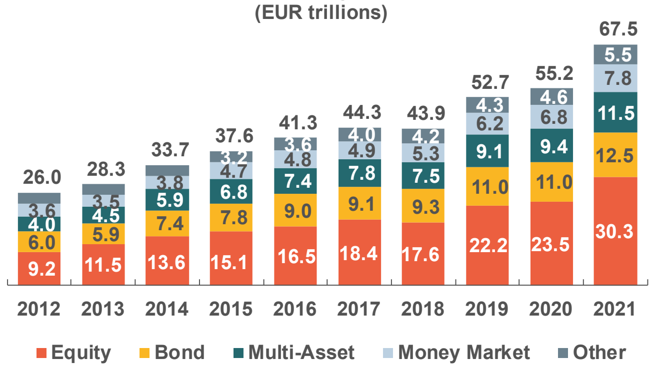
**In Europe**, the success of the UCITS brand, with its stable regulatory framework, contributed heavily to the growth of the investment funds industry. This is illustrated by the continued growth of sales of UCITS to investors outside of Europe. A second reason is the trend among institutional investors, i.e. insurers and pension funds, to outsource increasingly large shares of their assets to professional asset managers.

**In emerging markets**, such as China and Brazil, the growth of the fund industry is driven by the overall development and deepening of capital markets in those countries. Demand for investment funds strongly correlates with the level of capital market development in a country.

## 4.2 NET ASSETS AND NET SALES OF WORLDWIDE FUNDS BY TYPE

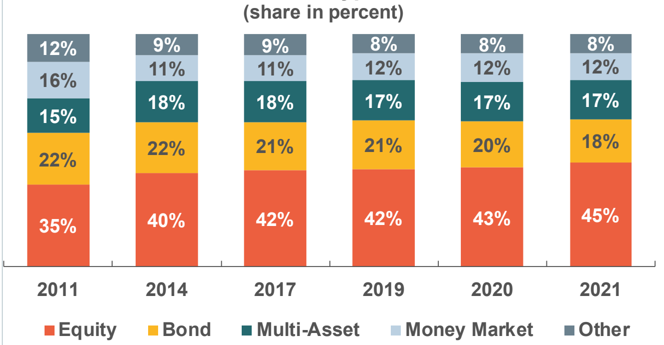
**Net assets by fund type.** Worldwide equity funds amounted to EUR 30.3 trillion at the end of 2021. Bond funds were the second-largest category, with EUR 12.5 trillion in net assets. Multi-asset funds represented EUR 11.5 trillion, while MMFs amounted to EUR 7.8 trillion. The net assets of all five of the main types of funds grew strongly in 2021.

**4.3: Worldwide Assets of Investment Funds by Fund Type**
(EUR trillions)



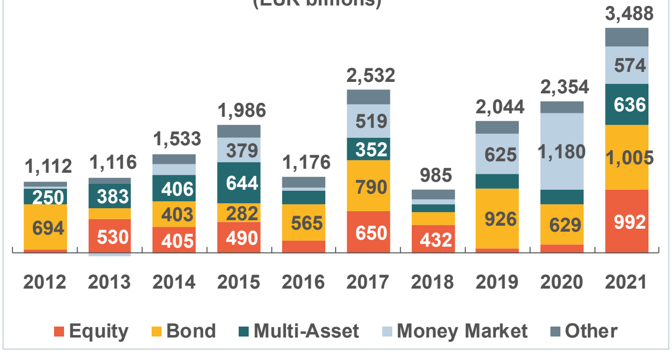

**The evolution of the market share** of each fund type shows that the share of equity funds has grown to an absolute record, from 35% in 2011 to 45% in 2021. This was mainly driven by the strong growth in global stock markets over the past decade. The share of MMFs dropped the first years of the decade but quickly stabilised at around 11% since 2014. Bond funds saw a steady decline in market share from 22% in 2011 to 18% in 2021 as many interest rates fell to close to zero. Shares of multi-asset funds and other funds have stabilised in recent years at 17% and 8%, respectively.

**4.4: Worldwide Assets of Investment Funds by Fund Type**
(share in percent)

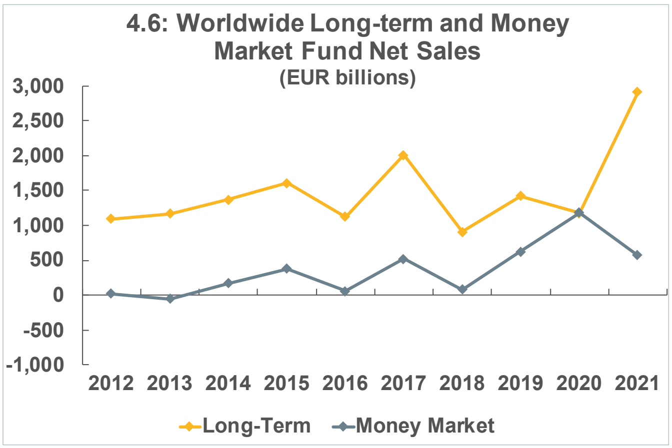


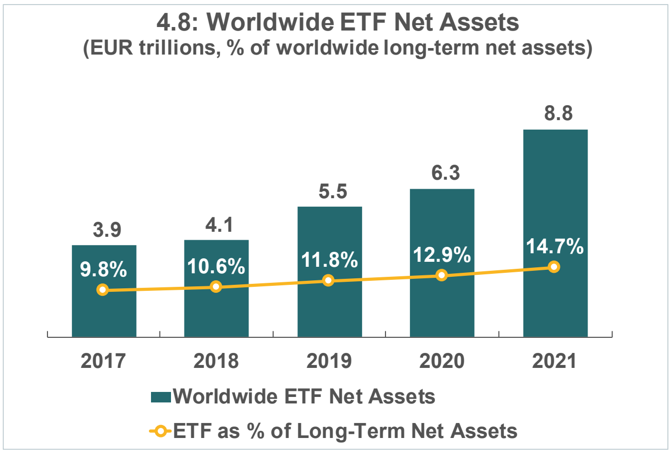

**Net sales of worldwide funds.** Inflows into worldwide investment funds rose to an absolute record in 2021 (EUR 3,488 billion). Net sales of bond funds amounted to more than a trillion (EUR 1,005 billion) in 2021, the highest ever. Following two years of lacklustre net sales, equity funds climbed to a record high (EUR 992 billion). Net inflows into multi-asset funds amounted to EUR 636 billion, a significant increase from EUR 227 billion in 2020 and the second-highest of the decade. Money market funds were the exception, with net sales in 2021 (EUR 574 billion) more than halving compared to the record 2020 inflows (EUR 1,180 billion).

**4.5: Net Inflows into Worldwide Investment Funds**
(EUR billions)

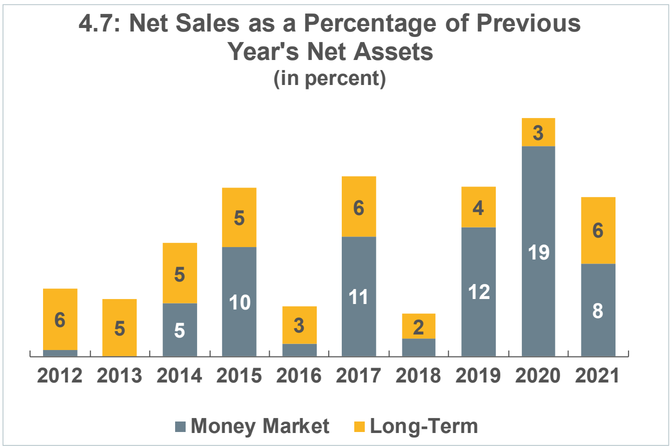



**Net sales of long-term funds and MMFs.** Comparing trends in the net sales of long-term and money-market funds shows that both types of funds have followed different paths over the last 10 years. Worldwide, long-term funds recorded positive and increasing net inflows almost every year during the 2011-2020 period, with net sales dipping only in 2016, 2018, and 2020. On the other hand, net sales of worldwide MMFs have frequently been close to zero during 2012-2014. From 2014, long-term funds and MMFs have evolved in broadly similar manners, declining in 2016 and 2018 and increasing in 2015, 2017 and 2019. Trends diverged again in 2020 when net sales of long-term funds fell, whereas net inflows into MMF surged to an all-time high, as investors fled for safety in the midst of the Covid-19 crisis. In 2021 the situation reversed, as net sales of long-term funds rose to an all-time high while net sales of MMF declined once again.



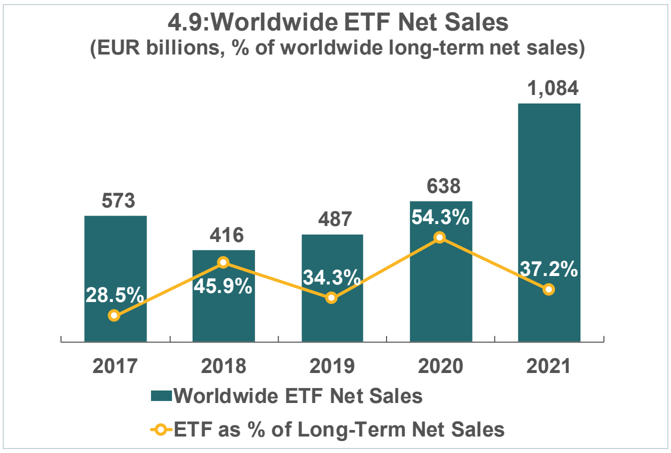

**Relative net sales of long-term funds and MMFs.** Over the last decade, net sales of MMFs - expressed as a percentage of the previous year's assets - have outpaced inflows into long-term funds in 2015, 2017, 2019 and 2020. Also in 2021, despite the record net sales of long-term funds, the relative net sales of MMFs were higher than those of long-term funds.




**Worldwide ETF assets** rose to EUR 8.8 trillion at the end of 2021, representing 14.7% of the global long-term fund market. This percentage has risen steadily over the past five years, from below 10% (9.8%) in 2017, as ETFs became increasingly popular with global investors.

**Net assets of ETFs by fund type.** Breaking down ETF assets by type, equity ETFs accounted for 78.5% of the worldwide ETF market at end 2021, followed by bond ETFs (16.7%) and other ETFs (5%). The percentage of equity ETFs has gradually increased over the past five years, pushed up by generally rising stock markets.

**Net sales of worldwide ETFs** breached the EUR 1 trillion benchmark in 2021, an all-time record. In terms of total worldwide net long-term fund sales, this represents 37.2%, a level that was only average compared to the last five years.

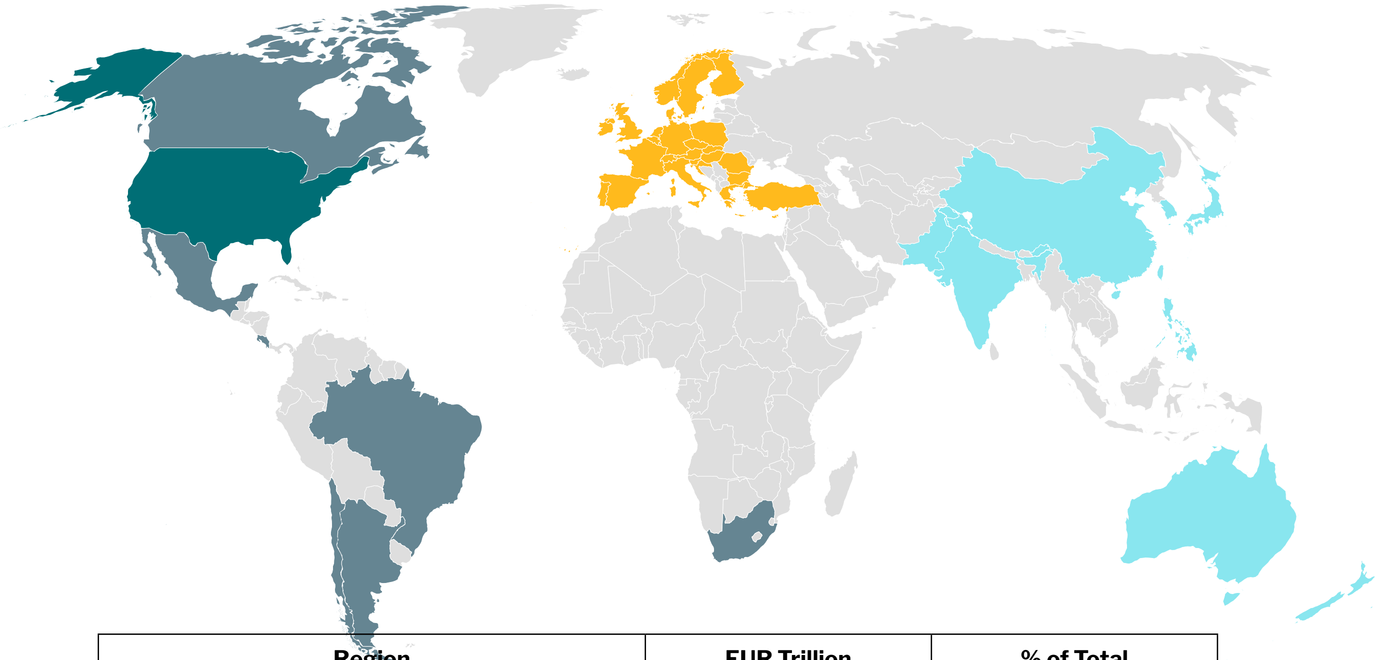



**Net sales of ETFs by fund type.** Broken down by fund type, net sales of equity ETFs totalled EUR 818 billion, more than double the 2020 inflows (EUR 345 billion). Bond ETFs attracted EUR 217 billion in new money, a similar amount to 2020 (EUR 205 billion).

## 4.3 WORLDWIDE FUND ASSETS BY REGION

**Regional net assets in 2021.** Net assets of investment funds in the United States reached EUR 33 trillion at the end of 2021, while European investment funds net assets[xxv] totalled EUR 21.3 trillion. In the Asia-Pacific region, which includes major Asian economies such as China, Japan, and India as well as Australia and New Zealand, investment fund assets amounted to EUR 8.9 trillion. Net assets of funds in the Americas, encompassing the large economies in that region, such as Brazil and Canada but excluding the United States, stood at EUR 4.3 trillion at the end of 2021.

**4.10: Worldwide Assets of Investment Funds by Region at End 2021**
(EUR trillions, %)



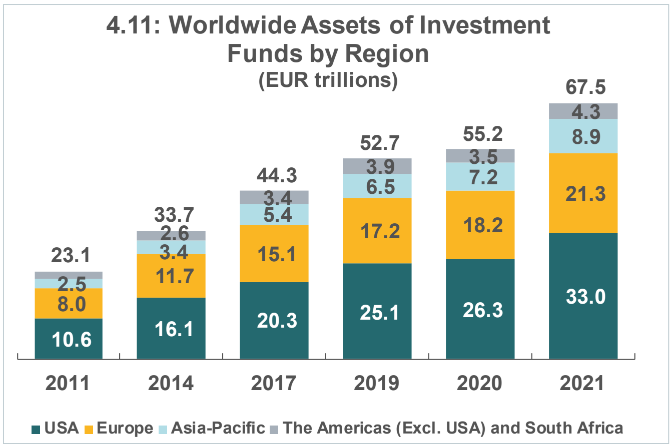
| Region | EUR Trillion | % of Total |
|---|---|---|
| USA | 33.0 | 49% |
| Europe | 21.3 | 32% |
| Asia-Pacific | 8.9 | 13% |
| The Americas (Excl. USA) and South Africa | 4.3 | 6% |
| Worldwide Total | 67.5 | 100% |

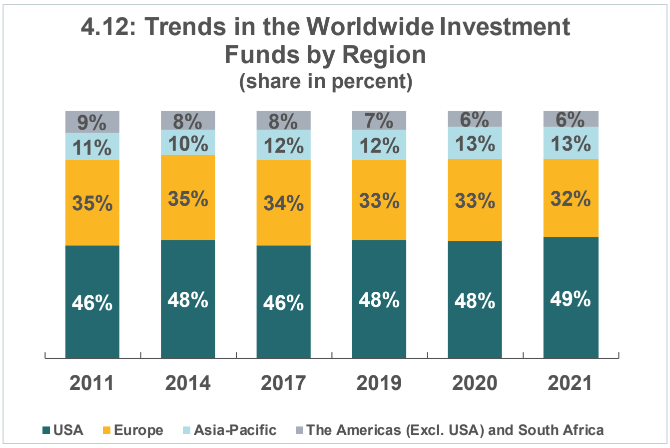
**The United States** has undoubtedly remained the largest investment fund market in the world over the past decade. Its market share grew from 46% in 2011 to 49% in 2021, pushed up by the stronger-than-average growth of US stock markets.

**Europe** has seen its market share decline slightly, from 35% in 2011 to 32% at the end of 2021, as financial markets in Europe grew at a slower pace than in other regions.

**Asia-Pacific.** The share of the Asia-Pacific region has risen from 11% in 2011 to 13% in 2021. China, Australia and Japan held the largest share of fund assets in this region, each accounting for between 3.5% - 4% of worldwide assets. Mainly the growth of the Chinese fund market pushed the market share of this region up (see box 8).

**The Americas** is the smallest region in terms of net assets. Its market share has remained broadly stable over the 2011-2018 period (8%). During the last two years, however, this share dropped to 6%. The decline in 2020 was mainly influenced by a fall in the net assets of Brazilian funds. At end 2021, Brazilian stock markets had still not fully recovered from the Covid-19-induced market decline of March 2020.




**Top-15 domiciles in 2021.** The table below highlights the net assets and market shares of the 15 leading countries in 2021. It also shows net asset growth and net assets in percentage of GDP. Eight European countries are represented: Luxembourg, Ireland, Germany, France, the United Kingdom, the Netherlands, Switzerland, and Sweden. Among the top 15, China recorded the highest growth rate in 2021 (44%), followed by Canada (29.4%), Switzerland (28.8%) and Sweden (27.2%).

**4.13: Net Assets of Investment Funds in Top 15 Domiciles in 2021**

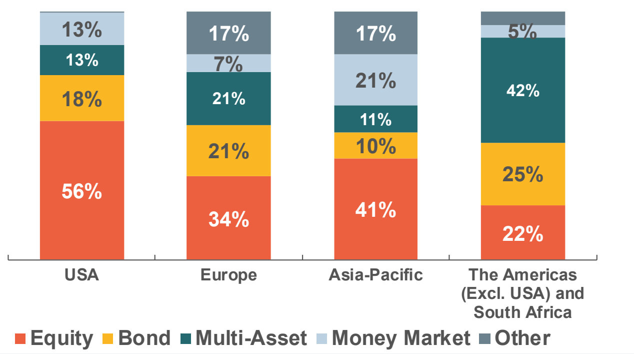
| Countries | Net Assets End 2021[1] EUR billions | Market Share 2021 | Asset Growth in 2021 | Net Asset in % of GDP |
|---|---|---|---|---|
| United States | 33,018 | 48.9% | 25.7% | 170% |
| Europe | 21,279 | 31.5% | 17.1% | 114% |
| Luxembourg | 5,859 | 8.7% | 17.8% | 7992% |
| Ireland | 4,068 | 6.0% | 22.4% | 965% |
| China | 3,117 | 4.6% | 44.0% | 21% |
| Germany | 2,904 | 4.3% | 16.2% | 81% |
| Australia | 2,312 | 3.4% | 15.2% | 200% |
| Canada | 2,233 | 3.3% | 29.4% | 158% |
| France | 2,231 | 3.3% | 7.6% | 90% |
| United Kingdom | 2,136 | 3.2% | 19.7% | 85% |
| Japan | 2,132 | 3.2% | 9.3% | 49% |
| Brazil | 1,650 | 2.4% | 12.9% | 121% |
| Netherlands | 909 | 1.3% | 0.4% | 106% |
| Switzerland | 763 | 1.1% | 28.8% | 111% |
| Korea, Rep. of | 614 | 0.9% | 14.3% | 40% |
| Sweden | 610 | 0.9% | 27.2% | 115% |

[1] Net assets for European countries include UCITS and redeemable, open-ended, substantively-regulated AIF funds, representing approx. 92% of total AIF.

**United States by fund type.** At the end of 2021, more than half of the total investment fund assets in the United States were equity funds (56%). The rest of their fund market consisted of bond funds (18%), multi-asset funds (13%) and MMFs (13%).

**Europe by fund type.** Equity funds accounted for 34% of fund assets in Europe. They were followed by bond funds (21%), and multi-asset funds (21%). Other funds accounted for 17% and MMFs for 7%.

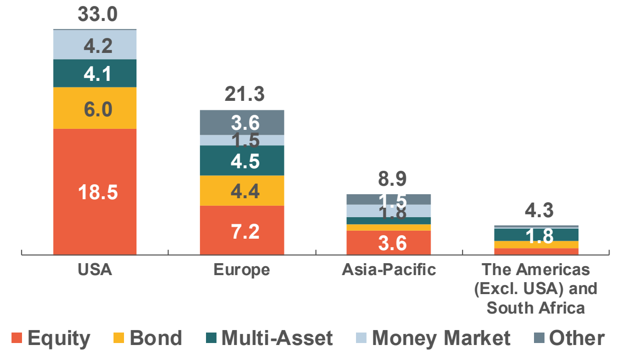
**4.14: Worldwide Assets of Investment Funds by Fund Type at End 2021**
(share in percent)




**Asia-Pacific by fund type.** Equity funds accounted for 41% of the fund market in the Asia-Pacific region, mainly thanks to the predominance of these funds in Japan and Australia. The relatively high market share of MMFs (21%) is attributable to China, which has a highly developed MMF industry. Bond funds accounted for only 10% of fund assets.

**The Americas by fund type.** The investment fund market is structured differently in the Americas. Multi-asset funds were the largest type of fund (42%), chiefly due to their popularity in Canada.

**4.15: Worldwide Assets of Investment Funds by Fund Type at End 2021**
(EUR trillions)




**4.16: Worldwide Net Assets of Investment Funds by Fund Type at End 2021**

| Region | USA | | Europe | | Asia-Pacific | | The Americas (Excl. USA) and South Africa | | World |
|---|---|---|---|---|---|---|---|---|---|
| | EUR billions | % | EUR billions | % | EUR billions | % | EUR billions | % | EUR billions |
| Equity | 18,503 | 61% | 7,177 | 24% | 3,626 | 12% | 948 | 3% | 30,253 |
| Bond | 6,050 | 49% | 4,418 | 35% | 923 | 7% | 1,082 | 9% | 12,473 |
| Multi-Asset | 4,144 | 36% | 4,505 | 39% | 1,005 | 9% | 1,816 | 16% | 11,469 |
| Money Market | 4,199 | 54% | 1,547 | 20% | 1,831 | 23% | 224 | 3% | 7,801 |
| Other | 122 | 2% | 3,632 | 66% | 1,498 | 27% | 223 | 4% | 5,476 |
| **Total Funds** | **33,018** | **49%** | **21,279** | **32%** | **8,883** | **13%** | **4,293** | **6%** | **67,472** |

**In the global equity fund market,** the United States held a market share of 61%, followed by Europe (24%) and Asia-Pacific (12%). The Americas accounted for only 3%.

**For worldwide bond funds**, the United States again accounted for the largest share (49%), followed by Europe with 35%. The market shares of Asia-Pacific (7%) and the Americas (9%) were relatively small.

**In the multi-asset fund market**, Europe held the largest market share (39%), compared with 36% for the United States. The Americas were third with 16% and Asia-Pacific counted for 9%.

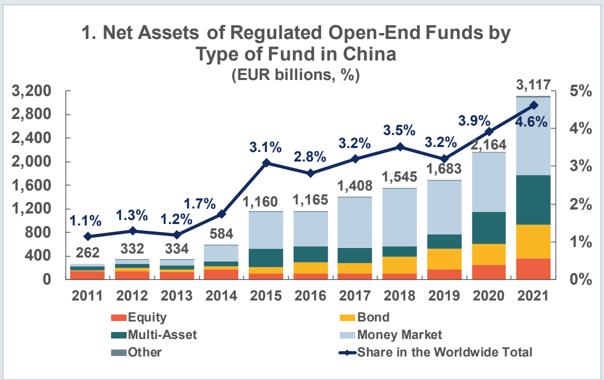
**MMFs.** The United States held a 54% share of the worldwide MMF market at the end of 2021. The Asia-Pacific region accounted for 23% and Europe for 20%.

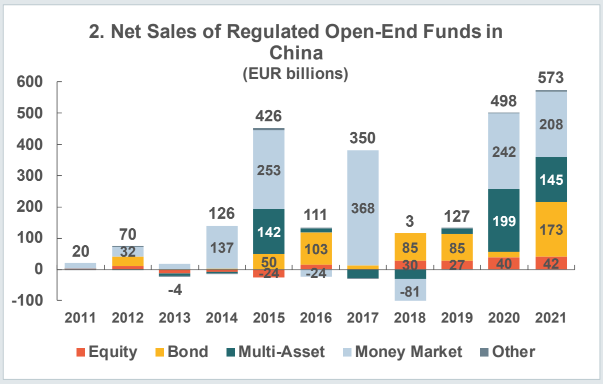
**Other funds.** Europe held the largest market share of global other funds at the end of 2021 (66%), followed by the Asia-Pacific region (27%). Markets shares of the United States and the Americas are negligible.

## Box 8
## The rise of China in the worldwide investment fund market

### Introduction

The fund industry has only existed for 20 years in China, yet it has made remarkable advances. China's regulated open-end fund assets amounted to EUR 3.1 trillion at the end of 2021. At the global level, the United States is the largest fund domicile, followed by Luxembourg, Ireland and China. The share of China's regulated open-end fund assets increased from 1.1 % in 2011 to 4.6% in 2021. Net sales of Chinese investment funds reached EUR 573 billion in 2021, compared to EUR 20 billion in 2011.




Source: International Investment Funds Association (IIFA)

### The dominant market position of money market funds and multi-asset funds

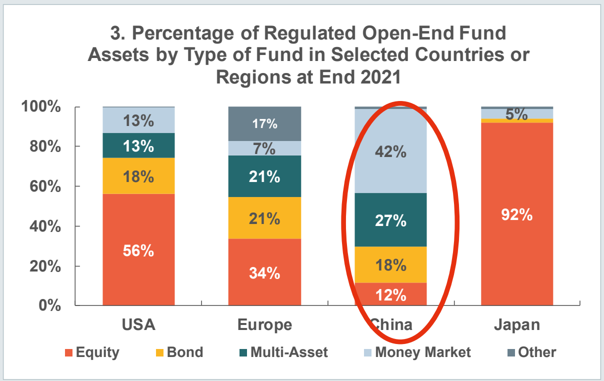
In general, equity funds are typically the dominant investment in large markets, such as the US, Europe and Japan. This was also true in China, where equity funds accounted for 54% of total fund assets in 2011. However, from 2013-2018, the share of equity funds decreased from 39% to 7%, whereas money market funds (MMFs) increased from 27% to 63% in 2013-2018.

The success of MMFs was driven by the fast-growing Fintech payment platform, Alipay. In 2013, Tianhong FMC - in collaboration with Alipay backed by Ant Group, which is affiliated with Alibaba - launched China's first online MMF, Yu'ebao. This allows investors to buy funds products online and compare products more effectively. Yu'ebao was a great success and became the biggest MMF in the world.

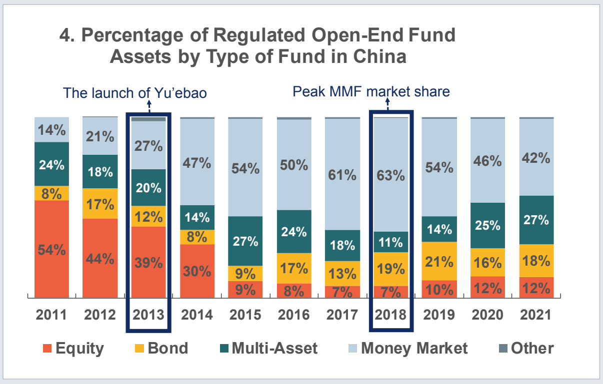
Between 2018-2021, the share of MMFs fell to 42%, essentially for the benefit of multi-asset funds. The change of product structure happened for four main reasons. First, more than 300 equity funds were transformed into multi-asset funds in 2015.[1] Second, the Chinese stock market turbulence of June 2015 led retail investors to seek less-risky assets. Third, the Chinese government recognised that the MMF sector was 'systemically important' to the country's economy. This led regulators to launch a set of new rules in 2017, aimed at strengthening the supervision of China's MMFs. In response to these regulations, Yu'ebao tried to actively limit its size by imposing a subscription limit in 2018. In April 2021, China's central bank urged Yu'ebao

1 Source: China Securities Investment Fund Fact Book 2020.

to reduce its size to avoid liquidity risk. This explains why the share of Chinese MMFs fell to 46% in 2020 and continued to decline during 2021. Last, the share of equity funds has increased from 7% to 12% in 2018-2021, due to the regulatory guideline of “continuously increasing the share of equity funds” and the rising A-share market in 2019.



3. Percentage of Regulated Open-End Fund Assets by Type of Fund in Selected Countries or Regions at End 2021



4. Percentage of Regulated Open-End Fund Assets by Type of Fund in China

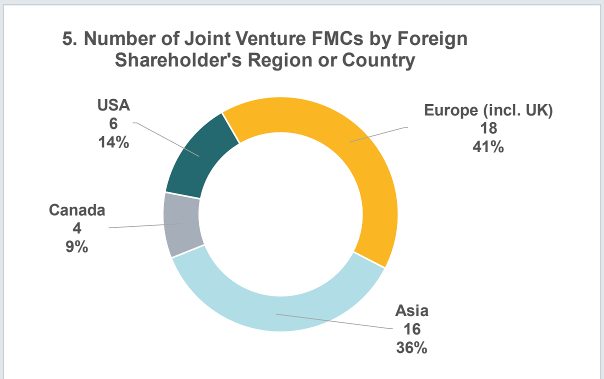
Source: International Investment Funds Association (IIFA)

### A market open to foreign asset managers

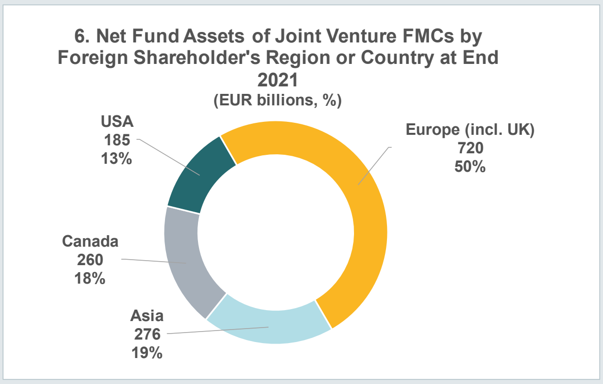
According to Asset Management Association of China (AMAC) information, by the end of February 2022, the Chinese market was comprised of 152 fund management companies (FMCs).

According to China Securities Regulatory Commission (CSRC), as of September 2020, China had 44[2] joint-venture fund management companies (FMCs), with total fund assets of EUR 1,441 billion at the end of 2021, accounting for 46%[3] of the country’s mutual fund assets.

Since 2017, foreign asset firms can control 51% of the joint venture. On 1 April 2020, the CSRC removed limits on foreign ownership of fund management companies and securities companies, allowing foreign investors to take 100% control of ownership.



5. Number of Joint Venture FMCs by Foreign Shareholder's Region or Country



6. Net Fund Assets of Joint Venture FMCs by Foreign Shareholder's Region or Country at End 2021 (EUR billions, %)

Source: Morningstar and CSRC

2 Source: China Securities Regulatory Commission: http://www.csrc.gov.cn/csrc/c105940/c1225483/content.shtml.

3 EFAMA calculation based on IIFA and Morningstar Direct data.

In general, foreign asset managers prefer to invest in larger scale Chinese FMCs with strong performances. At the same time, they are also willing to invest in FMCs with relatively concentrated and stable share structures. More than half of the top 20 FMCs are joint ventures. European fund managers are the most important players in the Chinese fund market, both in terms of fund assets and company numbers. Some 18 European asset managers established joint ventures in China, managing around 50% of fund assets controlled by joint ventures.

**7. European Asset Management Companies in China**

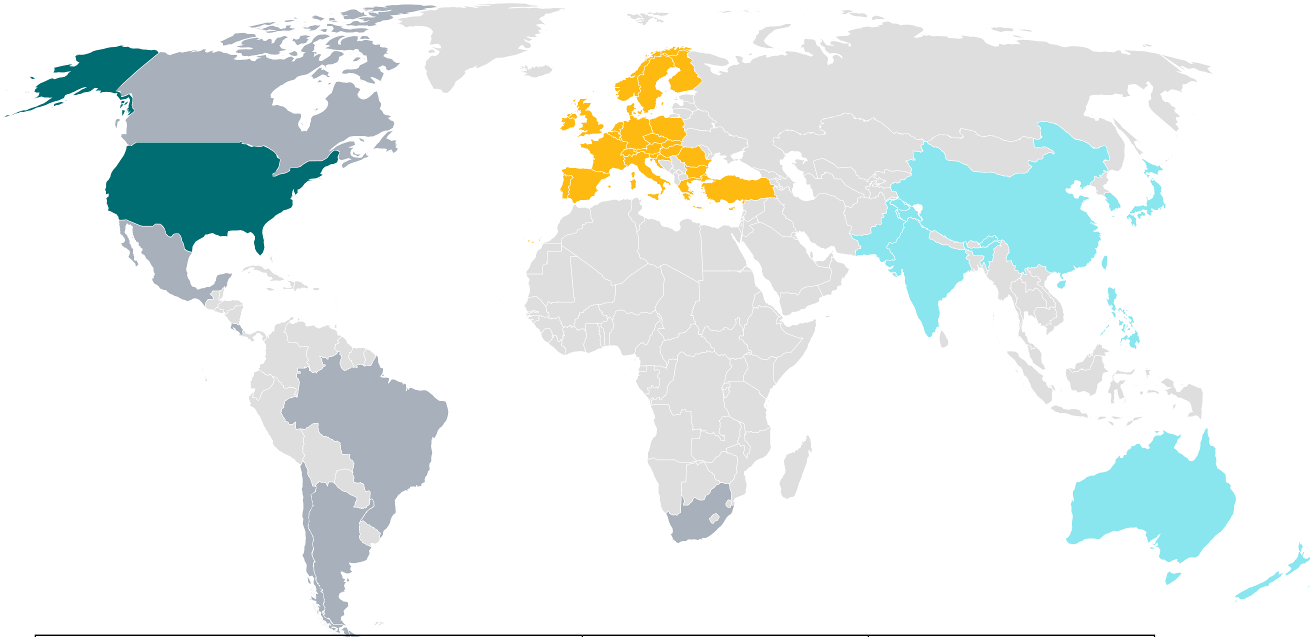
| Company Name | Foreign Shareholders | Country* | Net Assets Dec 2021 (EUR BN) |
|---|---|---|---|
| **ICBC Credit Suisse Asset Management Co.,Ltd** | Credit Suisse AG | Switzerland | 95.4 |
| **Penghua Fund Management Co.,Ltd** | Eurizon Capital SGR S.P.A. | Italy | 94.6 |
| **AEGON-Industrial Fund Management Co.,Ltd** | AEGON International B.V. | Netherlands | 72.8 |
| **Bank of Communications Schroders** | Schroder Investment Management Limited | UK | 70.9 |
| **Zhong Ou Asset Management Co., Ltd.** | Unione di Banche Italiane S.c.p.a | Italy | 70.5 |
| **Invesco Great Wall Fund Management Co. Ltd** | Invesco Asset Management | UK | 68.1 |
| **Guotai Asset Management Co.,Ltd** | Assicurazioni Generali S.P.A | Italy | 66.1 |
| **Bank of China Investment Management Co.,Ltd** | Blackrock Investment Management | UK | 32.0 |
| **AXA SPDB Investment Managers Co.,Ltd** | AXA Investment Managers | France | 25.9 |
| **ABC-CA Fund Management Co.,Ltd** | Credit Agricole Asset Management | France | 24.4 |
| **China International Fund Management Co.,Ltd** | J.P. Morgan Asset Management (U.K.) Limited | UK | 24.2 |
| **HFT Investment Management Co., Ltd** | BNPP IP BE Holding | Belgium | 20.3 |
| **UBS SDIC Fund Management Co.,Ltd** | UBS AG | Switzerland | 17.0 |
| **CITIC Prudential Fund Management Co Ltd** | Prudential Group | UK | 15.9 |
| **CPIC Fund Management Co., Ltd.** | Allianz Group | Germany | 8.7 |
| **HSBC JinTrust Fund Management Co.,Ltd** | HSBC Investments (UK) Limited | UK | 7.2 |
| **Taiping Fund Management Company Ltd** | Ashmore Investment Management Limited | UK | 3.3 |
| **Zhonghai Fund Management Co.,Ltd** | Lacompagnie Financiere Edmond De Rothschild Banque | France | 3.0 |
| **Total** | | | 720.2 |

* Country of European legal entities engage in the joint ventures

## 4.4 WORLDWIDE NET FUND SALES BY REGION

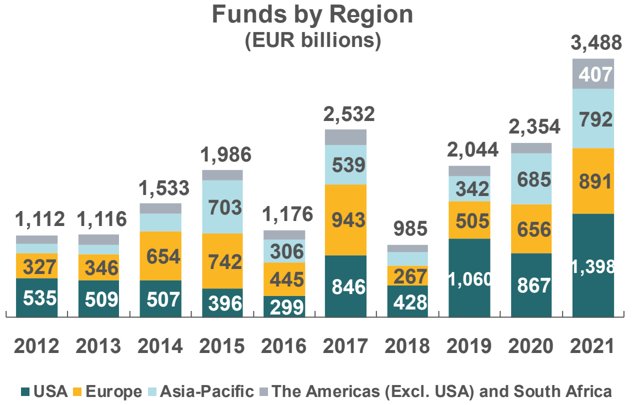
**Regional net sales in 2021.** A breakdown of the worldwide net sales in 2021 shows that the US accounted for the highest net sales, at EUR 1,398 billion or 40% of global net sales. Europe was in second place with EUR 891 billion or 26%. The Asia-Pacific region took third place (EUR 792 billion or 23%). Net sales of funds in the Americas amounted to EUR 407 billion (12% of worldwide net sales).

**4.17: Net Inflows into Worldwide Investment Funds by Region in 2021**
(EUR billions)



| Region | EUR Billion | % of Total |
|---|---|---|
| USA | 1,398 | 40% |
| Europe | 891 | 26% |
| Asia-Pacific | 792 | 23% |
| The Americas (Excl. USA) and South Africa | 407 | 12% |
| Worldwide Total | 3,488 | 100% |

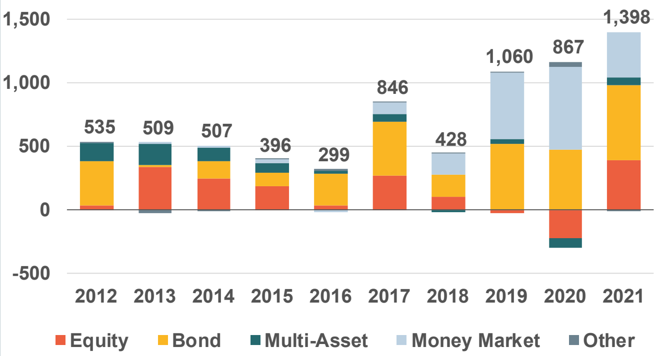
**4.18: Net Inflows into Worldwide Investment Funds by Region**
(EUR billions)




**Evolution of worldwide net sales.** After the strong net sales of 2017, when European funds outsold US funds, worldwide net sales dropped significantly in 2018 across all regions against a backdrop of increased geopolitical uncertainty. Net sales bounced back in 2019 and rose higher again in 2020 despite the Covid pandemic. They surged to their highest level of the decade in 2021, as financial markets rebounded strongly.

**Net sales in the United States** rose to an all-time record in 2021 (EUR 1,398 billion), a considerable increase on 2020 (EUR 867 billion). Just like in 2019 and 2020, net sales of MMFs (EUR 362 billion) and bond funds (EUR 588 billion) were very high, with net sales of bond funds rising to a record and accounting for 42% of total inflows. Net inflows in MMFs on the other hand declined compared to 2020 (EUR 652 billion). Following two consecutive years of net outflows, net sales of equity funds picked up once again, helped by the excellent performance of US stock markets. Net inflows amounted to EUR 393 billion, the highest for the decade. Multi-asset funds also recorded small net inflows (EUR 58 billion) after net outflows in 2020 (EUR 72 billon).

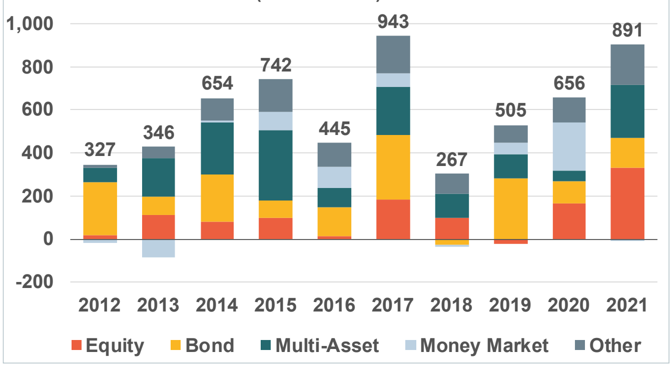
**4.19: Net Inflows by Fund Type - USA**
(EUR billions)




**Portfolio rebalancing in the US.** At first glance, the net outflows from equity funds in 2019 and 2020 could be considered counterintuitive, as the US stock market registered solid growth in both of these years. However, this growth resulted in an appreciation of equity assets compared to fixed-income assets. This meant that investors following a specific targeted asset allocation of their portfolio, such as 60% in equity and 40% in fixed income, had to redeem some equity funds in order to maintain their specific allocation targets. This portfolio reallocation may have been reinforced by automatic rebalancing tools. Investors are indeed increasingly adopting strategies, such as model portfolios and robo-advisers, that periodically and automatically rebalance their portfolios to meet market conditions.

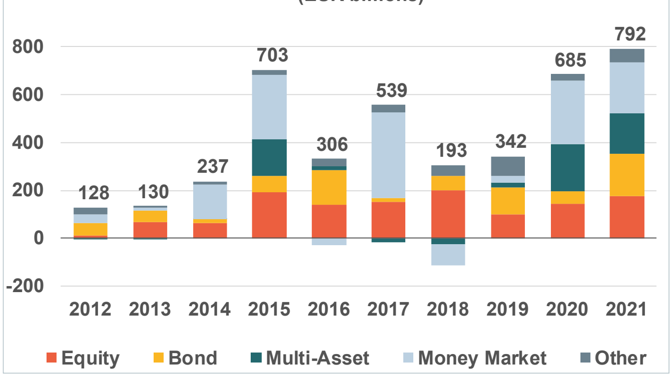
**Net sales in Europe.** Net sales of European funds in 2021 were the second-highest of the decade, rising to EUR 891 billion from EUR 656 billion in 2020. 2021 sales were concentrated in long-term funds as MMFs recorded net outflows (EUR 11 billion). All types of long-term funds registered net inflows above EUR 100 billion. Equity funds recorded the highest level of net inflows (EUR 332 billion), followed by multi-asset funds (EUR 245 billion), other funds (EUR 186 billion), and bond funds (EUR 138 billion).

**4.20: Net Inflows by Fund Type - Europe**
(EUR billions)



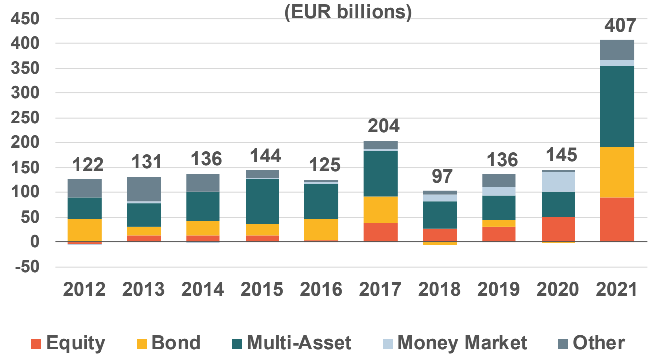

**Net sales in the Asia-Pacific region.** Net fund sales rose to an absolute record in the Asia-pacific region in 2021, as strong inflows in all types of funds were registered. Despite a drop compared to last year, MMFs accounted for the highest net inflows in 2021 (EUR 210 billion). This was mostly a result of continued strong net inflows in China (EUR 208 billion); the Chinese MMF market is very well-developed, with many Chinese households using MMFs as a direct substitute for deposits. Bond funds attracted EUR 177 billion in net inflows, a substantial increase compared to 2020 (EUR 52 billion). Inflows into Chinese bond funds accounted for EUR 173 billion of those flows. The majority of net sales of equity funds over the year (EUR 176 billion) were due to net inflows in Japanese funds (EUR 118 billion), traditionally a strong equity fund market. Chinese equity funds accounted for EUR 42 billion. Multi-asset funds attracted EUR 169 billion in net new money, a drop compared to 2020 (EUR 195 billion) and, just like last year, mainly the result of strong net inflows in China (EUR 145 billion).

**4.21: Net Inflows by Fund Type - Asia- Pacific**
(EUR billions)



**Net sales in the Americas.** 2021 was an excellent year for the Americas (excluding the United States) with net fund sales rising to a record-breaking EUR 407 billion. All long-term funds registered stellar performances over the course of the year. Net inflows rose to EUR 163 billion in multi-asset funds, EUR 101 billion in bond funds, EUR 90 billion in equity funds, and other funds EUR 40 billion. MMFs, on the other hand, attracted net inflows of EUR 12 billion, down compared to EUR 39 billion in 2020. Brazil and Canada, the two largest markets, had a significant impact on the net sales in this region. Canada had an excellent year (EUR 226 billion), with net inflows concentrated in multi-asset funds (EUR 116 billion) and equity funds (EUR 74 billion). Brazil registered net inflows of EUR 163 billion. Bond funds were the best-selling category in the Brazilian market (EUR 73 billion), followed by multi-asset funds (EUR 37 billion), other funds (EUR 29 billion) and MMFs (EUR 18 billion).

**4.22: Net Inflows by Fund Type - The Americas (Excl. USA) and South Africa**
(EUR billions)




The following table highlights the net sales of investment funds in the largest domiciles in 2021, broken down by fund type.

**4.23: Net Sales of Investment Funds in 2021 by Region, Country and Fund Type**
(EUR billions)

| | Long-Term | | | | Money Market | Total |
|---|---|---|---|---|---|---|
| | Equity | Bond | Multi-Asset | Other [1] | | |
| USA | 393 | 588 | 58 | -4 | 362 | 1,398 |
| Europe | 332 | 138 | 245 | 186 | -11 | 891 |
| Asia-Pacific | 176 | 177 | 169 | 59 | 210 | 792 |
| of which ➤ China | 42 | 173 | 145 | 6 | 208 | 573 |
| ➤ India | 11 | -3 | 12 | 13 | -1 | 32 |
| ➤ Japan | 118 | 2 | - | 2 | 2 | 124 |
| ➤ Korea | 3 | 8.5 | 5 | 26 | 6 | 49 |
| The Americas (Excl. USA) and South Africa | 90 | 101 | 163 | 40 | 12 | 407 |
| of which ➤ Brazil | 5 | 73 | 37 | 29 | 18 | 163 |
| ➤ Canada | 74 | 30 | 116 | 10 | -6 | 226 |
| ➤ Mexico | 4 | -2 | 1 | 0 | 2 | 4 |
| ➤ South Africa | 5 | 2 | 6 | 0 | -4 | 9 |
| **World** | **992** | **1,005** | **636** | **281** | **574** | **3,488** |

[1] Includes real estate, guaranteed funds, funds that fall under a different category, or funds for which information is not available.

Notes

i We are grateful to EFAMA's Economics and Research Standing Committee for the valuable discussions on the issues addressed in this part. The views expressed here do not necessarily represent those of the committee, and any errors are ours.

ii The AIFMD was transposed into Member State law in July 2013, therefore non-UCITS data have been used to cover the 2011-2013 period.

iii Data for UCITS funds domiciled in the Netherlands are only included from 2015 onwards, due to the unavailability of data.

iv Based on the subset of funds for which this type of asset allocation information is available and sourced from Morningstar.

v See European investors use ETFs to pile into US equities, Financial Times, 6 December 2021.

vi Based on the subset of funds for which this type of asset allocation information is available and sourced from Morningstar.

vii Based on the subset of funds for which this type of asset allocation information is available and sourced from Morningstar.

viii Based on the subset of funds for which this type of fixed income asset allocation information is available and sourced from Morningstar.

ix Based on subset of funds for which this type of equity asset allocation information is available and sourced from Morningstar.

x Based on the subset of funds for which this type of asset allocation information is available and sourced from Morningstar.

xi Based on the subset of funds for which this type of asset allocation information is available and sourced from Morningstar.

xii Forbes (2021) Sustainability In The Utilities Industry: 5 Keys To A Renewable Future.

xiii Impact funds fall under categories of Article 8 and Article 9 funds. While a high proportion of impact funds are Article 9 funds due to their measurable sustainable objectives, there are Article 8 funds also included in the universe.

xiv Data for 2011-2013 are non-UCITS data.

xv Data for real estate AIFs domiciled in the Netherlands are only included from 2015 onwards, due to the lack of availability of data. The year-on-year asset growth is calculated excluding Dutch data for the 2011-15 period, and including Dutch data from 2016 onwards.

xvi Data for the net sales of UCITS and AIFs domiciled in the Netherlands are only included from 2015 onwards, due to the unavailability of data.

xvii Based on ECB data, the European aggregate in the chart covers all countries that are Member States of the European Union, with the exception of the three Baltic countries - Estonia, Latvia and Lithuania - which are not EFAMA members. Four EFAMA member countries that are not part of the EU (Liechtenstein, Norway, Switzerland and Turkey) are not included in the aggregate. Methodological differences between ECB and EFAMA data also explain the difference between the European aggregate compiled using EFAMA data.

xviii Assuming that all foreign funds being held in a European country are domiciled in other European countries and not outside of the EU.

xix Sourced from ECB data based on the European System of Accounts (ESA 2010), and available via the ECB statistical data warehouse. The European aggregate covers all countries that are Member States of the European Union, with the exception of the three Baltic countries - Estonia, Latvia and Lithuania - which are not EFAMA members.

xx Monetary financial institutions are mainly deposit-taking corporations such as commercial banks, but also include central banks, other deposit-taking corporations and money market funds.

xxi Other Financial Intermediaries (OFIs) consist of all financial corporations or quasi-corporations – other than insurance companies and pension funds – that are principally engaged in financial intermediation by incurring liabilities in forms other than deposits, as well as those entities engaged primarily in long-term financing. OFIs are mainly long-term investment funds (non-money market investment funds), but also financial vehicle corporations, security and derivative dealers, financial auxiliaries such as central counterparties and stock exchanges and captive financial institutions, such as holding companies or money lenders.

xxii The analysis focuses on those financial assets that are freely transferrable on the financial markets and widely available to households, i.e. currency and deposits, debt securities, quoted shares, investment funds, life insurance and pension products. Other categories of household financial assets, mainly unlisted shares and loans, are excluded because they are managed on the basis of criteria not directly related to savings management activities.

xxiii The Asia-Pacific region is a part of the world that generally includes East Asia, South Asia, Southeast Asia, and Oceania. Data is only available for those countries of the region that are IIFA members. The following countries are included: Australia, China, Chinese Taipei (Taiwan) India, Japan, Korea, New Zealand, Pakistan and the Philippines.

xxiv The Americas is a part of the world that includes the totality of North and South America. Despite being geographically in The Americas, the US is not included in the region but is treated a separate region. South Africa is, from a geographical sense, not a part of the Americas, but in this regional breakdown it was included with  Americas region. It is the only African country for which data is available and, in terms of net fund assets, Africa would be too small to be considered as a separate region. Data is only available for the countries of the region that are IIFA members. The following countries are included: Argentina, Brazil, Canada, Chile, Costa Rica, Mexico, Trinidad & Tobago and South Africa.

xxv For comparability reasons, only substantially regulated, open-ended investment funds are included.

# PART 2

# COUNTRY REPORTS

## TABLE OF CONTENTS

# AUSTRIA COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

| Table 1: Net Assets by the Fund Industry in Austria (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 182.9 | 172.9 | 194.1 | 201.5 | 229.5 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Assets | 182.9 | 172.9 | 194.1 | 201.5 | 229.5 |

| Table 2: Net Sales of Investment Funds in Austria (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 4,241.9 | -42.4 | 4,295.1 | 6,125.7 | 15,224.1 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Sales | 4,241.9 | -42.4 | 4,295.1 | 6,125.7 | 15,224.1 |

## 2. KEY TRENDS IN THE UCITS MARKET

| Table 3: UCITS Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 17.3 | 14.9 | 18.7 | 20.3 | 27.1 |
| Bond funds | 41.2 | 37.2 | 37.4 | 36.8 | 37.4 |
| Multi-asset funds | 20.6 | 21.1 | 27.7 | 31.5 | 39.8 |
| Money market funds | 0.1 | 0.03 | 0.0 | 0.0 | 0.0 |
| Guaranteed/protected funds | 0.5 | 0.3 | 0.2 | 0.1 | 0.0 |
| Absolute Return Innovative Strategies (ARIS) funds | 2.4 | 2.0 | 2.0 | 1.2 | 1.3 |
| Other funds | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 |
| Total | 82.2 | 75.6 | 86.3 | 89.9 | 106.0 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 16.7 | 16.2 | 18.9 | 19.7 | 21.9 |

| Table 4: Net Sales of UCITS by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | -229.1 | -416.4 | 429.0 | 1,339.3 | 2,641.9 |
| Bond funds | -1,208.3 | -3,057.4 | -711.8 | -739.2 | 955.5 |
| Multi-asset funds | 2,190.2 | 2,083.3 | 3,084.4 | 2,588.7 | 5,623.5 |
| Money market funds | -17.8 | -3.1 | 0.0 | 0.0 | 0.0 |
| Guaranteed/protected funds | -132.6 | -179.6 | -43.9 | -33.8 | -11.3 |
| Absolute Return Innovative Strategies (ARIS) funds | -317.1 | -272.3 | -206.7 | -209.1 | 72.5 |
| Other funds | 33.8 | -11.9 | 67.6 | 7.8 | 24.2 |
| Total | 319.1 | -1,857.4 | 2,618.7 | 2,953.6 | 9,306.2 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 1,385.9 | 718.7 | 605.1 | 266.6 | 1,250.3 |

## 3. KEY TRENDS IN THE AIF MARKET

| Table 5: AIF Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 11.1 | 11.0 | 14.2 | 13.4 | 16.9 |
| Bond funds | 28.7 | 28.2 | 30.0 | 30.8 | 30.6 |
| Multi-asset funds | 50.6 | 46.1 | 50.9 | 55.1 | 62.8 |
| Money market funds | | | | | |
| Guaranteed/protected funds | 0.6 | 0.6 | 0.4 | 0.2 | 0.2 |
| Absolute Return Innovative Strategies (ARIS) funds | 2.0 | 2.9 | 2.9 | 2.3 | 2.1 |
| Real estate funds | 7.5 | 8.3 | 9.2 | 9.6 | 10.7 |
| Other funds | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Total | 100.7 | 97.3 | 107.7 | 111.5 | 123.5 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 16.7 | 12.6 | 13.1 | 11.6 | 12.0 |
| ➤ Institutional funds | 85.8 | 85.5 | 95.2 | 98.8 | 108.8 |

| Table 6: Net Sales of AIFs by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 711.8 | 387.2 | 424.9 | -163.3 | 669.8 |
| Bond funds | 715.4 | 214.3 | -86.8 | 384.0 | 305.7 |
| Multi-asset funds | 1,837.1 | 616.1 | 934.9 | 2,993.8 | 4,310.6 |
| Money market funds | | | | | |
| Guaranteed/protected funds | -127.7 | -87.0 | -116.4 | -151.0 | -24.3 |
| Absolute Return Innovative Strategies (ARIS) funds | 73.3 | -73.6 | -164.0 | -215.5 | -304.5 |
| Real estate funds | 715.0 | 766.5 | 680.0 | 340.0 | 969.6 |
| Other funds | -2.0 | -8.4 | 3.8 | -16.0 | 11.7 |
| Total | 3,922.8 | 1,815.0 | 1,676.4 | 3,172.1 | 5,938.5 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | -194.2 | -857.8 | -188.2 | 314.2 | -671.3 |
| ➤ Institutional funds | 3,308.3 | 1,720.5 | 1,095.0 | 2,878.1 | 4,498.1 |

## 4. TRENDS IN THE NUMBER OF FUNDS

| Table 7: Number of Funds | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS | 983 | 974 | 905 | 901 | 898 |
| Home-domiciled AIFs | 1,040 | 1,045 | 1,036 | 1,057 | 1,081 |
| Foreign funds registered for sales | 7,776 | 8,466 | 8,858 | 9,352 | 9744 |
| ➤ By national promoters | | | | | |
| ➤ By foreign promoters | | | | | |
| Fund launches | 119 | 54 | 53 | 70 | 76 |
| Fund liquidations | 529 | 221 | 279 | 217 | 298 |
| Fund mergers & acquisitions | 210 | 191 | 304 | 206 | 186 |

## 5. REGULATORY DEVELOPMENTS

### 5.1. UCITS

In Austria, Directive (EU) 2019/1160 - as well as the formal acts regarding Regulation (EU) 2019/1156 on cross-border distribution - were implemented belatedly, in December 2021. The Austrian investment fund industry strove to reach a common understanding of the provisions stated within the ESMA Guidelines on cross-border marketing communications.

### 5.2. AIFMD

For AIFM, the possibility of pre-marketing to professional clients was added to the national implementing act, stemming from the EU Directive as mentioned above.

### 5.3. MiFID II

VÖIG has been heavily involved in the transposition of the MiFID II framework in Austria and also represented the Austrian investment fund industry's views regarding the MiFID "Quick Fixes".

For Austrian fund management companies, the EMT is essential for the transfer of additional fund data from the fund management companies to the distributors.

### 5.4. PRIIPs

The national efforts to transition from the UCITS KIID to the PRIIP KID for investment funds are mainly happening at the level of the fund management association. We have launched a number of expert groups to cover special topics, e.g. calculation issues or the inhouse production of the KID itself. VÖIG will establish a type of 'PRIIPs Guide' to help our members navigate the latest regulatory developments, as well as the evolution in practice. It will also provide them with the legal interpretations of the expert groups, with all information gathered within one single document.

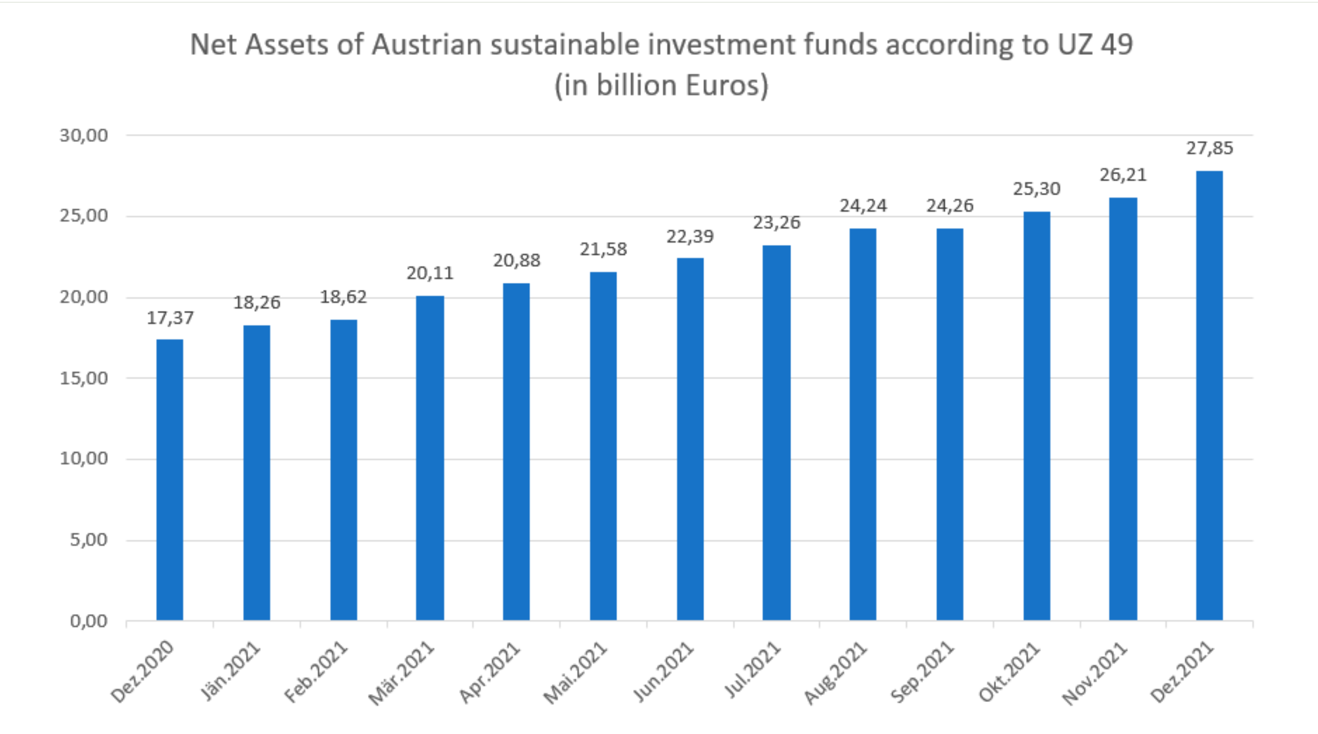
### 5.5. ELTIF

ELTIF as a product is still not sufficiently attractive to the industry, although some market participants are considering a potential introduction of ELTIFs into their product ranges.

### 5.6. Sustainable finance

The market participants expended considerable effort in implementing the Level 1 provisions of SFDR. No additional experience with the NCA approach can be reported, as the NCA has not been appointed as 'competent' for SFDR by the national regulator during 2021, and thus was not heavily involved as yet.

The Austrian ecolabel is called "Umweltzeichen für Finanzprodukte" and has a long history. Its special feature is that it is a state-run label. Key requirements are set out in the Ecolabel Guideline.




For the EU Ecolabel, we do expect anywhere near the same level of uptake as we have (and will have in the future) for the national label.

### 5.7. Stewardship

There were no notable developments in this area during 2021.

### 5.8. Benchmarks

There were no significant regulatory developments of note in Austria.

### 5.9. Anti-Money Laundering Directive

In 2021, the Austrian Financial Market Authority (FMA) held a public consultation on the update of relevant circulars on the due diligence for the fight against money laundering.

### 5.10. Digital Finance

There were no notable developments in this area during 2021.

### 5.11. Other regulatory developments

**Open-ended real estate investment funds**

Since 2004, open-ended real estate investment funds have been established in Austria. A total funds volume of nearly EUR 10.5 billion has been collected in the funds by the end of 2021. The funds are predominantly retail.

Open-ended real estate investment fund can be described as those investing at least 50% in real estate assets, while redemption duties of fund units have to be fulfilled on a daily basis. Industry and the government agreed that this liquidity mismatch should be reduced. Therefore, new minimum holding and notice periods regarding open-ended real estate investment funds were introduced into law last year (BGBl I 198/2021); these came into effect on 1 January 2022.

By 1 January 2027 at the latest, all investors in Austrian open-ended real estate funds must stick to a 12-month minimum holding period plus a 12-month notice period before selling real estate funds units. These measures should help support liquidity management of real estate funds and fair treatment of investors of open-ended real estate investment funds in the future. Real estate investment management companies must adapt their legal public investor documents, and must inform investors of legal changes one year before the new regulation come into effect.

Until the changes of the fund documents come into effect, investors holding real estate funds are allowed to redeem their units on a daily basis, in line with to the existing law.

## 6. PENSIONS & PEPP

There have been no new developments in 2021.

## 7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

There have been no major new developments for income taxes and withholding taxes in 2021.

An interesting step has been taken by the Austrian government, complementary to the Ecological Tax reform Act (BGBL I 10/2022); detailed cryptoasset taxation has been introduced in Austria. Income and capital gains realised from cryptoassets are being brought into the 27.5% capital income taxation. This also includes investment of funds in crypto assets.

On VAT and management of investment funds, the so called ‘Austrian cases’ have been decided by the ECJ on the 17th of June 2021 (C-58-20, C-59/20). According to the ECJ, the common system of VAT must be interpreted as meaning that the provision of services by third parties to management companies of special investment funds, such as tax-related responsibilities consisting in ensuring that the income received from the fund by the unit-holders is taxed in accordance with national law and the grant of a right to use software which is used exclusively to carry out calculations which are essential for risk management and performance measurement, fall within the scope of the exemption provided for in that provision if they are intrinsically connected to the management of such funds and if they are provided exclusively for the purpose of managing such funds, even if those services are not outsourced in their entirety.

The Ministry of Finance already has transformed this decision into national VAT guidelines in December 2021.

## 8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

In September 2021, the Austrian Ministry of Finance presented the National Financial Literacy Strategy, entitled: “My money, my life, my decision – I’m sure!”. In an initial phase, the OECD, together with the Ministry of Finance, generated a so-called ‘mapping report’, collating existing national financial literacy measures and activities in Austria and analysing international best practice. During the current second phase, the Ministry is now working on the specific structures, objectives and measures of the National Financial Literacy Strategy.

VÖIG has always proactively promoted investor and financial education. It has initiated or supported actions for a number of different target groups, specifically training for professionals working in the fund industry, retail investors, students and those who wish to find out more about the structure and concept of investment funds.

## 9. OTHER ACTIVITIES OF THE ASSOCIATION

In 2021, investment funds (regulation) remained a hot topic in (academic) publications. As well as chapters in various books dealing with investment fund regulation, articles on specific fund and asset management issues had been published in various journals, such as Österreichisches Bankarchiv (ÖBA) or Zeitschrift für Finanzrecht (ZFR). In addition, VÖIG publishes monthly newsletters reflecting the trends in European and Austrian fund issues for its members and information members.

- (Tele) conferences
  On 19 April 2021, for World Fund Day, various initiatives were organised for the eighth year in a row. This day is an important highlight in the calendar of the Austrian investment funds industry.
- Seminars
  The so-called ‘VÖIG Lehrgang’, is an initiative launched in 1996 in cooperation with the Austrian Society for Bank Research. It was designed to enhance the professionalisation of the investment fund business through sustainable further education and advanced training courses. This has continued through 2021 and remains a key pillar of the educational efforts in this area. In addition, VÖIG staff regularly participate as speakers in seminars and conferences on fund-related subjects. VÖIG has also continued offering its ‘Fit & Proper’ seminar series, reflecting the increasing demand from the industry in this area.
- Videos/podcasts
  VÖIG is an active member of the FundsXML organisation. As part of this, VÖIG created short-format video tutorials as a vehicle for introducing the FundsXML format to interested parties.

# BELGIUM COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

**Table 1: Net Assets by the Fund Industry in Belgium (EUR billion)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Home-domiciled UCITS & AIFs (1) | 99.4 | 93.0 | 105.3 | 107.2 | 132.0 |
| Funds domiciled abroad and promoted by national providers | 95 | 94.3 | 114.3 | 124.5 | 143.4 |
| Total Net Assets | 194.4 | 187.3 | 219.6 | 231.7 | 275.4 |

(1) Net assets of nationally domiciled funds sold abroad are not included.

**Table 2: Net Sales of Investment Funds in Belgium (EUR million)**

| | 2017 | 2018 | 2019 | 2020 | 2021(2) |
|---|---|---|---|---|---|
| Home-domiciled UCITS & AIFs (3) | 7,402.8 | 5,016.1 | -1,653.0 | 4,959.8 | 15,872.3 |
| Funds domiciled abroad and promoted by national providers | 2,595.8 | 408.4 | 2,040.5 | 6,416.2 | 7,141.1 |
| Total Net Sales | 9,998.6 | 5,424.5 | 387.5 | 11,376.0 | 23,013.4 |

(2) 2021 data are estimates

(3) Net sales of nationally domiciled funds sold abroad are not included.

## 2. KEY TRENDS IN THE UCITS MARKET

**Table 3: UCITS Assets by Fund Type (EUR billion)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Equity funds | 43.3 | 33.7 | 51.5 | 54.7 | 76.3 |
| Bond funds | 9.7 | 9.5 | 11.4 | 12.1 | 12.9 |
| Multi-asset funds | 60.9 | 66.9 | 78.4 | 87.4 | 111.7 |
| Money market funds | 2.4 | 9.6 | 2.8 | 3.5 | 4.2 |
| Guaranteed/protected funds | 4.2 | 3.4 | 4.1 | 3.4 | 2.9 |
| Absolute Return Innovative Strategies (ARIS) funds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other funds | 0.0 | 0.4 | 0.3 | 0.5 | 0.6 |
| Total | 120.5 | 123.4 | 148.5 | 161.7 | 208.5 |
| of which ➤ ETFs | 1.4 | 1.3 | 1.4 | 1.2 | 1.2 |
| ➤ Funds of funds | 57.0 | 57.4 | 62.8 | 69.6 | 83.1 |

| Table 4: Net Sales of UCITS by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 3,005.2 | -5,589.1 | 7,935.1 | 2,590.8 | 7,486.7 |
| Bond funds | 646.3 | -1,223.5 | -464.9 | 732.9 | 985.4 |
| Multi-asset funds | 2,972.9 | -454.7 | 851.8 | 741.8 | 7,207.9 |
| Money market funds | 377.9 | 7,533.5 | -9,196.1 | 918.9 | 751.3 |
| Guaranteed/protected funds | -546.9 | -1,003.9 | -539.3 | -755.7 | -672.6 |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | 0.0 | -255.6 | -101.8 | -79.8 | -53.6 |
| Total | 6,455.4 | -993.2 | -1,515.4 | 4,148.9 | 15,705.1 |
| of which ➤ ETFs | 76.2 | -10.7 | -14.4 | 34.4 | 91.4 |
| ➤ Funds of funds | 16,366.3 | 1,750.8 | -1,394.6 | 1,971.6 | 5,733.4 |

## 3. KEY TRENDS IN THE AIF MARKET

| Table 5: AIF Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 1.1 | 0.4 | 0.3 | 0.3 | 0.5 |
| Bond funds | 3.1 | 2.1 | 0.0 | 0.0 | 0.0 |
| Multi-asset funds | 6.8 | 5.2 | 2.5 | 2.1 | 1.8 |
| Money market funds | 0.6 | 2.3 | 0.0 | 0.0 | 0.0 |
| Guaranteed/protected funds | 3.3 | 2.0 | 1.0 | 0.0 | 0.0 |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Real estate funds | | | | | |
| Other funds | 19.9 | 11.5 | 8.9 | 7.1 | 0.5 |
| Total | 34.8 | 23.5 | 12.7 | 9.6 | 2.8 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 7.0 | 5.3 | 2.7 | 2.8 | 2.2 |
| ➤ Institutional funds | | | | | |

| Table 6: Net Sales of AIFs by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 74.5 | -81.7 | 45.6 | 17.5 | 44.9 |
| Bond funds | 210.2 | -298.4 | -0.6 | 0.6 | 0.6 |
| Multi-asset funds | 1,057.4 | -229.1 | 27.0 | 14.4 | 154.8 |
| Money market funds | 99.9 | 1,764.0 | 0.0 | 0.0 | 0.0 |
| Guaranteed/protected funds | -430.8 | -584.6 | -127.5 | -41.7 | -2.1 |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Real estate funds | | | | | |
| Other funds | -819.6 | 29.4 | 73.7 | -29.7 | -7.8 |
| Total | 191.4 | 599.5 | 18.2 | -38.9 | 190.4 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 1,912.7 | 173.2 | -60.2 | 69.5 | 191.9 |
| ➤ Institutional funds | | | | | |

## 4. TRENDS IN THE NUMBER OF FUNDS

| Table 7: Number of Funds | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS | 702 | 710 | 736 | 721 | 670 |
| Home-domiciled AIFs | 368 | 222 | 76 | 37 | 20 |
| Foreign funds registered for sales ➤ By national promoters ➤ By foreign promoters | 4,453 | 4,758 | 4,923 | 4,955 | 5,046 |
| Fund launches | 575 | 663 | 586 | 456 | 414 |
| Fund liquidations | | | | | |
| Fund mergers & acquisitions | | | | | |

## 5. MARKET DEVELOPMENTS IN 2021

### Investment funds commercialised in Belgium (cf. tables 1 and 2)

At year-end 2021, the investment funds commercialised in the Belgian market totalled EUR 275.4 billion (net assets corrected for double counting). Of these net assets of funds distributed in Belgium, 47.9% can be attributed to investment funds under Belgian law, whereas the remaining 52.1% is accounted for by the investment funds under foreign law.

Over the entire year 2021, net assets grew by EUR 43.7 billion (i.e. 18.9%); EUR 23.0 billion of this growth is attributable to net sales. The positive market effect is responsible for the remaining EUR 20.7 billion.

Compared to net outflows during 2012-2013, the Belgian investment funds market witnessed significant net inflows since 2014 with 2021 being a particularly noteworthy year.

- ▲ *In Belgium, the importance of foreign investment funds has gradually increased over time.*

**Investment funds according to Belgian law (cf. tables 3, 4, 5 and 6)**

The Belgian UCITS investment funds industry totalled EUR 208.5 billion at the end of 2021, an increase of 29.0% - EUR 46.8 billion - during 2021. EUR 15.7 billion of this growth is attributable to net sales. The positive market effect is responsible for the remaining EUR 31.1 billion.

- *Funds-of-funds are becoming increasingly important amongst Belgian UCITS funds.*

The Belgian AIF investment funds industry totalled EUR 2.8 billion at the end of 2021 and fell by 71.4% - EUR 6.9 billion - during 2021.

- *The trend of decreasing number of AIF funds has been going on for a few years and is driven by the fact that, year after year, multiple AIF funds changed their legal investment type to UCITS funds and almost no new Belgian AIF funds are being created.*
- *Until 2020, the AIF category classified as 'other funds' represented the largest type amongst the AIF funds, due to the fact that this category was mainly made up of AIF pension-saving funds. In the meantime, almost all pension-saving funds were already, or have become, UCITS funds.*

The number of Belgian investment funds has been decreasing year after year, whereas the number of foreign funds registered for sale in Belgium continues to grow.

## 6. REGULATORY DEVELOPMENTS

### 6.1. MiFID II

Regulated companies that produce or sell financial instruments must meet the MiFID II requirements for product governance. These rules differ depending on the role played by the companies in this area.

The Belgian Financial Services and Markets Authority (FSMA) wishes to help companies comply with these new product governance requirements by offering them a work programme (available in French or Dutch only). The work programme, published in March 2021 on the FSMA website, provides an overview of the legislation and regulations applicable to product governance. It is intended as practical guidelines and a resource for compliance with the MiFID rules of conduct.

### 6.2. PRIIPs

The abolition of the KIID for undertakings of collective investment (UCIs), paired with the obligation of a PRIIPs KID for retail investors, will come into effect on 1 January 2023.

The technical add-ons and amendments related to the PRIIPs KID of the Belgian UCITS *'Law of 3 August 2012 on undertakings for collective investment that meet the conditions of Directive 2009/65/EC'* and of the AIF *'Law of 19 April 2014 on alternative undertakings for collective investment and their managers'* will be incorporated into a future law applying various financial provisions. The proposed amendments to the legislation are part of the PRIIPs/UCITS 'quick fixes' that were published in the Official Journal of the EU of 20 December 2021 and are transposed into Belgian law.

BEAMA is in discussion with the Belgian supervisory authority, the FSMA and the Cabinet of Finance seeking clarification over possible implementation problems in Belgium on the sector's obligations towards professional investors, the obligations of the distributor(s) to make the PRIIPs KID available at the introduction and the impact on the marketing material. In addition, executive royal decrees are still required.

### 6.3. ELTIF

The European long-term investment funds (ELTIFs) are one of the Alternative Investment Fund types (AIF) being considered against the background of the Capital Markets Union (CMU) to stimulate long term investment in the real economy in the European Union.

The *'Law of 21 January 2022 on various tax provisions'*, published in the Belgian Official Gazette of 28 January 2022, introduced, among other elements, the tax regime applicable to European long-term investment funds. The aim of the legal provisions is to make ELTIFs more accessible in Belgium and to create a level playing field with our neighbouring countries.

A specific tax framework for Belgian ELTIFs has been established:
- corporate tax neutrality of the investment company
- avoidance of economic double taxation for resident corporate investors (under the dividend-received deduction regime)
- avoidance of economic double taxation for non-resident corporate investors (exemption of Belgian withholding tax) under similar circumstances to those of Belgian resident corporate investors.

The usual tax rules applicable to other regulated investment funds apply (taxation of individual investors, legal investors, subscription tax, stock exchange transaction tax, etc.).

ELTIFs invest in the long term with an initial lock-up period, and are less subject to redemptions during periods of liquidity tensions. The long-term character of this product also fits into the strategy of sustainable and inclusive growth.

ELTIFs can be an appropriate tool for implementing sustainable public/private (infrastructure) projects considering the recovery plan, and more specifically the launch of the Belgian transformation fund managed by the Federal Holding and Investment Company (SFPI-FPIM).

ELTIFs benefit from an efficient structure, offering investors access to a wide range of assets (notably infrastructure assets, digitalisation and green transition projects and investments in SMEs). ELTIFs benefit from a marketing passport within the EU, allowing them to raise funds from Belgian investors as well as those from other Member States. ELTIFs also can raise long-term capital from professional and institutional investors as well as from retail investors, thus making them attractive for public savings.

### 6.4. Sustainable finance

Belgium has over 20 years of history in sustainable and responsible investment, and the Belgian asset management market has always been very active around this topic. As such, the BEAMA formulated, in April 2001, its first principles concerning funds with a profile of 'ethical investing' and since then, these principles have been adapted to the evolution in concepts and market demands.

As of 2013, the Belgian Financial Sector Federation (Febelfin), of which the BEAMA is a constituting member, adopted the BEAMA's sustainability methodology to apply it to all financial products marketed in Belgium.
During the following years, extensive revisions - in which the BEAMA were closely involved - resulted in the publication of the Quality Standard for sustainable and socially responsible financial products on 7 February 2019.
In summer 2019, the Central Labelling Agency (CLA) for the Belgian market was installed. It is the duty of the CLA to independently govern the labelling process based on the cited Quality Standard. There is more information available on the CLA dedicated website: https://www.towardssustainability.be/en.

By the end of 2021, 580 products (representing around EUR 390 billion) from 85 different institutions had obtained the "Towards Sustainability"-label, thereby making it one of the most comprehensive sustainability labels in the world.

During 2021, the Quality Standard underwent its first biennial review. This involved an extensive consultation process where various stakeholders provided their vision and input, including the BEAMA for asset managers active in Belgium. The focus of this revision was on:
- aligning the Standard with the EU Sustainable Finance regulation
- ensuring deeper integration of sustainability in the investment process
- strengthening the criteria on the fossil fuels sector and on sovereign bonds
- improving disclosure to end investors.

The list of labelled products adhering to the revised Quality Standard will be published in mid-2022.

Multiple sustainability labels for financial products in Europe currently exist, and the "Towards Sustainability" label is invariably listed among them. The Qontigo Whitepaper of January 2022, entitled: "Sustainable investment fund labelling frameworks: An apples-to-apples comparison", gives an extensive overview of the different sustainability labels in Europe. The "Towards Sustainability" label is also mentioned in the first draft of the European ESG Template (EET) as being an accepted ESG label.

### 6.5. Benchmarks

The European Money Markets Institute (EMMI) is an Authorised Administrator under the Benchmarks Regulation, and the EMMI develops and administers robust critical benchmarks. It is an international non-profit organisation based in Brussels and fell under the control of the FSMA until the end of 2021.The ESMA has subsequently taken over supervision.

The EMMI publishes two critical benchmarks, namely the Euribor and the EONIA.

- The Euribor is the unsecured money market reference rate for the euro, and was declared a critical benchmark by the European Commission in 2016. Euribor is published on every target day for each of its defined tenors: 1 week, 1 month, 3 months, 6 months and 12 months.
- The EONIA is the interbank overnight lending reference rate for the euro. Since 1 October 2019, the EONIA has been calculated with a reformed methodology, tracking the €STR - the euro short-term rate of the European Central Bank. The publication of this rate was discontinued, as planned, on 3 January 2022.

### 6.6. Anti-Money Laundering Directive

**The FSMA launched a series of animated films in March 2021 (available in French and Dutch only) on the rules intended to combat money laundering and terrorist financing.** Through these new films, the FSMA seeks to raise awareness of the risks of money laundering and terrorist financing that firms may encounter. The film (available on the FSMA website) focuses on atypical transactions and their analysis. It highlights the importance of the obligation to notify the Financial Intelligence Processing Unit (CTIF-CFI), which is the cornerstone of an effective system for combatting money laundering and terrorist financing.

### 6.7. Other regulatory developments

The ESMA Guidelines of June 2021 (ESMA34-49-291) on stress test scenarios under the MMF Regulation, which apply to Article 28 of the MMF Regulation and establish common reference parameters for the stress test scenarios to be included in the stress tests conducted by MMFs or managers of MMFs in accordance with that Article, will be followed by the FSMA in her supervision as stated in her communication FSMA_2021_15 of 20 August 2021.

## 7. PENSIONS & PEPP

Third-pillar pension saving funds are collective investment vehicles available for Belgian residents or those of another European Economic Area Member State who have a Belgian employment contract and are at least 18 years old. The BEAMA believes that collective third-pillar pension savings products should be encouraged by creating awareness among the young active population and among all professional groups (workers, employees, independents and civil servants). In the long run, these democratic saving products will play an clear role in safeguarding the beneficiary's purchasing power.

In Belgium, there are two ceilings on pension savings for which an annual tax benefit in personal income tax applies:

- The tax reduction amounts to 30% for deposits up to a maximum of EUR 990.
- For deposits higher than EUR 990 and up to a maximum of EUR 1270, a tax reduction of 25% is granted. The explicit agreement of the taxable person to exceed the ceiling of EUR 990 must be renewed every year.

At the end of 2020, the Federal Government decided not to index a number of tax ceilings for income years 2020-2023. The maximum amounts for tax reduction remain the same as in 2019 during this period. The annual indexation will take place again from the income year 2024. However, an exception is made for the third pillar of pension savings, for which the freeze started in 2021. It is possible to save up to EUR 990 in third-pillar pension savings with a 30% tax reduction and to a maximum of EUR 1270 with a 25% tax reduction in 2022 and 2023.

In the context of promoting the sustainable financing of the economy, the BEAMA supports the Pan-European Personal Pension Product (PEPP). This product, which will be launched from 22 March 2022, will supplement the statutory pension of the first pillar, the work-related pension of the second pillar and the individual third-pillar pension saving products. However, the PEPP is not intended to replace the products currently existing at national level. It is an instrument that meets the increasing mobility in the labour market. The PEPP will play a strategically important role in facilitating better outcomes for savers and the real economy.

Ensuring equivalent tax treatment for the PEPP to that of own national pension savings products within the EU national borders is viewed as a necessary condition for the success of the PEPP. This way, there should be no discrimination based on tax considerations.

## 8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

BEAMA's general principle is that a level playing field between the different nationalities and investment types of UCIs should ensure that investors can invest in those that best fit their needs and risk profile, irrespective of tax aspects.

### Belgian tax on securities accounts:

The *'Law of 17 February 2021 introducing a new Belgian annual tax on securities accounts'* was published in the Belgian Official Gazette of 25 February 2021. The royal decree of 6 August 2021 on the declaration, payment and various rules for the annual tax on securities accounts was published on 23 August 2021. The administrative guidance (FAQ) on the practical aspects of the tax was published on 7 October 2021.

The tax on securities accounts is an annual tax on the holding of a securities account, irrespective of the number and type of accountholders (natural persons, corporates, legal entities,...). The tax will be levied at the rate of 0.15% on the average value of the account in excess of EUR 1 million.

Shares of UCI are on the investor's securities account. If that account is larger than EUR 1 million, it will be taxed. Securities accounts held exclusively for their own account by UCIs are exempt from the tax on securities accounts. Pension savings funds are also exempt from this tax.

### Tax Rules: Belgian implementation of taxation

On 10 June 2021, the Belgian tax administration issued an *'administrative circular regarding the Belgian Tax on Savings Income'* (article 19bis of the Belgian Income Tax Code) of certain collective investment undertakings of the bond type in the case of funds of funds. The BEAMA has made a significant contribution to the development of this circular. The main objective of the circular is to highlight some methodological points of the Asset Test (i.e. percentage of the assets of a collective investment undertakings invested in debt-related assets) and the Belgian Taxable Income per Share (BTIS), in case of funds-of-funds:

- the possibility to use, in the framework of the computation of the BTIS of the Top Fund, the BTIS as well as, in the absence of BTIS, the Asset Test of the Target Funds;
- the non-deductibility of (realised and unrealised) capital losses from the BTIS computed by the Top fund in case of Target Funds with unknown / non-computed Asset Test.

### VAT rules

At the Belgian level, there are currently no relevant legislative decisions on VAT rules for the asset management sector.

### Double tax treaties

There were no relevant developments concerning to double tax treaties.

## 9. FINANCIAL AND INVESTOR EDUCATION INITIATIVES

Initiatives that provide information to potential investors are important for improving financial literacy and enabling citizens to make sound decisions in managing their savings. The BEAMA contributes to various seminars and accompanying press communications on the benefits of savings and investment instruments, such as pension savings and investment funds. The BEAMA will focus for the coming years on empowering end investors in their financial decisions, and promotes investing as a judicious way to manage personal finances.

As a constituent association of the Belgian Financial Sector Federation (Febelfin), the BEAMA has actively contributed to some educational websites targeted at prospective retail investors. The most recent initiative to which the BEAMA has made a major contribution was 'Club Invest', a web platform informing new investors, launched in June 2021 in both French and Dutch. The focus of the campaign is 'start to invest'. Club Invest explains the basics of investing in a simple way and provides an overview of possible investment options.

The EFAMA brochure, "Investing for a better future – five tips to do more with your savings" will be available on the BEAMA website in 2022. Given the importance of the brochure, it will be further promoted in order to reach and inform the target group of young professionals.

The FMSA has a coordinating function on financial literacy in Belgium and has already launched several projects aimed at promoting financial literacy in schools. As of 2020, the educational system included financial literacy as an attainment target. This means that children from the first to the sixth grade in secondary school are receiving financial training as part of their main curriculum.

The FSMA also launched the so-called 'Wikifin programme', made up of three separate pillars:

- Wikifin.be for the general public, where consumers can find a resource of neutral, reliable and practical information on money-related matters.
- Wikifin School for students, offering a wide range of free teaching materials and training courses for teachers to support them in their financial education lessons.
- Wikifin Lab, the new interactive experience centre for financial education of secondary-school students in the buildings of the FSMA in Brussels. Students can experience a wide range of financial situations onsite that they are likely to encounter in daily life.

## 10. OTHER ACTIVITIES OF THE ASSOCIATION

The BEAMA provides, on a quarterly basis, in-depth statistics on the asset management industry in Belgium. These are available on the BEAMA website: https://www.beama.be.

# BULGARIA COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

| Table 1: Net Assets by the Fund Industry in Bulgaria (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 0.7 | 0.7 | 0.8 | 0.8 | 1.3 |
| Funds domiciled abroad and promoted by national providers | 0.4 | 0.3 | 0.5 | 0.5 | |
| Total Net Assets | 1.1 | 1.1 | 1.4 | 1.3 | 1.3 |

| Table 2: Net Sales of Investment Funds in Bulgaria (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 102.0 | 51.1 | 79.1 | 23.5 | 289.5 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Sales | 102.0 | 51.1 | 79.1 | 23.5 | 289.5 |

## 2. KEY TRENDS IN THE UCITS MARKET

| Table 3: UCITS Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| Bond funds | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Multi-asset funds | 0.4 | 0.5 | 0.5 | 0.6 | 0.9 |
| Money market funds | 0.04 | 0.0003 | 0.0 | 0.0 | 0.0 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | 0.0 | 0.001 | 0.001 | 0.001 | 0.002 |
| Other funds | 0.0 | 0.01 | 0.01 | 0.01 | 0.01 |
| Total | 0.6 | 0.7 | 0.8 | 0.8 | 1.2 |
| of which ➤ ETFs | 0.02 | 0.01 | 0.02 | 0.02 | 0.01 |
| ➤ Funds of funds | 0.003 | 0.003 | 0.003 | 0.003 | 0.003 |

| Table 4: Net Sales of UCITS by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 25.4 | 6.8 | 18.4 | 5.7 | 5.3 |
| Bond funds | 11.5 | 0.3 | 17.6 | -9.0 | 4.6 |
| Multi-asset funds | 72.8 | 45.0 | 43.2 | 26.4 | 239.8 |
| Money market funds | -6.0 | -1.6 | 0.0 | 0.0 | 0.0 |
| Guaranteed/protected funds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Absolute Return Innovative Strategies (ARIS) funds | 0.0 | 1.2 | 0.2 | -0.2 | 0.6 |
| Other funds | -1.7 | -0.7 | -0.3 | 0.7 | 1.4 |
| Total | 102.0 | 51.1 | 79.1 | 23.5 | 251.6 |
| of which ➤ ETFs | 1.7 | 1.0 | 4.6 | -0.3 | -3.9 |
| ➤ Funds of funds | -0.1 | 0.0 | -0.01 | 0.0 | -0.1 |

## 3. KEY TRENDS IN THE AIF MARKET

| Table 5: AIF Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 0.0 | 0.0 | 0.0 | 0.01 | 0.1 |
| Bond funds | | | | | |
| Multi-asset funds | 0.01 | 0.01 | 0.01 | 0.002 | 0.01 |
| Money market funds | | | | | |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Real estate funds | | | | | |
| Other funds | | | | | |
| Total | 0.01 | 0.01 | 0.01 | 0.01 | 0.1 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |
| ➤ Institutional funds | | | | | |

| Table 6: Net Sales of AIFs by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 0.0 | 0.0 | 0.0 | 0.0 | 33.5 |
| Bond funds | | | | | |
| Multi-asset funds | 0.0 | 0.0 | 0.0 | 0.0 | 4.4 |
| Money market funds | | | | | |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Real estate funds | | | | | |
| Other funds | | | | | |
| Total | 0.0 | 0.0 | 0.0 | 0.0 | 37.9 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |
| ➤ Institutional funds | | | | | |

## 4. TRENDS IN THE NUMBER OF FUNDS

| Table 7: Number of Funds | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS | 117 | 124 | 122 | 119 | 127 |
| Home-domiciled AIFs | 2 | 2 | 2 | 2 | 5 |
| Foreign funds registered for sales | | | | | |
| ➤ By national promoters | | | | | |
| ➤ By foreign promoters | | | | | |
| Fund launches | | | | | |
| Fund liquidations | | | | | |
| Fund mergers & acquisitions | | | | | |

## 5. REGULATORY DEVELOPMENTS

### 5.1. UCITS

1. The main law regulating the activity of ManCos and collective investment schemes or CIS (CIS are UCITS funds) is the Law on the Activity of Collective Investment Schemes and Other Undertaking for Collective Investment (LACISOUCI). The LACISOUCI was amended by means of bill of amendments voted by Parliament on the 16 February 2022, which was published in issue No. 16/25.02.2022 of the State Gazette and became effective on the 28 February 2022. Many of the proposals of the BAAMC were considered by Parliament.

The BAAMC proposal for the removal or rewording of item 7 in Article 35a, para. 3 of the LACISOUCI has been accepted. According to that text the depositary of the CIS had to assume an obligation to "inspect the procedures introduced by the management company for the conduct of liquidity stress tests of CIS". The BAAMC expressed the opinion that the text in question went beyond the objectives and requirements of the European legal framework for implementing the liquidity stress tests (LSTs), and created additional administrative burden for ManCos and CIS. It was pointed out that Guidelines on LTS in UCITS and AIFs of the European Securities and Markets Authority (ESMA) stated that the depositary should set up appropriate verification procedures to check that the manager of a fund had documented procedures in place for its LST programme. However, it was argued that the wording of the proposed Article 35, para. 3, item 7 assigned to the depositary additional obligations, which were not set forth in the Guidelines and that the Guidelines themselves explicitly stated that the inspection by the depositary did not require from it to assess the adequacy of the LST, i.e. the depositary did not have duty to assess the application of the procedures and methodology for inspection of LST of CIS. Finally, BAAMC proposed that the text of Article 35a, para. 3, item 7 be revised in the spirit of the provision of item 74 of Section V.2 of the ESMA Guidelines, so as to assign to the depositary only the task of check whether the ManCo had adopted and introduced written or otherwise documented liquidity stress test procedures.

Parliament has adopted the proposal of the BAAMC; final wording of the provision states that the depositary "checks whether the ManCo has adopted and implemented procedures for conducting stress tests for liquidity of the collective investment scheme".

Another important issue that the BAAMC highlighted with the Ministry of Finance (MF) and the Financial Supervision Commission (FSC) was the revision of the minimum amounts of the fines and financial sanctions imposed on ManCos and CIS for administrative violations. The reasoning was that the sanctions for such contraventions should be minimal in cases where formal or technical violations of the law were committed, without causing damage to investors or destabilising the market.
The FSC, following assessment of the administrative penal practices and the impact of sanctions on the business, drafted a proposal to substantially reduce the minimum penalty amounts in LACISOUCI. The Ministry of Finance also approved the reduction of the lower limits of financial penalties. Finally, Parliament voted on 16 February 2022 in favour of the amendment of Article 273; **in some cases, they have been reduced two to four times**, to the effect that the lower limits of sanctions were significantly decreased. The maximum limits of certain sanctions have also been reduced.

Another important amendment referred to the provisions of Article 64, paragraph 2 of LACISOUCI; the BAAMC proposed its removal. This requires the ManCo to announce summarised information on the quotations of CIS twice a month. The purpose is unclear; CIS generally publish their issue and redemption price every day, but at least twice per week. That information is public, and any investor, shareholder or unitholder, regulator and the general public having easy access to it. Indeed Article 32, paragraph 5, indent 4, item "c" (*in fine*) of the UCITS Directive does require investment funds to publish those values at least twice a month, however that applies to UCITS that are without depositories and such UCITS do not exist and cannot be created under Bulgarian law. Parliament voted the amendment of Article 64, paragraph 2 of LACISOUCI, ultimately retaining the provision but reducing the frequency of reporting of summarised information to **once a month**. Thus the administrative burden on ManCos and CIS has been considerably reduced.

2. In connection with the Proposal for a Directive of the European Parliament and of the Council Amending Directives 2011/61/EU and 2009/65/EC as regards Delegation Arrangements, Liquidity Risk Management, Supervisory Reporting, Provision of Depositary and Custody Services and Loan Origination by Alternative Investment Funds (Proposal), the BAAMC wrote to the FSC on 10 March 2022, supporting the amendment provided for in Article 2 of the Proposal and the new Article 18a of the UCITS Directive and expressing its opinion that all liquidity management instruments (LMI), included in the list under Annex VI of the Proposal (Annex IIA of the UCITS Directive), should be allowed for use by the ManCos and CIS. The BAAMC also pointed out that LACISOUCI provided only for the suspension of redemption of units as a liquidity management tool, with no other options. That measure was one of last resort, which should be used only in exceptional cases and times of extreme market stress. It was argued that ManCos had to be flexible and be capable of responding adequately to challenges affecting the liquidity of CIS under management, and to be able to protect the interests of investors, including investors who chose not to dispose of their units and remain in the CIS. The BAAMC proposed that the list remain open for introduction of other LMI, and national competent authorities were given the power to approve other measures that were not explicitly included in the list. BAAMC also suggested that repo transactions be also included as an additional tool for liquidity management.

Based on EFAMA's response to ESMA's Consultation Paper on Guidelines on the Treatment of Repurchase and Reverse Repurchase Agreements of 25 September 2012, the BAAMC suggested that cash revenues generated from the sale of investments should not be viewed as collateral. It was pointed out that UCITS held genuine ownership of cash acquired from repo trades, and should therefore be allowed to use it for any legitimate purpose, be it investment, collateralisation or satisfaction of redemption requests by investors. It was indicated that under those circumstances, it was unacceptable to submit cash proceeds from repos to the same restrictions as cash collateral from securities lending.

3. The FSC, in a circular letter to the ManCos and the BAAMC, drew the attention of the addressees to the content of the Key Investor Information Document (KIID) with regard to the presentation of the ongoing charges and performance fees and that it was necessary for the ManCos to comply with the relevant requirements of CESR's Guidelines on the Methodology for Calculation of the Ongoing Charges Figure in the KIID (CESR/10-674). Among the requirements of the CESR Guidelines is that, under item 8, the amount of ongoing charges should take into account the those charged in the underlying undertakings for collective investment (UCIs) in cases where the UCITS funds invest a substantial proportion of its assets in other UCITS or UCIs. The requirement applies to UCITS within the scope of Article 55 (3) of Directive 2009/65 / EC. The provision has been transposed by means of the provision of Article 48, paragraph 4 of the LACISOUCI, which introduces the requirement to disclose in the prospectuses of CIS the maximum amount of management fees collected by both the CIS itself and other CIS or UCIs in which it intends to invest when a CIS invests a significant portion of its assets in other CIS and UCIs.

It was pointed out by the BAAMC, in its response of 23 February 2022 to FSC's letter that the ManCos were experiencing difficulties in applying Article 48, paragraph 4 of LACISOUCI, insofar as the term "substantial proportion of the assets" was not defined in the law and the relevant national legislation. The UCITS Directive also did not define "substantial proportion". It was also specified that a number of the ManCos applied the text, adhering to the permitted total of CIS investments in other UCIs, which - according to Article 48, paragraph 2 of the LACISOUCI - might not exceed 30 percent of the assets of the CIS. If this amount was reached, then the ManCo should have to disclose the required information according to Article 48, paragraph 4 of the LACISOUCI in CIS prospectus. The BAAMC also asserted that the grammatical construction of the expression "substantial proportion of the assets" also gave a reason for applying the 30% threshold. A substantial proportion is always a relatively large part of the assets. In Article 14b of the UCITS Directive, that term "substantial portion" is used to denote such a particularly significant part of (i) the permanent and (ii) variable remuneration, which in the first case is at least 50% and in the second is at least 40% of the respective type of remuneration. In no case a substantial portion might be considered as a proportion less than 40 percent.

At the same time, the BAAMC stated after the amendments introduced in LACISOUCI in 2019 the amended provision of Article 49, paragraph 1 of the LACISOUCI specified that "substantial influence" was in place in the cases where the CIS acquired 20 or more percent of the voting rights of an enterprise. Although used in relation to a value other than assets, the term "substantial (or significant) influence" was indicative of the numerical expression of materiality and was a kind of quantitative threshold of substantiality. By analogy, the term "substantial proportion" could be interpreted as referring to a similar percentage - 20% of assets - when examining what portion of them was substantial. BAAMC claimed that such percentage (20%) was a reasonable expression of the requirement for diversification, while maintaining the ability of the ManCo and CIS to invest in profitable instruments and to adequately manage the relevant risks associated with investing in units of other CIS and UCIs, respectively when in excess of it - to disclose information about the costs of acquiring and maintaining the target investments.

Next, it was also argued that 10% of the assets could also be taken as a quantitative identifier for determining the level of substantiality, given the restriction under Article 38, paragraph 1, item 5, point "b" of the LACISOUCI according to which CIS and UCIs in which the CIS could invest had, according to their constitutive documents, to invest up to 10% of their assets in other CIS and UCIs. In this way, the investing CIS, if it limits investments in other CIS and UCIs to 10% of its assets, itself became an appropriate investment tool from the CIS and UCIs universe, without the need to disclose additional information.

BAAMC suggested that the FSC adopted practice on the application of Article 48, paragraph 4 of LACISOUCI prior to any amendments in the law (which required as a minimum certain period of time to implement) and determined the applicable threshold for ascertaining whether investment of assets of a CIS in the units of other CIS and UCIs (10, 20 or 30 percent of assets) was investment of substantial proportion of such investing CIS assets.

The BAAMC stressed in its letter the necessity - in the absence of a uniform rule within the EU - of establishing an appropriate definition for the purposes of Article 48, paragraph 4 of LACISOUCI. This should take into account the national specifics, the degree of development and liquidity of the market and the size of the investment business. The BAAMC also warned that an overly restrictive interpretation, and imposition of too low a percentage limit as an indicator for a substantial proportion assets, could create disproportionate burden for ManCos and CIS, especially considering the thin and not particularly liquid national capital market.

### 5.2. AIFMD

The legal framework defining the regime of alternative investment funds managers (AIFMs) is included as integral part of the LACISOUCI. There are currently 22 AIFMs registered with the FSC. Eight of them are ManCos (all of them members of BAAMC) that have also been registered with the FSC as AIFMs, each one of them managing national investment funds (NIF). NIFs are a specific type of AIF, modelled on the UCITS variety, but with a less restrictive regime on eligible instruments of the portfolio, diversification and concentration requirements, use of leverage and management structure (they can also be self–governed).

Currently, there are in total only 13 such national investment funds. Two of these 13 NIFs are former closed-end investment companies organised as joint-stock companies and they both are former privatisation funds. Both of them are currently registered as national investment companies (investment funds with corporate structure, organised as joint-stock companies).

NIFs are regulated in detail through a special chapter of LACISOUCI, and their legal regime makes them eligible for retail investors. They can be offered to the general public through public offering of securities (increase of capital or the continuous offering of units and shares). NIFs are only marketed in Bulgaria and they cannot be offered on a crossborder basis throughout the EU. NIFs are suitable to be offered publicly, including to retail investors, based on an approved prospectus and license issued by the FSC. The preferential tax regime applicable to UCITS similarly applies to NIFs. Foreign AIFs, if sold in Bulgaria, however, will not be able to benefit from such preferential tax regime which would be a barrier for their distribution.

The FSC has registered 14 AIFMs which are not ManCos. AIFs and AIFMs are regulated by the LACISOUCI. The amendments to the law at the beginning of 2022 introduced regulations on crossborder pre-marketing of AIFs, which are carried out without notification to the competent authority of the home Member State or to the competent authority of the Member State in which such marketing is performed.

A clear definition was introduced in the LACISOUCI, defining the cases of pre-marketing of AIFs, as well as the requirements under which the EU AIFM might undertake such marketing, or when such marketing might be made on its behalf in Bulgaria or another Member State, depending on the origin of the AIFM. Similar provisions were provided for venture capital funds and social entrepreneurship funds (a type of AIF).

A harmonised procedure was introduced under which UCITS and AIFMs that had sent a notification of marketing in one Member State might discontinue such marketing in Bulgaria (where the UCITS or AIF originates in another Member State) or in another country of a fund (when the UCITS or AIFM originates from Bulgaria).

### 5.3. MiFID II

On 24 March 2021, the Ministry of Finance (MoF) published a draft law to amend the Markets in Financial Instruments Act (MiFIA). The proposed draft law implements Directive (EU) 2019/2034 on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU (IRD) and Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014 (IRR) plus Directive (EU) 2019/878 and Solvency II. The purpose of the IRD and the IRR is to establish a proportionate and harmonised prudential regulatory regime for investment firms which are not of systemic importance.

The BAAMC sent a letter to the MoF in April 2021, in which it proposed changes in the regime of the investment firms to facilitate the activity of the investment firms and reduce the administrative burden. In particular, the following proposals were made:

- The amount of the capital of the investment firms (and consequently, of ManCos) be denominated in EUR or the BGN equivalent to the amount in EUR. The proposal was made in connection with the forthcoming accession of the Republic of Bulgaria to the Eurozone.

- Significant reductions to the amounts of the fines and sanctions for infringement of the IRR, due to their disproportionately size.

- The introduction of a time period during which investment firms make the necessary steps to comply with the new MiFIA and IRR requirements, given the scale and importance of the proposed changes and their practical impact on the activities of these companies.

- Clarify Article 12 of MiFIA to remove obstacles for one of the legal representatives of the investment firm (respectively, that amendment to be applied to the regime of ManCos) to authorise the other to perform certain actions, this being allowed in relation to third parties, who can be authorised for specific actions.

- Provision of Article 77, paragraph 5, item 4 of MiFIA -requiring floor brokers, respectively investment advisers to have six months experience in providing investment advice to clients or investment or additional services - be revoked.

The draft law was voted in the Budget and Finance Committee of Parliament on the 10 March 2022 and it will be submitted to the National Assembly for voting by the members of parliament.

### 5.4. PRIIPs

There were no notable developments in this area during 2021.

### 5.5. ELTIF

There were no notable developments in this area during 2021.

### 5.6. Sustainable finance

There were no notable developments in this area during 2021.

### 5.7. Stewardship

There were no notable developments in this area during 2021.

### 5.8. Benchmarks

There were no notable developments in this area during 2021.

### 5.9. Anti-Money Laundering Directive

There were no notable developments in this area during 2021.

### 5.10. Digital Finance

There were no notable developments in this area during 2021.

### 5.11. Other regulatory developments

The BAAMC and EFAMA cooperated in the proceedings in the European Court of Justice (ECJ) concerning the case of the Bulgarian management company 'Invest Fund Management' JSC (IFM) pending in the Sofia District Court (SRS). The Bulgarian court had asked for guidance on how to define 'essential elements' of a prospectus in relation to Article 72 of the UCITS Directive requiring that "the essential elements of the prospectus [...] be kept up to date". The case in question revolved around the question whether a fund's board of directors (BoD) composition, and particularly the appointment of non-executive members of the management company's BoD, could be considered as 'essential elements', requiring an instant update of the prospectus.

As an ECJ preliminary ruling could have had wide-ranging consequences for the whole European fund industry, as a unfavourable opinion on the definition of 'essential elements' by the ECJ could result in frequent and costly prospectus updates for UCITS and their ManCos, BAAMC and EFAMA decided to inform EFAMA's members

about the proceedings and request that members bring the issue to the attention of the ministries of finance and national regulators in their Member States. Here BAAMC and the lawyers of the management company in question prepared a brief noting stating that non-executive members of the BoD of the ManCo did not have the power to contractually bind them, or to enter into agreements or any kind of covenants on behalf of the company. No management functions were delegated to them. It was noted that the FSC thoroughly vetted the candidates for directorial positions and approved them in the course of administrative proceedings. It was argued that, due to that administrative process before the FSC, directors of the ManCos were selected to satisfy similar criteria and the substitution of one director, particularly a non-executive one, with another could not be of such importance as to warrant immediate update of the prospectuses of the managed funds. Such updates could be done routinely in the course of their annual update.
Therefore, the brief finally concluded that the composition of the BoD and particularly the change of two of its non-executive members could not be considered an essential element of the prospectus of the UCITS funds, since such composition could not per se have a direct impact on the rights and obligations of the shareholders/unitholders or on their financial interests. The brief was disseminated among EFAMA's members.

Several corporate members and national associations in response sent opinions with regard to the case. The government of Luxembourg, the European Commission and ESMA have also expressed their interest in the matter. Hearings have been held and the ECJ is expected to render a preliminary ruling on the issue brought to it.

## 6. PENSIONS & PEPP

There were no notable developments in this area during 2021.

## 7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

The main features of the tax regime in Bulgaria have remained generally unchanged, namely:

- **The rate of the corporate income tax is 10%** (a flat tax that is among the lowest in Europe).
- **The rate of the personal income tax is also fixed at a flat 10%.**
- **Capital gains** from transactions in shares of public companies and traded rights in such shares realised on a regulated Bulgarian stock market from transactions in shares and units of collective investment schemes (open-end investment companies and contractual funds which are UCITS, regardless whether they are traded on a regulated market or their shares or units are sold/redeemed through channels of distribution) **are not taxed** and disposal of financial instruments in the course of a tender offer procedure are not subject to taxation either; the same regime is applicable to the newly introduced in Bulgarian legislation national investment funds (NIFs), regardless of their legal form (common funds or investment companies with corporate structure) – income from disposal (redemption) of their units in case of open-end NIF is tax-exempt and the liquidation quota or proceeds received by the investor upon winding up of a closed-end NIF, including closed-end national investment companies, are also tax exempt.
- UCITS (Bulgarian as well as UCITS funds registered in EU Member States and offered and sold in Bulgaria through a branch or based on the freedom to provide services) **are not subject to taxation and are exempt from corporate income tax**. The same regime also applies to the NIFs.
- **Dividends are subject to taxation at a rate of 5%, withheld at source** (UCITS themselves rarely have distributed dividend, even although according to their constitutive acts they might be distributive type of investment funds).
- Dividends and liquidation proceeds, payable by Bulgarian residents to foreign legal entities, are subject to a 5% final withholding tax at source (art. 200 (1) with reference to Article 194 of the Corporate Income Tax Act /CITA/).

- Bulgarian-sourced income of foreign entities, realised without a business seat in the country, is subject to a 10% final withholding tax at source. If the foreign entities have a resident representation, then the respective resident entity is subject to taxation (art. 200 /2/ with reference to Article 195 of the CITA).

- Legal entities can adjust their taxable base by adding losses to and subtracting capital gains when such losses have been incurred and gains have been generated from trade in listed securities or CIS units. It must be noted that withholding tax rates could differ depending on the provisions in Double Taxation Agreements between Bulgaria and other countries.

- The rate of the value added tax has remained unchanged at 20%. A temporary reduction of VAT rate was introduced for certain products and services such restaurant services. The lower rate of 9% will continue to apply to books, textbooks, baby food and diapers, tours organised by tour operators as well as the use of sports facilities such as swimming pools and gyms. Financial services are exempt from VAT. Management (i.e. the management fees of ManCos) of UCITS and NIFs is explicitly exempt from VAT. Capital gains on corporate bonds are generally tax exempt despite the Law on the Income Tax of Natural Persons (LITNP) not explicitly providing for tax exemption for bonds as in the case of shares of public companies traded on a regulated market and in the case of redemption of units of collective investment schemes of the UCITS type; at the same time, income from sale of movable property and chattels is also tax exempt. The LITNP, however, explicitly states that interest from bonds, debentures and other debt instruments is tax exempt, interest accrued being one of the forms of generating capital gains.

- For the CITA, the interest and capital gains, as well as losses from trade in bonds, participate in the calculation of the taxable base, from which the profit from the sales of financial instruments is deducted and the losses from sales of financial instruments are added as a negative value. The LACISOUCI has synchronised the terminology used in the CITA and the LITNP with that used in the Law on the Activity of Collective Investment Schemes and Other Undertakings for Collective Investment.

**Tax Relief for Trade in Financial Instruments on Growth Markets**
By means of § 77 of the Transitional and Concluding Provisions of the Law Amending the Law on VAT (Published in the State Gazette, issue 104 of 2020) it was provided that **until 31 December, 2025**, disposal of financial instruments for the purposes of Articles 44 and 196 of the CITA were also the transactions with units and shares of collective investment schemes and of national investment funds, shares, rights and government securities, **performed on a growth market** within the meaning of Article 122, para. 1 of the MiFIA. Also, until 31 December 2025, no withholding tax under Article 195, para. 6 of the CITA is levied on:
1. The income from interest on bonds or other debt securities issued by a local legal entity, the state and the municipalities and admitted for trading on a growth market in the country or in a Member State of the European Union, or of another state - party to the Agreement on the European Economic Area.
2. The income from interest on a loan, provided by a foreign person - issuer of bonds or other debt securities, when the bonds or other debt securities are admitted to trading on a growth market in the country or in a Member State of the European Union, or of another state - party to the Agreement on the European Economic Area, and meet the conditions of Article 195, para. 6, item 2, letters “a” and “b” of the CITA.

The government fee charged for filing annual financial statements, consolidated annual financial statements and annual activity reports with the Registry Agency was abolished at the start of 2022.

# CROATIA COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

**Table 1: Net Assets by the Fund Industry in Croatia (EUR billion)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Home-domiciled UCITS & AIFs | 3.0 | 3.1 | 3.6 | 3.0 | 3.5 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Assets | 3.0 | 3.1 | 3.6 | 3.0 | 3.5 |

**Table 2: Net Sales of Investment Funds in Croatia (EUR million)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Home-domiciled UCITS & AIFs | -1,712.5 | 92.4 | 271.2 | -651.6 | 398.3 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Sales | -1,712.5 | 92.4 | 271.2 | -651.6 | 398.3 |

## 2. KEY TRENDS IN THE UCITS MARKET

**Table 3: UCITS Assets by Fund Type (EUR billion)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Equity funds | 0.3 | 0.2 | 0.2 | 0.2 | 0.3 |
| Bond funds | 0.8 | 1.2 | 2.5 | 1.9 | 2.0 |
| Multi-asset funds | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 |
| Money market funds | 1.2 | 1.0 | 0.0 | 0.0 | 0.0 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | 0.1 | 0.1 | 0.2 | 0.2 | 0.3 |
| Total | 2.5 | 2.6 | 3.0 | 2.4 | 2.9 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |

| Table 4: Net Sales of UCITS by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | -2.6 | -24.0 | -11.6 | -6.6 | 60.6 |
| Bond funds | 224.1 | 326.4 | 330.2 | -661.5 | 149.1 |
| Multi-asset funds | -65.4 | 4.5 | 7.8 | -3.3 | 56.4 |
| Money market funds | -1,914.2 | -223.3 | -72.2 | -0.2 | 0.0 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | 45.6 | 8.8 | 17.0 | 20.1 | 132.2 |
| Total | -1,712.5 | 92.4 | 271.2 | -651.6 | 398.3 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |

## 3. KEY TRENDS IN THE AIF MARKET

| Table 5: AIF Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | | | | | |
| Bond funds | | | | | |
| Multi-asset funds | | | | | |
| Money market funds | | | | | |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Real estate funds | | | | | |
| Other funds | 0.5 | 0.5 | 0.6 | 0.6 | 0.7 |
| Total | 0.5 | 0.5 | 0.6 | 0.6 | 0.7 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |
| ➤ Institutional funds | | | | | |

## 4. TRENDS IN THE NUMBER OF FUNDS

| Table 6: Number of Funds | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS | 94 | 96 | 99 | 96 | 93 |
| Home-domiciled AIFs | 39 | 36 | 36 | 39 | 34 |
| Foreign funds registered for sales | | | | | |
| ➤ By national promoters | | | | | |
| ➤ By foreign promoters | 78 | 133 | 150 | 106 | |
| Fund launches | 17 | 8 | 10 | 13 | |
| Fund liquidations | 1 | 3 | 0 | 2 | |
| Fund mergers & acquisitions | 2 | 6 | 5 | 11 | |

## 5. REGULATORY DEVELOPMENTS

### 5.1. UCITS

- A revised ordinance on the form and amount of regulatory capital of UCITS management companies (January 2021).
- An act on Amendments to the Act on Open-Ended Investment Funds with a Public Offering (October 2021).
- A revised ordinance on the assessment procedure for the money laundering and terrorist financing risk, and on the manner of applying simplified and enhanced customer due diligence measures (December 2021).

### 5.2. AIFMD

- An act on Amendments to the Alternative Investment Funds Act (October 2021).
- A revised Ordinance on liquidation and extension of duration of AIFs (December 2021).
- A revised Ordinance on structure and content of annual and semi-annual financial reports and other reports of alternative investment fund management companies (December 2021).
- A revised Ordinance on structure and contents of annual and semi-annual reports and other reports from alternative investment fund (December 2021).
- A revised Ordinance on the assessment procedure for the money laundering and terrorist financing risk, and on the manner of applying simplified and enhanced customer due diligence measures (December 2021).

### 5.3. MiFID II

The MiFID II Act has been in force since 27 January 2019; quality enhancement requirements are implemented on the basis of additional service provided (i.e. investment advisory, e-/m-banking availability…).

The EMT is distributed and it is used directly or as a basis for communication between fund managers and distributors; but it is still not widely used by all.

The EFT is not yet in use.

### 5.4. PRIIPs

There are ongoing talks to find the best solution for arrival price cost disclosure.

### 5.5. ELTIF

There are currently no ELTIFs in Croatia. Highly specialised and very long-term strategies still cannot attract sufficient AuM for investors in Croatia. No national initiatives were undertaken to increase interest in such long-term investments.

### 5.6. Sustainable finance

There has been close communication between the association and the regulator on development and understanding of regulatory requirements. Implementation is widely done through Article 6. “do not take into consideration”. Master-Feeder structures emerge with Article 8./9 master funds; as a consequence local funds are also moving towards consideration and sustainable investments. There are still no local funds that are Article 8. compliant (only few within master-feeder structure)

No issuers data is the issue for implementation; NCA initiated action towards the local issuers to start disclosing data as soon as possible.

There are no national labels in Croatia as yet.

### 5.7. Stewardship

There have been no relevant developments in UCITS; AIFMDs are - based on their investment policy - more engaged in corporate governance of investee companies.

The Company's Act was amended in 2019 to reflect SRD II requirements.

There are no specific obstacles to exercise voting rights.

### 5.8. Benchmarks

The local currency interest rate benchmark, ZIBOR, ceased to exist after 31 December 2019 (a workaround was implemented on a sector level to compensate for the missing benchmark).

### 5.9. Anti-Money Laundering Directive

During 2021, representatives of all members of the Association attended the annual training on AML TF organised by the Croatian Chamber of Economy in cooperation with supervisory authorities. The Association has commenced activities to revise common indicators for AML&TF.

Supervision of MoneyVal was undertaken to determine the readiness of Croatian financial institutions for introduction of EUR as the local currency.

### 5.10. Digital Finance

The NCA frequently comments on cryptocurrencies and the risks to consider associated with such investments.

### 5.11. Other regulatory developments

The Republic of Croatia entered the Exchange Rate Mechanism (ERM II) in July 2020, a key step towards the introduction of the euro as a country's official currency. The Croatian National Bank (HNB) has established a close cooperation with the European Central Bank (ECB) and the European Commission.

The Government of the Republic of Croatia adopted the National Plan for the changeover from the Croatian Kuna to the euro in December 2020. The changeover plan is an overview of all major activities to be undertaken by both participants from the public and from the private sector, in preparation for the euro introduction.

The Association is one of the stakeholders and an active participant in the process of drafting the law on the introduction of the euro as the official currency in the Republic of Croatia. (1 January 2023 is the date of the introduction of the euro as the official currency.)

## 6. PENSIONS & PEPP

The Association is one of the stakeholders in the process of drafting the PEPP Law within Working Group of the Ministry of Finance. Delivery of the local PEPP law is expected during 2022.

## 7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

Amendments to the income tax act were delivered in December 2020. The change that is relevant to the investment fund industry is a new rule in tax treatments of capital gains, specifically a lower rate for taxation of capital gains; rather than 12%, the new rate for determining income tax for 2021 onwards is now 10%.

## 8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

The government of the Republic of Croatia has adopted the national strategic framework for consumer financial literacy for the period 2021-2026 (The first document was for the period 2015-2020). The activities of the Association are part of this Document including participation in the campaign as a part of the Global and European Money Week in March (education for high school pupils and students and a brochure on financial literacy).

As a part of the celebration of World Investment Fund Day, 19 April, the Association holds an annual "Top Of The Funds" award for the most successful UCITSs and the best investment fund management company in 2020. Website link: **Top of the Funds 2021**

The Association also participated in the celebration of World Savings Day in October (publishing brochure on savings and social media posts).

New initiatives:

- workshop on private equity end venture capital funds for SMEs
- an event as a part of World Investor Week
- translation in Croatia EFAMA's animated brochure 'Investing for a better future – 5 tips to do more with your savings'.
- Website link: **Brochure 5 tips**

## 9. OTHER ACTIVITIES OF THE ASSOCIATION

The Association cooperates with the governmental authorities (the Ministry of Finance, Tax Authority, Croatian Financial Services Supervisory Agency, Croatian National Bank and other institutions) and is involved in all activities for the development of the legal framework that is important for the fund industry and the capital market, reporting, education and AML (meetings, seminars, working groups).

# CYPRUS COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

| Table 1: Net Assets by the Fund Industry in Cyprus (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 2.7 | 4.0 | 5.2 | 4.9 | 7.7 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Assets | 2.7 | 4.0 | 5.2 | 4.9 | 7.7 |

| Table 2: Net Sales of Investment Funds in Cyprus (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 248.0 | 1,344.0 | 441.0 | -322.0 | 2,166.0 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Sales | 248.0 | 1,344.0 | 441.0 | -322.0 | 2,166.0 |

## 2. KEY TRENDS IN THE UCITS MARKET

| Table 3: UCITS Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 0.1 | 0.1 | 0.2 | 0.2 | 0.3 |
| Bond funds | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Multi-asset funds | 0.04 | 0.1 | 0.1 | 0.1 | 0.1 |
| Money market funds | | | | | |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | | | | | |
| Total | 0.2 | 0.2 | 0.4 | 0.4 | 0.5 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |

| Table 4: Net Sales of UCITS by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** | **2021** |
| Equity funds | 25.0 | 27.0 | 80.0 | 52.0 | 11.0 |
| Bond funds | 26.0 | 0.0 | 45.0 | 17.0 | 3.0 |
| Multi-asset funds | 3.0 | 1.0 | -4.0 | 4.0 | -8.0 |
| Money market funds | | | | | |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | | | | | |
| Total | 54.0 | 28.0 | 121.0 | 73.0 | 6.0 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |

## 3. KEY TRENDS IN THE AIF MARKET

| Table 5: AIF Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** | **2021** |
| Equity funds | 1.4 | 1.1 | 1.5 | 1.1 | 2.1 |
| Bond funds | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Multi-asset funds | 0.4 | 0.4 | 0.6 | 0.5 | 1.0 |
| Money market funds | | | | | |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Real estate funds | 0.2 | 0.4 | 0.5 | 0.7 | 0.6 |
| Other funds | 0.5 | 1.8 | 2.2 | 2.1 | 3.4 |
| Total | 2.6 | 3.8 | 4.9 | 4.5 | 7.2 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |
| ➤ Institutional funds | | | | | |

| Table 6: Net Sales of AIFs by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 11.0 | 4.0 | -4.0 | -411.0 | 720.0 |
| Bond funds | 31.0 | -3.0 | -15.0 | -17.0 | 11.0 |
| Multi-asset funds | 14.0 | 82.0 | 34.0 | -69.0 | 576.0 |
| Money market funds | | | | | |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Real estate funds | 28.0 | 997.0 | 27.0 | 127.0 | 40.0 |
| Other funds | 110.0 | 236.0 | 278.0 | -25.0 | 813.0 |
| Total | 194.0 | 1,316.0 | 320.0 | -395.0 | 2,160.0 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |
| ➤ Institutional funds | | | | | |

## 4. TRENDS IN THE NUMBER OF FUNDS

| Table 7: Number of Funds | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS | 24 | 28 | 28 | 32 | 32 |
| Home-domiciled AIFs | 223 | 268 | 310 | 367 | 411 |
| Foreign funds registered for sales | 31 | 28 | 40 | 37 | |
| ➤ By national promoters | 27 | 26 | 28 | 26 | |
| ➤ By foreign promoters | 8 | 5 | 21 | 17 | |
| Fund launches | 79 | 65 | 70 | 104 | |
| Fund liquidations | 1 | 16 | 28 | 43 | |
| Fund mergers & acquisitions | | | | | |

## 5. REGULATORY DEVELOPMENTS

### 5.1. UCITS

On 18 October 2021, Cyprus transposed Directive (EU) 2019/1160 on the cross-border distribution of collective investment undertakings (the *Marketing Directive*) into local law, by amending the Open-Ended Undertakings for Collective Investment Law 2012 (the *UCI Law*). The Marketing Directive seeks to harmonise the treatment of the fund's distribution by UCITS managers.

### 5.2. AIFMD

On 18 October 2021, Cyprus transposed Directive (EU) 2019/1160 on the cross-border distribution of collective investment undertakings (the *Marketing Directive*) into local law, by amending the Alternative Investment Fund Managers Law 2013 (the *AIFM Law*).
The Marketing Directive seeks to harmonise the treatment of the fund's distribution by AIF managers (AIFMs).
As relevant, the amendments to the AIFM Law include:

- Pre-marketing definition, which includes, the provision of information or communication, direct or indirect, on investment strategies or investment ideas by an EEA AIFM or on its behalf, to potential professional investors domiciled or with a registered office in the EEA in order to test their interest in an AIF or a compartment which is not yet established, or which is established, but not yet notified for marketing, in that Member State where

the potential investors are domiciled or have their registered office, and which in each case does not amount to an offer or placement to the potential investor to invest in the units or shares of that AIF or compartment.
- Introduce clear rules on Cyprus AIFMs engaging in 'pre-marketing' (defined below) in an EEA Member State and EEA AIFMs engaging in pre-marketing in Cyprus.
- Enable Cyprus AIFMs to de-notify arrangements made for the marketing of units of an AIF it manages, subject to certain conditions.
- Require Cyprus AIFMs, intending to market units or shares of an AIF to retail investors in the EEA, and EEA AIFMs, intending to market units or shares of an AIF to retail investors in Cyprus, to make certain facilities available relating to the provision of information handling.

The Cyprus Securities and Exchange Commission (CySEC) published, on 10 November 2021, the following Law and Amending Laws:
- Law 165(I)/2021 on the prudential supervision of investment firms, for the purposes of harmonisation of the Directive (EU) 2019/2034 (IFD) and effective implementation of the Regulation (EU) 2019/2033 (Investment Firms Regulation 'IFR');
- Amending Law 164 (I)/2021 amends the Capital Adequacy Law 97(I)/2021 on Cyprus investment firms and aims to harmonise this with Article 62 of the Directive (EU) 2019/2034 (Investment Firms Directive 'IFD');
- Amending Law 159 (I)/2021 amends the Investment Services Law 87(I)/2017 on the provision of investment services, the exercise of investment activities and the operation of regulated markets and aims to harmonise this IDF.
- Amending Law 157 (I)/2021 amends the Alternative Investment Fund Managers (AIFM) Laws of 2013-2021 and aims to harmonise the AIFM Laws with Article 61 of the IFD.

### 5.3. MiFID II

The CySEC has not gold-plated any of the MiFID II requirements during 2021. In March, however, it announced it would participation in a pan-European Common Supervisory Approach (CSA) exercise led by ESMA to assess the progress made by Manufacturers and Distributors in the application of Product Governance requirements. The CSA would focus primarily on the target market assessment, the compatibility of distribution strategy and product costs and charges, as well as the flow of information between manufacturers and distributors. The CySEC has not yet published the findings of this exercise and/or any additional related requirements.

During 2021, the CySEC seems to have been mostly occupied with implementing its Risk Based Supervision entities, with particular emphasis on the cross-border provision of services by Cyprus investment firms. The CySEC has also provided extensive guidance and support to supervised entities on the new prudential supervision regime (IFR/IFD) as well as on how to manage the AML risks and the risks arising from new technologies, in particular crypto assets with most notable update the introduction of the obligation for Crypto Asset Services Providers (CASPs) to register with the CySEC.

On broader financial services regulatory developments, it is worth mentioning the updates to the AIFM Legislation. This enables AIFMs to proceed to pre-marketing in Cyprus and in other Member States, and the introduction of supplementary supervision requirements for investment firms, UCITS ManCos and AIFMS that belong to financial conglomerates, in particular on their capital adequacy on a conglomerate level and on the reporting of significant risk concentrations.

Through the issuance of a Circular C469, the CySEC has informed regulated entities that it has adopted the ESMA Guidelines on MiFID II/MIFIR market data by incorporating them into its supervisory practices and regulatory approach. It urges Regulated Entities to take the necessary action to ensure compliance.

The EMT file exchange among Cyprus Fund Managers and Distributors has posed challenges. Some of the largest institutional Asset Managers in Cyprus, do produce and distribute EMT files. They also have procedures in place for the systematic exchange and analysis of EMT files for the products they distribute.

Smaller market participants do not commonly produce or of EMT files, although in most cases they do receive EMT files from manufacturers for the products they distribute. Based on our experience, they don't yet have procedures in place for the systematic analysis and active exchange of information with the manufacturers. Exchange of information for product governance between manufacturers and distributors is mostly performed on an ad-hoc basis, via email or other informal correspondence, as opposed to a frequent and formalised process through EMT files. We attribute this to the infrastructure workload and investment required to compile or analyse the EMT files, the fact that certain managers only distribute their funds in-house. Here, it would also be interesting to see the outcome of the Common Supervisory Approach exercise on Product Governance.

### 5.4. PRIIPs

The PRIIPs Regulation stipulates that UCITS are required to produce a PRIIPs KID when marketing to retail investors. However, Article 32 of the Regulation provides a transitional arrangement that exempts UCITS from this obligation. In September 2021, the European Commission adopted Delegated Regulation (EU) 2021/2268, which amends Commission Delegated Regulation (EU) 2017/653 (PRIIPS RTS), following a proposal agreed by the ESAs in February 2021. The new RTS contains rules aimed, among other things, the soft transition of UCITS from the UCITS KIID to PRIIPS KID. However, the Commission stresses the need for an extension of the transitional period set out by the PRIIPS Regulation so that UCITS management companies have sufficient time to adopt the new document. On 23 November 2021, the European Parliament voted to extend - to 31 December 2022 - the exemption of UCITS from producing a PRRIPs KID (Regulation (EU) 2021/2259 issued 15 December 2021- 'PRIIPS Quick fix').

Moreover, on 23 November 2021, the European Parliament voted for an amendment to the UCITS Directive, aiming to relieve UCITS management companies from issuing both a UCITS KIID and a PRIIPS KID. On this basis Directive 2021/2261/EU was issued, amending Directive 2009/65/EC on the use of key information documents by management companies of UCITS ('UCITS quick fix'). According to the Directive, Member States shall ensure that competent authorities do not require a management company to draw up a UCITS KIID where it draws up, provides, revises and translates a PRIIPS KID. The KID will be provided to retail investors. For professional investors, the management company may continue issuing a UCITS KIID or may also choose to provide them with a PRIIPS KID. By 30 June 2022, Member States shall adopt and publish the measures necessary to comply with the UCITS quick fix. They shall apply those measures from 1 January 2023.

Cyprus will soon amend the Open-Ended Undertakings for Collective Investments Law in order to harmonise Directive(EU) 2021/2261 of the European Parliament of 15 December 2021. From 1 January 2023, when the UCITS Management Companies prepare a PRIIP KID, they should not be obliged to also prepare a UCITS KIID

### 5.5. ELTIF

The amendments to the ELTIF legal framework as currently proposed by the European Commission, which include allowing retail investors to commit lower amounts, will certainly give funds managers greater flexibility and help increase the attractiveness of the ELTIF label. The existing Cyprus Alternative Investment Fund regulatory framework may well support the ELTIF product, offering a choice of investment vehicles that are appropriate for the structuring of an ELTIF (corporate vehicle, limited partnership and common fund).

The last statistics published by Cyprus Securities and Exchange Commission show that Cyprus continues to be one of the fastest-growing destinations for investment funds and their managers, and in particular catering for private equity and real estate strategies. It is important to note that the ELTIFs register shows that focus has shifted from equity investment to private equity and real estate/infrastructure strategies, which provides an opportunity for Cyprus to soon authorise its first ELTIF.

Further taxation is an important factor in the choice of a fund's jurisdiction; we point out Cyprus's favourable national tax provisions for the ELTIF and its investors.

### 5.6. Sustainable finance

On 8 March 2021, the CySEC issued a press release on its reinforced commitment to fostering compliance with sustainable finance standards, in accordance with the EU action plan for financing sustainable growth. The CySEC has included a dedicated section on sustainable finance, which contains information on SFDR. Other than that, there were no developments in 2021.

Cyprus legislation was aligned with the European Commission's Regulation on Ecolabels by Law 184(I)/2012, establishing the EU Ecolabel Award Advisory Committee (SEAOS). The SEAOS consists of:

- The Director of the Department of Environment or his/her representative (chair)
- The Ministry of Energy, Commerce, Industry and Tourism
- The State General Laboratory
- The Department of Labour Inspection
- The University of Cyprus
- The Cyprus Consumer Association
- The Cyprus Federation of Environmental and Ecological Organisations
- The Cyprus Employers and Industrialists Federation
- The Cyprus Chamber of Commerce and Industry.

### 5.7. Stewardship

In terms of key corporate governance developments and/or stewardship developments (voluntary or binding), the following are worth mentioning:

(a) The CySEC worked throughout 2021 on adopting the latest revised final joint guidelines of the European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA). These are intended to specify the requirements for the suitability of members of the management body of Cyprus Investment Firms. In particular, the notions of sufficient time commitment; honesty, integrity and independence of mind of a member of the management body; adequate collective knowledge, skills and experience of the management body; and adequate human and financial resources devoted to the induction and training of such members. The CySEC announcement on the adoption of the said guidelines was published in their official website on the 18th of January 2022 and may be accessed here: GetFile.aspx (cysec.gov.cy)

(b) In the context of Environmental, Social Governance (ESG) matters, it is noted that in 2021, the CySEC, in full compliance with Regulation (EU) 2019/2088, now requires Alternative Investment Fund Managers the relevant information and disclosure requirements with respect to their ESG practices.

(c) On a broader scope, it is also noted that Cyprus is currently in the process of finalising the legislation with respect to fund administration and the fund administration profession in an attempt to reinforce the legal and regulatory framework governing investment funds.

### 5.8. Benchmarks

There were no regulatory developments and there is no recorded information on use of benchmarks by investment fund managers.

### 5.9. Anti-Money Laundering Directive

The Cyprus authorities in charge for Combating Money Laundering (ML) and Terrorist Financing (TF) have made significant progress in their Anti-Money Laundering (AML) and Counter Terrorist Financing (CTF) regimes by embracing a more holistic approach. They are now continuously cooperating with the local and foreign supervisory authorities to ensure that financial sector legislation is aligned with the international standards and best market practices.

Over the last 12 months there have been considerable developments in establishing i) a central register that will hold information on beneficial ownership for corporate and other legal entities incorporated or based in the jurisdiction, and ii) a central register of beneficial owners of trusts. The efforts are expected to continue during 2022, given that the companies and other legal entities incorporated in the Republic of Cyprus have an obligation to register their beneficial owners in a national centralised register, and they have until 12 March 2022 to proceed with the reporting requirements.

With COVID-19 still exerting considerable impact, the digital agenda of most financial institutions aiming to transform their modus operandi, is expected to further expose financial institutions to new and increasing fraudster attacks. This is expected to generate further uncertainty for the authorities, who will respond with more regulations.

Finally, one of the novelties of the 5th AMLD (AMLD5) is that it permits the use of electronic identification methods for on-boarding purposes via innovative technologies such as facial recognition, biometric identification, electronic document verification etc. The exact form of these procedures, their uniformity across different entities within Cyprus and across the EU is expected to be an additional major challenge that arise.

### 5.10. Digital Finance

The CySEC anti-money laundering and counter-terrorist financing (AML/CFT) supervisor for crypto asset operations undertaken in or from Cyprus, published a policy statement in September 2021 outlining its approach on the registration and operation of CASPs. It detailed the risks and challenges of using Distributed Ledger Technology (DLT) in the securities markets, indicating the prominent application of DLT and outlining the current status. The CySEC requires the formal registration of all CASPs, within the meaning of the Prevention and Suppression of Money Laundering and Terrorist Financing Law (AML/CFT Law), which provide services in or from Cyprus. For CASPs established in the European Economic Area (EEA) and registered with one or more EEA National Competent Authorities for AML/CFT purposes in relation to all services or activities undertaken or intended to be undertaken in Cyprus, the CySEC requires evidence of valid registration for each service or activity.

On 1 March 2021, the CySEC issued the AML Amending Law 13(I)/2021, which transposed the AMLD5 Directive into national law. One of the amendments brought forward with the new AML Law was the introduction of CASPs in the Cyprus regulatory framework for the first time. Directive 269/2021, issued by the CySEC, on 25 June 2021 (amended 13 September 2021) provides information on the following:

- Register of CASPs
- Procedures for registering or deleting a CASP in the register
- Organisational and Operational requirements
- How to make changes in the information included in the CASP register
- CySEC's fees and contributions.

A CASP, within the meaning of the AML/CFT Law, which provides services in or from Cyprus, must formally register with the CySEC. CASPs established in the EEA and registered with one or more EEA National Competent Authorities for AML/CFT purposes in relation to all services or activities undertaken or intended to be undertaken in Cyprus (i.e. involving Cypriot residents, including incorporated or unincorporated entities based in Cyprus) providing evidence of valid registration for each service or activity. Where these services or activities are not covered by the framework that governs the registration of the CASP for AML/CFT purposes, then the CASP should submit an application to be registered as a CASP with the CySEC.

New businesses must register with the CySEC before commencing their operations in or from Cyprus. The applicable regulatory framework is comprised of:

- the AML/CFT Law
- the CySEC Directive for the register of crypto asset services providers
- the CySEC Directive for the prevention and suppression of money laundering and terrorist financing.

The regulatory framework includes rules, inter alia, in relation to:

- the fitness and probity of the CASP beneficiaries and persons holding a management position
- the conditions relating to CASP registration
- the organisational and operational requirements
- performing 'Know Your Client' and other client due diligence measures
- drawing the economic profile of clients
- identifying the source of client funds
- monitoring the clients' transactions
- identifying and reporting suspicious transactions

- undertaking a comprehensive risk assessment in relation to clients' activities and taking proportionate measures per client, activity and crypto asset in question.

In its September 2021 circular, the CySEC provided details for the national transposition of AMLD5 and taking into account the amended Financial Action Task Force (FATF) recommendations. It proposed that, when transposing the relevant provisions of AMLD5 into national law, to include the following crypto-assets activities under the AML/CFT obligations (which were not included in AMLD5):

- exchange between crypto assets
- transfer of crypto assets
- participation in, and provision of, financial services relating to an issuer's offer and/or sale of a crypto asset.

In addition, the CySEC provided its assessment on the additional risks involving cryptoassets. These include:

- Risks relating to investor protection who may be lured into unsuitable investments, based on inaccurate and/or incomplete information and who may be exposed to the risk of fraud, conflicts of interest, poor conduct, inadequate financial position of the intermediate actors, poor governance and poor organisational and operational arrangements.
- Risks relating to market integrity, stemming from inconsistent liquidity, unregulated price discovery mechanisms, insider dealing and market abuse in relation to crypto assets, lack of pre- and post-trade transparency rules, which in effect may undermine investors protection.
- Risks stemming from technological specificities, such as the possibility of coding errors in smart contracts, the possibility of a controlling majority of a specific network's validation capacity, engaging in fraudulent activities, creating double spending or other abusive opportunities, or the possibility of cyberattacks, creating bespoke business continuity and disaster recovery challenges.
- Custody risks, stemming from technological specificities (such as holding of crypto assets online in so-called 'Hot Wallets') or from the possibility of theft of the hardware where the private keys may be held (i.e. from so-called 'Cold Wallets').
- Potential financial stability risks, stemming from a broader use of crypto-assets as a means of payment/exchange and/or from specific projects that potentially involve significant financial capacity, mainstream acceptance and substantial economic activity.

### 5.11. Other regulatory developments

The continued growth of the funds industry marks 2022 as a landmark year for the CySEC, which will further bolster its supervisory framework surrounding the investment funds sector. As such numerous acts have already been introduced and more are expected to come into force in 2022, the most important are briefly presented below.

In 2021, a new draft law for fund administration services was introduced accompanied with relevant consultation papers. The law is expected to set high standards within the fund administration profession and provide a layer of comfort for fund managers and investors alike. At the same time, the CySEC had adopted best practices and recommendations from European bodies, reinforcing the already well-rounded framework concerning funds in Cyprus. An important development was the adoption of the ESMA Guidelines on marketing communications and on crossborder distribution of funds, bringing a level of clarity and practical guidance to the requirements for marketing communication. Furthermore, the CySEC issued a circular in February to introduce a new procedure for the registration / de-registration of RAIFs, which is expected to reduce the time required one to be registered or removed from the CySEC's relevant registry. Last, the CySEC issued a press release in February 2022 announcing new initiatives to be taken to ensure investors protection by strengthening its regulatory role.

In addition, further updates are expected in 2022 on the loan origination strategies for RAIFs, giving greater flexibility for stakeholders. In parallel, the CySEC has also demonstrated its strong commitment to sustainable development and sustainable finance, by encouraging investment portfolios to take account of climate change and other Environmental, Social and Governance (ESG) factors. It is also providing specific guidance and recommendations to market participants. As far as other legislative updates are concerned, amendments in the existing tax legislation are expected to come soon into effect, simplifying the existing tax system. Finally, an update is expected imminently on the UBO registry for funds, providing regulatory certainty to investors on a matter that is still being processed as to how it is affecting investment funds across jurisdictions.

## 6. PENSIONS & PEPP

**New Guideline 1/2021 on the transfer of pension rights between registered retirement pension plans (IORPs) and insurance pension products, effective 23 July 2021.**
The pensions regulator has officially published the finalised guideline for the transfer of pension rights from one IORP to another and to approved insurance pension plans. This is based on Articles 74 and 75 of the Pensions Law on the procedures, calculation methodologies and terms applicable in the transfer. The underlying objective is to enhance pensions mobility in the market and to protect members' rights. In summary, it covers the following components:

- transfer calculation dates
- transfer calculations methodology
- the various process deadlines and overall timeline
- what should be included in the transfer application and supporting documents
- what should be included in the transfer agreement document
- transfer terms and regulations
- what should be communicated to the members to aid their decision making
- the actual transfer process and payment of funds from one side to the other.

**PEPPs**
Cyprus is taking steps towards the national implementation of the PEPP Regulation.

## 7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

During 2021, there were no changes in tax rates/treatments that could impact on fund and/or asset management. Also, there were no amendments in withholding tax rates on dividend and interest distributed/paid, nor any amendments to the VAT regime and practices. There were new treaties with:

- Kazakhstan (effective 1 January 2021)
- Egypt (effective 1 January 2021)
- Amending Protocol with Russia (effective 1 January 2021)
- Amending Protocol with Switzerland (introduction of four provisions, two of which are effective as from 3 November 2021, namely "Specific wording in the 'Mutual Agreement Procedure' Article"; and "A six-year limitation on adjustments made by the competent authorities of the two countries with respect to the attribution of profits to permanent establishments and profits from transactions between associated enterprises".

## 8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

In early 2017, a collaboration between the Chartered Institute for Securities & Investment (CISI), the Central Bank of Cyprus (CBC), the CySEC and the Cyprus Investment Fund Association (CIFA) via the HR & Training Committee and other public/private stakeholders initiated the promotion of Financial Literacy in Cyprus. Since the Cyprus Financial Crisis in Cyprus 2012-2013, data showed that individuals did not have the appropriate knowledge and skills to understand basic financial terms in order to make a sound economic and financial decisions.

Following an invitation by the Cyprus Parliamentary Committee of Education and Culture, an ad-hoc Committee for the formulation of a National Strategy for the Promotion of Financial Literacy and Financial Education in Cyprus was established in December 2020. The Committee consists of members from the CBC - which also has the coordinating role - the Ministry of Finance, the Ministry of Education, the Cyprus Securities and Exchange Commission and professors from the Cyprus University of Technology and the University of Cyprus. The Committee receives administrative and analytical support from the CBC.

The ongoing work of the Committee is noteworthy. It includes an evaluation of the scientific bibliography on financial literacy, as well as a review and assessment of international initiatives for the promotion of financial literacy. The Committee, with the help of CBC staff, has also conducted an in-depth econometric analysis of the results of the CBC's sampling survey to assess the level of financial literacy in Cyprus, as well as to identify the groups in most urgent need of financial education. For example, people who studied financial subjects at high school scored higher in the survey than those who focused on classical studies.

The Committee has drafted the National Strategy proposal aiming at promoting financial literacy for the population as a whole, as well as for specific target groups. The National Strategy is expected to submit the complete proposal to the Council of Ministers for endorsement in the coming weeks. Once endorsed by Parliament, there may be obstacles to overcome before full implementation. It will take some time before we see the anticipated impact on society.

According to international literature, it is crucial for policymakers to intervene and ensure that financial literacy is taught in the school curriculum early on, when children are still active, keen learners and more willing to be educated on new concepts. Therefore, schools as an environment conducive to learning, play an essential role in the formulation of a National Strategy to address the problem of financial illiteracy early on.

The participation of private and not-for-profit stakeholders in the National Strategy's implementation will be further supported by the development of a code of conduct and prior agreement to specific protocols. The code of conduct is envisaged to provide a uniform framework for the contribution of stakeholders to achieve the common objectives set. Public awareness on financial literacy through tailored campaigns is equally important, as it will facilitate the receptivity and usefulness of a National Strategy for financial education.

A challenge lying ahead is the proper governance structure for the body that will implement the National Strategy on financial literacy. International organisations such as the World Bank have clearly opined that national strategies should be initiated, developed and monitored by a credible and unbiased authority with financial education expertise and appropriate flexibility and resources. In many cases, it is deemed that Central Banks can play such a role.

The CISI UK, CISI Cyprus provide knowledge and expertise to the CBC with smart apps '#yourmoney', access to its Teacher and Student Portal, as well as access to examinations such as 'Fundamentals of Financial Services' aimed at secondary school-aged students. In addition, it is paramount that stakeholders have the minimum qualifications to assess financial literacy. The CISI have provided the CBC with access to their qualifications mapped against the ESMA guidelines for knowledge and competence, and specifically two international CISI qualifications match the requirements namely "International Introduction to Securities & Investment" and "International Certificate in Wealth & Investment Management".

## 9. OTHER ACTIVITIES OF THE ASSOCIATION

**Publications (reports, newsletters, surveys, research)**
In 2021, the CIFA proceeded and issued the 'The 2021-2022 CIFA Investment Funds Guide'. The publication contains all the sector's latest developments, articles from experts and more. Moreover, the Association delivered a significant number of interviews, press releases, presentations, articles and native stories, both in Cypriot and foreign press and online media. A new, refreshed and fully updated website (https://www.cifacyprus.org) was launched, providing all the latest sector updates.

In addition, the Association distributed more than 30 newsletters on all regulatory and latest changes in legislation, laws and market insights to corporate and physical members. Last, the CIFA is active on social media, spreading daily content, market news and announcements.

- Facebook - https://www.facebook.com/cifacyprus
- LinkedIn - https://www.linkedin.com/company/cifa-cyprus
- Twitter - https://twitter.com/cifacyprus.

**Conferences and Workshops**

Despite the pandemic restrictions, the CIFA managed to organise and participate in a significant number of conferences. With the cooperation of Invest Cyprus and the support by other global and local institutions, the CIFA welcomed leading fund managers and fund administration specialists from around the world to discuss the evolving regulatory and increasingly competitive landscape in the global asset management sector. Below is an indicative list of conferences:

- Online Conference: Israel & Cyprus Investment Funds and Asset Management Industry | 11 February 2021 | Organised by Invest Cyprus
- Online Conference: Invest Cyprus Road Show 2021: Cyprus - A Leading EU Asset Management and Fund Hosting Jurisdiction | 20 May 2021 | Organised by Invest Cyprus
- Hybrid Conference: Cyprus Professional Services Conference | 20 May 2021 | Organised by IMH
- Conference: 5th Annual Capital Link Cyprus Shipping Forum | 17 June 2021 | Organised by Capital Link | Nicosia, Cyprus
- Hybrid Conference: CySEC 25 Years: The Past, Present and Future of Financial Development and Innovation | 14 July 2021 | Organised by CySEC | Nicosia, Cyprus
- Conference: The New Era: Navigating the evolving European fund distribution landscape with successful regulatory, operational and investment strategies | 28-29 September 2021 | Organised by Informa | London, UK
- Hybrid Conference: Cyprus Investment Funds Conference – India | 12 October 2021 | Organised by CIFA |Nicosia, Cyprus
- Hybrid Conference: 7th International Compliance Forum | 15 October 2021 | Organised by IMH |Nicosia, Cyprus
- Hybrid Conference: 7th International Funds Summit | 1-2 November 2021 | Organised by CIFA & Invest Cyprus |Nicosia, Cyprus

**Seminars**

CIFA considers that educating its members is very important and thus the Association invests in transferring knowledge and new practices. For 2021, CIFA performed online, hybrid and with physical presence workshops, presentations and forums. Below is an indicative list of conferences:

- Online Webinar: 2021 Outlook: Cyprus Investment Fund & Asset Management Industry | 24 February 2021 | Organised by Bloomberg, CIFA & Invest Cyprus
- Online Webinar: Ethics in the Investment Industry | 26 February 2021 | Organised by CIFA & CFA Institute
- Online Webinar: 2021 Outlook: Risk Management & Regulation in Cyprus and Beyond | 10 March 2021 | Organised by Bloomberg, CIFA & Invest Cyprus
- Online Workshop: CIFA Workshop #1: Cyprus Funds: The Post-Pandemic Landscape | 22 April 2021 | Organised by CIFA & Invest Cyprus
- Online Webinar: Chypre: Un Hub Regional/ Cyprus: A Competitive Headquartering and Fund Industry Jurisdiction | 6 May 2021 | Organised by the Ministry of Energy, Commerce and Industry and the Embassy of Cyprus in France
- Online Workshop: CIFA Workshop #2: The UBO Register & Listing of Investment Funds on the Cyprus Stock | 1 June 2021 | Organised by CIFA & Invest Cyprus
- Online Workshop: CIFA Workshop #3: ESG and Investment Funds - An Introduction to the Fundamentals | 1 July 2021 | Organised by CIFA, Invest Cyprus and REFINITIV
- Online Webinar: The Investment Opportunities for FPIs enroute to India via Cyprus | 10 August 2021 | Organised by Pivot Consultants Cyprus and the Stockholding Corporation of India Limited
- Online Webinar: CIFA Workshop #4: Road to Resilience: The Recovery and Resilience Plan for Cyprus | 7 October 2021 | Organised by CIFA & Invest Cyprus
- Hybrid Presentation: The Growing Fund Sector in Cyprus | 26 October 2021 | Organised by CIFA & The Association of Cyprus Banks |Nicosia, Cyprus

**Videos/podcasts**

Invest Cyprus produced a promotional video for the growing fund industry in Cyprus with the participation of the CIFA. The video (https://fb.watch/aXxTFESa6H/), entitled 'Why Cyprus is fast becoming a reputable EU fund hub and a jurisdiction of choice for funds and fund managers', explains why Cyprus is emerging as a reputable European hub for funds and fund managers.

# CZECH REPUBLIC COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

| Table 1: Net Assets by the Fund Industry in Czech Republic (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 11.7 | 11.8 | 14.6 | 15.2 | 18.3 |
| Funds domiciled abroad and promoted by national providers | 7.9 | 7.6 | 8.1 | 8.2 | 10.8 |
| Total Net Assets | 19.6 | 19.4 | 22.7 | 23.4 | 29.1 |

| Table 2: Net Sales of Investment Funds in Czech Republic (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 1,424 | 828 | 1,500 | 525 | 1,685 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Sales | 1,424 | 828 | 1,500 | 525 | 1,685 |

## 2. KEY TRENDS IN THE UCITS MARKET

| Table 3: UCITS Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 1.7 | 1.7 | 2.1 | 3.2 | 4.2 |
| Bond funds | 3.2 | 2.8 | 4.0 | 4.1 | 4.3 |
| Multi-asset funds | 4.9 | 4.8 | 5.2 | 6.2 | 7.7 |
| Money market funds | 0.1 | 0.3 | 0.6 | 0.0 | 0.0 |
| Guaranteed/protected funds | 0.01 | 0.01 | 0.03 | 0.03 | 0.03 |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | 1.0 | 1.0 | 1.2 | 0.0 | 0.0 |
| Total | 10.7 | 10.6 | 13.1 | 13.5 | 16.2 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 1.0 | 1.0 | 1.2 | 0.0 | 0.0 |

| Table 4: Net Sales of UCITS by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 203.9 | 220.0 | 32.8 | 133.1 | 233.4 |
| Bond funds | -47.0 | -378.3 | 1,162.7 | -444.5 | 51.2 |
| Multi-asset funds | 929.1 | 405.9 | -297.2 | 559.2 | 1,147.4 |
| Money market funds | 32.3 | 296.1 | 316.1 | 104.0 | 0.0 |
| Guaranteed/protected funds | -4.5 | -8.8 | 17.4 | 8.2 | -0.3 |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | 140.2 | 84.2 | 31.3 | 16.2 | 0.0 |
| Total | 1,254.0 | 619.0 | 1,263.0 | 376.2 | 1,431.6 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 140.2 | 84.1 | 31.3 | 16.2 | 0.0 |

## 3. KEY TRENDS IN THE AIF MARKET

| Table 5: AIF Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | | | | | |
| Bond funds | | | | | |
| Multi-asset funds | | | | | |
| Money market funds | | | | | |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Real estate funds | 0.9 | 1.2 | 1.5 | 1.7 | 2.1 |
| Other funds | | | | | |
| Total | 0.9 | 1.2 | 1.5 | 1.7 | 2.1 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |
| ➤ Institutional funds | | | | | |

| Table 6: Net Sales of AIFs by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | | | | | |
| Bond funds | | | | | |
| Multi-asset funds | | | | | |
| Money market funds | | | | | |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Real estate funds | 170.2 | 209.5 | 237.2 | 149.3 | 253.7 |
| Other funds | | | | | |
| Total | 170.2 | 209.5 | 237.2 | 149.3 | 253.7 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |
| ➤ Institutional funds | | | | | |

## 4. TRENDS IN THE NUMBER OF FUNDS

| Table 7: Number of Funds | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS | 158 | 170 | 175 | 166 | 179 |
| Home-domiciled AIFs | 4 | 4 | 7 | 11 | 11 |
| Foreign funds registered for sales | 1,531 | 1,666 | 1,761 | 1,836 | 1,934 |
| ➤ By national promoters | | | | | |
| ➤ By foreign promoters | | | | | |
| Fund launches | | | | | |
| Fund liquidations | | | | | |
| Fund mergers & acquisitions | | | | | |

## 5. REGULATORY DEVELOPMENTS

### 5.1. UCITS

There have been no recent developments related to UCITS in 2021. Certain minor technical regulatory changes have been proposed for UCITS funds; however, the law should be adopted later in 2022.

### 5.2. AIFMD

There have been no other developments relating to AIFMD in 2021 other than those on adapting local legislation to Regulation 2019/1156.[1] Certain minor technical regulatory changes have been proposed for AIFMD funds; however, the law should be adopted later in 2022.

### 5.3. MiFID II

MiFID II/MiFIR represents the most important piece of the capital market legislation implemented in the Czech Republic. Since its implementation in January 2018, the most significant impact we have seen is in the area of the cost transparency and inducements, as well as product governance process enhancement. There have also been notable changes in the area of costs of implementation of MiFID II rules, mainly due to changes in the IT systems deployed by investment services providers.

1 Regulation (EU) 2019/1156 on facilitating cross-border distribution of collective investment undertakings

MiFID II has also a significant impact on fund management companies that are also authorised to provide investment services. According to local law, as investment firms such management companies have to comply with almost all MiFID II rules. This issue is being discussed with the Czech regulator by the Czech National Bank (AKAT). There is also an interpretation enforced by the Czech regulator that, in cases where the management company distributes units of a fund managed by another management company or it is a delegated manager of assets of a fund primarily managed by another management company, the management company provides investment services to another management company and shall obtain MiFID II authorisation including compliance with all MiFID II requirements. It is clear that there are different interpretations of these rules by EU regulators. The AKAT supports efforts to minimise divergence in implementation and practical application of fully harmonised EU laws, e.g. by promoting a harmonised interpretation process at EU level.

The distribution of funds in the Czech Republic is mostly via the banking system, but the market share of independent distribution networks continues to grow. Most of the foreign investment funds (measured by numbers of funds) are distributed by independent distributors, however the investment funds distributed by banks represent the majority of the total volume of in investments in funds. In practice, the EMT (European MiFID Template) and EFT (European MiFID Feedback Template) are used by a proportion of foreign investment funds distributed in the Czech Republic. Clearly, however, these do not cover all locally marketed funds.

The Czech NCA usually follows the ESMA Guidelines in full. The AKAT has been in discussion with the Czech Ministry of Finance and the Czech National Bank over MiFID II and related guidelines. However, certain issues remain open, such as the relationship between UCITS/AIFMD rules and MiFIDII rules, AIFs asset valuations or the extensive scope of phone calls with clients to be recorded by the investment services providers.

The CNB has communicated a set of Guidelines on MiFID II/MIFIR market data obligations to local trading venues; Prague Stock Exchange (part of the Vienna Borse Group) and RM-System.

### 5.4. PRIIPs

There have been no recent local developments on the transition from the UCITS KIID to the PRIIP KID in 2023 so far. The impact of the postponement on local retail funds has been discussed with the regulator, and preparation for new standards is expected to take place later in 2022.

### 5.5. ELTIF

ELTIFs are not an issue in the Czech Republic as there are no ELTIF funds on the local market. Instead, investors and corporations, as well as state authorities, utilise a well-tested local solution, the so-called ‘Qualified Investors’ Funds’ (QIFs), which fully accommodate the needs of local investors, including experienced retail investors. There are no specific suggestions regarding the ELTIF regulation for local market.

### 5.6. Sustainable finance

There have been no local developments of labels on sustainable finance in the Czech Republic to date. Currently, most of the initiatives in the Czech Republic are linked to the EU Regulation. However, this topic is gradually being discussed and is gaining traction as certain market participants – particularly those belonging to international financial groups - start to stress the sustainability issue. We expect a gradual growth in SRI funds offered on the local market.

With regards to SFDR, markets participants welcome the approach of the local regulator, who chose not to adopt local methodology for the direct applicability of the European Regulation. A similar approach would be strongly appreciated by market participants in future. Nevertheless, certain implementation questions are currently being discussed with the local regulator. Market participants would appreciate greater clarity from the EU regulators perspective.

Among retail customers, there is still low demand for an Ecolabel; these investors do not distinguish and appreciate sustainability in their investment decisions. However, the demand for sustainable investments is slowly growing, mainly among young investors. However, we cannot fully evaluate the impact of the most recent development in the area of energy prices towards the perception of sustainability.

### 5.7. Stewardship

There have been no major developments in the regulatory and/or self-regulatory corporate governance environment in the Czech Republic recently. In 2021, the Czech Institute of Directors issued an update of the Corporate Governance Code for corporations as well as implementation guidelines.

Following the implementation of amended shareholders' rights Directive, no major issues have been identified locally. The electronic communication had been already widely used and COVID-19 further promoted this. All local institutions, as well as the Commercial Register, are fully accessible in electronic format and legislation facilitating electronic communication voting etc., is already in place and functioning. All corporations are required to make prescribed fillings in an electronic format as well facilitating direct access to the company resolutions and other information.

AKAT members – investment and management companies – are adhering to corporate governance principles for financial institutions as well as for investee companies. On the implementation of the Revised Shareholder Rights Directive, management companies had to adjust the voting rights policies for funds and individual portfolios managed. There is an obligation publish a voting rights policy that is available to investors on the website. The AKAT did not identify any local obstacles in exercising of shareholders rights.

### 5.8. Benchmarks

There are no recent local developments in the area of benchmarks.

### 5.9. Anti-Money Laundering Directive

AMLD V implementation was adopted by the Czech Parliament at the end of 2020. Following adoption, level 2 legislation was being discussed in 2021 with the local regulator and Financial Analytical Unit. The focus was on practical issues following implementation of the amended AML rules, such as the country of origin of the client or the beneficial ownership issues.

### 5.10. Digital Finance

There are no local developments in the area of digital finance. The Ministry of Finance as well as the Czech National Bank are expected to move on this topic once the EU legislation is finalised.

### 5.11. Other regulatory developments

Currently, technical regulatory changes have been proposed on investment funds, however the law should be adopted later in 2022. Also, certain structural market issues are to be discussed with authorities by the AKAT, e.g. investments for retirement (see chapter 7). Regulatory technical standards with regards to the SFDR and Taxonomy are one of the most important issues currently discussed.

## 6. PENSIONS & PEPP

Currently, two individual pension products with a state support are available; apart from the 3rd pillar pension funds there is also private life insurance. However, investment funds regular investment schemes are also currently very popular amongst individual investors as a retirement savings option, despite no tax incentive or other promotion by the state. The AKAT is active in discussions on the future of the pension system in the Czech Republic.

As a result of the discussions, a new pension product is currently being discussed with the Ministry of Finance. The so-called 'Long-term Investment Account' will bring a new opportunity for local households to enjoy tax deductibility when investing into long-term investment products with the aim to secure for the retirement. This new product should be adopted by the Parliament by the end of 2022.

National implementation of PEPP is currently taking place in the Czech Republic. Both level 1 and level 2 legislation are being adopted in 2022. PEPP will benefit from tax incentives when complying with the detailed rules set for the individual pension products in the Czech Republic.

## 7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

In the Czech Republic, the concept of preferential 5% profit tax for investment funds is applied, compared to 19% for other corporations. However it is granted only to funds that are either listed on a stock exchange (further specific rules apply), in a form of a mutual fund or which invest more than 90% of the fund's assets into eligible instruments as defined by the tax law. As regards application of the concept of 5% tax rate on foreign fund gains, some other conditions must be fulfilled, for example the income of the fund is not attributed to any other person.

For retail investor taxation, retail investors - local tax residents - benefit from an exemption on taxation of revenues upon redemption after a three-year holding period. The current withholding tax rate on dividends / interest in the Czech Republic is 15%. For the payers residing in a country where no double tax treaty / no agreement on tax information exchange is in place with the Czech Republic, the rate amounts to 35%.

Currently, individual investment funds established in the Czech Republic are treated as a taxable person by the VAT rules. Nevertheless, the majority of financial activities are VAT-exempt without entitlement to tax deduction.

The Czech Ministry of Finance, together with the Czech National Bank, has already expressed their negative opinion on the financial transactions tax (FTT) several times. Therefore there is currently no FTT introduced in the Czech Republic, nor there is a proposal to implement one.

The Czech Republic has a significant double-tax treaty network, spanning more than 80 countries, with other treaties being negotiated or ratified. On access of foreign investment funds to double tax treaties benefits, this needs to be assessed on an ad hoc basis.

## 8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

AKAT actively provides comments to the local media on the most recent or important developments in the sector of investments, including the inclusion of women, financial education and economic growth. In 2021, there have been no new financial education initiatives from the authorities, mainly due to the Covid-19 situation.

## 9. OTHER ACTIVITIES OF THE ASSOCIATION

The AKAT is strongly involved in the development of the Czech capital market, while activities of the association are mostly focused on new legislation and regulatory actions in this field, taxation of investment funds and environment of fund business. Currently, the AKAT is involved in various activities of the legal framework of fund industry in the Czech Republic in order to enhance the quality of the local fund regulatory framework. Amongst these activities, it has organised various events with regulators in order to clarify issues arising from the new regulation.

By reshaping the regulatory landscape towards more-developed fund jurisdictions, the Czech Republic is aiming to attract fund managers seeking EU offices. For this, the Czech Republic has some important prerequisites: Czech credit ratings are the highest among the EU's post-communist members and the Czech banking industry is among the best-capitalised in Europe. Furthermore, the Czech National Bank is a strong and respected regulator.

AKAT actively cooperates with the Czech National Bank on cultivating the market and promotion of the fund investments and asset management industry in the Czech Republic. These efforts regularly result in proposals for new legislation and regulatory opinions dealing with diverse issues relevant for the capital market in the Czech Republic.

Fund regulation and fund taxation issues are also the most frequent topics of conferences and seminars organised by the AKAT, through the 11th annual Czech and Slovak conference co-organised by the AKAT and the Slovak association SASS, entitled ‘Next Steps in Asset Management’. In addition, the AKAT is active at various conferences and seminars for financial institution and institutional investors, for retail investors and the general public and for academic institutions. Events include the regular conference ‘Development and Innovations of Financial Products’, which is organised by the University of Economics in Prague.

Further developments resulted in a cooperation with the CFA Society Czech Republic, this closer relationship between both associations was established in order to promote the financial education in the Czech Republic, among other things.

Together with discussion on the Capital Markets Union, the AKAT - in cooperation with the Czech Ministry of Finance and other capital market representatives - launched an initiative on the Czech Capital Market Development Strategy, adopted by the Czech Government in 2019. This aims at defining the role of the capital market for the Czech real economy and the measures to be taken to better employ the capital market for real economy´s growth. Currently, the legislation implementing the Strategy is being discussed by the Czech Parliament.

# DENMARK COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

**Table 1: Net Assets by the Fund Industry in Denmark (EUR billion)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Home-domiciled UCITS & AIFs | 300.8 | 273.2 | 315.6 | 328.8 | 367.0 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Assets | 300.8 | 273.2 | 315.6 | 328.8 | 367.0 |

**Table 2: Net Sales of Investment Funds in Denmark (EUR million)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Home-domiciled UCITS & AIFs | 13,820.2 | -11,172.2 | 2,173.8 | 5,344.9 | 4,725.0 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Sales | 13,820.2 | -11,172.2 | 2,173.8 | 5,344.9 | 4,725.0 |

## 2. KEY TRENDS IN THE UCITS MARKET

**Table 3: UCITS Assets by Fund Type (EUR billion)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Equity funds | 52.0 | 48.1 | 58.9 | 64.9 | 84.4 |
| Bond funds | 59.0 | 57.4 | 61.0 | 64.3 | 66.9 |
| Multi-asset funds | 17.0 | 18.2 | 23.0 | 27.2 | 33.5 |
| Money market funds | 0.04 | 0.03 | 0.03 | 0.00 | 0.00 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | 1.2 | 1.2 | 1.2 | 1.4 | 1.7 |
| Total | 129.2 | 124.9 | 144.2 | 157.8 | 186.5 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 7.6 | 5.6 | 9.6 | 13.4 | 18.3 |

| Table 4: Net Sales of UCITS by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 2,220.2 | 3,904.5 | 54.4 | 4,156.1 | 4,422.3 |
| Bond funds | -875.1 | 1,351.4 | 1,352.1 | 2,836.9 | 3,506.5 |
| Multi-asset funds | 6,095.9 | 1,650.9 | 2,772.1 | 3,782.0 | 3,597.8 |
| Money market funds | -6.7 | -3.1 | 0.4 | -33.0 | 0.0 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | 264.5 | 14.4 | -15.6 | -10.4 | 42.7 |
| Total | 7,698.8 | 6,918.0 | 4,163.4 | 10,731.6 | 11,569.3 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 2,881.5 | 1,372.3 | 1,594.9 | 2,191.7 | 3,176.2 |

## 3. KEY TRENDS IN THE AIF MARKET

| Table 5: AIF Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 71.0 | 60.3 | 74.2 | 70.2 | 83.5 |
| Bond funds | 69.6 | 58.7 | 64.3 | 63.7 | 59.3 |
| Multi-asset funds | 25.4 | 23.6 | 26.2 | 29.1 | 27.4 |
| Money market funds | 0.01 | 0.00 | 0.00 | 0.00 | 0.00 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | 1.5 | 1.2 | 0.9 | 0.6 | 0.6 |
| Real estate funds | 0.0 | 0.3 | 0.9 | 1.4 | 2.0 |
| Other funds | 4.2 | 4.2 | 5.0 | 6.1 | 7.7 |
| Total | 171.7 | 148.3 | 171.4 | 171.0 | 180.5 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 24.9 | 22.2 | 23.7 | 28.0 | 27.9 |
| ➤ Institutional funds | 160.1 | 136.4 | 155.8 | 152.5 | 161.2 |

| Table 6: Net Sales of AIFs by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 5,135.7 | -6,597.1 | -3,099.5 | -8,225.7 | -178.1 |
| Bond funds | -1,352.7 | -11,227.4 | 2,174.6 | 265.1 | -2,635.2 |
| Multi-asset funds | 2,177.2 | -590.9 | -2,084.5 | 1,274.0 | -4,269.0 |
| Money market funds | -154.6 | -6.6 | 0.0 | 0.0 | 0.0 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | -114.2 | -152.5 | -283.3 | -367.2 | 0.0 |
| Real estate funds | 0.0 | 272.7 | 633.2 | 278.0 | 342.3 |
| Other funds | 429.8 | 211.5 | 669.9 | 1,389.0 | -104.2 |
| Total | 6,121.3 | -18,090.3 | -1,989.6 | -5,386.7 | -6,844.2 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 3,930.7 | -206.5 | -1,729.0 | 3,356.2 | -4,058.4 |
| ➤ Institutional funds | -160.6 | -18,862.6 | -3,011.5 | -3,639.4 | -5,259.1 |

## 4. TRENDS IN THE NUMBER OF FUNDS

| Table 7: Number of Funds | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS | 466 | 500 | 522 | 544 | 553 |
| Home-domiciled AIFs | 382 | 369 | 369 | 375 | 380 |
| Foreign funds registered for sales | | | | | |
| ➤ By national promoters | | | | | |
| ➤ By foreign promoters | | | | | |
| Fund launches | 300 | 89 | 75 | 90 | 20 |
| Fund liquidations | | | | 29 | 15 |
| Fund mergers & acquisitions | | | | | |
| Number of unit holders | | | 774,609 | 784,992 | 844,644 |

## 5. REGULATORY DEVELOPMENTS

### 5.1. UCITS

The cross-border Directive was implemented into national legislation in 2021, in line with the Directive. There were no other notable national regulatory developments in 2021 related to UCITS.

The Danish NCA (the Danish FSA) has undertaken a survey in 2021 as part of the ESMA common supervisory action. The FSA has not yet published any reports based on the survey. Concerning costs, the FSA has published supplementary guidance with on the ESMA guidelines on performance fees in UCITS and certain types of AIF's. These FSA signals and guidance have changed the fee structure in a number of Danish funds; however, performance fees are not widely used in the country. We have not seen any significant national regulatory developments concerning the removal of cross-border barriers to fund distribution in 2021.

### 5.2. AIFMD

There were no notable developments regarding this issue in 2021.

### 5.3. MiFID II

Overall, the Danish FSA has implemented MiFID into Danish law according to the Directive. In 2019, however, the FSA published a report on the quality enhancing services under the MiFID II inducement regime. The report had severe implications to the industry for client classifications and quality-enhancing service packages. The Danish FSA has a rather strict view as to what constitute quality-enhancing services and views regarding the concept of proportionality that are operationally difficult to align with the commonly used business models and client groupings. The FSA has, in 2020-2021, focused on product governance with a significant focus on product return expectations for retail clients. As an industry initiative, we have implemented common return assumptions for both banks and pension funds. These expectations are published by an independent council ('Council for return expectations[1]') and are based on capital market assumptions from a small number of global players. The setup secures an arm's length assessment and that competition is not focused on what individual distributers expect for certain asset classes.

The Danish NCA (the Danish FSA) complies with ESMA's Guidelines on MiFID II/MiFIR obligations on market data.

The EMT is used widely as a reporting tool between producers and distributers in the market. We also foresee that the EET will be used, however it is naturally in the process of being implemented, which is proving a huge task for the industry both for producers and distributers. The Danish industry fully support the FinDatEx initiatives that operationalise regulatory-driven data exchange in standardised formats.

### 5.4. PRIIPs

The industry is working towards the 2023 deadline and foresees a busy Q3 and Q4 for to PRIIPs implementation. The Danish industry has used a special all-inclusive fund cost measure ('ÅOP'), which will be substituted with the cost terminology of PRIIPs. This further complicates the implementation since ÅOP is used throughout the Danish industry when engaging clients and ÅOP is embedded in the data infrastructure.

### 5.5. ELTIF

The ELTIF framework has rarely been used in the Danish market. Market participants have discussed the Commission's ELTIF proposal, and they are still moderately sceptical over the success of revise the ELTIF framework. Crucial for the attempt will be the issue of whether an evergreen fund structure can be established within the framework and/or the possibility of a secondary ELTIF market emerging. However, we fully support the proposals that give ELTIF managers greater flexibility and the proposals that make the framework much more operational. We generally support initiatives that enable less-liquid and sustainable assets to be wrapped and distributed to retail clients, since this will deliver more investment options and enable the retail investors to finance the transition of the economy.

### 5.6. Sustainable finance

There are still uncertainties around the interpretation (e.g. the 'line' between articles 8 and 9 funds), as mirrored in EFAMA's work. In December 2021, the Danish FSA published a thematic investigation of a number of banks and pensions funds' implementation of SFDR Article 3. For 2022, the FSA has announced that it will "further develop its information and guidance effort as well as its supervisory activities in the field of sustainable finance".

Danish asset managers are too small to be directly in scope of Article 8 of the Delegated Act of the EU taxonomy but being part of a larger financial group they may be indirectly covered on a consolidated basis. So far, the Danish credit institutions have reported the mandatory requirement from the Article 8 Delegated Act.

In Denmark, several investment funds labelled with the Nordic Swan Ecolabel are available to investors. The purpose of this Ecolabel is to reduce the aggregate environmental impact from the production and consumption of goods. In 2017, it became possible to award the Nordic Swan Ecolabel to investment funds – in the same way as was for items such as shampoos and washing-up liquids. Ecolabelling Denmark, an independent unit of Danish Standards, is responsible for the Nordic Swan Ecolabel. Investment funds that carry this Ecolabel must satisfy 25 mandatory requirements governing the different ways in which a fund can influence companies. One way is through the

1 https://www.afkastforventninger.dk/en/

exclusion or inclusion of investee companies. At the same time, the funds should be managed openly, and actively seek to influence investee companies to become even more sustainable.

### 5.7. Stewardship

There were no notable developments in this area in 2021.

### 5.8. Benchmarks

In November 2020, Danmarks Nationalbank (the Danish central bank) assumed responsibility for the new reference Denmark Short-Term Rate, DESTR. Reference rates are used in a wide range of financial contracts, including loans, mortgage bonds and interest-rate swaps. Thus it is important for the Danish financial system that a short-term transaction-based reference rate is introduced in Danish kroner, in line with international standards.

Danmarks Nationalbank started publishing DESTR on 4 April 2022. The first publication will reflect trading activity on 1 April 2022.

Furthermore, it has been decided that the existing Tom/Next rate (published today by Danish Financial Benchmark Facility, DFBF) will be fixed to DESTR plus a spread and will cease by 1 January 2026. The spread will be determined by DFBF, in cooperation with Danmarks Nationalbank.

### 5.9. Anti-Money Laundering Directive

There were no notable developments in this area in 2021.

### 5.10. Digital Finance

The Danish FSA has just launched an expert working group to specifically look at crypto assets. An important purpose of the group in 2022 is to assist the FSA in scoping which assets and services fall within and without the scope of the MiCA regulation.

## 6. PENSIONS & PEPP

There have been no notable developments regarding this issue in 2021.

## 7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

Funds with minimum taxation must pay a 15% tax on dividends received from Danish shares. These rules were introduced from 1 January 2022. Previously, funds with minimum taxation were tax exempt for dividends from Danish shares. This rule was amended as a consequence of the Fidelity Funds CJEU-case.

## 8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

No notable measures have been introduced by public authorities to promote financial literacy as such, but schools and higher education institutions are seeing increasing interest in financial and investment matters.

Finance Denmark and Investment Denmark are working together to promote one of the major annual events, 'Pengeuge' (the 'Money week' – see here), during which local schools are offered tutorial materials, lectures, etc., provided and conducted by practitioners from both organisations. Also, both organisations increasingly incorporate educational material and information aimed at younger people on their respective websites.

# FINLAND COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

| Table 1: Net Assets by the Fund Industry in Finland (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 116.3 | 110.0 | 124.7 | 132.4 | 159.0 |
| Funds domiciled abroad and promoted by national providers | 50.2 | 10.3 | 12.8 | 16.7 | 18.3 |
| Total Net Assets | 166.5 | 120.4 | 137.5 | 149.1 | 177.2 |

| Table 2: Net Sales of Investment Funds in Finland (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 3,510.7 | -1,023.2 | 524.9 | 2,830.9 | 9,580.2 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Sales | 3,510.7 | -1,023.2 | 524.9 | 2,830.9 | 9,580.2 |

## 2. KEY TRENDS IN THE UCITS MARKET

| Table 3: UCITS Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 40.9 | 37.6 | 43.4 | 48.1 | 61.0 |
| Bond funds | 42.2 | 40.3 | 45.1 | 45.2 | 50.0 |
| Multi-asset funds | 17.8 | 17.4 | 20.6 | 22.9 | 27.9 |
| Money market funds | 1.6 | 1.3 | 0.2 | 0.2 | 0.2 |
| Guaranteed/protected funds | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 |
| Total | 102.9 | 97.0 | 109.9 | 116.9 | 139.6 |
| of which ➤ ETFs | 0.3 | 0.2 | 0.3 | 0.3 | 0.5 |
| ➤ Funds of funds | 21.0 | 20.7 | 24.9 | 27.4 | 30.7 |

| Table 4: Net Sales of UCITS by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | -1,113.0 | -400.4 | -4,182.4 | 952.6 | 1,591.4 |
| Bond funds | 1,167.0 | -572.3 | 3,116.4 | -461.1 | 4,152.7 |
| Multi-asset funds | 2,070.6 | -65.0 | 883.5 | 1,837.5 | 2,231.5 |
| Money market funds | -120.4 | -39.5 | 11.1 | -12.2 | -32.5 |
| Guaranteed/protected funds | 0.0 | 0.0 | 46.9 | 37.6 | 25.0 |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | 112.9 | -35.2 | -86.6 | -29.0 | -49.8 |
| Total | 2,117.2 | -1,112.4 | -211.2 | 2,325.4 | 7,918.2 |
| of which ➤ ETFs | 36.9 | -7.8 | 0.6 | 21.6 | 59.7 |
| ➤ Funds of funds | 1,230.6 | 0.0 | 1,186.9 | 1,594.0 | 934.0 |

## 3. KEY TRENDS IN THE AIF MARKET

| Table 5: AIF Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 3.1 | 2.3 | 2.0 | 2.2 | 2.8 |
| Bond funds | 1.8 | 1.4 | 1.7 | 1.2 | 1.2 |
| Multi-asset funds | 4.7 | 4.5 | 5.0 | 4.8 | 5.6 |
| Money market funds | 0.3 | 0.3 | 0.0 | 0.0 | 0.0 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Real estate funds | 0.02 | 0.01 | 0.01 | 0.00 | 0.00 |
| Other funds | 3.5 | 4.5 | 6.2 | 7.3 | 9.8 |
| Total | 13.3 | 13.0 | 14.9 | 15.5 | 19.4 |
| of which ➤ ETFs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ➤ Funds of funds | 2.7 | 2.0 | 1.8 | 1.6 | 1.8 |
| ➤ Institutional funds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| Table 6: Net Sales of AIFs by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | -118.9 | 4.8 | -378.0 | 45.6 | 235.1 |
| Bond funds | 303.5 | -25.7 | -27.4 | -214.1 | 18.1 |
| Multi-asset funds | 719.4 | -57.2 | -167.8 | -107.6 | 158.3 |
| Money market funds | -9.2 | 10.8 | -61.3 | 0.0 | 0.0 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Real estate funds | -13.0 | -0.03 | -5.2 | -3.8 | 0.0 |
| Other funds | 511.8 | 156.6 | 1,375.7 | 785.4 | 1,250.5 |
| Total | 1,393.6 | 89.2 | 736.1 | 505.6 | 1,662.0 |
| of which ➤ ETFs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ➤ Funds of funds | 178.8 | -28.0 | -228.4 | -117.6 | 142.2 |
| ➤ Institutional funds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

## 4. TRENDS IN THE NUMBER OF FUNDS

| Table 7: Number of Funds | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS | 365 | 392 | 386 | 397 | 380 |
| Home-domiciled AIFs | 105 | 102 | 94 | 97 | 104 |
| Foreign funds registered for sales | | | | | |
| ➤ By national promoters | 113 | 63 | 64 | 64 | 54 |
| ➤ By foreign promoters | 500 | 470 | 419 | 399 | 385 |
| Fund launches | 98 | 233 | 77 | 76 | 73 |
| Fund liquidations | 35 | 132 | 77 | 99 | 26 |
| Fund mergers & acquisitions | 29 | 57 | 53 | 35 | 41 |

## 5. REGULATORY DEVELOPMENTS

### 5.1. UCITS

Fund legislation was modified in order to implement the EU cross-border changes. The change took effect on 1 December 2021.

### 5.2. AIFMD

Fund legislation was modified in order to implement the EU cross-border changes. The change took effect on 1 December 2021.

### 5.3. MiFID II

Our NCA has not signalled they will not comply, so they will comply.

Several market participants are using both the EMT and the EFT, but we have no more details. They find the templates particualry valuable in cross-border business.

### 5.4. PRIIPs

There were no concrete changes in 2021, but the necessary legislative changes in order to meet the new requirements are foreseen for 2022.

### 5.5. ELTIF

There are no ELTIFs registered in Finland. However, funds with 'ELTIF-like' investment strategies do exist. They have been established as AIFs.

### 5.6. Sustainable finance

To date, we have no experience regarding members' actions.

On ecolabels, there is no Finnish ecolabel. However, the is a joint Nordic ecolabel called Swanen. The use of that label has not been very wide. In practise the requirements are seen too prescriptive to fit for larger number of funds.

### 5.7. Stewardship

There were no notable developments regarding this issue during 2021.

### 5.8. Benchmarks

There were no notable developments in this area during 2021.

### 5.9. Anti-Money Laundering Directive

There has been delays with secondary legislation as well as guidelines from the NCA, which is making interpretation of the requirements difficult.

### 5.10. Digital Finance

There were no notable developments in this area during 2021

## 6. PENSIONS & PEPP

The laws needed to make the implementation of PEPP products possible were adopted on 1 April 2022. The FIN-FSA is designated as the competent authority.

There are no particular expectations for PEPPs. This is due to the tax legislation, which sets stringent requirements for preferential tax treatment. As such, the treatment is the same for PEPPs as well as current domestic pension products.

## 7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

The government has set up a working group with a mandate to consider the introduction of a 5% withholding tax for dividends paid to (foreign) investors, who currently pay no tax on dividends. The same working group will also evaluate the need for changes to the taxation of (foreign) investment in real estate in Finland. The proposals were published in June 2021.

Following the proposals of the report, the government decided not to proceed with the tax on dividends. However, they did decide to prepare changes to taxation of some real estate funds. These are being prepared and are expected to enter into force from the beginning of 2023.

## 8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

A number of (online)seminars and publications were organised in the course of 2021.

We consider it important that every Finn is capable of managing their personal finances, and support the nationwide improvement in financial skills, in cooperation with other Finnish organisations and associations. Finland needs a national financial literacy strategy in line with the proposal issued by the Bank of Finland.

On our side there have been several initatives:

We supply comprehensive schools with learning materials to use in teaching personal finance. Zaldo.fi is a gamified learning environment for comprehensive schools that also includes a national competition. Zaldo is Finland's contribution to European Money Week – an international campaign aimed at improving financial literacy across Europe. Every year, one Finnish class gets to represent Finland in the European Money Quiz final. The materials can be found at www.zaldo.fi; however, given the target group unfortunately they are only available in Finnish.
The national Economic Guru competition is aimed for students in Finnish upper-secondary schools. The competition has two components: the first seeks to draw attention to the importance of economics in schools, while the second gives the floor to young talent at the final event. The competition was organised in 2022 (following two years of pandemic) with record levels of participation. Information can be found at www.talousguru.net.

Finally, Talous tutuksi ('getting to know the economy') is a series of seminars aimed at social studies teachers. They consist of topical talks on various areas of the economy.

We collaborate with senior citizen associations, and are developing ways of supporting people in their financial preparedness for the later years of their life.

In order to be as effective as possible, these events are organised together with partners such as the teachers association, the Finnish Foundation for Share promotion and the financial press.

## 9. OTHER ACTIVITIES OF THE ASSOCIATION

The main fund-related publication is the monthly statistical report, which includes fund-by-fund data. The publication can be found at:
https://www.sijoitustutkimus.fi/en/solutions/institutional-investors/mutual-fund-report/

For some time, the data has included sustainability-related content, and we are currently exploring ways to enhance that information.

# FRANCE COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

**Table 1: Net Assets by the Fund Industry in France (EUR billion)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Home-domiciled UCITS & AIFs | 1,933.7 | 1,821.9 | 1,966.7 | 2,088.2 | 2,231.5 |
| Funds domiciled abroad and promoted by national providers | 422.0 | 494.4 | 564.5 | 710.0 | 830.7 |
| Total Net Assets | 2,355.7 | 2,316.3 | 2,531.2 | 2,798.2 | 3,062.2 |

**Table 2: Net Sales of Investment Funds in France (EUR million)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Home-domiciled UCITS & AIFs | 48,500 | -17,600 | -36,100 | 71,400 | -8,200 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Sales | 48,500 | -17,600 | -36,100 | 71,400 | -8,200 |

## 2. KEY TRENDS IN THE UCITS MARKET

**Table 3: UCITS Assets by Fund Type (EUR billion)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Equity funds | 252.2 | 199.8 | 223.1 | 230.2 | 271.3 |
| Bond funds | 150.1 | 143.3 | 143.4 | 128.9 | 138.9 |
| Multi-asset funds | 167.0 | 150.7 | 157.7 | 159.9 | 164.4 |
| Money market funds | 299.4 | 287.1 | 296.7 | 371.5 | 360.4 |
| Guaranteed/protected funds | 5.2 | 2.5 | 1.9 | 1.3 | 1.1 |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | | | | | |
| Total | 873.9 | 783.5 | 822.8 | 891.8 | 936.0 |
| of which ➤ ETFs | 82.4 | 38.6 | 36.0 | 32.8 | 38.9 |
| ➤ Funds of funds | | | | | |

| Table 4: Net Sales of UCITS by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 13,400 | 7,400 | -15,500 | 3,100 | -5,600 |
| Bond funds | 28,900 | 4,700 | -5,700 | -15,200 | 9,500 |
| Multi-asset funds | 4,800 | -3,200 | -8,100 | -7,900 | 200 |
| Money market funds | 400 | -11,100 | 10,800 | 76,000 | -8,700 |
| Guaranteed/protected funds | -2,100 | -2,400 | -800 | -500 | -200 |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | | | | | |
| Total | 45,400 | -4,600 | -19,300 | 55,500 | -4,800 |
| of which ➤ ETFs | 4,409 | -43,023 | -10,667 | -1,971 | -1,000 |
| ➤ Funds of funds | | | | | |

## 3. KEY TRENDS IN THE AIF MARKET

| Table 5: AIF Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 103.1 | 91.5 | 106.7 | 111.6 | 134.5 |
| Bond funds | 131.1 | 126.5 | 141.5 | 160.1 | 158.3 |
| Multi-asset funds | 181.6 | 165.9 | 188.2 | 191.0 | 209.9 |
| Money market funds | 44.8 | 39.3 | 16.9 | 20.9 | 16.9 |
| Guaranteed/protected funds | 19.5 | 18.4 | 17.4 | 15.7 | 13.5 |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Real estate funds | 139.4 | 154.0 | 178.6 | 201.6 | 219.5 |
| Other funds | 440.4 | 442.9 | 494.7 | 495.4 | 542.9 |
| Total | 1,059.8 | 1,038.4 | 1,143.9 | 1,196.3 | 1,295.4 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |
| ➤ Institutional funds | | | | | |

| Table 6: Net Sales of AIFs by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | -2,400 | 2,300 | -6,300 | 400 | -100 |
| Bond funds | -2,500 | -2,400 | 14,100 | 16,400 | -1,900 |
| Multi-asset funds | 7,500 | -7,200 | 600 | -3,400 | 5,500 |
| Money market funds | -700 | -5,500 | -22,400 | 4,000 | -4,000 |
| Guaranteed/protected funds | 1,200 | -200 | -2,800 | -1,500 | -2,900 |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Real estate funds | | | | | |
| Other funds | | | | | |
| Total | 3,100 | -13,000 | -16,800 | 15,900 | -3,400 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |
| ➤ Institutional funds | | | | | |

## 4. TRENDS IN THE NUMBER OF FUNDS

| Table 7: Number of Funds | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS | 3,163 | 3,098 | 3,024 | 3,012 | 2,984 |
| Home-domiciled AIFs | 7,697 | 7,758 | 7,691 | 7,790 | 7,931 |
| Asset management companies | 630 | 633 | 657 | 680 | 708 |
| Foreign funds registered for sales | | | | | |
| ➤ By national promoters | | | | | |
| ➤ By foreign promoters | | | | | |
| Fund launches | | | | | |
| Fund liquidations | | | | | |
| Fund mergers & acquisitions | | | | | |

## 5. MARKET DEVELOPMENTS IN 2021

In France, collective investment management has experienced three consecutive years of unprecedented growth in assets under management. The growth rate of (French and foreign) funds under management for each of these three years averaged 9.8%. This exceptional growth occurred against a backdrop of low interest rates and a sharp rise in the equity markets, the COVID-19 crisis and high levels of savings. High inflation and the tightening of monetary policies, set against a backdrop of geopolitical and military tensions, pose significant risks for the continued recovery of economic activities and financial stability in 2022.

Total assets under management (discretionary mandates and investment funds) in France rose by 6.6% year-on-year in 2021 to EUR 4802 billion. More specifically, net assets managed through discretionary mandates rose to EUR 1740 billion. Discretionary mandates cater for retail investors who are looking for a tailored service, often to develop their personal wealth, as well as institutional investors seeking to partly delegate the management of their financial investments. Assets managed in France through foreign funds amounted to nearly EUR 830 billion, a fourfold increase over the last ten years. This growth has been driven by the ever-increasing number of entrepreneurial asset management companies and subsidiaries of financial groups distributing funds to investors not resident in France. In total, approximately EUR 750 billion in assets are reportedly managed in France through (French or foreign) funds or discretionary mandates on behalf of investors' non-resident clients. In 2021, assets in

French funds rose by +6.9% (and by +9.4% excluding money market funds) to EUR 2231 billion. Of these funds, net assets of UCITS amounted to EUR 936 billion (up 5.0% year on-year) and net assets of AIFs to EUR 1,295 billion (up 8.3% year-on-year). French funds have delivered annualised growth of 4.9% since 2011.

The number of asset management companies jumped, due to many new companies (42 in 2021, 43 in 2020 and 45 in 2019). The number of asset management companies therefore increased from 633 at the end of 2018 to 708 at the end of 2021. Entrepreneurial companies represent two-thirds of players in the French asset management industry and a third of management teams. France also has many large, non-specialised and/or specialised asset management companies (96 manage between EUR 1 billion and EUR 5 billion, 58 between EUR 5 billion and EUR 50 billion and 17 more than EUR 50 billion in assets). Of the top 25 asset management companies worldwide, four are French.

## 6. REGULATORY DEVELOPMENTS

### 6.1. UCITS

The French regulator AMF transposed in national law the UCITS crossborder distribution Directive. Therefore, designation of a person established in France by foreign UCITs or AIF commercialised in France is no longer mandatory but rather an option The AMF made recommendations to make possible the designation of a person established in France even if it is not mandatory anymore.

The AMF also followed ESMA guidelines on performance fees in UCITS and certain AIFs. It was transposed in its position DOC-2021-01.

### 6.2. AIFMD

The AFG welcomes the European Commission's proposals to review the AIFMD/UCITS Directive, AFG supports the stability of both regimes, with minimum modifications for three main topics:

1. Delegation: maintain flexibility in delegation,
2. Risk management / loan origination: the current regulatory framework is sufficient to regulate loan-originating funds. Hence the AIFMD should not introduce any specific rules.
3. Liquidity Management Tools (LMT): availability of the LMT is welcomed, but the asset managers must retain discretion for the management of liquidity risks.

### 6.3. MiFID II

The modification made to the crossborder Directive that entered into force on the 2 August 2021 has been integrally transposed into law in France. The modification provided clarification on commercialisation and pre-commercialisation.

The MiFID quick fix was also transposed in 2021, providing modifications on the provisions of investment companies and their professional clients.

From 1 January 2022, the AMF signalled on its website during October 2021 that it will comply with guidelines on MiFID II/ MiFIR published on 1 August 2021 on market data obligations. The guidelines contained provisions on market data that needed to be disclosed.

Distribution practices in France suggest that the EMT plays a major role in the market, while the EFT is used less often.

### 6.4. PRIIPs

The French asset management industry welcomes the delay granted by the European co-legislators on the application date of the PRIIPs KID to the 1 January 2023. Management company are working on the transition from the UCITS KIID to the PRIIP KID.

### 6.5. ELTIF

The legislative proposal contains positive developments on the rules of distribution to retail investors. It also includes several useful clarifications (for example on the eligibility of real assets and conflict of interests) and an enlarged scope of eligible assets.

However, the AFG believes that the ELTIF regulation should be further revised, in order to make the ELTIF genuinely attractive for retail investors:

- On asset composition: the minimum percentage invested in eligible assets should be decreased from 70% to 50% and the 40% cap on fund-of-funds should be removed.
- On liquidity: ELTIF managers should be allowed to determine appropriate redemption frequencies.

### 6.6. Sustainable finance

2021 focused on understanding and concretely implementing the Taxonomy and SFDR requirements for 1 January 2022. The AFG published several guides for its members:

- A Guide on the French Loi Energie Climat (art. 29 LEC)
- A Thematic sheet on the application of SFDR for asset managers
- A Thematic sheet on sustainability risks in the framework of SFDR
- A Zoom meeting on the Principal Adverse Impacts (PAI) for financial products

The AFG developed, jointly with AMF, a thematic sheet on Taxonomy and SFDR RTS with orientations for regulatory compliance as of 1 January 2022, until SFDR RTS start to apply from 1 January 2023.

French asset managers do not fall under the scope of Article 8 Delegated Act of the EU Taxonomy.

- The SRI label (Socially Responsible Investment) was created in 2016, and is sponsored by the French government. It aims to give investors with a greater insight into SRI products and to ensure robust methodologies based on transparency and high-quality information. The AFG published a Guide for the interpretation of the ISR label in December 2021.
- The Greenfin label was created in 2015, and is sponsored by the French government. It focuses on enabling the green and energy transitions.
- The Finansol Label was created in 1997. It focuses on solidarity, transparency and information.

AFG believes that an EU Ecolabel, if well designed, has a great potential to promote environmentally sustainable projects. However, to achieve this goal, we need significant changes in the foreseeable characteristics of the EU Ecolabel, which means:

- Clarity of purpose, so that investors understand what the EU Ecolabel stands for. That means that the EU Ecolabel, aimed at promoting environmentally sustainable investments, should not be confused with 'ESG' labels promoting not only environmental but also social and governance aspects.
- A well-calibrated set of criteria to ensure a sufficiently large pool of eligible investments necessary to manage the investment risks, as well as protecting end-investors' savings and satisfying regulatory requirements (e.g. UCITS diversification requirements).

### 6.5. Stewardship

AFG strongly encourages its members to exercise their right to vote. In order to help them create a voting policy on these rights as shareholders of listed companies, AFG regularly updates its recommendations on corporate governance. The latest version, published at the beginning of 2021, is available on AFG's website.

Due to the COVID-19 situation, exceptional rules in 2021 in France allowed all companies to hold digital meetings. AGMs took place with no public attendees and all voting was by proxy. Major AGMs were broadcast live or pre-recorded.

There are no obstacle for the exercise of voting rights.

### 6.6. Benchmarks

The AFG reminded its members to prepare for the RFR transition.

### 6.7. Anti-Money Laundering Directive

The AFG contributed to exchanges with the French Regulator Authority and the FAFT, as France was the subject of an evaluation by the FATF in summer 2021. As a result, the chairwoman of the AFG AML WG was interviewed as part of the FAFT hearings. The Mutual Evaluation of France is due to be published by March 2022.

The French Regulator Authority has incorporated the EBA guidelines on risk factors into its doctrine.

### 6.8. Digital Finance

The PACTE law (Plan d'Action pour la Croissance et la Transformation des Entreprises, Action Plan for Business Growth and Transformation) entered into force on 1 October 2019. This law enables actors to become a crypto-asset service provider (PSAN - prestataire de services sur actifs numériques) in France. AFG welcomed the similarities between the proposed CASPs (Crypto-Asset Service Providers) regime in the MiCA proposal and the French crypto-assets service providers regime enacted in 2019.

The AFG has been following the negotiations at the European level and the relevant stakeholders on the MiCA, DORA and the DLT pilot regime proposals.

### 6.9. Other regulatory developments

**Monetary Funds**

Money market funds (MMF) are important investment vehicles in France. At the end of December 2020, the net assets of French MMFs amounted to € 371.5 billion. They are all managed as VNAV (Variable NAV) funds and make up the bulk of Euro-denominated MMFs in the EU.
In 2021, AFG responded to consultations by the SEC, ESMA, FSB and EBA. Regarding the MMFR options mix, AFG believes that:

- as a priority, underlying markets should benefit from more transparency and smoother functioning

the review of MMFR should only be addressed if and where there are targeted needs.

## 7. PENSIONS & PEPP

There have been no significant legislative changes in France for pension plans or pension products in 2021. The AFG published its annual report on employee savings and company pension plans covering the 2021 figures.

In France, PEPP Regulation will enter into force on 22 March 2022.

## 8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

- **VAT group**: The Finance Bill introduces a VAT group regime, enabling groups of companies to be represented by a single entity for VAT purposes and to disregard (for VAT purposes) transactions between members. AFG was involved in the discussion with the French Tax Authorities (DLF) around the transposition of the VAT group option directive from 1 January 2023. The purpose of the discussions was to frame the perimeter of the option group for its integration in the French official bulletin for fiscal legislation (BOFIP).

- **VAT option**: The AFG was also involved in discussions over the opting of VAT with the French Tax Authorities (DLF) and helped liables understand new measures and to take their decision on the exercising of their right entered in force on 1 January 2022. The AFG organised an event in January dedicated to helping its members.

**Investment in SME / Tax reduction**: Since the European Commission's last positive decision to temporarily increase the rate of tax reduction granted to capital investments of SMEs from 18% to 25% in 2019, France has been applying a tax reduction of 25% for investments made from the 10 August - 31 December 2020. From its side, France wants to extend applying this increased rate of 25% until the end of 2022, and awaits approval from the European Commission.

## 9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

In April 2021, the AFG was included in the Strategic Committee on Financial Education, which is the driving force behind the national strategy for economic, budgetary and financial education under the aegis of the Ministry of the Economy, Finance and Recovery (EDUCFI).

After publishing its 12 principles for saving and investing guide in 2020, the AFG stepped up its efforts in 2021 with the deployment of the 'Être acteur de mon épargne' campaign. Launched on 8 March, it aims to raise awareness and engage retail investors (young graduates, young working people, young families, future homeowners as well as those wishing to anticipate their retirement preparation) through edutainment content on social networks (Instagram and Facebook).

During the 5th edition of Global Investor Week, which took place 4-10 October 2021, the AFG - in collaboration with EFAMA - produced a new educational tool for investors entitled 'Investing for a better future - 5 tips to do more with your savings'.


MARKETING COMMUNICATION
NATIXIS
INVESTMENT MANAGERS
A world in motion. Solutions to prepare you for tomorrow.
FUTURE FORWARD
From ESG and thematic investing to real estate and private wealth, you can count on our diverse, multi-affiliate approach to connect you to the independent thinking and focused expertise of more than 20 active managers. Our deep experience and active management can help ensure you receive the support you need – no matter what the markets are doing.

# GREECE COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

| Table 1: Net Assets by the Fund Industry in Greece (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 7.9 | 8.0 | 8.8 | 9.7 | 12.5 |
| Funds domiciled abroad and promoted by national providers | 1.7 | 1.5 | 1.8 | 1.9 | 3 |
| Total Net Assets | 9.6 | 9.5 | 10.6 | 11.6 | 15.5 |

| Table 2: Net Sales of Investment Funds in Greece (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | -91.2 | -74.2 | 479.5 | 114.6 | 1,459.6 |
| Funds domiciled abroad and promoted by national providers | -383.6 | -155.3 | 101.0 | 41.6 | 1,033.8 |
| Total Net Sales | -474.8 | -229.5 | 580.5 | 156.2 | 2,493.4 |

## 2. KEY TRENDS IN THE UCITS MARKET

| Table 3: UCITS Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 1.2 | 1.0 | 1.4 | 1.3 | 1.8 |
| Bond funds | 1.6 | 1.6 | 2.4 | 2.4 | 2.7 |
| Multi-asset funds | 1.5 | 1.5 | 2.0 | 2.1 | 3.1 |
| Money market funds | 0.6 | 0.5 | 0.3 | 0.4 | 0.4 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | 0.03 | 0.01 | 0.00 | 0.02 | 0.08 |
| Total | 4.9 | 4.6 | 6.1 | 6.2 | 8.1 |
| of which ➤ ETFs | 0.02 | 0.01 | 0.02 | 0.02 | 0.02 |
| ➤ Funds of funds | 0.4 | 0.4 | 0.5 | 0.5 | 1.0 |

| Table 4: Net Sales of UCITS by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | -53.4 | 5.9 | 97.0 | 20.4 | 207.8 |
| Bond funds | 38.5 | -36.1 | 518.5 | -58.0 | 335.8 |
| Multi-asset funds | -25.7 | 57.1 | 68.5 | 103.3 | 861.9 |
| Money market funds | 52.5 | -79.2 | -193.1 | 28.9 | -3.9 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | -103.1 | -21.9 | -11.4 | 20.0 | 58.0 |
| Total | -91.2 | -74.2 | 479.5 | 114.6 | 1,459.6 |
| of which ➤ ETFs | -12.7 | 0.0 | 3.9 | 0.7 | 0.6 |
| ➤ Funds of funds | -29.7 | 7.8 | -19.4 | 30.9 | 438.0 |

## 3. KEY TRENDS IN THE AIF MARKET

| Table 5: AIF Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | | | | | |
| Bond funds | | | | | |
| Multi-asset funds | | | | | |
| Money market funds | | | | | |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Real estate funds | 3.0 | 3.4 | 2.8 | 3.5 | 4.4 |
| Other funds | | | | | |
| Total | 3.0 | 3.4 | 2.8 | 3.5 | 4.4 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |
| ➤ Institutional funds | | | | | |

## 4. TRENDS IN THE NUMBER OF FUNDS

| Table 6: Number of Funds | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS | 173 | 207 | 210 | 221 | 226 |
| Home-domiciled AIFs | 7 | 6 | 5 | 6 | 7 |
| Foreign funds registered for sales<br>➤ By national promoters<br>➤ By foreign promoters | 113 | 110 | 117 | 122 | 126 |
| Fund launches | 32 | 49 | 16 | 19 | 13 |
| Fund liquidations | 5 | 2 | 1 | 0 | 3 |
| Fund mergers & acquisitions | 12 | 10 | 6 | 2 | 6 |

## 5. MARKET DEVELOPMENTS IN 2021

2021 was a very positive year for Greek asset managers. Net assets of UCITS and AIFs recorded a significant increase of 29% since the beginning of the year, continuing the upward trajectory that began in June 2020.

UCITS capital inflows continued dynamically in the fourth quarter of 2021 - for the seventh consecutive quarter - with quarterly inflows of EUR 478 million. Since the beginning of the year, total capital inflows into UCITS have reached EUR 2.5 billion.

## 6. REGULATORY DEVELOPMENTS

### 6.1. UCITS

There were no notable developments in this area during 2021.

### 6.2. AIFMD

There were no notable developments in this area during 2021.

### 6.3. MiFID II

- Our NCA, the Hellenic Capital Market Commission, will comply with the Guidelines on MiFID II/MIFIR market data obligations published by ESMA on 1 June 2021.

- The EMT (European MiFID Template) is widely used by the larger asset managers.

### 6.4. PRIIPs

There are no specific developments to report on the transition from the UCITS KIID to the PRIIP KID on 01 January 2023.

### 6.5. ELTIF

Points that may help the offer of ELTIF products in Greece:

- removal of minimum investment amounts thus allowing participation of retail investors
- necessary to allow for intermediary redemptions of units
- taxation treatment will be very important.

### 6.6. Sustainable finance

NFRD is not applicable for our companies due to their size; all companies have less than 500 employees.

Greece has no national ecolabels as yet.

### 6.7. Stewardship

The Hellenic Corporate Governance Council (HCGC), which is comprised of the Athens Stock Exchange, the Hellenic Federation of Enterprises, the Hellenic Banking Association and HEFAMA https://www.athexgroup.gr/web/guest/esed published, in July 2021, the new, voluntary Corporate Governance Code. The Code primarily targets companies listed on the Athens Stock Exchange but also has recommendations for all Greek Sociétés Anonymes. It also considers the role of stakeholders, of institutional investors, of fund and asset managers.

### 6.8. Benchmarks

The BMR was implemented, nothing of note to report.

### 6.9. Anti-Money Laundering Directive

AMLD V was transposed in 2020. The Greek fund and asset management industry received a high grade in the OECD onsite evaluation for successful implementation and thorough monitoring of AML provisions.

### 6.10. Digital Finance

There have been no national regulatory developments in cryptoassets, cryptoasset services and DLT post-trade services.

There have been no new national regulatory developments yet to address digital operational risks

## 7. PENSIONS & PEPP

Further to the transposition of EU Directive (EE) 2016/2341 on the activities and supervision of IORPs into Greek law in March 2020, no new legal developments in pension fund regulation.

There is nothing to report on PEPP related legislation as yet.

## 8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

As was the case in most countries' response to the COVID-19 pandemic, relief measures by the Greek Government were announced in April 2020 to support those enterprises that were economically affected. These mainly related to VAT, payment of instalments in assessed tax liabilities, acceleration of refunds on income tax, issuance of new loans, etc.

Taxation was lowered on domestic UCITS in December 2019 to pre-2015 levels. Greek UCITS are taxed at fund level. The rate is a coefficient set at 10% of the MRO (Main Refinancing Operations) rate of the ECB with a spread added as follows: Money-Market nil, Bond +0,25, Mixed +0.50, Equity +1.

Foreign investment funds have access to double tax treaties signed by Greece (in particular, access to reduced withholding tax rates on dividend and interest). Greece has long-standing double tax treaties with all EU and EEA countries apart from Sweden (as well as with others outside the EU), which provide for the avoidance of double taxation.

Greece imposes a transaction tax on the sale of listed shares. In particular, the sale of shares listed either in Greece or abroad is subject to a transaction tax. This is set at 0.2% on the sales price (not the gain) and is payable by the seller. For shares listed on the Athens Stock Exchange, the person liable for the attribution of the tax is the 'Central Securities Depository SA'. Specifically, the tax due is paid by the market participant to the Central Securities Depository within the first fifteen days following the month within which the sales transaction took place. It is then remitted by the latter to the tax authorities until the end of the month following the settlement of the respective transaction. For shares listed on a foreign Stock Exchange, liability for the remittance of the transaction tax lies with the Greek resident vendor, who should remit the tax by the end of the month following the one in which the sale took place. In practice, the economic burden of the transaction tax is usually passed onto the buyer by the broker/seller. There is no other duty imposed on the sale of shares.

OTC stock lending transactions are also subject to a 0.2% transaction tax, but are exempt from stamp duty. Greece has not yet introduced an EU FTT.

The domestic VAT regime for investment funds and/or any aspect of asset management activities was not modified in Greece in 2020-2021.

## 9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

Discussion by public authorities for initiatives to promote financial literacy are at a starting point. Our association is committed to participating through MoUs with major education institutions.

During 2021, we established MoUs with three major Greek Universities (National and Kapodistrian University of Athens, Democritus University of Thrace, University of Piraeus) as well as with the Greek department of the CFA Institute.

## 10. OTHER ACTIVITIES OF THE ASSOCIATION

**Provider of funds data information**

- Interactive fund database Greek UCITS cross-border UCITS managed by Greek asset managers, AIFs data, REICS data, updated daily, on our Association website http://www.ethe.org.gr/index.php?view=main_v1&option=com_statistic&lang=en&Itemid=0
- Daily data on foreign UCITS marketed in Greece http://www.ethe.org.gr/index.php?view=foreignmf&newmenu=Y&type0=ForeignFunds&option=com_statistic&lang=en
- Daily data on unit linked funds marketed in Greece http://www.ethe.org.gr/index.php?view=foreignmf&newmenu=Y&type0=UnitLinked&option=com_statistic&lang=en

Regular presentations of Athens Stock Exchange listed firms to asset managers and market analysts via teleconference.

Webinars for our members on current regulatory topics (SFDR, AML, sustainable investing, fund governance, CFA certificate on ESG Investing).

Publications

- Publication of quarterly statistical reports for mutual funds, portfolio investment companies, asset management and real estate investment companies.

# HUNGARY COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

| Table 1: Net Assets by the Fund Industry in Hungary (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 19.8 | 19.2 | 19.6 | 19.0 | 21.3 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Assets | 19.8 | 19.2 | 19.6 | 19.0 | 21.3 |

| Table 2: Net Sales of Investment Funds in Hungary (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 856.7 | 293.9 | -429.6 | 596.8 | 2,006.8 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Sales | 856.7 | 293.9 | -429.6 | 596.8 | 2,006.8 |

## 2. KEY TRENDS IN THE UCITS MARKET

| Table 3: UCITS Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 0.2 | 0.2 | 0.2 | 0.3 | 0.4 |
| Bond funds | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 |
| Multi-asset funds | 0.2 | 0.3 | 0.3 | 0.3 | 0.4 |
| Money market funds | 0.00 | 0.00 | 0.00 | 0.00 | 0.02 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | 0.5 | 0.4 | 0.3 | 0.3 | 0.2 |
| Other funds | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Total | 1.6 | 1.3 | 1.3 | 1.3 | 1.5 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |

| Table 4: Net Sales of UCITS by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 54.3 | 6.8 | -1.7 | 44.0 | 52.8 |
| Bond funds | 15.6 | -86.1 | -21.2 | 11.7 | -20.3 |
| Multi-asset funds | 79.0 | 45.0 | 12.3 | 5.8 | 48.5 |
| Money market funds | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | 66.9 | -104.9 | -115.9 | -54.0 | -6.0 |
| Other funds | -3.9 | -15.1 | -23.6 | -15.9 | -1.7 |
| Total | 211.9 | -154.2 | -150.1 | -8.3 | 73.2 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |

## 3. KEY TRENDS IN THE AIF MARKET

| Table 5: AIF Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 1.2 | 1.2 | 1.4 | 1.6 | 2.3 |
| Bond funds | 3.4 | 2.5 | 4.0 | 3.8 | 4.0 |
| Multi-asset funds | 3.0 | 2.8 | 3.4 | 3.5 | 4.6 |
| Money market funds | 2.1 | 1.9 | 0.2 | 0.1 | 0.1 |
| Guaranteed/protected funds | 0.6 | 0.3 | 0.3 | 0.2 | 0.4 |
| Absolute Return Innovative Strategies (ARIS) funds | 3.6 | 3.1 | 2.8 | 2.3 | 2.4 |
| Real estate funds | 3.5 | 5.1 | 5.4 | 5.3 | 5.4 |
| Other funds | 0.7 | 1.0 | 0.7 | 0.7 | 0.7 |
| Total | 18.2 | 17.9 | 18.3 | 17.6 | 19.7 |
| of which ➤ ETFs | 0.01 | 0.00 | 0.01 | 0.01 | 0.01 |
| ➤ Funds of funds | 4.0 | 3.9 | 4.2 | 4.4 | 5.8 |
| ➤ Institutional funds | 0.7 | 1.2 | 1.8 | 1.8 | 2.3 |

| Table 6: Net Sales of AIFs by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 112.1 | 57.3 | 5.3 | 267.9 | 426.1 |
| Bond funds | -636.5 | -660.0 | 1,453.0 | 131.3 | 280.8 |
| Multi-asset funds | 392.6 | 50.5 | 484.8 | 255.2 | 956.7 |
| Money market funds | -930.7 | -78.1 | -1,633.4 | -64.5 | -67.2 |
| Guaranteed/protected funds | -288.4 | -175.9 | 11.6 | -135.1 | 185.3 |
| Absolute Return Innovative Strategies (ARIS) funds | 799.3 | -384.7 | -470.9 | -56.1 | 224.6 |
| Real estate funds | 794.8 | 1,310.5 | 177.3 | 214.4 | 35.5 |
| Other funds | 401.6 | 328.7 | -307.1 | -8.0 | -108.1 |
| Total | 644.8 | 448.1 | -279.5 | 605.1 | 1,933.7 |
| of which ➤ ETFs | -7.3 | -0.5 | 0.0 | 0.8 | 0.3 |
| ➤ Funds of funds | 996.1 | 243.3 | 36.8 | 364.9 | 1,260.3 |
| ➤ Institutional funds | -142.2 | 245.7 | 512.6 | 72.3 | 451.7 |

## 4. TRENDS IN THE NUMBER OF FUNDS

| Table 7: Number of Funds | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS | 28 | 28 | 29 | 34 | 34 |
| Home-domiciled AIFs | 552 | 543 | 526 | 521 | 525 |
| Foreign funds registered for sales | 3,629 | 3,665 | 4,065 | 4,030 | |
| ➤ By national promoters | | | | | |
| ➤ By foreign promoters | 3,629 | 3,665 | 4,065 | 4,030 | |
| Fund launches | 50 | 49 | 42 | 41 | |
| Fund liquidations | 51 | 48 | 48 | 35 | |
| Fund mergers & acquisitions | 9 | 10 | 10 | 6 | |

## 5. MARKET DEVELOPMENTS IN 2021

The asset kept in mutual funds increased by 13.8% in 2021; however, the rearrangement within the categories was much more significant. The two extremes were money market funds and equity funds. The former decreased by 43.1%, the latter by 43.7%

In the case of equity funds, there was a continuous inflow of capital (outflows were last seen in March 2020), and the yields also supported this growth. Both the developed and the emerging markets showed an excellent performance in 2021.

At the end of 2020, balanced funds were only the third-largest category for assets; however, since November 2021, this has become the fund category with the highest amount of assets. This can be partly explained by the continuous record-breaking net inflows (the only exception was July), partly due to the yields. By the end of the year, it reached a level of HUF 1777 billion / EUR 4.82 billion. The second-largest category was that of real estate funds, with HUF 1700 billion / EUR 4.61 billion; whereas the third largest was that of bond funds with HUF 1566 billion / EUR 4.24 billion.

## 6. REGULATORY DEVELOPMENTS

### 6.1. UCITS

There were no notable developments in this area during 2021.

### 6.2. AIFMD

There were no notable developments in this area during 2021.

### 6.3. MiFID II

There were prolonged discussions with the Supervisory Authority over the proper implementation of the new Regulation on inducements. Market participants have tried to adapt to the new requirements with partial changes to the distribution contracts. It now seems that this issue has settled down, but some uncertainty among market players still prevails.

Our NCA will comply a set of Guidelines on MiFID II/MIFIR market data obligations on 1 June 2021 published by ESMA.

The implementation of the EMT had been discussed among our members, as far as we know, it is used mainly by third-party distributors.

### 6.4. PRIIPs

Our members are generally at early stage of the implementation, with no major problems having been reported so far.

### 6.5. ELTIF

Although private equity funds have considerable market share among the fund business in Hungary, these serve typically the needs of domestic investors and remained under the 'domestic' regulation, there has been no need for ELTIFs until now. More flexible distribution opportunities (e.g. redemption, fund-of-funds) would notably enhance the popularity of the product.

### 6.6. Sustainable finance

Few funds have been registered to date as Article 8. or Article 9 funds; the market share is below 2%. The requirements for the registration of these types of funds are still uncertain, and are under discussion with our NCA. The National Bank has initiated a green bond programme, and a specific green loan programme is available for financing new housing developments.

### 6.7. Stewardship

There were no notable developments in this area during 2021.

### 6.8. Benchmarks

There were no notable developments in this area during 2021.

### 6.9. Anti-Money Laundering Directive

There were no notable developments in this area during 2021.

### 6.10. Digital Finance

There were no notable developments in this area during 2021.

## 7. PENSIONS & PEPP

There were no notable developments in this area during 2021.

## 8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

There were no notable developments in this area during 2021.

## 9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

There is a foundation in Hungary, founded and financed by the National Bank and other relevant financial associations, that plays a leading role in promoting financial literacy in Hungary, particularly among students aged 12-18. The main activities of the foundation are:

- publishing books and other learning materials for basic and secondary schools
- training teachers
- organising educational events (e.g. 'Money Week'), competitions, games etc.

## 10. OTHER ACTIVITIES OF THE ASSOCIATION

The BAMOSZ website (www.bamosz.hu) publishes a database of all publicly offered domestic investment funds, updated daily. This comprehensive database is free to use for any interested user. Investors can compare the returns of different investment funds, helping them to choose the most suitable one for them.

# IRELAND COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

**Table 1: Net Assets by the Fund Industry in Ireland (EUR billion)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Home-domiciled UCITS & AIFs | 2,396.1 | 2,421.5 | 3,048.4 | 3,324.2 | 4,067.8 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Assets | 2,396.1 | 2,421.5 | 3,048.4 | 3,324.2 | 4,067.8 |

**Table 2: Net Sales of Investment Funds in Ireland (EUR million)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Home-domiciled UCITS & AIFs | 298,053.0 | 93,754.6 | 284,334.8 | 235,281.0 | 310,275.0 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Sales | 298,053.0 | 93,754.6 | 284,334.8 | 235,281.0 | 310,275.0 |

## 2. KEY TRENDS IN THE UCITS MARKET

**Table 3: UCITS Assets by Fund Type (EUR billion)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Equity funds | 657.0 | 637.7 | 838.1 | 958.0 | 1,330.6 |
| Bond funds | 540.4 | 526.5 | 712.6 | 747.1 | 850.8 |
| Multi-asset funds | 106.1 | 114.5 | 152.8 | 153.8 | 200.4 |
| Money market funds | 481.4 | 483.4 | 557.3 | 611.0 | 637.7 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | 45.6 | 48.7 | 54.7 | 58.2 | 76.3 |
| Total | 1,830.5 | 1,810.8 | 2,315.5 | 2,528.1 | 3,095.8 |
| of which ➤ ETFs | 355.2 | 365.0 | 539.9 | 628.0 | 892.2 |
| ➤ Funds of funds | | | | | |

| Table 4: Net Sales of UCITS by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 53,625.0 | 36,190.7 | 37,605.4 | 68,273.0 | 134,504.0 |
| Bond funds | 130,042.0 | -2,676.4 | 138,461.7 | 50,317.0 | 74,593.0 |
| Multi-asset funds | 11,188.0 | 15,648.0 | 21,205.8 | 2,933.0 | 29,141.0 |
| Money market funds | 41,814.0 | -3,931.5 | 56,148.0 | 88,321.0 | -9,121.0 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | 5,393.0 | 2,185.5 | 629.8 | 3,936.0 | 8,533.0 |
| Total | 242,062.0 | 47,416.3 | 254,050.7 | 213,780.0 | 237,650.0 |
| of which ➤ ETFs | 56,622.0 | 31,206.1 | 97,289.9 | 76,778.0 | 131,282.0 |
| ➤ Funds of funds | | | | | |

## 3. KEY TRENDS IN THE AIF MARKET

| Table 5: AIF Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 0.0 | 0.0 | 79.7 | 81.7 | 94.7 |
| Bond funds | 0.0 | 0.0 | 110.5 | 106.7 | 125.5 |
| Multi-asset funds | 0.0 | 0.0 | 152.3 | 163.0 | 177.6 |
| Money market funds | 5.5 | 4.6 | 5.5 | 4.9 | 4.3 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Real estate funds | 12.7 | 14.2 | 17.3 | 19.0 | 20.4 |
| Other funds | 547.4 | 591.8 | 367.6 | 420.9 | 549.6 |
| Total | 565.6 | 610.6 | 732.9 | 796.1 | 972.1 |
| of which ➤ ETFs | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 |
| ➤ Funds of funds | | | | | |
| ➤ Institutional funds | 492.0 | 534.2 | 697.9 | 761.1 | 0.0 |

| Table 6: Net Sales of AIFs by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** | **2021** |
| **Equity funds** | 0.0 | 0.0 | -3,858.0 | -3,021.0 | -7,120.0 |
| **Bond funds** | 0.0 | 0.0 | 2,923.0 | -2,650.0 | 15,771.0 |
| **Multi-asset funds** | 0.0 | 0.0 | 4,759.0 | -356.0 | -7,746.0 |
| **Money market funds** | 184.0 | -927.5 | 702.0 | -203.0 | -1,014.0 |
| **Guaranteed/protected funds** | | | | | |
| **Absolute Return Innovative Strategies (ARIS) funds** | | | | | |
| **Real estate funds** | 2,760.0 | 759.8 | 1,845.6 | 2,283.0 | 733.0 |
| **Other funds** | 53,047.0 | 46,506.0 | 23,912.5 | 25,448.0 | 72,001.0 |
| **Total** | 55,991.0 | 46,338.3 | 30,284.1 | 21,501.0 | 72,625.0 |
| **of which ➤ ETFs** | 0.0 | 0.0 | 14.0 | 54.0 | -9.0 |
| **➤ Funds of funds** | | | | | |
| **➤ Institutional funds** | 58,961.4 | 40,637.0 | 26,709.7 | 29,905.0 | 74,914.0 |

## 4. TRENDS IN THE NUMBER OF FUNDS

| Table 7: Number of Funds | | | | | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** | **2021** |
| **Home-domiciled UCITS** | 4,265 | 4,508 | 4,684 | 4,843 | 5,076 |
| **Home-domiciled AIFs** | 2,566 | 2,777 | 2,962 | 3,105 | 3,287 |
| **Foreign funds registered for sales** | | | | | |
| **➤ By national promoters** | | | | | |
| **➤ By foreign promoters** | | | | | |
| **Fund launches** | 782 | 1,117 | 801 | 716 | 786 |
| **Fund liquidations** | 421 | 663 | 440 | 400 | 362 |
| **Fund mergers & acquisitions** | | | | | |

## 5. MARKET DEVELOPMENTS IN 2021

2021 was an exceptionally strong year for Irish-domiciled investment funds, both in terms of overall increases in net assets and strong inflows of new capital.

Total net assets in Irish domiciled funds surpassed the EUR 4 trillion mark for the first time, to reach EUR 4.07 trillion at year end. This represented an increase of 22.5% in net assets for the year. UCITS fund net assets increased by 22.5% over the year to stand at EUR 3.1 trillion and AIFs increased by 22.4% to stand at EUR 972 billion.

Within the UCITS category, equity funds net assets increased by 39% and ETFs increased by 42.1%. ETF net assets domiciled in Ireland now stand at EUR 892.2 billion, representing approximately 66% of all European ETF assets.

On net sales, the total for the year across all fund types was EUR 310.3 billion, split as follows: UCITS EUR 237.6 billion and AIFs EUR 72.6 billion for the year. Of the total UCITS net sales, EUR 131.3 billion was within ETF structures.

The disproportionate growth in ETF assets and net sales is the continuation of a trend that has been established for several years.

There were 424 net new sub-funds launched in Ireland in 2022, the highest number over the last three years, bringing the total number of sub-funds to more than 8300.

## 6. REGULATORY DEVELOPMENTS

### 6.1. UCITS

In July 2021, the Central Bank of Ireland (CBI) published guidance outlining their approach on UCITS gaining exposure (directly or indirectly) to crypto assets.

In September, the CBI confirmed that - where new business results in a material increase in the nature, scale or complexity of a firm's business - it deems this to be a material change to the firm's operating model, which requires consultation in accordance with Regulation 107 of the Central Bank UCITS Regulations. In these circumstances, ManCos are required to engage proactively with CBI supervisors and to ensure that they are appropriately resourced to service the additional business.

In October, the CBI implemented the ESMA Guidelines on marketing communications under the Regulation of crossborder distribution of funds, the ESMA Marketing Guidelines. The CBI also set out its expectations for the filing of Key Investor Information Documents (KIIDs) for UCITS, by implementing ESMA's Performance Fee Guidelines from 31 December 2021.

All of the CBI UCITS Q&A publications are available on their website at the following link:
https://www.centralbank.ie/regulation/industry-market-sectors/funds/ucits/guidance/qa-archive

Irish Funds have been engaging with the Central Bank on improvements to the authorisation process, and it is expected that this engagement will continue during 2022.

### 6.2. AIFMD

In November 2021, the European Commission published its long-awaited AIFMD Review, proposing a Directive to amend the AIFMD and UCITS Directives on delegation, liquidity risk management, provision of depositary and custody services and loan origination. Irish Funds has established focused working groups across multiple areas to focus on these and other key areas within the AIFMD Review, as well as considerations for AIF Rulebook review, including ELTIF structures.

**The Investment Limited Partnership (ILP**) - Irish Funds are engaged with the CBI on the establishment of ILPs and other types of closed-ended Qualifying Investor Alternative Investment Funds (QIAIFs). This has resulted in the provision of additional guidance and Q&As for such funds.

Similar to the UCITS regime, Irish Funds have been engaging with the CBI on improvements to the QIAIF authorisation process, this engagement is expected to continue during 2022.

### 6.3. MiFID II

ESMA has recently launched a consultation on certain aspects of suitability requirements under MiFID II. The consultation closes on 27 April 2022, with the final report expected to be published in Q3 2022. Irish Funds intends to respond to this consultation.

### 6.4. PRIIPs

There were no notable developments in this area during 2021.

### 6.5. ELTIF

There has been little uptake of ELTIFs to date, as the QIAIF has mainly been the vehicle of choice for ELTIF-like investment. However, once finalised, the Commission's proposals are expected to improve the attractiveness of ELTIFs.

### 6.6. Sustainable finance

In order to help ensure implementation of the SFDR Level 1 by the 10 March 2021 deadline, the CBI applied a fast-track filing process for the relevant offering document updates. This was necessary given the volume of updates required (circa. 6000 funds) within a limited timeframe. In keeping with the clarification provided by the Commission, the Level 1 text was applied on a high-level principles basis from 10 March 2021 absent the Level 2 rules. The CBI also announced that it would provide fast-track processes for the Taxonomy-related Level 1 SFDR L 2 updates, subject to sample reviews. The CBI is undertaking a review of a sample of the submissions received under the SFDR/ Taxonomy related fast-track filing processes. The review covers (i) the SFDR categorisations applied to the relevant fund; (ii) the disclosure related to sustainability risks; (iii) the disclosure related to likely impacts of sustainability risks on fund returns and (iv) the disclosure related to the extent of Taxonomy alignment. The CBI has stated that the implementation of EU sustainable finance legislation will be a key focus for 2022, and has announced its intention to undertake a desk-based thematic review on sustainable finance later in the year.

Practical implementation of the EU sustainable finance regime has presented challenges for NCAs and industry, due to timing and sequencing issues and uncertainties over the final framework, which continues to evolve. The CBI has acknowledged gaps in the EU regulatory framework and stated that further evolution is needed. The CBI's preference is to focus on further rulemaking and convergence at the European level. To date, it has not issued any Q&As or guidance on application of the EU sustainable finance regime, but this could change depending on the outcomes of its ongoing review and discussions at European level.

We are not aware of any Irish Fund Management Companies currently within scope of the NFRD. We continue to seek to address issues relating to ESG data availability and quality and the divergences in timelines for ESG disclosures applicable to companies vs. financial market participants. We have supported EFAMA engagement at European level, and support the EFAMA position paper and proposed amendments on the Corporate Sustainability Reporting Directive (CSRD).

There are no national ecolabels in Ireland, and the focus instead is on the development of the European level sustainable finance regulatory framework to support a cohesive crossborder market approach. Ireland published its first National Sustainable Finance Roadmap in October 2021. Since the regulatory framework is being developed at EU level, the focus of the Roadmap is on capacity building in the area of sustainable finance. The Roadmap includes actions across five key pillars: i) developing talent, ii) industry readiness, iii) leveraging digital iv), enabling environment and v) promotion and communication. It is too early to assess level of uptake of EU Ecolabel for Retail Financial Products.

During 2021, Irish Funds has focused on the practical application of the EU sustainable finance regime and the ongoing evolution of the EU regulatory framework. We responded to several EU-level consultations, held a series of webinars and issued a number of publications to support our members and raise awareness on key challenges. These included:

- SFDR – Preparing for Compliance
- SFDR Post-Webinar Q&A
- An FAQ on SFDR Level 1 for Financial Statements
- Principal Adverse Impacts Reporting - Practical Insights for the Next Stage of SFDR Implementation (including analysis of available data from ESG data vendors)
- The Corporate Sustainability Reporting Directive – An Overview from a Funds and Asset Manager perspective
- The EU Taxonomy Regulation – Practical Insights for Fund Management Companies.

### 6.7. Stewardship

There were no notable developments in this area during 2021.

### 6.8. Benchmarks

There were no notable developments in this area during 2021.

### 6.9. Anti-Money Laundering Directive

The Criminal Justice (Money Laundering and Terrorist Financing) (Amendment) Act 2021 was enacted in Ireland on 18 March 2021, transposing the 5th EU Money Laundering Directive into law.

Regulations on beneficial ownership were also amended and expanded in 2021. Regulations were also published to establish a central register of beneficial ownership for trusts under SI No 194 of 2021, European Union (Anti-Money Laundering: Beneficial Ownership of Trusts) Regulations 2021. Regulations were also published to expand the data gathered on beneficial owners under SI No 321 of 2021, the European Union (Modification of Statutory Instrument No. 110 of 2019) (Registration of Beneficial Ownership of Certain Financial Vehicles) (Amendment) Regulations 2021. SI No. 19 of 2021, Investment Limited Partnerships (Amendment) Act 2020 (Commencement) Order 2021 implemented the legislative provisions to expand the scope of the Central Bank of Ireland's Central Register of Beneficial Ownership to Common Contractual Funds and Investment Limited Partnerships.

The CBI published a revised version of the Anti-Money laundering and Countering the Financing of Terrorism Guidelines for the Financial Sector on 23 June 2021. This reflected the changes to the legislation and consolidated the advice published in the form of bulletins since the Guidelines were originally published in September 2019.

On 11 November 2021, the CBI published an Anti-Money Laundering Bulletin focused on fund entities and their management companies, with findings from supervisory inspections and expectation for the funds sector. The Bulletin sets out detailed expectations for fund sector participants on corporate governance, performing business risk assessments, managing outsourcing risk for AML/CFT/FS and Customer Due Diligence.

### 6.10. Digital Finance

In the September 2021 edition of the CBI's UCITS Q&A, it addressed its stance on crypto-asset funds in Ireland. While it did not expressly prohibit crypto assets in UCITS funds, it highlights that approval was unlikely, given the eligible asset criteria for UCITS and the requirement that assets be capable of being appropriately risk managed.

Recently, Irish Funds hosted a webinar on the emergence of crypto assets, the advantages and challenges of including crypto in a multi-asset strategy and how regulators are approaching new developments in this area. We are also developing a White Paper on digital assets, with a view to further developing this asset class.

### 6.11. Other regulatory developments

**Money Market Funds**: During 2021, Irish Funds responded to the FSB consultation on 'Policy Proposals to Enhance Money Market Fund Resilience' and the ESMA consultation on the EU Money Market Fund Regulation. We also continued engaging in policy discussions over potential changes to the EU Money Market Fund Regulation, in anticipation of the Commission's pending review of that Regulation in 2022. Domestically, the industry has been focused on the implementation of a new daily MMF reporting schema to the CBI.

**Central Bank Operational Resilience Guidance**: On 1 December 2021, the CBI issued its operational resilience guidance paper. The publication follows the consultation seeking stakeholders' views on a draft form of the guidance (CP140). The Guidance is accompanied by a feedback statement summarising the feedback received from CP140, providing commentary on responses received, and explaining the changes made to the final Guidance.

**Performance fees Guidance**: On 1 April 2021, the CBI issued its guidance on performance fees for UCITS and certain types of Retail Investor AIFs (CP 134) as well as the accompanying feedback statement. The Bank noted that they will consider those aspects of the ESMA Guidelines not currently provided for due to the legislative constraints in future revisions to its UCITS Regulations and the AIF Rulebook.

## 7. PENSIONS & PEPP

There were no notable developments in this area during 2021.

## 8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

**Automatic Exchange of Information (AEOI)**: The Irish Funds AEOI working group continues to engage with Revenue AEOI policy and reporting teams on FATCA, CRS and DAC6. In 2021, this included preparing a feedback and recommendations document following year-end reporting, and hosting a workshop with Revenue to discuss AEOI issues.

During 2021, Revenue implemented their FATCA and CRS compliance quality assurance reviews of Irish Financial Institutions (FIs); the working group liaised with Revenue to understand issues identified provided updates for members through briefing notes and the Tax Town hall meeting held in June. The working group also hosted a DAC6 webinar with a panel discussion of industry experts on the impact of DAC6.

It is expected that 2022 will see technical changes expected from the OECD on CRS and the Revenue's plan to accelerate their AEOI compliance reviews.

**VAT**: In 2021, the VAT working group engaged with the Revenue Commissioners to clarify aspects of its position on VAT recovery for custodians. Recent legislative changes allow the Irish tax authorities to backdate a VAT group cancellation. The changes also require timely notification to the Irish tax authorities of where VAT grouping criteria are no longer met and introduces penalties for failing to do so.

Irish Funds responded to the EU Commission's public consultation on the current VAT rules for financial and insurance services, arguing strongly for the retention of the fund management VAT exemption.

**Domestic Tax**: In 2021, the Irish Funds Domestic Tax Working Group had extensive engagement with Revenue and Department of Finance on anti-reverse hybrid rules enacted as part of Finance Act 2021 (and effective from 1 January 2022), with particular emphasis on the application of the rules. Irish Funds made a submission to the Department of Finance public consultation on the Employment Investment Incentive, and will also prepare a response to the Department's consultation on Ireland potentially moving to a territorial (participation and branch exemption) system of taxation.

**International Tax**: In 2021, Irish Funds made a submission to the Department of Finance on their second consultation paper on Interest Limitation Rules, enacted as part of Finance Act 2021, with particular focus on how the rules will apply to Irish fund structures. The coming year will see the Irish Funds International Tax Working Group involved in areas such as the impact and application of the BEPS Pillar 2 proposals on the Irish funds industry, the impact of the proposed EU Directive on shell companies and the impact of the new UK Asset Holding company regime on the competitiveness of the Irish funds industry.

**Double Taxation Agreements**: Ireland has signed comprehensive Double Taxation Agreements (DTAs) with 76 countries; 73 are in effect. The agreements cover direct taxes, which in the case of Ireland are:

- Income Tax
- Universal Social Charge
- Corporation Tax
- Capital Gains Tax

There is work underway to negotiate new DTAs and to update existing agreements is summarised on the Revenue's website: https://www.revenue.ie/en/tax-professionals/tax-agreements/double-taxation-treaties/index.aspx

## 9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

To mark the first-ever European Retirement Week, which launched on 29 November, Irish Funds and the Irish Association of Pension Funds (IAPF) jointly hosted a webinar with a panel of experts looking at the future of European pensions, and how they are tackling the challenges of sustainability and incorporating stewardship as fiduciary investors on behalf of clients.

In addition to our 2021 publication entitled 'Empowering Citizens and Enabling the Economy', which shares our vision for providing European citizens with a secure future and long-term financial wellbeing, we also worked to promote EFAMA's 'Investing for a Better Future' guide, aimed at providing practical tips in getting started in investing.

## 10. OTHER ACTIVITIES OF THE ASSOCIATION

Irish Funds produced 20 publications in 2021, covering topics such as sustainable finance, tax reporting, EU updates and regional economic impact. Our public materials are available on our website at https://www.irishfunds.ie/news-knowledge/publications.

We held 37 webinars and online events, as well as two-in person events, including our Annual UK Symposium. Our online and technical webinars were attended by over 4000 people, with further distribution of video and audio post-event on our video channel on Vimeo and via the Irish Funds podcast channel. All our public events are published at: https://www.irishfunds.ie/events.

# ITALY COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

| Table 1: Net Assets of the Fund Industry in Italy (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 322.1 | 313.9 | 332.8 | 340.4 | 358.3 |
| Funds domiciled abroad and promoted by national providers | 306.0 | 289.8 | 306.5 | 329.6 | 369.8 |
| Foreign-domiciled funds promoted by foreign providers | 418.4 | 376.4 | 425.4 | 455.6 | 526.6 |
| Total Net Assets | 1,046.5 | 980.0 | 1,064.7 | 1,125.5 | 1,254.7 |

| Table 2: Net Sales of Investment Funds in Italy (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 27,371.6 | 5,631.4 | -7,629.9 | 4,698.2 | 6,776.3 |
| Funds domiciled abroad and promoted by national providers | 22,592.0 | 1,019.2 | 9,620.3 | 14,958.8 | 22,410.3 |
| Foreign-domiciled funds promoted by foreign providers | 36,794.8 | -1,276.2 | -8.2 | 5,776.2 | 29,920.4 |
| Total Net Sales | 86,758.4 | 5,374.4 | 1,982.2 | 25,433.2 | 59,106.9 |

## 2. KEY TRENDS IN THE UCITS MARKET

| Table 3: UCITS Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 22.3 | 19.5 | 23.1 | 23.3 | 30.2 |
| Bond funds | 49.4 | 46.2 | 46.3 | 48.3 | 47.3 |
| Multi-asset funds | 91.3 | 100.8 | 109.3 | 118.0 | 141.0 |
| Money market funds | 4.1 | 3.2 | 1.8 | 1.9 | 1.9 |
| Guaranteed/protected funds | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Absolute Return Innovative Strategies (ARIS) funds | 88.6 | 67.5 | 64.0 | 49.6 | 38.1 |
| Other funds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 255.8 | 237.2 | 244.5 | 241.2 | 258.5 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 39.4 | 31.3 | 32.0 | 30.1 | 30.5 |

| Table 4: Net Sales of UCITS by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 328.9 | -98.8 | -1,133.1 | 7.1 | 1,207.2 |
| Bond funds | -99.7 | -3,561.1 | -141.9 | 1,607.6 | -489.6 |
| Multi-asset funds | 11,886.6 | 12,338.0 | 7,796.0 | 5,488.0 | 17,457.6 |
| Money market funds | -684.2 | -658.0 | -362.6 | 308.8 | -4.8 |
| Guaranteed/protected funds | -72.8 | -29.6 | -3.8 | -2.9 | -5.2 |
| Absolute Return Innovative Strategies (ARIS) funds | 5,514.0 | -10,887.7 | -16,918.1 | -12,545.5 | -12,224.8 |
| Other funds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 16,872.8 | -2,897.2 | -10,763.5 | -5,136.9 | 5,940.3 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | -3,401.7 | -5,450.3 | -2,001.2 | -2,867.7 | -904.6 |

## 3. KEY TRENDS IN THE AIF MARKET

| Table 5: AIF Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | | | | | |
| Bond funds | | | | | |
| Multi-asset funds | | | | | |
| Money market funds | | | | | |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | 0.26 | 0.00 | 0.00 | 0.00 | 0.00 |
| Real estate funds | 49.5 | 56.1 | 64.8 | 72.1 | 72.1 (1) |
| Other funds | 16.6 | 20.5 | 23.5 | 27.1 | 27.8 (2) |
| Total | 66.3 | 76.6 | 88.3 | 99.2 | 99.9 (3) |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 2.8 | 1.7 | 1.2 | 1.2 | 1.0 |
| ➤ Institutional funds | 63.5 | 74.2 | 85.7 | 95.9 | 95.8 |

(1) Data as of 2020.
(2) Data as of 2020.
(3) Data as of 2020.

| Table 6: Net Sales of AIFs by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | | | | | |
| Bond funds | | | | | |
| Multi-asset funds | | | | | |
| Money market funds | | | | | |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | -448.2 | -75.8 | 0.0 | 0.0 | 0.0 |
| Real estate funds | 6,723.0 | 7,446.0 | 2,581.0 | 5,814.0 | n.a. |
| Other funds | 4,223.9 | 1,158.3 | 552.6 | 4,021.1 | 835.9 |
| Total | 10,498.7 | 8,528.6 | 3,133.6 | 9,835.1 | 835.9 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | -909.2 | -216.2 | -549.2 | -109.0 | -1.8 |
| ➤ Institutional funds | -297.5 | 8,707.4 | 2,921.6 | 9,257.6 | -36.7 |

## 4. TRENDS IN THE NUMBER OF FUNDS

| Table 7: Number of Funds | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS | 1,057 | 1,095 | 1,177 | 1,162 | 1,155 |
| Home-domiciled AIFs | 743 | 807 | 900 | 991 | 1,000 |
| Foreign funds registered for sales | | | | | |
| ➤ By national promoters | 1,008 | 1,021 | 1,045 | 1,032 | 1,044 |
| ➤ By foreign promoters | 2,840 | 2,789 | 2,828 | 3,291 | 3,306 |
| Fund launches | 178 | 144 | 171 | 134 | 109 |
| Fund liquidations | | | | | |
| Fund mergers & acquisitions | | | | | |

## 5. MARKET DEVELOPMENTS IN 2021

2021 has seen the consolidation of the global economic recovery following the strong contraction caused by the spread of the COVID-19 pandemic crisis during 2020.

The global economic context remains characterised by the presence of multiple unknowns: the spread of more aggressive COVID-19 variants and many uncertainties linked to the most important drivers (inflation, rising prices of energy raw materials, changes in monetary policy strategies).

Despite these unknowns, the Italian asset management market confirms its solidity. During 2021, annual overall net sales of investment funds amounted to about EUR 59 billion, more than double that of registered in 2020 (EUR 25 billion). At the end of 2021, total net assets reached an all-time record of EUR 1254 billion.

At the end of 2021, Italian investment funds represented less than 30% of the total net assets under management, with foreign funds making up the other 70%. The net assets of the foreign funds promoted by national providers reached EUR 370 billion, representing 30% of the total, while the net assets of the foreign funds promoted by foreign providers reached EUR 527 billion, 42% of the total.

At the end of 2021, there were about 2100 funds domiciled in Italy. During the year, 109 funds were launched.

At the end of 2021 there were 4350 foreign funds sold in Italy, 75% of which are promoted by foreign managers.

Italian domiciled UCITS net assets increased by 7% in 2021. Equity funds registered the main increase (29%) followed by Multi-asset funds (19%). ARIS funds registered the main decrease (23%).

There have been high investments in Multi-assets funds (an increase of EUR17.5 billion) and high outflows in ARIS funds (down 12.2 €bn). Equity funds posted inflows for EUR 1.2 billion; bond funds turned negative and totalled outflows for EUR 0.5 billion.

## 6. REGULATORY DEVELOPMENTS

### 6.1. UCITS

Following the publication of the results of the joint supervisory action (CSA) on the management of the liquidity risk of UCITS conducted in 2020 by ESMA, in May, the Bank of Italy sent a communication to the UCITS asset managers asking for - among other things - a critical assessment of the profiles highlighted by ESMA. In addition, it requested that - where necessary –modify their internal policies and procedures to adapt them to the areas identified for improvement.

On the implementation of the ESMA Guidelines on the performance fees of UCITS and certain types of AIFs, the Association hold a continuous and constructive dialogue with the national competent authorities and members in order to make an effective comparison on the main interpretative issues and proposing interpretative solutions. In response, alongside the provision of 23 December 2021, the Bank of Italy (amending the relevant national regulation to implement the ESMA Guidelines - Regolamento sulla gestione collettiva del risparmio - 3° Aggiornamento) updated the Explanatory Note that provides some clarifications on the application of performance fees.

### 6.2. AIFMD

The Assogestioni answered the European Commission consultation on the AIFMD review on 29 January 2021. On 25 November 2021, the Commission published a proposal for the review of the AIFM and UCITS Directives. In addition, the following main events occurred in Italy.

On 4 June 2020, the Italian Ministry of Economy and Finance issued a public consultation on the amendment to Article 14 of Ministerial Decree 30/2015. The proposed revision of Article 14 provides for the participation in Italian-reserved AIFs, in addition to professional investors, of a number of subjects (for example certain categories of non-professional investors). At the time of writing this contribution, the Italian Ministry of Economy and Finance has not yet adopted any amendment to Article 14.

On 6 July 2021, following a consultation process, the Bank of Italy and Consob issued joint supervisory guidelines on 'Società di Investimento Semplice' ('Simple Investment Company' - SiC). The SiC is defined as an Italian AIF set up in the form of a Sicaf. In particular, the guidelines concern: (i) the governance and control system; (ii) the prudential provisions for SiCs; (iii) the decision-making process, conflicts of interest and the handling of complaints. Indications are then provided for the SiCs in the event of a persistent exceeding of the prescribed net assets limit.

On 16 February 2021, the Bank of Italy published an Act on amendments to the 'Regolamento sulla gestione collettiva del risparmio' with which it: (i) clarifies the possibility of deferred and gradual payment of subscription fees; (ii) introduces an additional possibility for the manager to suspend - in exceptional market circumstances - the redemption right of investors in open-ended Italian collective investment undertakings (CIUs); (iii) simplifies certain provisions for closed-ended Italian AIFs, by eliminating the obligation for managers of such AIFs to acquire on their own a stake equal to at least 2% of the initial total net value of the AIF and eliminating the concentration limit towards the same counterparty for credit investments in closed-ended reserved AIFs; (iv) transposes ESMA Guidelines 34-39-897 of 16 July 2020 on liquidity stress tests, by introducing obligations for managers and depositaries.

### 6.3. MiFID II

On the knowledge and competence requirements of the staff of intermediaries, the Consob introduced a general simplification of the discipline contained in the Regulation no. 20307 of 15 February 2018 (Regolamento Intermediari) according to a principle-based approach; this is to achieve full alignment with the standards set out in the ESMA Guidelines. Subsequently, the Consob updated its Q&A, published in October 2018, to adapt it to the current wording of Article 78 of the Regolamento Intermediari, as well as to eliminate those that can no longer be considered applicable as they are based on provisions that are no longer in force.

### 6.4. PRIIPs

During 2021, the Assogestioni continued to draw the attention of the competent national and European offices the specific issues related to the end of the exemption from the PRIIPs discipline for the funds that provide the UCITS KIID, the provision of an adequate deadline for the update of the PRIIPs KID according to the new RTS for funds already falling within the scope of application of the PRIIPs Regulation and its views on the future of the PRIIPs regulation.

In its response to the consultation of the European Commission on quick fixes, the Assogestioni (i) highlighted the reasons for requesting a further one-year extension of the derogation referred to Article 32 (until 1 January 2023 instead of 30 June 2022, as proposed by the Commission); (ii) proposed further amendments in order to level the playing field and clarify some aspects where the object of the offer was a PRIIP subject to the PRIIPs Regulation and the UCITS Directive (i.e. reconsider the need for the professional investor to receive any KI(I)D, especially a KIID and clarify the pre-contractual function of the KIID to avoid updating a KID for UCITS no longer marketed to the public); (iii) asked aligning the application date of the new Delegated Regulation (1 July 2022) with the new proposed deadline for the exemption period in L1 (1 January 2023).

On the ESMA Call for evidence on the European Commission mandate regarding the PRIIPs Regulation, the Assogestioni reiterated, in line with its response to the European consultation on a retail investment strategy for Europe, the changes that should have been made to the current version of the PRIIPs Regulation and related delegated act (including a review of the concept of “performance scenario” and costs to help investors understand the characteristics and comparability between products) together with further reflections on some aspects (MOP, delivery of the KID, update of the market risk indicator, ESG information, number of pages).

### 6.5. ELTIF

The Assogestioni answered to the Commission consultation on the review of the ELTIF Regulation on 27 January 2021. On 25 November 2021, the Commission published a proposal for the review of the ELTIF Regulation. Otherwise, there have been no main national regulatory developments specifically related to ELTIF during 2021 in Italy.

### 6.6. Sustainable finance

The SFDR entered into force during 2021. During the first quarter, the Assogestioni worked closely with the regulator to clarify how to best implement the Regulation in the absence of the second level technical standards: a significant proportion of Italian asset managers updated or submitted new precontractual documentation to register their product as so-called ‘art. 8 product’ or, to a lesser entire extent, as art 9. Our data show that almost the entire inflow of new investments at the end of Q1 was into funds falling under these categories. This is the result of a combination of client response to sustainability issues, resulting in the launch of new ESG products and a stronger focus on ESG criteria in existing products, a commercial push by intermediaries and formalisation of ESG policy that was already common practice among asset managers.

In the asset managers community, particularly given the lack of clarity on some crucial aspects of the SFDR and the delays in the publication of the second level regulation, there has been an effort to identify a shared approach to the regulation. This is focusing on product categorisation and implementation of sustainability risk integration in the documentation.

On the reporting to be provided by large undertakes under Article 8 of the Taxonomy regulation and under the NFRD, Italian asset managers, due to their size, fall outside the scope of these obligations. A number of them are, however, covered by the transparency obligation as part of groups that currently report, and are expected to fall in scope of the forthcoming CSRD.

In terms of Ecolabels, in Italy no national labels have been developed and in general there is a very limited use of labels for investment products. For this reason, the industry is open to adopting a European label. We have been monitoring developments with interest and contributing through consultations to the development of the EU Ecolabel and look forward to the finalisation of the work of the JRC.

**Sustainable corporate governance**

In February 2021, Assogestioni responded to the EU Commission consultation on sustainable corporate governance suggesting, in particular, the adoption of a gradual approach and launched a series of advocacy actions taking into account the Italian experience. Following the consultation, the Association will monitor the developments regarding the recently published Proposal Directive on Corporate Sustainability Due Diligence.

## 6.7. Stewardship

The process of implementation of Directive (EU) 2017/828 (Shareholder Rights Directive II) into Italian domestic law has almost been completed, except for the most technical topics relating to transmission of information along the investment chain, which has still to be integrated within the so-called Post-Trading Regulation.

The Italian Stewardship Principles already covered many of the provisions included in the Shareholder Rights Directive II, so best practice in Italy can be considered as already aligned with the spirit and views of the Directive. Since 2020, a further process of internal revision of the Stewardship Principles is ongoing.

Also, given the revision of the EFAMA Stewardship Code in 2018, growing attention – including from the issuers' perspective – is posed on the engagement, which is becoming increasingly important to the corporate governance practice. In this light, with the technical assistance of AISCA (the Italian association of board secretaries) and a Legal Panel, Assogestioni has developed the Italian Shareholder-Director Exchange (I-SDX), with a view to encouraging the adoption of good practices around dialogue between investors and boards of directors, as well as harmonising existing standards and practices within the Italian market. The principles concern the specific method of S-D engagement, which is in a relationship of complementarity with respect to the other forms of engagement conducted by the competent corporate functions. The involvement of Investors in the corporate governance of Issuers, through such forms of S-D engagement, which are fair and transparent and involve direct interaction with directors, is becoming increasingly fundamental for both Issuers and shareholders. A consultation document of the I-SDX was presented in July with a view to foster a debate with the different stakeholders and to fine-tune the principles. The I-SDX was finally presented during a seminar entitled 'New scenarios of Stewardship. Dialogue between institutional investors and boards of directors', organised by the Italian National Council for Economics and Labour and Assogestioni last October.

In 2021, the Oversight Committee of the Best Practice Principles Group (IOC) has assigned the Assogestioni (through its representative member within the IOC) the task of organising of the IOC Annual Forum, the major event dedicated to proxy voting advisory and research industry. The IOC Annual Forum will be the first of a series of events about corporate governance, stewardship and engagement that the Association will host in Rome during October 2022.

As in previous years, also during last AGM season (despite the many challenges presented by Covid-19, including the switch to virtual AGM's) Assogestioni provided its technical and operational support for the presentation of minority slates by institutional investors for the election of candidates to the board of directors and the board of statutory auditors of Italian listed companies, according to slate voting ("voto di lista") mechanism.

### 6.8. Benchmarks

During 2021, there have been no relevant national regulatory developments related to Benchmark Regulation and IBOR transition. The Association contributed to the work at European level aimed at raising the awareness of the competent offices on the costs of benchmark data, making recommendations to governments and regulators for fundamental principles to address the concerns raised. This led to the publication of the document 'Global Memo Benchmark Data costs', jointly signed by EFAMA and the ICSA.

### 6.9. Anti-Money Laundering Directive

Although the legislative decree implementing the AMLDV entered into force on 10 November 2019, the regulatory framework is still incomplete. In December 2019, The Ministry of Economy and Finance launched a public consultation on a draft decree to set-up and govern the functioning of the Italian register of beneficial owners. Although more than two years have passed since the end of the public consultation, the register is still to become effective.

According to the Bank of Italy communication No 5 of 4 October 2021, the revised Guidelines on Risk Factors (EBA/GL/2021/02) are applicable as of 26 October 2021. The Bank drew the attention of obliged entities to the risk factors set out in the sectorial guidelines to take them into account in their risk assessment.

### 6.10. Digital Finance

Decree no. 100 of the Italian Ministry of Economy and Finance of 30 April 2021, on the discipline of the FinTech Committee and Experimentation (the so-called FinTech Regulation) entered into force on 17 July 2021. This is an important initiative, with which Italy has equipped itself with a regulatory sandbox. Another (related) development was the start-up of the 'Milano Hub', a physical and virtual place which - alongside the Bank of Italy's FinTech Channel (a space for dialogue) and the experimentation referred to in the FinTech Regulation - is generally aimed at promoting digital technologies in the financial market.

### 6.11. Other regulatory developments

The Italian legislative decree of 2 February 2021, no. 17, concerned the implementation of the Prospectus Regulation (EU) no. 1129/2017. The changes concerned: (i) the rules on the public offerings; (ii) the discipline on whistleblowing; (iii) the rules concerning sanctions. In October 2021, Consob launched a public consultation aimed at aligning its Regulation no. 11971 of 14 May 1999 (Regolamento Emittenti) with changes made by the aforesaid legislative decree. Finally, connected to the implementation of the Prospectus Regulation, a previous consultation launched by Consob (that closed on 6 February 2021) concerned the proposed amendments to the Consob's Regulation no. 11971 of 14 May 1999 (Regolamento Emittenti) aimed at aligning, from a procedural point of view, the national provisions to those ones of the Prospectus Regulation.

In 2021, the implementation of the new EU regulation on the **crossborder distribution** of CIUs took place. The main changes to the Italian Consolidated Law on Finance concerned: (i) the identification of the competent authorities for the disclosure requirements deriving from the European legislation; (ii) the regulations on local facilities and de-notification; (iii) pre-marketing activity; (iv) certain provisions on public offerings; (v) the rules on sanctions. On the specific issue of marketing communications, the Association has supported the companies in defining the correct obligations to be put in place from 2 August 2021, in compliance with the provisions of Article 4, paragraph 3 of Regulation (EU) 2019/1156. To complete the adaptation of national legislation to European provisions on cross-border distribution, Consob launched a consultation on some proposals for amendments to its Regulation no. 11971 of 14 May 1999 (Regolamento Emittenti).

During 2021, the Assogestioni followed the process of adapting Italian national legislation to the regime referred to in the Bank Recovery and Resolution Directive 2. In May 2021, the Italian Ministry of Economy and Finance launched a consultation on the protection of non-professional investors in the context of the marketing of financial instruments issued by credit institutions and investment firms. As a result, the Italian legislative decree of 8 November 2021, no. 193, was adopted. It made changes to the Italian Consolidated Law on Banking and the Consolidated Law on

Finance on the marketing to retail customers of instruments subject to bail-in, as well as to the rules on compulsory administrative liquidation of an asset management company.

During 2021, the Assogestioni took part in the interinstitutional Task Force Finance for the growth 2.0, coordinated by Italian Ministry of Economy and Finance and aimed identifying solutions to improve the institutional and regulatory framework the task Force was intended to provide companies with more diversified access to market funding sources (alternatives to the banks) and guaranteeing equal opportunities for investors. A position paper of the discussion carried out has been recently published and put out for consultation.

## 7. PENSIONS & PEPP

The process of implementation of the PEPP into the Italian framework is currently ongoing. Article 20 of Law No. 53 of 22 April 2021 has delegated the Italian Government to adopt a legislative decree in order to adapt the Italian legislation to the PEPP Regulation on the basis of principles established by the law itself. The implementing legislative decree has not yet been issued.

In particular, on the tax regime of the PEPP, the delegation law, in line with the EC Recommendation of 29 June 2017 (C(2017) 4393) and the EP Resolution of 4 April 2019, provides that the PEPP will be subject to the same tax regime as national personal pension products.

The delegation also states that the COVIP (the National Authority responsible for the supervision of Italian pension funds) will be the authority responsible for the registration and deregistration procedures and for the communication with EIOPA.

## 8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

The 2022 Budget Law (Law No. 234/2021) introduced two main changes for long-term individual savings plans specialised in small- and medium-sized business enterprises (alternative PIR).

As background, PIR (*Piani individuali di risparmio*) is a tax-efficient investment wrapper that allows individuals resident in Italy to benefit from tax exemption on investment returns if specific requirements are met for portfolio composition, investment holding period and investable amounts.

The composition of the alternative PIR portfolio must meet the following requirements:

- At least 70% of the portfolio must consist of financial instruments issued by, or loans/credit granted to, Italian companies or EU/EEA companies with a permanent establishment in Italy. They must not be listed in the FTSE MIB and FTSE Mid-Cap stock indexes or equivalent indexes ('qualified investments'). The remaining 30% of the portfolio can be financial instruments issued by companies resident in countries allowing for an adequate exchange of information with Italy and in public bonds;
- no more than 20% of the portfolio value can be invested in a single company.

The investments may be held directly or indirectly, as well as through collective investment undertakings (i.e. ELTIF, credit funds, private-equity funds), established in Italy or in EU/EEA countries.

The 2022 Budget Law has introduced the possibility for investors to hold two or more alternative PIRs at the same time, subject to the general subscription limits (EUR 300k in each tax year, with an overall limit of EUR 1.5 million).

Moreover, the tax credit equal to losses deriving from qualified investments held in alternative PIR, introduced by the 2021 Budget Law (Law no. 178/2020), has been extended to investments made in 2022. In order to be eligible for the tax credit, qualified investments must be held for at least five years. The tax credit cannot exceed 20% of the total value of qualified investments and is an alternative to the deduction of capital losses from capital gains.

## 9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

**Education and training** - Professional training and financial education are strategic and complementary elements for those who offer investment services. An additional challenge is the growing focus on sustainable finance, driven by regulatory development and customer preferences. Having entered public awareness, the issue of sustainability is experiencing rapid evolution, with a proliferation of information flows that at times generate confusion. The demand for greater clarity concerning the forms of ESG investment, as emerged from the second Assogestioni-Censis report on the choices of Italian savers, is a notable theme that finds a prominent role in the Association's institutional communication activities.

## 10. OTHER ACTIVITIES OF THE ASSOCIATION

**Italian Governance Code**: Having approved the new Corporate Governance Code in January 2020, during 2021 the Italian Corporate Governance Committee (composed of issuers and investors associations - ABI, ANIA, Assonime, Confindustria, Assogestioni - as well as the Italian Stock Exchange, Borsa Italiana S.p.A.) focused on adapting the report on the compliance with the Code and started an in depth-study regarding a possible review of the collection of Q&As related to the new Code (first published in 2020).

**Catch-Up Programme**: Since 2019, the Assogestioni has organised a series of workshops on governance and sustainability issues aimed at offering independent directors and statutory auditors opportunities for updating and learning. Each session, which has continued in digital format and in physical format (in compliance with the applicable pandemic restrictions) during 2021, involves representatives of the institutions and some of the leading experts on the issues addressed and provides for networking moments. The idea is to create a community where directors can develop and share their know-how and experiences. The Program is also open to the functions of corporate secretary, chief governance officer and investor relator of Italian companies.

**Board Academy**: Since 2021, in collaboration with Luiss Business School, the Assogestioni has developed and started a University Specialisation Course in Board Academy. This is a programme aimed at training future directors and improving the effectiveness of the boards and corporate governance structures of listed and unlisted companies.

**Series of seminar by the Italian National Council for Economics and Labour and Assogestioni**: During 2021, the Italian National Council for Economics and Labour (CNEL) and the Assogestioni organised a series of seminars aimed at providing opportunities to discuss investment management flows, capital markets and corporate governance, with a focus on the role of independent directors and development of minority shareholders.

**Fintech**: The Digital Finance Committee of Assogestioni organised a cycle of seminars aimed at increasing awareness among asset management companies of the opportunities offered by Fintech, which took place between March-April 2021. The seminars covered a series of relevant topics, such as artificial intelligence, blockchain, crypto assets and digital identity. As part of the various opportunities offered by Fintech, the Committee also committed itself to investigating the topic of artificial intelligence in relation to the investment by CIUs in tokenised assets and the tokenisation of units/shares of CIUs. The Digital Finance Committee was also involved in monitoring the legislation on digital finance at a national, European and international level.

**Diversity**: During 2021, the members of the Diversity Committee of Assogestioni carried out a research programme with the Smart Working Observatory of the Politecnico di Milano concerning Smart Working in asset management companies. The research has set itself the goal of increasing interest in developing Smart Working initiatives in the future among the asset management companies, starting from the analysis of the remote working experience undertaken in the last year. The results of the research were presented at the Salone del Risparmio 2021 and then in the Conference on Research Results of the Smart Working Observatory. They formed the basis for the development, by the Assogestioni, of Application Guidelines on Smart Working and Inclusion for the asset management industry.

**The Salone del Risparmio**: The 11th edition took place on 15-17 September in hybrid mode. Thanks to this formula, the Salone del Risparmio hosted 11,400 unique visitors (6,200 of whom were physically present), a growing number compared to the record edition of 2019. The hybrid formula made the participation of the public from Italy and abroad even more inclusive. In particular, the latter increased from 3% to 7%.

The 2021 edition, entitled ‘From saver to investor: liquidity to build new worlds’, focused on major themes such as the support for the real economy, the sustainable development and the challenges of digitalisation. There was also extensive media coverage (over 1,370 articles and citations) and its 114 conferences scheduled.

**FR | Vision: a digital home for the asset management industry**: The world has faced great challenges over the last two years. Combining reality and technology in the most effective way possible - thanks to the digital revolution - is one of them, together with experimenting new languages of audio-video communication to keep the interaction open with all the stakeholders. Starting from this idea, the association launched FR | Vision, a broadcasting platform for circulating the most important themes for the industry by offering, conferences, training courses, in-depth articles, interviews and original series, both live and on demand.

Today the platform is an important part of the FocusRisparmio ecosystem, embracing its primary objectives. During the second half of 2021, FR | Vision welcomed over 8000 unique visitors, broadcast live streaming all the conferences of the Salone del Risparmio (more than 250 hours), collected more than 300 pieces of contents produced by the management companies and launched a three-episode documentary entitled ‘The Future’.

**Publishing**: Over the last year, the association has devoted increasing resources to publishing and the use of social media, as part of its strategy to reach a larger audience of professionals. Thanks to the publication of the magazine and its newsletter, with in-depth analysis and interviews, news and information on the asset management industry in Italy and in the world, FocusRisparmio now reaches a wide audience: over 38,000 newsletter subscribers, more than 14,000 subscribers to the bimonthly paper edition and 40,000 unique visitors on its website. The readers who receive the magazine directly on their desk or at home are 75% professionals in the world of distribution and consulting while 15% are asset managers.

**Il tuo Capitale Umano – ICU**: In 2017 the Assogestioni launched a programme to promote diversity in the workforce of asset management and attract young talents to the industry. The programme offers students and recent graduates the opportunity to access internships made available by asset managers. The programme is presented to students through a number of events - virtual or physical - hosted by universities across Italy and its climax takes place in a conference dedicated to students at the annual Salone del Risparmio. During the conference, asset management professionals share their work experience, and a keynote speaker discusses issues that could be of interest for people entering our industry. In 2021, the subject was the impact of new technologies into the activity of asset managers. On the same day as the conference, interviews took place to select candidates for the six-month internships made available by the asset managers that partner with the programme.

# LIECHTENSTEIN COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

| Table 1: Net Assets by the Fund Industry in Liechtenstein (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 46.4 | 44.3 | 53.9 | 55.0 | 68.0 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Assets | 46.4 | 44.3 | 53.9 | 55.0 | 68.0 |

| Table 2: Net Sales of Investment Funds in Liechtenstein (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 2,391.6 | 951.9 | 3,532.7 | 1,316.1 | 4,291.3 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Sales | 2,391.6 | 951.9 | 3,532.7 | 1,316.1 | 4,291.3 |

## 2. KEY TRENDS IN THE UCITS MARKET

| Table 3: UCITS Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 9.5 | 8.1 | 9.6 | 10.1 | 13.0 |
| Bond funds | 8.0 | 8.0 | 7.8 | 7.8 | 8.1 |
| Multi-asset funds | 5.8 | 5.2 | 5.5 | 5.4 | 6.1 |
| Money market funds | 2.2 | 3.1 | 3.5 | 2.7 | 2.6 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | 0.01 | 0.01 | 0.01 | 0.02 | 0.02 |
| Other funds | 2.6 | 2.5 | 2.7 | 2.6 | 3.2 |
| Total | 28.1 | 26.8 | 29.1 | 28.6 | 32.9 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 0.3 | 0.2 | 0.2 | 0.1 | 0.1 |

| Table 4: Net Sales of UCITS by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 689.3 | -188.1 | -388.2 | 307.9 | 82.5 |
| Bond funds | 130.6 | 16.3 | -370.6 | 219.3 | -75.5 |
| Multi-asset funds | 338.0 | -214.0 | -380.2 | -135.2 | 107.7 |
| Money market funds | -137.2 | 817.0 | 346.9 | -533.6 | -101.2 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | 2.0 | 0.7 | 0.8 | 0.3 | -1.2 |
| Other funds | 171.9 | -128.4 | 67.1 | -142.7 | 461.9 |
| Total | 1,194.6 | 303.6 | -724.2 | -284.1 | 474.2 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | -21.1 | -26.1 | -23.0 | -20.8 | 1.8 |

## 3. KEY TRENDS IN THE AIF MARKET

| Table 5: AIF Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 1.9 | 1.0 | 1.7 | 1.7 | 2.0 |
| Bond funds | 1.3 | 1.0 | 2.6 | 2.0 | 2.2 |
| Multi-asset funds | 10.0 | 10.4 | 12.3 | 12.8 | 16.8 |
| Money market funds | | | | | |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | 0.1 | 0.1 | 0.1 | 0.2 | 0.3 |
| Real estate funds | 0.1 | 0.1 | 0.2 | 0.3 | 0.3 |
| Other funds | 4.9 | 4.9 | 7.8 | 9.4 | 13.5 |
| Total | 18.3 | 17.5 | 24.8 | 26.4 | 35.1 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 0.6 | 0.2 | 0.2 | 0.2 | 0.2 |
| ➤ Institutional funds | | | | | |

| Table 6: Net Sales of AIFs by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** | **2021** |
| Equity funds | 200.9 | -153.7 | 477.3 | -10.6 | 305.6 |
| Bond funds | 389.1 | -112.5 | 1,310.1 | -78.0 | 372.9 |
| Multi-asset funds | 305.4 | 448.9 | 617.5 | 8.1 | 1,592.1 |
| Money market funds | | | | | |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | 29.2 | 14.9 | 11.2 | 20.1 | 35.6 |
| Real estate funds | 28.0 | 89.1 | 70.0 | 104.3 | 10.3 |
| Other funds | 244.5 | 361.6 | 1,770.8 | 1,556.3 | 1,500.6 |
| Total | 1,197.1 | 648.3 | 4,256.8 | 1,600.2 | 3,817.1 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 23.1 | 0.0 | -6.5 | -6.0 | -9.3 |
| ➤ Institutional funds | 0.9 | 0.0 | 14.7 | -0.6 | 20.9 |

## 4. TRENDS IN THE NUMBER OF FUNDS

| Table 7: Number of Funds | | | | | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** | **2021** |
| Home-domiciled UCITS | 897 | 930 | 883 | 888 | 1,024 |
| Home-domiciled AIFs | 529 | 669 | 870 | 1,032 | 1,188 |
| Foreign funds registered for sales | 310 | 382 | 453 | 572 | 707 |
| ➤ By national promoters | | | | | |
| ➤ By foreign promoters | | | | | |
| Fund launches | | | | | |
| Fund liquidations | | | | | |
| Fund mergers & acquisitions | | | | | |

## 5. REGULATORY DEVELOPMENTS

### 5.1. UCITS

On 2 August 2021, a revised version of the Liechtenstein UCITS Act entered into force and was published in consolidated form. The amendments were made to implement the European rules on the cross-border distribution of funds. This meant that the provisions of the EU Directive amending Directives 2009/65/EC and 2011/61/EU on cross-border distribution of collective investment undertakings were added to the existing provisions contained in the UCITS and AIFM Act, respectively. The legal acts were transposed into Liechtenstein law in advance of their formal integration in the EEA agreement using the so-called 103 procedure (*Vorabumsetzung*), due to their strategic importance. Alongside with the law the relevant Regulation (UCITS Verordnung) was revised.

At the level of the Liechtenstein NCA, regulatory requirements are specified in a number of guidelines and circulars that have been supplemented or further developed and changed. Among them is the Code of Conduct for the Liechtenstein marketplace (Wohlverhaltensregeln), as well as guidelines on crossborder distribution of funds, reporting requirements for money market funds, the dissolution and liquidation of a UCITS pursuant to the UCITS Act, on the risk-based approach to anti-money laundering, and on general and industry-specific interpretations of anti-money laundering rules.

Other formerly introduced or amended guidelines came into effect during 2021. These included guidelines on cyberrisks, on principles to be observed in the audit and reporting by the auditors recognised by special law and on the valuation of assets.

### 5.2. AIFM

In parallel to the UCITS Act, the Liechtenstein AIFM Act was also revised to transpose the European rules regarding the crossborder distribution of funds. Likewise, the accompanying AIFM Regulation was adapted.

Also in the area of the AIFMD, the Liechtenstein NCA introduced complementing rules - in the form of guidelines or changes to existing guidelines - and previously introduced regulations came into effect. Some of these NCA guidelines are identical to those in the area of UCITS. Additional ones addressed requirements for external valuators, the dissolution and liquidation of an AIF pursuant to the AIFM act and changes to the rules for the content and structure of the report on the supervisory review of management companies/AIFMs.

### 5.3. Sustainable Finance

**EEA Adoption of EU Regulations and Liechtenstein Sustainability Act (Implementing Act)**

The European regulations in the area of sustainability, in particular the Disclosure Regulation (SFDR) and the Taxonomy Regulation, but also the associated Level 2 legal acts in the form of regulations are - from the time of their adoption into the EEA Agreement - directly binding in the EEA. However, for the effective implementation in Liechtenstein, an Implementation Act is still necessary, in which a limited number of provisions are laid down complementing the directly binding European rules.

During 2021, the government conducted a consultation on such a Liechtenstein sustainability act. This specifically concerned the so-called disclosure regulation (SFDR) EU 2019/ 2088 and the taxonomy regulation EU 2020/852.

Since the EU regulations are directly applicable upon entry into force of the corresponding incorporation decision of the EEA Joint Committee, the provisions of the bill, which are in addition to the EU regulations, are limited, as usual, to the designation of the FMA as the competent authority and its endowment with corresponding supervisory powers and, in particular, the power to impose administrative sanctions and other administrative measures in the event of violations.

**Workshop of the FMA and the university**

In July 2021, the FMA held a webinar on “Transparency and Disclosure in a Sustainable Financial Economy”. This was attended by many representatives of the fund industry as well as the other financial sectors in Liechtenstein.

In September 2021, the FMA took part in an expert conference organised by the German Federal Environmental Agency on a crossborder basis, with the participation of the supervisory authorities of Germany, Austria, Switzerland and Luxembourg. At the event, it was possible to get an impression of the implementation status in the other German-speaking countries.

The university event, ‘ESG Kompakt’, which is well-known in Liechtenstein, was again held - in the form of a webinar in September 2021 - under the title “EU Taxonomy in Practice”.

**ESG - Implementation of taxonomy-related disclosure requirements**

For market participants in Liechtenstein as well as in the rest of the EU, there were in 2021 - and still remain - implementation difficulties in the ESG area. This is because the principles of the taxonomy-related disclosure requirements have been laid down at the European level 1 and became applicable as of January 2022, while the applicability date of the Level 2 detailed regulations were postponed to January 2023. Thus, many detailed regulations for the concrete implementation were still missing in 2021.

The LAFV informed its members, in accordance with the coordination with the FMA, that the disclaimer of Article 7 of the Taxonomy Regulation (“The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities”) must be included in the constituting documents for all non-green funds. Ultimately, the FMA was prepared to accept a fast-track approach for prospectus updates for this item.

With regard to green funds, additional information must be provided in order to comply with Articles 5 and 6 of the Taxonomy Regulation (Level 1). Here, information was provided specifically regarding one element, namely the 'scope' of the taxonomy alignment, i.e. the percentage 'of investments in environmentally sustainable economic activities. This specification requires detailed data, which are currently not available. It is therefore difficult to determine the practical handling of this element. The FMA is guided by the European standards, and acts with a sense of proportion. However, this part of the adjustments to the constituting documents does not represent an editorial change and must be approved.

### 5.4. Anti-Money Laundering

**Overhaul of sector specific AML rules for funds**

After 2020, which had been a year of a broad revision of rules with reference to the whole spectrum of the level one legislation (the so-called '*Sorgfaltspflichtgesetz' - SPG*) and pertaining Regulation (*'Sorgfaltspflichtverordnun' - SPV*), 2021 saw a more focused overhaul of sector specific AML rules and practices regarding the investment fund industry.

For this purpose, certain parts of the SPV were reviewed again in order to further specify levels of scrutiny with reference to different parts of the fund spectrum.

In addition, the guidelines on general and industry-specific interpretations of anti-money laundering rules were amended in various places to introduce more granular requirements with reference to risk assessments as well as due diligence and documentation duties. This involved among others the development criteria for classifying funds and for attributing different risk levels.

During this process, several rounds of consultation with market participants took place as well as a number of joint meetings and seminars together with the financial market authority.

**Sector Risk Assessment (SRA)**

In 2020, a new version of the national risk assessments in the areas of anti-money laundering and countering terrorism financing were published. Following this the LAFV started a project with the aim of establishing a sectoral risk assessment for the Liechtenstein fund industry. The project was carried out in cooperation with an audit firm, and entailed rounds of consultations and interviews with the LAFV members during the first weeks of 2021. The report was finalised in March 2021, and contained a section with recommendations listed in a clear prioritisation. These were intended to provide guidance for improving and completing internal structures, processes and documentation in the area of anti-money laundering and counter-terrorism, as well as dealing with the requirements in the area of international sanctions. This measure was also regarded as meaningful for the imminent MoneyVal country assessment that was also carried out in 2021.

**Specific Workshops and workstreams**

Among other things, the above-mentioned recommendations included - in the sector risk assessment - references to a Risk Appetite Framework and a further framework in the area of international sanctions.

During the spring of 2021, the LAFV organised two workshops dedicated to these two internal measures; one dealing with the topic of creating and continuously maintaining a risk appetite framework, the other on the topic of international sanctions.

Some years ago, the LAFV had provided its members with standard forms or templates for implementing due diligence requirements; these had been developed together with an expert in the banking sector and the financial market authority (FMA). During 2021, these forms were adapted to the emerging regulatory changes.

This development was supported by a special workshop, organised by the FMA, on requirements regarding the business-wide risk assessment (BRA).

**Preparation for MoneyVal Country Assessment**

In addition to the range of measures and interactions above, the LAFV helped its members prepare for the Moneyval country assessment, which took during the autumn of 2021. Both the government and the LAFV organised training sessions, and special mock assessments for the interviewees took place.

**Transparency Register**

During 2020, the Liechtenstein rules on the so-called 'transparency register', designed to list the beneficial owners of companies or other legal persons and trusts, were adapted to take account of new regulatory requirements. The name of the revised law is *'Gesetz über das Verzeichnis mit Angaben zum wirtschaftlichen Eigentümer (Verzeichnis wirtschaftlicher Eigentümer; VWEG)'.* This came into effect on 1 April 2021.

Here, the government agency in charge of this topic held a dialogue with the LAFV and its members in order to further specify aspects of reporting information on funds for the purpose of the listings in this register. The detailed regulations emanating from this process were integrated in a dedicated guideline, (Merkblatt), which also covered other sectors of the financial industry. A comparable process took place for the additional development of an FAQ document. Later in 2021, the LAFV was in contact with the agency to discuss technical aspects of the relevant electronic reporting process.

## 5.5. Digital Finance

**The Liechtenstein Blockchain Act**

The Liechtenstein law in the area of digital finance and – in particular blockchain – constituted a first-mover initiative and is renowned on a global level. The name of the law is 'Token- und VT-Dienstleister-Gesetz (TVTG)'. It came into effect in January 2020. As reflected in the name, the notion of blockchain-systems has been replaced by 'transaction-systems based on trustworthy technologies'.

The TVTG is designed to cater for future technological use cases and demands. It thus creates a framework for productively taking into account the speed of innovation in this field while providing a secure environment.
The provisions of the law foresee that assets or rights - e.g. fund shares – can be represented in tokens. The token can be seen as a new legal object to enable the mapping of the 'real' world on blockchain (VT) systems in a legally secure manner. The provisions of the Liechtenstein Blockchain Act provide fundamental legal clarifications for the general legal security of users on VT systems and VT service providers.

In order to enable securities to be represented in a token on a VT system and transferred without the need for a physical certificate, the legal figure of the book-entry security (Wertrecht) is incorporated into Liechtenstein law. Book-entry securities are dematerialised securities entered into the so-called book-entry securities register. On this basis, an interface between securities law and TVTG was created.

**The blockchain technology and the funds sector**

While only AIF can invest in virtual currencies (Kryptofonds), both AIFs and UCITS can be set up on blockchain systems (tokenisation of fund shares).

Virtual currencies that an AIF invests in are treated as commodities. Special requirements apply in these cases. Among others, adequate risk management procedures need to be in place, as well as a safe custody ('cold storage'). The shares of the AIF may only be distributed to professional investors.

The shares in a fund can be tokenised. They are then represented in tokens and are thus basically tradable. Where the 'management' of the fund units is represented by the blockchain system, the AIFM (or UCITS) legislation applies as in other cases.

**Supervisory guidance**
The Financial Market Authority (FMA) published guidelines laying down the duties for the issuance and redemption, as well as the registration, of tokenised fund shares. The tokenised fund shares must fulfil the three criteria of securities – i.e. being transferability, standardisation and tradability. In addition, the guidance defines special rules and duties applying with reference to the issuance (token generation) and redemption (burning) of tokenised fund shares, the share register management, compliance with the general anti money laundering rules as well as with reference to special information to be submitted relating to the Smart Contracts for the fund share tokens.

## 6. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

**Automatic Exchange of Information (AEOI) and FATCA**
Liechtenstein takes part in the automatic exchange of information in tax matters and exchanges information with over 60 countries. The pertaining mechanism and rules are laid down in national legislation on the automatic exchange of information ('Gesetz über den internationalen automatischen Informationsaustausch in Steuersachen' - AIA-Gesetz) and the respective Regulation.

Likewise, Liechtenstein had signed a FATCA-Agreement (Model I – Intergovernmental agreement, IGA) in 2014 and implemented the FATCA mechanism through a national FATCA Law (FATCAGesetz) as well as corresponding FATCA Regulation.

**Double Tax Agreements, Withholding taxes**
Liechtenstein has entered into a significant number of double tax (DTAs) agreements. The DTA network of the country is continually expanding, and the treaties represent the latest standards for the OECD Model Agreement, BEPS, the MLI, etc. According to many of the DTAs, Liechtenstein funds are entitled to treaty benefits.

As a service to its members, the LAFV has drawn up a manual on refund and deduction at source of withholding taxes covering 42 countries. This covers the refund of withholding taxes based on double-taxation agreements (DTAs) as well as the rulings of the European Court of Justice (ECJ) covering countries of the EEA, and on the basis of national provisions of the country of origin.

## 7. OTHER ACTIVITIES OF THE ASSOCIATION

**LAFV Guidelines, templates, newsletters and other publications**
As mentioned above, the LAFV has produced standards and templates for the exclusive use of its members in various settings. Examples include model prospectuses, guidelines on risk management, templates for internal documentation purposes and standard covenants and treaties, such as depositary agreements.

The LAFV offers comprehensive regulatory overviews in a regulatory newsletter, published on a quarterly basis and addressed to its members. A second publication, 'LAFVAktuell', has an even broader range of content, targeting a wider public such as fund promotors and lawyers active in the area of financial services.

**Workshops, Seminars and conferences**
The association organises workshops and seminars for its members on a regular basis. In 2021, many of them focused on themes in the area of anti-money laundering and counter terrorism or international sanction. Others are arranged to cover a broader range of topics, including in particular the developments with reference to sustainable finance or digital finance. Due to COVID-19 situation in 2021, most of these meetings were held via video conference or in a hybrid format.

# LUXEMBOURG COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

Table 1: Net Assets by the Fund Industry in Luxembourg (EUR billion)

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Home-domiciled UCITS & AIFs | 4,159.6 | 4,064.6 | 4,718.9 | 4,973.8 | 5,859.5 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Assets | 4,159.6 | 4,064.6 | 4,718.9 | 4,973.8 | 5,859.5 |

Table 2: Net Sales of Investment Funds in Luxembourg (EUR million)

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Home-domiciled UCITS & AIFs | 308,365.0 | 92,417.0 | 133,748.0 | 149,621.0 | 394,226.0 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Sales | 308,365.0 | 92,417.0 | 133,748.0 | 149,621.0 | 394,226.0 |

## 2. KEY TRENDS IN THE UCITS MARKET

Table 3: UCITS Assets by Fund Type (EUR billion)

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Equity funds | 1,174.2 | 1,112.6 | 1,350.1 | 1,541.8 | 2,013.9 |
| Bond funds | 1,130.3 | 1,085.8 | 1,295.6 | 1,305.1 | 1,369.1 |
| Multi-asset funds | 729.2 | 713.7 | 786.2 | 772.1 | 931.7 |
| Money market funds | 308.1 | 316.0 | 342.0 | 387.2 | 419.1 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | 144.7 | 132.4 | 146.9 | 152.2 | 190.7 |
| Total | 3,486.4 | 3,360.5 | 3,920.8 | 4,158.4 | 4,924.5 |
| of which ➤ ETFs | 109.4 | 163.4 | 220.8 | 237.5 | 322.8 |
| ➤ Funds of funds | 133.5 | 122.4 | 136.6 | 142.4 | 177.6 |

| Table 4: Net Sales of UCITS by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** | **2021** |
| Equity funds | 47,745.0 | 60,987.0 | -30,598.0 | 71,151.0 | 185,327.0 |
| Bond funds | 119,674.0 | -20,904.0 | 125,832.0 | 25,018.0 | 46,277.0 |
| Multi-asset funds | 89,300.0 | 22,108.0 | -289.0 | -8,911.0 | 82,455.0 |
| Money market funds | 23,387.0 | 3,556.0 | 9,144.0 | 49,924.0 | 12,439.0 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | 821.0 | -4,167.0 | 1,198.0 | 2,527.0 | 21,203.0 |
| Total | 280,927.0 | 61,580.0 | 105,287.0 | 139,709.0 | 347,701.0 |
| of which ➤ ETFs | 20,435.0 | 30,335.0 | 23,796.3 | 17,191.3 | 29,616.0 |
| ➤ Funds of funds | -110.0 | -3,641.0 | 1,921.0 | 2,635.0 | 19,401.0 |

## 3. KEY TRENDS IN THE AIF MARKET

| Table 5: AIF Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** | **2021** |
| Equity funds | 64.7 | 63.1 | 78.9 | 77.3 | 87.2 |
| Bond funds | 106.1 | 105.8 | 115.3 | 107.8 | 106.0 |
| Multi-asset funds | 180.3 | 174.6 | 195.0 | 191.9 | 210.2 |
| Money market funds | 20.3 | 18.9 | 21.3 | 27.2 | 24.4 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Real estate funds | 57.7 | 71.9 | 84.2 | 93.5 | 110.8 |
| Other funds | 244.1 | 269.8 | 303.4 | 317.5 | 396.4 |
| Total | 673.2 | 704.2 | 798.1 | 815.4 | 935.0 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 108.3 | 112.9 | 134.0 | 140.9 | 176.7 |
| ➤ Institutional funds | 472.4 | 514.2 | 589.5 | 610.5 | 698.6 |

| Table 6: Net Sales of AIFs by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | -2,029.0 | 827.0 | 3,861.0 | 470.0 | -1,457.0 |
| Bond funds | -538.0 | -2,277.0 | -2,332.0 | -4,919.0 | -4,678.0 |
| Multi-asset funds | 884.0 | 3,388.0 | 4,505.0 | -7,692.0 | 780.0 |
| Money market funds | -737.0 | -1,290.0 | 1,838.0 | 2,373.0 | -4,044.0 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Real estate funds | 6,126.0 | 12,926.0 | 10,293.0 | 8,425.0 | 12,389.0 |
| Other funds | 23,732.0 | 17,263.0 | 10,296.0 | 11,255.0 | 43,535.0 |
| Total | 27,438.0 | 30,837.0 | 28,461.0 | 9,912.0 | 46,525.0 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 8,056.0 | 4,852.0 | 8,944.0 | 756.0 | 23,359.0 |
| ➤ Institutional funds | 29,537.0 | 35,748.0 | 29,877.0 | 8,266.0 | 42,078.0 |

## 4. TRENDS IN THE NUMBER OF FUNDS

| Table 7: Number of Funds | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS | 10,090 | 10,328 | 10,364 | 10,163 | 10,142 |
| Home-domiciled AIFs | 4,638 | 4,570 | 4,444 | 4,427 | 4,303 |
| Foreign funds registered for sales | 1,437(1) | 1,609(2) | 1,677(3) | 1,850(4) | 2110(5) |
| ➤ By national promoters | | | | | |
| ➤ By foreign promoters | | | | | |
| Fund launches | 227 | 136 | 130 | 116 | 107 |
| Fund liquidations | 327 | 272 | 292 | 251 | 226 |
| Fund mergers & acquisitions | | | | | |

Note: from 2017, data includes SICARs
(*) in terms of fund units (number of sub-funds in umbrella structures + single funds)
(1) As of March 2018
(2) As of March 2019
(3) As of January 2020
(4) As of March 2021
(5) As of March 2022

## 5. MARKET DEVELOPMENTS IN 2021

### Key Trends in the Global Market

As of 31 December 2021, total net assets of Luxembourg investment funds were up by EUR 886 billion from the end of 2020 to EUR 5,859 billion. In absolute terms - and although the year was impacted by the COVID-19 pandemic - the annual growth was 3.5 times higher than in 2020, an absolute record since the introduction of the euro. As a result, with 3,492 fund legal entities, assets under management closed the year at an all-time record. From January 2021 onwards, net assets in UCIs passed the threshold of EUR 5 trillion, and remained above this threshold throughout the year thanks to the positive impact of the financial markets (except September), and strong net sales recorded month-on-month accounting for 44.5% of the annual growth.

UCI net assets ended the year with an annual growth of 17.8%, in line with European growth, which reached 16.7%. This confirmed the leadership of Luxembourg fund industry in Europe.

**Key Trends in the UCITS Market**

UCITS accounted for 84.0% of net assets, a slight increase over 2020 and representing some 70% of the number of fund units in the Luxembourg fund industry. As at the end of 2021, the market share of equity funds increased sharply by 3.8%, offsetting the 3.6% decline in bond funds. Thus the three main categories – bond funds, equity funds and balanced funds – again accounted for 87.6% of the UCITS market. Together, the three asset classes, mainly driven by the equity funds, contributed 90.8% of the annual growth in UCITS. Globally, all asset classes in UCITS saw their net assets increased in 2021. UCITS captured almost all of the net inflows in UCIs with EUR 347,701 million (88.2%).

**Key Trends in the AIF Market**

The Luxembourg AIF market statistics include only Luxembourg funds set up under Part II of the 2010 Law, SIFs (2007 law) and SICAR (2004 Law) from 2017.

At the end of 2021, SIFs represented 75.0% of the legal entities in AIF market, their market share remaining stable compared to 2020, although 96 SIFs were wound up during the year. Net assets of SIFs amounted to EUR 698,552 million, 11.9% of the total Luxembourg UCI sector. They posted an annual growth of 14.4% and accounted for 10.7% (EUR 42,078 million) of annual net inflows in UCIs. With 15.3% of the net assets in SIFs, real estate funds made a remarkable entry in the top three types of SIFs, which had remained stable until 2020, namely balanced funds (20.5%), funds-of-funds (20.5%) and bond funds (12.9% or -2.1% compared to 2020) dropping back to fourth place in 2021.

## 6. REGULATORY DEVELOPMENTS

### 6.1. UCITS

**Notification procedures**

On 28 July 2021, CSSF Circular 21/778 (amending Circular 11/509 on notification procedures) was published. This text integrates technical modifications on Directive (EU)2019/1160 of 20 June 2019, and gives details on the file to be submitted with the supervisory authority in case of denotification of a Luxembourg UCITS

**Ancillary liquid assets**

On 9 November 2021, the CSSF issued an update of their FAQ with information on the holding of ancillary liquid assets by UCITS foreseen under article 41 (2) b) of the Law of 1 December 2010. The update aims to clarify the circumstances and the extent to which UCITS are allowed to hold ancillary liquid assets. In addition, clarifications on aspects of UCITS and MMF diversification rules have also been provided.

The new questions have been included in the FAQs:

- FAQ concerning the Luxembourg Law of 17 December 2010 relating to undertakings for collective investment: Section 1 and Section 2.
- FAQ concerning MMFR: Section 2.

UCITS were expected to comply with the conditions described in these questions by 31 December 2022 at the latest, considering the best interests of investors.

Further to the new rules, retail investors will be able to access facilities to process investors' subscription, payment, repurchase and redemption orders for the units or shares of the UCITS/AIF. Other changes concern the content of the notification letter and the possibility to denotify funds from crossborder distribution. The conditions for pre-marketing of alternative investments funds (AIFs) have also been implemented into national law.

## 6.2. AIFMD

**CBDF – FAQs**

On 30 July 2021, the CSSF issued FAQs in relation to the CBDF Regulation. This document aims at highlighting the changes for notifications to the CSSF as from 2 August 2021.

The law of 21 July 2021, implementing changes to the UCITS Directive and AIFMD on crossborder distribution of funds was published in the National Gazette on 26 July 2021.

At the time of implementation, the Luxembourg legislator clarified the accounting standards that AIFs in the form of *sociétés* en *commandite spéciale*, and falling outside the scope of application of Chapter II of the Law of 19 December 2002 on register of commerce and companies and the accounting and annual accounts of undertakings, as amended, can use in order to comply with Article 20(3) of the Law of 2013. The modified text enshrines the principle that those AIFs may use either the Luxembourg standards (LUX GAAP), the international financial reporting standards (IFRS) or the equivalent accounting standards of certain third countries, which includes the US GAAP.

## 6.3. MiFID II

On 10 June 2021, the CSSF published an FAQ on the application of MiFID for Luxembourg investment fund managers, with the objective of clarifying the circumstances under which MiFID applies to IFMs, their third-party delegates and their investment advisers and to which extent it applies.

The new FAQ has been included in the CSSF FAQ on the Law of 17 December 2010 on UCIs, and the FAQ on the Law of 12 July 2013 on alternative investment fund managers. IFMs were expected to comply with the FAQ by 31 December at the latest, considering the best interest of investors.

The CSSF also issued Circular 21/783, on 29 September 2021, which confirmed they would apply the Guidelines of ESMA on the MiFID II/MiFIR obligations on market data published on 18 August 2021.

Finally, it should be noted that - due to the interest for the EMT and EFT that was articulated by ALFI Members - a dedicated working group was set up to support FinDatEx' work on both templates.

## 6.4. PRIIPs

The ALFI has updated its PRIIPS KID Q&A for its membership and issued the last version of this document in November 2021.

## 6.5. ELTIF

There has been growing interest in ELTIFs recently, and the new regime could eliminate overly complex and restrictive rules, in particular on portfolio composition and distribution. However, the ALFI has argued to retain the 50% leverage limit for retail ELTIF provided for by the Commission. Lowering the threshold (or rather maintaining it at 30%) will not deliver the flexibility the industry has been asking for. The ALFI also favours a derogation to the borrowing rules at the start of the life of the ELTIF. This would allow the ELTIF to fully invest over a certain defined period, and allow the manager to borrow more at the launch of the ELTIF.

## 6.6. Sustainable finance

**Level 1 implementation of SFDR**

In a communiqué of 2 December 2021, the CSSF announced that it has put a fast-track procedure in place to facilitate the submission of amendments in the funds' legal documentation for level 1 of the Taxonomy Regulation. Only UCITS can avail themselves of this procedure. UCITS and AIFs subject to SFDR Article 8 or SFDR Article 9 must update their prospectuses/ issuing documents to comply with the requirements of the Taxonomy Regulation on the transparency of environmentally sustainable investments in pre-contractual disclosures. The CSSF clarified that this requirement applies by 1 January 2022 in relation to the two first environmental objectives of Article 9 Taxonomy Regulation: (i) climate change mitigation and (ii) climate change adaptation.

**NFRD**

The CSSF has carried out a thematic review to examine the current status of environmental and climate-related information reported by issuers under its supervision, and to assess how such information has evolved since the first application of the NFRD. As regards the application of Article 8 of the Taxonomy Regulation, in their latest report the CSSF recommended that issuers prepare themselves to have as clear a picture as possible of the upcoming new regulations and to prepare for what is already known. According to the CSSF, the end of 2021 and 2022 should also be devoted to acquiring knowledge and developing skills in this area. The CSSF further noted that training will be essential at all levels.

**Ecolabels**

Luxembourg's labelling agency, LuxFLAG, has established sustainability labels on positive impact and sustainable transition. More information can be found on their website (https://www.luxflag.org/). It should also be noted that in 2016, the Luxembourg Green Exchange was created, which displays a variety of sustainable finance instruments and where the eligibility criteria contain a number of different standards, frameworks, taxonomies, methodologies and labels.

### 6.7. Stewardship

In May 2021, ALFI published its updated Q&A document on the SRD II to the attention of its membership.

### 6.8. Benchmarks

On 19 November 2021, the CSSF issued press release 21/28 on the communication to undertakings for collective investments and investment fund managers in the context of the imminent cessation of the major used interest benchmarks EONIA and LIBOR, reminding those using benchmarks to ensure that they have taken all necessary action in view of a smooth transition to alternative rates to EONIA and to LIBOR, have in place robust fallback provisions covering a possible cessation of any other benchmarks used by them and reflect such fallback provisions in the contractual relationship with investors.

### 6.9. Anti-Money Laundering Directive

**AML/CFT Guidelines**

On 19 May 2021, ALFI published its revised AML/CFT Guidelines. These practices and recommendations present the ALFI AML working group's interpretation and understanding of the anti-money laundering and counter terrorist financing framework for the securities sector in Luxembourg.

**EBA AML Risk factors**

On 24 September, 2021, the CSSF issued Circular 21/782, drawing the attention of professionals in the financial centre to the publication of the revised EBA Guidelines on AML risk factors.

**AML external report**

On 22 December 2021, the CSSF published Circular 21/788, introducing a new AML/CFT external report. This document must be prepared annually, by an external AML/CFT expert, in accordance with article 49 of CSSF Regulation 12-02 on the fight against money laundering, as amended.

**International financial sanctions**

IN OCTOBER 2021, THE LUXEMBOURG MINISTRY OF FINANCE REDESIGNED ITS WEBSITE (https://mfin.gouvernement.lu/fr/dossiers/2018/sanctions-financiaires-internationales.html). In particular, it revised the content on international financial sanctions further to the entry into force of the Law of 19 December 2020 on the implementation of restrictive measures in financial matters. At the same time, the Ministry updated its FAQs on its best practices guides for financial sanctions, and issued a new template for the quarterly reporting of frozen funds.

### 6.10. Digital Finance

On 22 January 2021, Luxembourg published the law of 22 January 2021 on dematerialised securities, which modifies the law of 5 April 1993 on the financial sector, as amended and the law of 6 April 2013 on dematerialised securities. The new law aims at recognising the possibility of using secure electronic registration mechanisms to issue dematerialised securities, and recognises the reality of distributed electronic ledgers or database technology. It also extends the application of the law of 6 April 2013 on dematerialised securities by opening the activity of central account holders for unlisted debt securities to EU credit institutions and investment firms.

**Virtual assets**

On 29 November 2021, the Luxembourg regulator, the CSSF, published a new FAQ on virtual assets. The document provides clarification on whether a UCITS or AIF may invest in virtual assets, on whether investment fund managers must obtain authorisation to manage these types of assets and on considerations to mitigate risks concerning money laundering and terrorist financing.

### 6.11. Other regulatory developments

**Money market funds**

On 26 August 2021, the CSSF released Circular 21/780 on ESMA's Guidelines on stress-test scenarios under Article 28 of the Money Market Fund Regulation – Update 2020 (ESMA/34-49-289). The purpose of the Circular is to notify that the CSSF is integrating the 2020 update of the ESMA Guidelines - as published on 16 December 2020 - into its administrative practices.

**Liquidation period**

On 31 August 2021, the CSSF issued a communiqué stating that - with immediate effect - liquidation period extension requests for funds in non-judicial liquidation will no longer be required.

**Outsourcing**

On 12 July 2021, the CSSF published Circular 21/777, implementing ESMA guidelines on outsourcing to cloud service providers (ESMA50-164-4285). The CSSF considers that its Circular 17/654 on cloud outsourcing, as amended - as well as its current regulatory practice - are already in line with the requirements of the ESMA Guidelines. The CSSF, however, has extended the application scope of the cloud Circular to align it with ESMA Guidelines, by including the following types of entities as of **31 July 2021**:

- Depositaries of AIFs (under article 21(3) of the AIFMD).
- UCITS, depositories of UCITS (under article 2(1)a of the UCITS Directive) and investment companies that have not designated a management company authorised pursuant to the UCITS Directive.
- Other professionals, such as central counterparties, data-reporting services providers, market operators of trading venues, central securities depositories and administrators of critical benchmarks.

For new cloud outsourcing arrangements (entered into, renewed or amended on or after 31 July 2021), these new eligible entities have to comply with the provisions of the cloud Circular. These entities have until 31 December 2022 to revisit their existing cloud outsourcing arrangements to comply with the cloud Circular.

**Material IT outsourcing**

On 14 October 2021, the CSSF released Circular CSSF 21/785 on the replacement of the prior authorisation obligation by a prior notification obligation in the case of material IT outsourcing. The respective communiqué outlines - in accordance with point 8 of CSSF Circular 21/785 -the transitional measures for applications for the authorisation of physical IT outsourcing submitted to the CSSF before the date of entry into force of the Circular (15 October 2021).

**Review of the Long Form Report**

On 22 December 2021, the CSSF published Circular 21/789 introducing (i) a new self-assessment questionnaire (SAQ) to be completed by investment fund managers (IFMs) and (ii) a new corresponding separate report to be prepared by the IFMs' approved statutory auditors ('Réviseur d'Entreprise Agréé' – 'REA').

**COVID-19**

On 9 April 2021, the CSSF published Circular CSSF 21/769 on governance and security requirements for Supervised Entities to perform tasks or activities through Telework. Through a communication issued on 30 August 2021, the supervisory authority confirmed that it considers the COVID-19 pandemic as still being active. Therefore, the abovementioned Circular will only apply after the end of this pandemic.

Furthermore, the law of 17 December 2021, extended until 31 December 2022 without amendment, the provisions of the law of 23 September 2020 on measures for holding meetings in companies and other legal persons, as amended, to facilitate the holding of meetings of companies in the context of the ongoing COVID-19 pandemic.

Finally, Luxembourg, France and Germany agreed to extend the exceptional provision, until 31 December 2021, to not take into account teleworking days generated by the COVID-19 crisis for determining the social security legislation applicable to frontier workers .

## 7. PENSIONS & PEPP

Draft law No. 7774 implementing the PEPP Regulation (EU) 2019/1238 in national law was published on 3 March 2021.

## 8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

**Subscription tax**

Further to the Luxembourg government's 2021 budget law, adopted on 17 December 2020, the rate of subscription tax that investment funds pay on their net assets has been linked to the percentage of net assets invested in sustainable economic activities, as defined in the Taxonomy Regulation. On 17 February 2021, the Luxembourg Registration Duties, Estates and VAT authority revoked Circular No. 804 clarifying the implementation of article 174 of the Law of 17 December 2020 and replaced it with Circular No. 804bis. The Circular provides useful clarifications, including examples.

**Number of teleworking days**

On 31 August 2021, at the 11th joint meeting of the Luxembourg and Belgian governments, governments agreed to increase the number of days allowed for a cross-border worker to carry out his activity outside the State of his usual activity while remaining taxable in that State. The 24 days allowed by the double tax treaty in force between Belgium and Luxembourg has been increased to 34 days as from 2022.

## 9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

Each year, the 'Money Week' ('Woch vun de Suen') is organised in Luxembourg. It aims to teach children about money matters and responsible money management. The priorities for this project are understanding the value of money, teaching them to manage money better and thus raising awareness of the importance of budget control for their future.

Three years ago, the ALFI declared its commitment to work alongside stakeholders in Luxembourg to enable citizens - in particular young students - to better understand and manage their personal finances. As a result, the association organised information sessions for its members, which saw 166 people volunteer to take part in the initiative 'Fit for Life' awareness-raising financial education programme in schools across the Grand Duchy, led by Jonk Entrepreneuren Luxembourg. Thirty of them made an intervention with a high school or became involved as a coach. The ALFI will devote resources in this project until October 2023.

## 10. OTHER ACTIVITIES OF THE ASSOCIATION

Regular and special newsflashes were published in 2021 for the attention of the members, as well as press releases, an annual report, guidelines and Q&A documents, brochures, flyers and surveys.

**Examples of ALFI publications:**

- ALFI ATAD 2 FAQs
- Flyer on debt funds
- SFDR Guidelines for Luxembourg
- Reviewed Practices and Recommendations aimed at reducing the risk of money laundering and terrorist financing
- Reviewed SRD II FAQs
- Reviewed GDPR Q&A
- Updated FAQs on AIFM – US GAAP
- Real estate investment structures in Luxembourg
- CRS and FATCA – enhanced obligations on due diligence, reporting and oversight.

**(Tele) conferences**

Several virtual events were organised by the ALFI in 2021, in particular the European Asset Management Conference (March 2021), the ALFI European Risk Management Conference (June 2021), the Global Distribution Conference (September 2021) and the PE&RE Conference (December 2021), as well as roadshows in various countries.

**Seminars**

Multiple seminars and expert briefings were organised during 2021.

**Videos/podcasts**

Videos/podcasts on the conferences or specific topics were produced.

# MALTA COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

| Table 1: Net Assets by the Fund Industry in Malta (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 11.1 | 14.2 | 15.9 | 15.0 | 20.5 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Assets | 11.1 | 14.2 | 15.9 | 15.0 | 20.5 |

| Table 2: Net Sales of Investment Funds in Malta (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 891 | 2,205 | 1,080 | -13 | 3,550 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Sales | 891 | 2,205 | 1,080 | -13 | 3,550 |

## 2. KEY TRENDS IN THE UCITS MARKET

| Table 3: UCITS Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 0.2 | 0.3 | 0.3 | 0.4 | 0.5 |
| Bond funds | 1.1 | 1.1 | 1.4 | 1.2 | 1.5 |
| Multi-asset funds | 0.7 | 0.7 | 0.7 | 0.4 | 0.4 |
| Money market funds | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | 0.00 | 0.00 | 0.01 | 0.01 | 0.01 |
| Other funds | 0.6 | 0.6 | 0.7 | 0.7 | 0.9 |
| Total | 2.6 | 2.7 | 3.1 | 2.7 | 3.4 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |

| Table 4: Net Sales of UCITS by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 24.0 | 53.7 | 21.7 | 41.7 | 52.9 |
| Bond funds | 63.0 | 66.3 | 134.6 | -20.2 | 35.0 |
| Multi-asset funds | -79.6 | 9.4 | -31.4 | -58.9 | 23.4 |
| Money market funds | -10.0 | -13.0 | -9.4 | -13.3 | 0.0 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | 0.0 | 1.1 | 0.7 | -0.4 | 0.9 |
| Other funds | 268.7 | 85.3 | 38.9 | 2.2 | 61.5 |
| Total | 266.1 | 202.9 | 155.1 | -48.8 | 173.8 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 0.0 | 0.4 | 2.9 | 1.5 | 13.6 |

## 3. KEY TRENDS IN THE AIF MARKET

| Table 5: AIF Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 1.9 | 2.2 | 2.3 | 2.2 | 3.3 |
| Bond funds | 0.7 | 0.7 | 0.6 | 0.8 | 0.6 |
| Multi-asset funds | 0.1 | 0.3 | 0.4 | 0.3 | 0.4 |
| Money market funds | | | | | |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Real estate funds | 0.4 | 0.5 | 0.7 | 0.7 | 1.0 |
| Other funds | 5.5 | 7.8 | 8.8 | 8.3 | 11.8 |
| Total | 8.5 | 11.5 | 12.8 | 12.3 | 17.1 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 0.0 | 2.0 | 2.3 | 3.1 | 6.3 |
| ➤ Institutional funds | 8.4 | 11.2 | 12.4 | 11.8 | 15.7 |

| Table 6: Net Sales of AIFs by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | -408.1 | 264.4 | -69.7 | -155.4 | 1,194.1 |
| Bond funds | -20.6 | -10.1 | -102.0 | 145.4 | 135.9 |
| Multi-asset funds | -2.7 | 4.0 | 46.5 | 68.8 | 92.2 |
| Money market funds | | | | | |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | 0.0 | 0.1 | 0.5 | -3.2 | 0.0 |
| Real estate funds | 68.1 | 92.5 | 226.1 | -1.7 | 187.0 |
| Other funds | 988.2 | 1,650.8 | 823.8 | -18.1 | 1,766.8 |
| Total | 624.9 | 2,001.7 | 925.3 | 35.7 | 3,375.9 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 0.0 | 323.5 | 908.7 | 59.5 | 1,833.6 |
| ➤ Institutional funds | 534.0 | 1,784.8 | 792.2 | -48.1 | 2,504.2 |

## 4. TRENDS IN THE NUMBER OF FUNDS

| Table 7: Number of Funds | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS | 114 | 118 | 106 | 109 | 117 |
| Home-domiciled AIFs | 574 | 569 | 547 | 476 | 478 |
| Foreign funds registered for sales | | | | | |
| ➤ By national promoters | | | | | |
| ➤ By foreign promoters | | | | | |
| Fund launches | 114 | 81 | 77 | 49 | 85 |
| Fund liquidations | 78 | 91 | 111 | 119 | 75 |
| Fund mergers & acquisitions | | | | | |

## 5. MARKET DEVELOPMENTS IN 2021

Malta domiciled funds registered net assets of EUR 20.5 billion in 2021, an increase of 36.7% on the previous year. Net assets of UCITS funds increased by 26.3% during 2021, from EUR 2.7 billion in 2020 to EUR 3.4 billion. Similarly, non-UCITS funds experienced an increase in net assets of 39%, from EUR 12.3 billion in 2020 to EUR 17.1 billion in 2021. Overall, UCITS and non-UCITS funds registered net inflows of EUR 3.5 billion during 2021.

### UCITS Assets and Net Sales

All fund types saw an increase in net assets, with equity funds experiencing the highest growth of 34.1%, from EUR 0.4 billion in 2020 to EUR 0.5 billion in 2021. Bond funds registered the second-highest increase in net assets of 27%, from EUR 1.2 billion in 2020 to EUR 1.5 billion in 2021.

All fund types recorded net inflows during 2021, amounting to EUR 173.8 million, compared to net outflows of EUR 48.8 million in 2020.

### Non-UCITS Assets and Net Sales

Net assets of non-UCITS funds totalled EUR 17.1 billion at the end of 2021, an increase of 39% on end-2020. All type of funds had a positive performance except for bond funds, which saw a decrease in net assets of 22.6%, from EUR 0.8 billion in 2020 to EUR 0.6 billion at the end of 2021.

Net inflows of non-UCITS funds reached EUR 3.4 billion during 2021. 'Other funds' recorded the highest net inflows, equal to EUR 1.8 billion, followed by equity funds at EUR 1.2 billion.

**Number of funds**
The number of Malta domiciled funds increased from 585 in 2020 to 595 in 2021, of which 117 were UCITS funds and 478 non-UCITS funds. During 2021, there were 85 newly issued funds, while 75 were liquidated.

## 6. REGULATORY DEVELOPMENTS

### 6.1. UCITS

During 2021, the MFSA, as the National Competent Authority (NCA), provided various interpretation circulars and notifications on ESMA updates, as well as facilitating coordination of ESMA's costs and fees applicable to UCITS.

### 6.2. AIFMD

In October 2021, the Authority introduced additional validation rules to improve the data quality of the AIFMD Reporting submissions made by a fund manager or a self-managed fund subject to the AIFMD reporting obligations. A new set of validations on the structure of the reporting files has been implemented by the MFSA to ensure that the AIFM, and the person appointed by the AIFM to submit the file on the MFSA's Licence Holder Portal (the 'appointed sender'), take action to verify and address common errors at the upload stage, specifically relating to:

1. the correct application of file naming conventions, as stipulated in the Reporting Guidelines for Investment Fund Managers
2. the removal of complex folder structures within the zip file
3. restrictions on forbidden file types
4. restrictions on password-protected files
5. reporting date consistency between the zip file and the dates reported in the reports.

### 6.3. MiFID II

The NCA issued a circular on the European Securities and Markets Authority-issued guidelines on certain aspects of the MiFID II compliance function requirements.

The MFSA also issued a Circular on Markets in Financial Instruments and Markets in MiFID II/MiFIR post-trade transparency obligations and third-country trading venues This was issued to address investment firms, credit institutions providing investment services and/or performing investment activities as well as market operators, including any trading venues they operate. The purpose was to inform market participants on the post-trade transparency requirements in arts. 20 and 21 of MiFIR. The Circular provided guidance on treating those transactions, in particular on those third-country trading venues that are subject to transparency provisions that are similar to the post-trade transparency requirements applicable to EU trading venues (as set out in arts. 6(1) and 10(1) of MiFIR).

### 6.4. PRIIPs

During 2021, our NCA provided an interpretation Circular on PRIIPS as well as an update on the implementation date.

### 6.5. ELTIF

There were no notable developments in this area during 2021.

### 6.6. Sustainable finance

The Implementation of the Sustainable Finance Disclosure Regulation (SFDR) – Notification on the process to be adopted for the submission of updates to the pre-contractual document (prospectus) by PIFs and De Minimis AIFMs Introduction. The purpose of this Circular is to notify the industry on the process to be adopted for submitting updates to the pre-contractual document (prospectus) of PIFs and de minimis AIFMs. This follows the publication of the previous Circular of 5 August 2021 in relation to the Q&As issued by the European Commission on 14 July

2021. In particular, it outlines the process that will be implemented by the MFSA for submitting updated offering documentation for PIFs and de minimis AIFMs, in line with the requirements of the SFDR.

During the year, the Authority has considered the possible approaches that could be adopted in order to fulfil its supervisory role under this Regulation. Amongst other things, the Authority has noted the various methodologies being adopted, and discussions being held, by other Member States. The Authority felt it was important to assess the operational readiness and compliance status with the provisions of the SFDR. For this reason, a Circular was sent to all Financial Market Participants (FMPs) and Financial Advisors (FAs) falling within scope of the Regulation. In order to assist FMPs and FAs in completing the Request for Information, the Authority has put together a corresponding Guidance Note. This only seeks to guide interpretation, and as such does not establish - at this stage - the Authority's expectations. The Authority requested FMPs and FAs to determine where they stand on sustainable finance by asking them which sustainability and ESG issues would be material to their business, and what their sustainable and ESG objectives should be. Furthermore, these entities would also be required to consider the steps needed to apply and follow through on these objectives in their day-to-day operations.

In the investment funds arena, following the clarification provided by the European Commission, the MFSA requires PIFs and de minimis AIFMs to submit the updates to their pre-contractual documents (prospectuses) in line with SFDR. Here, the MFSA has put in place a fast-track filing process for submitting updates to the Offer Documents based on the Level 1 text of the SFDR, similar to the one adopted previously. Through this, PIFs and de minimis AIFMs will be required to 'self-certify' their compliance with SFDR and notify the Authority accordingly. The MFSA highlighted that it is the responsibility of the above-mentioned Investment Services Licence Holders (LHs) to ensure compliance with the SFDR requirements as of 10 March 2021, whilst bearing in mind the high-level, principles-based approach outlined by the European Commission. With this in mind, compliance officers of the indicated LHs are required to confirm to the Authority, in writing, whether the respective LH is working on implementing the necessary business changes to ensure compliance with the SFDR requirements, and to clearly state the plans of the entity to implement the required changes.

### 6.7. Stewardship

On 5 February 2020, the MFSA issued a Consultation Document proposing a comprehensive and enforceable cross-sectoral Corporate Governance framework for all persons authorised by the MFSA, as well as for listed companies. The Authority proposed a review of the existing framework, with the intention of raising the standards, practices and processes of Governance by the authorised/listed persons. It also seeks to ensure that good Governance is considered a top priority and is embedded in culture by the board of directors and senior management. The main proposals concerned are:

i. the scope and application of the Code;
ii. The type of Code and its enforceability;
iii. enhancing the effectiveness of the Board of Directors;
iv. introducing provisions to better engage with stakeholders, shareholders, institutional investors and employees;
v. revisiting the responsibilities of functionaries and officials; vi. various provisions on different aspects of Corporate Governance, including Committees, Corporate Culture, Ethics Framework, AML and CFT, Risk Management, etc.

Feedback was received from a wide range of industry participants, with the Authority receiving over 30 responses. These included authorised entities, listed entities, associations and groups, law firms and consultancy firms. This Feedback Statement highlights the key points of contributions and position thereto. The last section outlines the next steps to be taken by the Authority pursuant to this project. The contents of this document should be read in conjunction with the Consultation Document of 5 February 2020.

On 18 May 2021, the MFSA issued its position on this topic. In summary, the responses received showed that stakeholders were largely supportive of revisiting the Corporate Governance framework in Malta. The Authority welcomes the support for its proposal for a principles-based framework, the application of which will be based on proportionality. Further to the feedback received, the Authority will adopt a principles-based framework, setting out a list of core principles. The risk of introducing provisions inconsistent with other regulatory instruments is thus expected to be mitigated. The Authority has given due consideration to the concerns over the proposal for having a consolidated Code covering both listed and regulated entities. Here - given the valid arguments presented on the issues that may arise from having a consolidated Code applicable to both type of entities - the Authority resolved to retain the current Codes of Governance for Listed Entities and Prospects (which may nonetheless be updated as needed by the MFSA) and issue this framework for authorised entities embedding general principles.

As specified above, the framework shall provide that - should a conflict arise between this framework and the provisions prescribed in the applicable laws, regulations, rules or guidance notes issued by the Authority or European Supervisory Authorities - the provisions these shall prevail. This shall also cover instances where more onerous/ mandatory provisions are prescribed in the applicable regulatory framework. Due to the varied nature of the entities that would fall within the scope of the proposed framework, and in order to ensure that the proportionality principle is applied, the principles are expected to be general, which will also include supporting provisions explaining how these principles may be achieved. Furthermore, the principles (and supporting provisions) shall be complemented by sector-specific rules and/or guidance notes. These will be drafted in such a way as to ensure that the needs of entities differing in nature, size, complexity, operating environment - and risks posed to consumers and the overall stability and integrity of financial markets - are met. In addition, in drafting any principles, the Authority will also consider the various requirements applicable to certain authorised persons emanating from local and European frameworks, to ensure that such provisions complement the existing regulatory frameworks. The Authority believes that the implementation of such standards should effectively drive substantial changes in the overall Governance standards of entities.

### 6.8. Benchmarks

In December 2021, the MFSA issued a Circular on Regulation (EU) 2016/1011 – the ESMA Guidelines on the Benchmarks Regulation (BMR). This circular was aimed at market participants, particularly those falling within the scope of the BMR, particularly administrators of benchmarks. Through this Circular, the Authority informed market participants that, on 7 December 2021, the European Securities and Markets Authority (ESMA) had issued guidelines on methodology, oversight function and record keeping under the Benchmarks Regulation. The guidelines focus on establishing consistent, efficient and effective supervisory practices within the European System of Financial Supervision (ESFS) and on amending the existing guidelines on non-significant benchmarks. Furthermore, the Guidelines set out a transparent framework for administrators of critical and significant benchmarks when consulting on material changes to the methodology or using an alternative methodology in exceptional circumstances, and ensuring the common and consistent application of record-keeping requirements in relation to the use of an alternative methodology for all benchmark administrators.

### 6.7. Anti-Money Laundering Directive

The FIAU has issued various communications to the industry highlighting the importance of effective implementation, as well as holding various training sessions to help the industry implement good practices.

### 6.8. Digital Finance

There were no notable developments in this area during 2021.

## 7. PENSIONS & PEPP

On 26 March 2021, the MFSA issued a Circular on the Introduction Regulation (EU) 2019/1238 of the European Parliament, and of the Council of 20 June 2019, on a pan-European Personal Pension Product (PEPP), which was published in the EU Official Journal on 25 July 2019. The purpose was to notify the market on the salient features of the PEPP Regulation and to gauge market interest in distributing or manufacturing the pan-European Personal Product.

In its Circular, the MFSA informed the market that the Regulation acknowledges the demographic challenges emerging from an ageing continent. As such, it recognises the need for portability for PEPP savers through freedom of movement who chose to take up residence in another Member State other than that of their citizenship.

## 8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

There were no notable developments in this area during 2021.

## 9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

The Malta Financial Services Authority has published a Discussion Paper for stakeholders reviewing the Asset Management Strategy, aimed at boosting this important sector.

Over the past decade, Malta has proved particularly attractive to fund platforms, managers and administrators, who are able to service local or international funds from Malta, as well as to wealth managers, high-net-worth individuals and family offices. All of these can benefit from the country's wide range of investment vehicles. However, refreshing the regulatory approach to this sector at a strategic level is necessary to mitigate headwind challenges encountered by market players as the regulatory and competitive landscapes at an international level continue to evolve.

The strategy sets out a range of regulatory initiatives. These include improvements to the MFSA's internal processes and proposed revisions to the framework for asset managers and investment funds in Malta. These seek to improve the attractiveness of Malta as a preferred jurisdiction.

One of the primary aims of the strategy is to ensure the ongoing stability and robustness of the sector through effective regulation, and encouraging business through streamlined, pragmatic and dynamic policy-making. Here, the Discussion Paper focuses on revisiting some existing regulatory frameworks with the aim of making the regime more pragmatic and accessible. It also looks at the development of potentially new regulatory frameworks, as well as initiatives directed at enhancing MFSA authorisation and supervisory processes.

The strategy also encapsulates a more holistic approach to asset management, ensuring a stronger business relationship with existing fund managers, as well as greater industry and regulatory outreach and collaboration with local key stakeholders and institutions.

Any promotion of a healthy and resilient financial sector must not ignore the importance of good governance and high compliance standards, which are key priorities that the MFSA intends to continue to encourage.

The MFSA sought feedback from stakeholders prior to proceeding with detailed proposals on implementing the initiatives presented in this document. It also invited participants to contribute unilaterally on proposals for the further growth of the asset management industry.

The Malta Financial Services Authority participated in the 5th annual World Investor Week (WIW), which was organised by the International Organisation of Securities Commissions (IOSCO) 4-10 October 2021. The WIW is a global campaign to raise awareness of the importance of investor protection and education, and this year will see the participation of over 90 countries. The key messages of the IOSCO WIW campaign in 2021 will focus on smart investors, sustainable finance and preventing frauds and scams.

As part of the initiatives, a special bell-ringing ceremony was held at the Malta Stock Exchange, was attended by Emily Benson, Head of Conduct Supervision at the MFSA. She stressed the importance and benefits of such educational campaigns, saying: "We are happy to take part in IOSCO's World Investor Week and to support this initiative, which raises awareness on investor protection and financial literacy. Our participation testifies to our ongoing commitment here, and it is an opportunity for us to educate investors and learn from the experiences of other countries."

Through its educational 'Invest Smartly' campaign, throughout October the MFSA will be sharing useful tips for investors to raise awareness among consumers of financial services on the importance of making informed decisions when investing. Moreover, the campaign will touch on the concept of sustainable finance to promote investments that take into consideration the impact on Environmental, Social and Governance (ESG) factors. Throughout the campaign, consumers are also made aware of the risks of greenwashing.

The MFSA has announced the launch of a consumer education campaign, which is aimed at increasing awareness of the benefits of digital banking, as well as offering tips on how to use online banking safely.

Digital banking provides a convenient, easy and secure way of accessing certain banking services. This can be from the comfort of one's home – or indeed anywhere else - using an internet-enabled computer. It simply requires downloading the relevant app on a smartphone or via the internet banking portal offered by the relevant bank. The importance of online banking increased during the COVID-19 pandemic, providing a way to access banking services without going to the bank.

The campaign will use a range of channels to reach audiences with different demographics. These include a series of educational videos and posters that will be distributed to bank branches. The videos will inform the public of the banking services available digitally when accessing the bank's app or internet banking, such as third-party transfers and checking account balances. They also include tips for users on simple measures, such as always updating the bank's app as soon as it is available and never sharing passwords and log-in details.

The campaign also aims to reach people queuing for services that are already available through digital banking, such as getting information on a personal account balance, checking bank statements and account transactions, transferring funds to third parties (for example, to pay the rent), bill payments and mobile phone top-ups.

MFSA's Head of Conduct Supervision, Emily Benson, stated that, "As the single financial services regulator in Malta, the MFSA is working continuously to create awareness and safeguard consumers in the financial services sector. Following simple steps such as protecting your password and other confidential data, never sharing this information with anyone and checking carefully that the information input is correct before proceeding with a transaction can help consumers keep their money safe."

## 10. OTHER ACTIVITIES OF THE ASSOCIATION

MASA's focus over FY 2021 centred around discussions with the Financial Intelligence Analysis Unit, the MFSA and the Malta Business registry, to address issues impacting its members.

# NETHERLANDS COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

**Table 1: Net Assets by the Fund Industry in Netherlands (EUR billion)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Home-domiciled UCITS & AIFs | 843.5 | 827.5 | 947.5 | 998.7 | 1,036.1 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Assets | 843.5 | 827.5 | 947.5 | 998.7 | 1,036.1 |

**Table 2: Net Sales of Investment Funds in Netherlands (EUR million)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Home-domiciled UCITS & AIFs | 8,935.0 | -20,414.0 | -34,882.0 | 10,242.0 | -156,716.0 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Sales | 8,935.0 | -20,414.0 | -34,882.0 | 10,242.0 | -156,716.0 |

## 2. KEY TRENDS IN THE UCITS MARKET

**Table 3: UCITS Assets by Fund Type (EUR billion)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Equity funds | 22.1 | 20.5 | 28.2 | 23.9 | 32.0 |
| Bond funds | 12.7 | 10.9 | 11.0 | 10.3 | 8.7 |
| Multi-asset funds | 2.2 | 2.2 | 4.0 | 4.8 | 6.4 |
| Money market funds | | | | | |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | 0.1 | 0.1 | 0.1 | 0.8 | 0.7 |
| Total | 37.2 | 33.8 | 43.2 | 39.7 | 47.8 |
| of which ➤ ETFs | 1.4 | 1.7 | 1.8 | 0.8 | 1.7 |
| ➤ Funds of funds | 1.9 | 1.6 | 1.9 | 2.0 | 2.1 |

| Table 4: Net Sales of UCITS by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** | **2021** |
| Equity funds | -961.0 | 479.0 | 957.0 | -5,158.0 | 70.0 |
| Bond funds | -1,142.0 | -2,791.0 | -1,247.0 | -991.0 | -1,342.0 |
| Multi-asset funds | 1,186.0 | 170.0 | 1,181.0 | 466.0 | 1,198.0 |
| Money market funds | | | | | |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | -112.0 | -2.0 | 366.0 | 435.0 | 242.0 |
| Total | -1,029.0 | -2,144.0 | 1,257.0 | -5,248.0 | 168.0 |
| of which ➤ ETFs | -175.0 | 403.0 | -171.0 | -727.0 | 326.0 |
| ➤ Funds of funds | -602.0 | -156.0 | -39.0 | -26.0 | -115.0 |

## 3. KEY TRENDS IN THE AIF MARKET

| Table 5: AIF Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** | **2021** |
| Equity funds | 309.7 | 291.1 | 364.3 | 386.8 | 417.2 |
| Bond funds | 223.3 | 214.8 | 190.1 | 175.4 | 135.1 |
| Multi-asset funds | 14.6 | 14.5 | 21.5 | 40.0 | 48.8 |
| Money market funds | | | | | |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Real estate funds | 105.7 | 113.0 | 129.1 | 126.0 | 136.9 |
| Other funds | 153.0 | 160.4 | 199.3 | 230.9 | 250.2 |
| Total | 806.3 | 793.8 | 904.3 | 959.1 | 988.3 |
| of which ➤ ETFs | 0.1 | 0.1 | 0.3 | 0.0 | 0.0 |
| ➤ Funds of funds | 135.0 | 147.4 | 183.1 | 203.9 | 264.6 |
| ➤ Institutional funds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| Table 6: Net Sales of AIFs by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 11,524.0 | -13,258.0 | -7,114.0 | -5,522.0 | -70,025.0 |
| Bond funds | -13,854.0 | -5,327.0 | -44,099.0 | -13,973.0 | -55,093.0 |
| Multi-asset funds | -4,179.0 | -407.0 | 1,375.0 | 16,023.0 | 1,907.0 |
| Money market funds | | | | | |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Real estate funds | 1,827.0 | 1,220.0 | -792.0 | 7,967.0 | -15,410.0 |
| Other funds | 14,646.0 | -498.0 | 14,491.0 | 10,995.0 | -18,263.0 |
| Total | 9,964.0 | -18,270.0 | -36,139.0 | 15,490.0 | -156,884.0 |
| of which ➤ ETFs | -8.0 | 23.0 | 154.0 | -170.0 | 21.0 |
| ➤ Funds of funds | 2,835.0 | -6,724.0 | 5,428.0 | 5,061.0 | 9,708.0 |
| ➤ Institutional funds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

## 4. TRENDS IN THE NUMBER OF FUNDS

| Table 7: Number of Funds | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS | 101 | 94 | 93 | 93 | 82 |
| Home-domiciled AIFs | 1,715 | 1,618 | 1,655 | 1,666 | 1,418 |
| Foreign funds registered for sales | | | | | |
| ➤ By national promoters | | | | | |
| ➤ By foreign promoters | | | | | |
| Fund launches | 258 | 102 | 176 | | |
| Fund liquidations | 251 | 189 | 158 | | |
| Fund mergers & acquisitions | | | | | |

## 5. REGULATORY DEVELOPMENTS

### 5.1. UCITS and AIFMD

In 2021, there were no changes in the Dutch implementation of the UCITS Directive and the AIFMD. During the COVID-19 pandemic, the Dutch regulator, the AFM (*Dutch Authority for the Financial Markets*), issued a number of alerts to both UCITS and AIFs managers to stress the importance of the recommendations and statements of ESRB on liquidity risks and liquidity management tools. Given the market circumstances, the AFM also urged both UCITS and AIFs managers to immediately notify the AFM - as they are legally required - where they deploy liquidity management tools, particularly where a fund manager chooses to suspend any redemption requests.

### 5.2. IFR&IFD

In 2021, the Investment Firm Directive (IFD), together with the Investment Firm Regulation (IFR), were implemented in Dutch national legislation. They form part of the new capital requirements framework for investment firms. This new framework is aimed to make capital requirements more proportionate and more risk based. Unlike in other EU Member States, the Dutch Minister of Finance confirmed - and decided to include into the scope of the IFR and the IFD – those AIFMD managers with a so-called MiFID 'top-up', i.e. those that also offer investment services as part of their AIFMD license. This will lead to dual supervision by both the DNB and the AFM on the prudential rules applicable to AIFMD managers with a MiFID top-up.

### 5.3. MiFID II

In 2021, there were no significant changes in the Dutch implementation of MiFID.

During 2020, specific attention was focused on the qualification of fiduciary management as set out in the AFM MiFID II report, published in 2019. Based on their investigation, the AFM concluded that some firms have wrongfully classified certain investment services as individual portfolio management, as part of their overall fiduciary management services rendered to institutional investors. At the beginning of February 2021, the AFM published a letter providing guidance and clarifications on the scope of individual portfolio management. The outcomes of this may cause certain firms to reconsider the setup of their fiduciary management model.

### 5.4. ELTIF

There are no ELTIFs are active in the Netherlands, mostly due to the challenges of creating funds under existing regulation.

### 5.5. Money Market Funds

The MMF sector is very small in the Netherlands, which is why the implementation of the Money Market Funds Regulation did not have a huge impact on the market.

### 5.6. Sustainable finance

In 2021, the Dutch asset management sector focused on a number of developments relating to sustainable finance. These included all developments and consultations arising from the EU Sustainable Finance Action Plan, and developments in reporting frameworks and other national initiatives.

**SFDR**

2021 was the year of implementation of the Sustainable Finance Disclosure Regulation (SFDR) level 1 within the Dutch market. In September 2021, the AFM published a report entitled "Implementation of the SFDR Review of implementation of SFDR requirements by managers of Dutch collective investment schemes". The AFM carried out a review of Dutch fund managers in February 2021in order to gain insight into how they have implemented level 1 of the SFDR. On the basis of the review, the AFM concluded that there was room for improvement in the quality of the information given in the prospectuses and the sustainability classification of proportion of the selected group of asset managers.

**Dutch Climate Commitment financial sector**

In the summer of 2019, over 50 financial institutions within the Dutch financial sector (banking, pension funds, insurers and asset managers) agreed to commit to the goals for the reduction of CO2 emissions, as formulated in the Dutch Climate Commitment for the financial sector. In line with the commitment, the sector will report on the climate impact of financing and investments from 2020, and has drawn up action plans to limit CO2 emissions by 2022 at the latest. The sector thus contributes to achieving the Paris climate objectives.

In the commitment, the Dutch Fund and Asset Management Association (DUFAS) explained how asset managers will make their contribution.

- Asset managers support clients in achieving their ambitions and commitments on their climate impact by actively engaging with them, using their knowledge and by devising proposals on how investments can contribute to implementing the National Climate Agreement.

- Asset managers help clients with reports on their investments, which make the climate impact transparent and measurable on the basis of global or European standards. These standards need to be developed; the Dutch asset manager sector - as a global leader in the field of ESG integration - sees a role for itself.

- Asset managers work on investment strategies for clients that contribute to the goals of the National Climate Agreement.

In October 2021, the first progress report based on this 2020 framework was finalised and submitted to the Dutch Minister of Finance, who subsequently offered this to the Dutch Parliament (*Tweede Kamer*) in connection with the reporting on the Climate Commitment. The report showed how the Dutch financial sector had taken clear steps to put the agreements in the Climate Commitment into practice. The framework purports to steer, report and monitor the climate impact of the financial sector, in particular aimed at gaining better insight into the $CO_2$ emissions. The reporting is prepared and facilitated by KPMG as an independent expert.

### 5.7 Stewardship

In 2021, there were no significant developments on corporate governance and/or stewardship.

The DUFAS still maintains the 'Code Vermogensbeheerders' code of conduct. The DUFAS Asset Manager Code was one of the concrete action points undertaken by the industry to help restore public trust in the financial sector. The Code was designed to achieve this both by through its contents (clear principles, presented in easy-to-understand language) and by its meaning (a quality mark for the conduct of prudent asset managers). Because of implementation of SRD II, the code may become less significant than before. In 2021, discussions were initiated to potentially abolish the Code Vermogensbeheerders, due to legislation the Code may have less relevance.

### 5.8. Benchmarks

In 2021 no significant national regulatory developments related to the implementation of the Benchmarks Regulation have taken place.

### 5.9. Anti-Money Laundering Directive

As part of the Fourth Anti-Money Laundering Directive (the *'Implementatiewet wijziging vierde anti-witwasrichtlijn'*) into national legislation, a separate Implementation Act related to trusts and legal arrangements similar to trusts, such as funds for joint accounts ('fondsen voor gemene rekening' - FGR), the so-called *'Implementatiewet registratie uiteindelijk belanghebbenden van trusts en soortgelijke juridische constructies'* was still pending in 2021. This implementation act was approved by parliament and published in December 2021. However, further regulations by the Ministry of Finance on this act are not yet finalised.

For asset managers, is important to note that the Ministry indicated by the end of 2021 that investment funds set up as a FGR with participants with more than 150 participant fall outside the registration in the UBO register requirement. However, the final rules are yet to be confirmed and finalised.

## 6. PENSIONS & PEPP

The Netherlands has built up considerable expertise in retirement provisions since 1948, when state, industry and corporate pension schemes were first introduced in the country. Dutch pension schemes are among the largest in the world, investing worldwide and applying a wide range of modern investment techniques. The Dutch skills in the area of retirement provisions include services on solvency and fiduciary management, liability-driven investments, asset liability matching, actuarial techniques, pension scheme management, administration and pension communication.

In 2020, the government, employee and employer organisations have – following prolonged negotiations - agreed on an adaption of the pension scheme. The new pension contract should be less complex and more transparent. The adaptions are currently implemented in the Dutch Pension regulations (Pensioenwet). The Minister of Social Affairs and Employment announced, in 2021, that implementation of the new pension contract will be delayed and entry into force of the Act will take place 1 January 2023 and run until 1 January 2027 at the latest. It is a very large (administrative) transition for most pension funds, and most of them expect to need the full implementation period, which runs until 2027.

## 7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

The Netherlands has a highly developed tax climate, attractive to both Dutch and foreign companies and investment vehicles. The advantages are:

- An extensive network of bilateral tax treaties with all major countries.
- A corporate tax rate of 20%-25%.
- In general, a tax credit or exemption applies for foreign withholding tax (interest, dividends and royalties).
- Tax exemption for (in)direct holdings of 5% or more in active companies, meaning that any profits, losses, dividends and stock price gains can in general be received without incurring Dutch withholding tax.
- Tax-neutral fund solutions: Fiscale beleggingsinstelling (FBI), the premium pension institution (PPI) and the Vrijgestelde Beleggingsinstelling (VBI).
- Tax incentives for foreign employees (30% arrangement).

From a tax perspective, the VBI is an alternative to the FBI for certain asset classes. The FBI has an effective 0% corporate tax rate. There are certain conditions that have to be met by an FBI in order to qualify for this tax. The most important is the annual distribution of the net profits of the fund, which is subject to 15% Dutch withholding tax. The FBI can, in general, benefit from the Dutch tax treaty network. To limit double taxation, foreign withholding taxes can be credit with the Dutch withholding tax withheld by the FBI on its dividend distribution.

There is no capital, wealth or any other tax on the assets of an investment fund in the Netherlands. This makes the FBI very appealing to – among others – Dutch private investors.

The VBI tax regime is very similar to the tax treatment of the Luxemburg SICAV. The VBI is exempt from corporate, capital and dividend withholding taxes. There are no shareholder requirements or leverage limits, but the VBI must be an open-ended fund, investing in financial instruments (no direct real estate). The VBI is, however, ineligible to benefit from the Dutch tax treaty network. This makes the VBI an interesting option for investments where little or no withholding tax is levied. The VBI is particularly popular for listed bonds and financial derivatives, such as options, futures, forwards and swaps.

## 8. OTHER ACTIVITIES OF THE ASSOCIATION

The DUFAS is in close contact with the government, supervisors and the regulators. The topics of conversation vary from technical implementation to the (international) positioning of the Dutch investment industry.

Through committees, expert groups, newsletters, conferences, webinars, LinkedIn and our website, the DUFAS informs its members of all relevant developments in the asset management industry.

In 2021, the association organised numerous webinars for its members. Topics were mainly focused at COVID-19 impact, SFDR, the Social Taxonomy, Biodiversity and other sustainable regulation.

In relation to the retail Investment Strategy, the DUFAS conducted research among Dutch consumers on the barriers they experience to investing. It also launched an inspirational podcast series for the financial sector to discuss these barriers and think of solutions. The series entitled “Why people do (not) invest?”, is publicly available and was created together with author journalist Sander Heijne.

# NORWAY COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

| Table 1: Net Assets by the Fund Industry in Norway (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 115.7 | 113.5 | 134.6 | 142.6 | 181.1 |
| Funds domiciled abroad and promoted by national providers | 20 | 22 | 24 | 28 | 35 |
| Total Net Assets | 135.7 | 135.5 | 158.6 | 170.6 | 216.1 |

| Table 2: Net Sales of Investment Funds in Norway (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 7,806.4 | 3,308.9 | 4,789.6 | 5,022.6 | 13,737.3 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Sales | 7,806.4 | 3,308.9 | 4,789.6 | 5,022.6 | 13,737.3 |

## 2. KEY TRENDS IN THE UCITS MARKET

| Table 3: UCITS Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 59.1 | 56.0 | 68.7 | 74.1 | 103.8 |
| Bond funds | 38.1 | 39.3 | 46.5 | 49.0 | 53.1 |
| Multi-asset funds | 7.2 | 6.5 | 7.9 | 7.8 | 9.7 |
| Money market funds | 10.1 | 10.5 | 10.5 | 10.6 | 13.0 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | 1.2 | 1.1 | 1.1 | 1.1 | 1.5 |
| Total | 115.7 | 113.5 | 134.6 | 142.6 | 181.1 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |

| Table 4: Net Sales of UCITS by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 1,762.7 | 941.3 | -27.5 | 1,314.2 | 7,932.8 |
| Bond funds | 2,266.4 | 1,845.8 | 4,910.6 | 3,013.9 | 3,080.4 |
| Multi-asset funds | 2,143.6 | -55.1 | 86.2 | -32.1 | 627.9 |
| Money market funds | 1,457.0 | 570.9 | -158.2 | 766.2 | 1,925.8 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | 176.8 | 6.0 | -21.5 | -39.6 | 170.5 |
| Total | 7,806.4 | 3,308.9 | 4,789.6 | 5,022.6 | 13,737.3 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |

## 3. TRENDS IN THE NUMBER OF FUNDS

| Table 5: Number of Funds | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS | 754 | 865 | 1,047 | 836 | 836 |
| Home-domiciled AIFs | | | | | |
| Foreign funds registered for sales | 1,100 | 1,100 | 1,100 | 1,100 | 1,100 |
| ➤ By national promoters | | | | | |
| ➤ By foreign promoters | | | | | |
| Fund launches | | | | | |
| Fund liquidations | | | | | |
| Fund mergers & acquisitions | | | | | |

## 4. MARKET DEVELOPMENTS IN 2021

The year 2021 turned out to be another good one for the Norwegian fund industry. AuM were up 26 % to an all-time high of EUR 181.1 billion by year-end 2021. Net sales also rose to an all-time high, EUR 13.7 billion. This a continuous and increasing trend seen in recent years, where - with a few exceptions - net sales has been positive for all major fund types over the last five years. In 2021, equity funds stood out as the preferred type for investors, receiving almost 60 % of the total net sales; net sales for equity funds in 2021 were five times the corresponding net sales in 2020.

Also worth noting is that while the institutional sector has been the main force behind most of the net sales in previous years, all segments - including the retail sector - saw substantial net sales in 2021.

## 5. REGULATORY DEVELOPMENTS

### 5.1. UCITS

The NCA (Finanstilsynet) conducted an enquiry into costs in investment funds in 2021, involving six fund management companies and 60 individual investment funds. The results of the enquiry have not yet been published.

The updated ESMA Q&A on the new question of fee rebate arrangements has attracted some attention in Norway, as Norwegian fund management companies (FMCs) have traditionally entered into such fee rebate arrangements with large institutional clients. It is our understanding that the updated Q&A will impact this practice in Norway, and that Norwegian FMC swill have to look for alternative options to obtain the necessary flexibility when it comes to pricing the institutional segment.

### 5.2. AIFMD

There were no notable developments in this area during 2021.

### 5.3. MiFID II

During the last few years, MiFID II has had a significant impact on business models for fund distribution in Norway. According to the Norwegian NCA, about 70% of Norwegian distributors have changed or adapted their business models. Passing retrocessions on to the end investor, while at the same time charging the end investor a platform fee, has become the norm. Also, we note that clean share classes have become widespread in Norway.

The Norwegian NCA published the guidelines on its website 13 October 2021, together with a statement that it expects companies to comply with the guidelines.

The EMT and EET have been distributed in Norway. EMTs are distributed by Norwegian FMCs, but we are unsure of the importance of the EET.

### 5.4. PRIIPs

PRIIPs has still not been transposed in national law, but Norwegian FMCs are preparing for PRIIPs and the new key information document to replace the UCITS KIID as soon as the Regulation enters into force in Norway, hopefully by 1 January 2023, as in the EU. It is expected that the PRIIPS regulation will enter into force in Norway 'as is', and with very few, if any, national specificities. The timing schedule for Norwegian implementation is still unclear, however.

### 5.5. ELTIF

ELTIF has only recently been implemented in Norway (June 2021), but has not yet entered into force, awaiting transposition into the EEA agreement.

### 5.6. Sustainable finance

The SFDR has been incorporated into national law, but it has not yet entered into force. The delegated act has not been incorporated into national law and has not yet entered into force.
We have a Nordic label, 'Svanemerket' (the 'Nordic Swan' ecolabel'). In Norway, there are currently 31 labelled funds.

The key requirements are divided into categories of exclusion, inclusion, active ownership and transparency:

1. Exclusion

The requirements to exclude unsustainable industries and companies send a clear signal to both society and investors. A Nordic Swan Ecolabel fund may not invest in:

- Companies exploring for, drilling, extracting, refining, or generating electrical power from fossil fuels or uranium.
- Companies failing to fulfil ILO's fundamental principles, violating human rights, causing severe environmental damage and/or guilty of gross corruption.
- Companies making or selling controversial or conventional weapons.
- Companies producing or selling tobacco products.

- Government bonds from countries that are subject to EU or UN financial sanctions, which have not ratified the Paris Agreement or have a score worse than 40 on the Transparency International's Corruption Perceptions Index.

2. Inclusion

The inclusion requirements increase demand for companies that have structured sustainability practices. A Nordic Swan Ecolabel fund:

- Has conducted an assessment of environmental, social, governance ESG and EU Taxonomy performance on all holdings.
- Can only invest in companies in sectors with high GHG emissions if the company meets strict reduction requirements.
- Has given a significant weight in the ESG and EU Taxonomy analysis to biodiversity, and engages with companies that have poor performance in sectors where biodiversity is a material issue.
- Invests at least 70% of its assets in holdings with strong sustainability practices.
- Promotes companies that are aligned with the EU Taxonomy, have validated Science-based Targets on GHG emissions or have a clear environmental objective that delivers solutions to environmental challenges.

3. Active Ownership

The active ownership requirements support the fund manager's opportunity to influence holdings in a more sustainable direction. Therefore, a Nordic Swan Ecolabel fund:

- Must engage with companies where there are doubts regarding compliance with global norms and disclose how the fund assesses the situation if the holding is kept.
- Stimulates proactive engagement and dialogue with its holdings on sustainability issues.
- Promotes voting at annual general meetings.

4. Transparency

The transparency requirements seek to influence the fund manager and the fund holdings to operate in a more sustainable manner. A Nordic Swan Ecolabel fund will disclose all of its holdings on a quarterly basis, and in an annual sustainability report that includes (for example):

- A brief description of ESG risks and opportunities for the ten largest holdings.
- A brief description of the transitions progress for the five largest GHG emitters
- A summary of the engagements and dialogue with the ten largest holdings.

**Expected level of uptake of EU Ecolabel for Retail Financial Products:**
While there are some non-financial products available within the EU Ecolabel, it is not well-known, particularly compared to the Nordic Swan Ecolabel. The EU Ecolabel is probably not a strong selling point with many consumers at this time. It is difficult to predict if/when this will change.

### 5.7. Stewardship

Norsif updated its guide to responsible investing in June 2021.

### 5.8. Benchmarks

The Benchmark Regulation (BMR) is implemented in Norway. Following implementation of Regulation (EU) 2016/1368, the Norwegian Interbank Offered Rate (NIBOR) was added to the list of critical benchmarks used in financial markets established pursuant to Regulation (EU) 2016/1011. NIBOR is administrated by NoRe. NoRe is authorised by the Norwegian Financial Supervisory Authority, pursuant to Article 34 of the BMR, and as such is included in the register ESMA is publishing in accordance with Article 36 of the BMR.

Nowa (Norwegian Overnight Weighted Average) has been established as an alternative interest rate benchmark. Nowa is administered by the Central Bank of Norway (Norges Bank), and has so far mainly been used as a fallback for NIBOR.

### 5.9. Anti-Money Laundering Directive

The Norwegian Financial Supervisory Authority is currently revising its guidelines on the Norwegian AML regulation.

## 6. PENSIONS & PEPP

The PEPP regulation is currently under consideration by EFTA for incorporation into the EEA Agreement between the EU and EFTA.

## 7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

There are no changes to tax rates or regulatory developments to report for 2021.

## 8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

The association published a Norwegian translation of the EFAMA brochure titled 'Investing for a better Future – 5 tips to do more with your savings'. The brochure aims at stimulating millennials to consider investing early and explains how to get started.

The association continued the website 'Den lille fondshåndboken', which is a retail investor-oriented handbook on how to get started investing in mutual funds. The handbook covers a broad range of topics such as 'What is a mutual fund?', the types of funds, risk, return, costs, tax, recommended holding periods, etc.

## 9. OTHER ACTIVITIES OF THE ASSOCIATION

In 2021, the association:

- published 31 newsletters for members only
- published 17 newsletters – open to anyone interested
- published quarterly reports on the association's activities – for members only
- published six factsheets looking at different surveys and research, e.g. regular savings plans, geographical survey, yearly- and half-yearly market statistics
- published a report on the coronavirus pandemic and its consequences for the Norwegian fund industry
- published monthly statistics on fund flows and statistics for Individual Pension Savings (IPS) and Equity Investment Accounts (ASK)
- published a survey on the proportion of women and men among the employees in the member companies
- published the annual survey on the fund and investment behaviour, expectations and motives for Norwegian households

The association arranged two webinars during 2021: one on the association's report on the coronavirus pandemic and its consequences for the fund industry, and one on SFDR/taxonomy and implementation issues.

The association arranged one physical seminar on compliance and operational risk.

# POLAND COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

**Table 1: Net Assets by the Fund Industry in Poland (EUR billion)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Home-domiciled UCITS & AIFs | 66.8 | 59.7 | 63.0 | 61.5 | 65.6 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Assets | 66.8 | 59.7 | 63.0 | 61.5 | 65.6 |

**Table 2: Net Sales of Investment Funds in Poland (EUR million)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Home-domiciled UCITS & AIFs | 3,335.5 | -2,797.0 | -129.7 | 78.0 | 2,210.4 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Sales | 3,335.5 | -2,797.0 | -129.7 | 78.0 | 2,210.4 |

## 2. KEY TRENDS IN THE UCITS MARKET

**Table 3: UCITS Assets by Fund Type (EUR billion)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Equity funds | 6.2 | 4.7 | 5.0 | 4.8 | 6.6 |
| Bond funds | 5.5 | 5.4 | 18.9 | 18.0 | 15.9 |
| Multi-asset funds | 5.0 | 4.1 | 4.0 | 4.0 | 4.6 |
| Money market funds | 8.7 | 10.9 | 0.0 | 0.0 | 0.0 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | 0.3 | 0.1 | 0.0 | 0.0 | 0.0 |
| Other funds | 0.1 | 0.1 | 0.2 | 0.1 | 0.2 |
| Total | 25.8 | 25.5 | 28.1 | 27.0 | 27.3 |
| of which ➤ ETFs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ➤ Funds of funds | 0.3 | 0.1 | 0.7 | 0.5 | 0.7 |

| Table 4: Net Sales of UCITS by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 157.2 | -547.0 | -477.6 | -192.0 | 912.3 |
| Bond funds | -22.4 | -76.4 | 1,529.8 | 7.1 | -1,447.9 |
| Multi-asset funds | 393.3 | -426.1 | -370.0 | 45.4 | 482.8 |
| Money market funds | 1,534.0 | 2,339.1 | 0.0 | 0.0 | 0.0 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | 12.8 | -186.0 | -31.9 | 4.5 | -8.7 |
| Other funds | -11.2 | -15.9 | 8.1 | 48.8 | 97.7 |
| Total | 2,063.7 | 1,087.8 | 658.4 | -86.2 | 36.1 |
| of which ➤ ETFs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ➤ Funds of funds | -62.6 | -36.5 | 9.5 | -21.3 | 72.3 |

## 3. KEY TRENDS IN THE AIF MARKET

| Table 5: AIF Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 1.9 | 1.4 | 1.0 | 1.3 | 2.1 |
| Bond funds | 5.6 | 5.0 | 7.7 | 6.7 | 6.2 |
| Multi-asset funds | 3.3 | 2.6 | 2.9 | 3.6 | 5.1 |
| Money market funds | 1.9 | 2.6 | 0.0 | 0.0 | 0.0 |
| Guaranteed/protected funds | 0.0 | 0.4 | 0.04 | 0.04 | 0.03 |
| Absolute Return Innovative Strategies (ARIS) funds | 2.6 | 1.5 | 1.3 | 1.1 | 1.4 |
| Real estate funds | 0.6 | 0.5 | 0.5 | 0.5 | 0.1 |
| Other funds | 25.1 | 20.3 | 21.4 | 21.3 | 23.5 |
| Total | 40.9 | 34.2 | 34.8 | 34.5 | 38.3 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 1.4 | 1.0 | 1.5 | 1.8 | 2.8 |
| ➤ Institutional funds | | | | | |

| Table 6: Net Sales of AIFs by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | -283.4 | -282.6 | -69.9 | 113.4 | 649.6 |
| Bond funds | 939.2 | -525.3 | -102.2 | -616.5 | -317.5 |
| Multi-asset funds | 396.3 | 34.2 | 56.0 | 737.9 | 1,611.9 |
| Money market funds | 254.4 | 711.3 | 0.0 | 0.0 | 0.0 |
| Guaranteed/protected funds | 0.0 | 0.0 | -5.0 | -2.8 | -2.6 |
| Absolute Return Innovative Strategies (ARIS) funds | 119.3 | -817.7 | -343.9 | -36.8 | 190.1 |
| Real estate funds | 62.3 | -34.3 | -67.8 | -28.4 | -8.6 |
| Other funds | -216.3 | -2,970.4 | -255.3 | -2.7 | 51.2 |
| Total | 1,271.9 | -3,884.8 | -788.1 | 164.2 | 2,174.2 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 194.4 | -223.9 | -10.3 | 277.9 | 968.7 |
| ➤ Institutional funds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

## 4. TRENDS IN THE NUMBER OF FUNDS

| Table 7: Number of Funds | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS | 320 | 318 | 340 | 302 | 303 |
| Home-domiciled AIFs | 567 | 727 | 767 | 813 | 818 |
| Foreign funds registered for sales | | | | | |
| ➤ By national promoters | | | | | |
| ➤ By foreign promoters | | | | | |
| Fund launches | 142 | 87 | 166 | 126 | 65 |
| Fund liquidations | 145 | 118 | 100 | 148 | 54 |
| Fund mergers & acquisitions | | | | | |

## 5. MARKET DEVELOPMENTS IN 2021

- In 2021, the fund market in Poland (in local currency) grew by 7.5% to EUR 65.6 billion.
- Net sales reached EUR 2210 million.
- It was a very good year for equity funds; each month saw positive net sales, with the yearly sales balance EUR 1549 million.
- It was a successful year for mixed funds; net sales balance is EUR 929 million.
- Investors withdrew capital from debt funds, with negative net sales of EUR 1756 million.
- It saw the stable development of Capital Employee Plans; the value of new capital is EUR 842 million.
- There is a new player on the Polish market; VIG / C-QUADRAT TFI (a joint initiative of C-Quadrat Investment Group and Vienna Insurance Group).

## 6. REGULATORY DEVELOPMENTS

### 6.1. UCITS

The following primary national regulatory developments have been identified in 2021:

- Abolition of the obligation for foreign UCITS to appoint a payment agent or a representative on Polish territory, while leaving the possibility of appointing such an agent or representative should the fund deem it appropriate.

- Exemption from prohibition of nominee structures by foreign UCITS also applies to cases where the units are admitted for trading on a regulated market, such as markets in Poland or other EU Member States.
- Extension of the obligation to pay a fee for registration of a foreign UCITS in the register of foreign funds, which means that each additional sub-fund will be a subject to a fee (the same principle will apply to the newly created register of foreign AIFs);
- Payment of an annual fee to cover supervisory costs.

### 6.2. AIFMD

The following primary national regulatory developments took place in2021:

- Unification of the procedure for the cessation of marketing of units in foreign funds on the Polish regulated market.
- Harmonisation of the definition of pre-marketing activities and establishment of conditions, under which it will be possible to undertake these activities. Pre-marketing activities - namely the provision of information on the concept or investment strategy of an alternative investment fund - will only be possible for to test the interest of potential professional investors in investing in an AIF that has not yet been established or notified for cross-border marketing.
- Establishment of a separate register of EU AIFs and AIFs established in EEA countries notified for distribution in Poland. An entry in the register of AIFs will be subject to a fee.
- Payment of an annual fee to cover supervisory costs.

### 6.3. MiFID II

The following primary national regulatory developments took place in 2021:

- Implementation of Directive 2020/1504 in the Act of 29 July 2005 on trading in financial instruments (Journal of Laws of 2021, item 328, as amended) by excluding the application of the provisions of this Act to providers of crowdfunding services for business ventures.

The Polish Financial Supervision Authority (PFSA) has signalled it would comply with ESMA Guidelines on MiFID II/ MIFIR market data obligations. As stated in the ESMA Guidelines summary table, the PFSA intends to comply with the Guidelines and will take them into account as part of its supervisory practice from 1 January 2022.

The Chamber of Asset and Fund Managers does not possess the data confirming that EMT and EFT are recognised as common tools in the distribution and disclosures processes in Poland.

### 6.4. PRIIPs

There have been the following national efforts:

- 28 February 2022 - announcement of the draft act amending the act on investment funds and alternative investment fund management and the act on financial market supervision, implementing to the Polish legal system the directive of the European Parliament and of the Council (EU) 2021/2261 of 15 December 2021 on amending Directive 2009/65/EC as regards the use of key information documents by companies managing undertakings for collective investment in transferable securities (UCITS) (Official Journal of the EU L 455 of 20.12.2021, p. 15). The draft act establishes PRIIP KID as the obligatory information document for retail investors, which can also be made available to investors other than retail investors. In such cases, funds are exempted from the obligation to prepare UCITS KIID.

### 6.5. ELTIF

To date, there is no sign of ELTIFs uptake in Poland.

### 6.6. Sustainable finance

Due to the fact that there are still many uncertainties as to regulatory requirements referred to investment funds - particularly on the RTS to the SFDR, which has been postponed until July 2022 - investment funds established in Poland currently face many challenges as it comes to fulfilling the obligations arising from Taxonomy and SFDR. What brings many questions is the fact that investment funds do not know whether investment fund manager

that has one or more products defined under Article 8 or 9 of the SFDR is automatically also obliged to publish information under arts. 4(1)(a) and 7 of the SFDR. Additionally, there is doubt over the possibility of abandoning an investment where the company does not provide information on its activities in the area of sustainable development, in the context of Article 19 of the Act on Investment Funds, which enumerates the investment objectives of open-ended funds in Poland among which sustainable financing is still missing. Also, it is worth mentioning that there is lack of information on how to present to the market on how certain investment funds acts in accordance with Taxonomy and SFDR regulations. There is a doubt that over the publication of such information on the investment fund's official website, or as a separate PDF file.
As the legislative work on implementation of the SFDR provisions and other related European legislation into Polish law is at a relatively early stage, thus many doubts remain over the fulfilment of all obligations. In the of opinion investment funds, specifically the lack of RTS and already existing obligations on ESG reporting are causing justified confusion. As a result, the market is forced to self-regulate and discover practical solutions for how to correctly interpret the Taxonomy and SFDR.

However, the Polish Financial Supervision Authority published a Q&A to SFDR addressing some of the doubts.[1]

In addition, on 7 March 2022, a draft Regulation from the Ministry of Finance amending the Regulation on the manner, procedure and conditions for conducting business activity by investment fund companies implementing Commission Delegated Directive (EU) 2021/1270 of 21 April 2021 amending Directive 2010/43/EU on the sustainability risks and sustainability factors to be taken into account for Undertakings for Collective Investment in Transferable Securities (UCITS) (Text with EEA relevance) was published. This is the first legislative action taken by Polish legislator.

Given that reporting obligations under Article 8 of the EU Taxonomy are binding for entities identified in arts 19a and 29a of Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC Text with EEA relevance, i.e. with annual average employment of 500 employees, it has been identified that Polish investment funds companies do not fall under this obligation. Some information may however be required when such company is a part of a capital group whose dominant company falls under abovementioned provisions. Therefore, this issue is subject to many cross-sectoral discussions, i.e. discussions with insurance companies and investment firms.

### 6.7. Stewardship

The following primary developments in Company Law Act have been announced on corporate governance:

- Implementing a so-called 'business judgemental rule'; liability of members of management boards and supervisory boards towards capital companies will be mitigated. Members of these bodies will not be liable for possible damages resulting from acting in a loyal manner towards the company, within the limits of justified economic risk.
- Extending the competences of supervisory boards, granting them the right to use an independent advisor or to establish special committees.
- Enabling a parent company to require a subsidiary to buy out minority shareholders if it directly holds at least 90% of the share capital of the subsidiary (squeeze out). The new provisions also apply to limited liability companies. Currently, squeeze outs are only possible for joint stock companies and only by a maximum of five shareholders holding at least 95% of the shares (or 90% in the case of public companies).

1 https://www.knf.gov.pl/dla_rynku/Finansowanie_zrownowazonego_rozwoju/Q&A

### 6.8. Benchmarks

Due to direct transposition of the Regulation into the national law, it is worth mentioning that the PFSA, as of 16 December 2020[2], officially permitted the GPW Benchmark SA (GPW) to act as the official administrator of financial indices. Thus, the process of development of such reference indices by GPW will be subject to public scrutiny, which also includes a cyclical evaluation of the key reference index's ability to be able to measure the market or economic reality.

At the end of January 2022, GPW launched a public consultation on the method of compilation of the stock indices, which would - in the opinion of the Administrator - be a material change to the index referred to in Article 28(2) of the BMR Regulation. The planned change concerns the rules of calculation of the GPW Indices mWIG40 and sWIG80. The change of methodology proposed by GPW concerns introduction of a 'fast track' entry rule for large companies newly listed on the GPW Main Market, analogous to the existing rules for the indices WIG20 and WIG30.

### 6.9. Anti-Money Laundering Directive

- Extension of the catalogue of institutions covered:
  The following have been added to the list of obligated covered
  - real estate agents
  - Entrepreneurs whose main business activity is offering services consisting of preparing declarations, keeping tax books, providing advice, opinions or explanations on tax or customs legislation
  - traders dealing in, or brokering, works of art and antiques.
- Changes to the definitions of beneficial owner (UBO) and politically exposed person (PEP):
  The changes to the definitions impact the need to adapt AML's internal processes in terms of the information collected and the range of persons examined when identifying UBOs and PEPs.
- New grounds for applying FSC to existing customers:
  An obligation has been introduced to apply FSM where there has been a change in previously established customer or beneficial owner data.
- Changes to the data collected at the customer identity verification stage:
  The possibility of identity verification using trust services as defined in Regulation 910/2014 (eIDAS) has been introduced.
- Changes in the scope of verification of the beneficial owner:
  - Verification of the beneficial owner cannot consist only of verification in the CRBR (Central Register of Beneficial Owners).
  - The process of UBO verification and documentation of this process has been formalised.
  - The procedure for clarifying discrepancies between the customer's CRBR and the result of the obliged institution's own verification has been defined.
  - The catalogue of entities that must notify the beneficial owner has been extended to include the CRBR.
  - Obligations to provide information to covered institutions directly to beneficial owners were imposed.
- Changes to the application of enhanced financial security measures:
  The list of situations where enhanced financial security measures are required has been extended (in particular the use of new technologies and cooperation with clients in specific high-risk sectors). A catalogue of information has to be obtained when applying enhanced financial security measures to high-risk countries has been introduced.
- Establishment of a list of PEP:
  The minister responsible for public finance has published a Regulation establishing an exhaustive list of positions that should be considered as PEP.
- Modification of the retention period for customer verification and transaction information.
- Explicitly formulated obligations for obliged entities to review and update their AML policy on an ongoing basis:
  New mandatory elements of the AML policy were also introduced (particularly on beneficial owners).

2 https://www.knf.gov.pl/knf/pl/komponenty/img/KNF_zezwoli%C5%82a_GPW_Benchmark_SA_na_opracowywanie_wskaznikow_referencyjnych_stop_procentowych_71984.pdf

- Mandatory AML training; protection of personal data as a compulsory element.
- Changes to the rules on whistleblowing:
  - Raise the level of protection for whistleblowers. Protection against reprisals as a result of whistleblowing is provided not only for employees but also for other persons performing activities for the benefit of the obliged institution.
  - The catalogue of prohibited actions against whistleblowers has been expanded.
  - An active obligation for covered institutions to protect whistleblowers has been introduced. This also applies to persons who report suspected money laundering to the General Inspector of Financial Information (GIIF) or the prosecutor. A person reporting a violation, against whom repressive measures are applied, may report this fact to the GIIF. The GIIF has been granted competences in the scope of protection of persons reporting violations.
- Compulsory registration for certain obliged institutions:
  - Entrepreneurs carrying out activities for companies or trusts and virtual currency activities will be subject to registration in the relevant registers.

### 6.10. Digital Finance

On AML regulation changes, virtual currency activities are required to be registered in the relevant register pursuant to national AML regulation. This means that such activities and companies performing those activities are included and recognised as a part of the market.

### 6.11. Other regulatory developments

In cooperation with the PFSA, the IZFiA prepared and published a standard on collection of success fees in in opened-ended funds and specialised opened-ended funds, which is an example of market self-regulation. The aforementioned document corresponds with the ESMA Guidelines on performance fee.[3]

In addition to that, there is an ongoing legislative process on an act amending acts relevant in the area of capital market in order to eliminate gold-plating provisions existing in Polish capital markets law. This project is carried out under the Financial Market Development Strategy of the Ministry of Finance. The public consultation of this act started at the beginning of October 2021.

## 7. PENSIONS & PEPP

On 11 March 2021, Polish legislative bodies proposed the draft act on amending certain acts in connection with the transfer of funds from open pension funds to individual retirement accounts assumes the transformation of OFEs into investment funds operating individual retirement accounts funded with assets from OFEs. The functioning of the transformed OFEs was desired to be based on the amended Act of 20 April 2004 on Individual Pension Accounts and Individual Retirement Security Accounts (Journal of Laws of 2019, item 1808), however, work on this project has been stopped by the legislator. The date of restating the legislative process is yet unknown.

However, work is underway on amendments to the Act on Individual Pension Accounts and individual retirement security accounts and on occupational pension plans (IKE) and Act on Occupational Pension Schemes (EPP). In accordance with the intention of the drafters, the draft provides for:

- Simplifying conducting EPP for employers, which consist of abolishing the most burdensome administrative obligations. In accordance with the proposed changes, implementation of these administrative obligations would then rest with employee pension schemes, which have the necessary technical infrastructure and personnel and personnel resources.
- Simplifying the procedure for concluding agreements between employers and employee representatives on the suspension of the calculation and payment of the basic contribution, or on a temporary reduction of the basic contribution in the EPP, by abandoning the procedure for their registration by the supervisory authority. Instead of registering these agreements, a notification of their conclusion is proposed, which would not require an administrative decision.

3 https://www.knf.gov.pl/knf/pl/komponenty/img/IZFiA_opublikowala_Standard_w_zakresie_pobierania_oplat_za_wyniki_success_fee_przez_fundusze_inwestycyjne.pdf

- Introducing favourable changes for the conditions of participation in the programme, e.g. abolishing the optional ban on making additional contributions, diversifying the sources of financing for additional contributions, unconditional acceptance of the possibility of making additional contributions, including for periods of absence from work (e.g. due to parental leave). According to the drafters, these changes will have a positive impact on participation of employees in EPP.
- Clarification of certain supervisory powers of the PFSA.
- Alignment of other provisions of Article 13a of the ACT on IKE and IKZE with the introduced 1a in Article 13a of that Act which regulated the limit of IKZE contributions made by persons conducting non-agricultural activity.

The state of play as regards the national implementation of the PEPP, in particular regarding the following points:

- Preparation and adoption of legislative bills:
  As of 7 December 2020, this has still not been implemented into national law
- Designation of national competent authorities to regulate PEPP:
  The authority designated to regulate PEPP is the Ministry of Finance, and the authority designated to supervise PEPP is the Polish Financial Supervision Authority.
- Tax incentives for the PEPP:
  The Ministry proposes, in the draft law, to introduce product a tax credit modelled on the existing IKE (individual retirement accounts, (IRA)) solutions for the PEPP. Therefore, a proposal has been adopted, in which payments to a PEPP account kept in Poland, as well as to a PEPP sub-account kept for Poland, will come from the funds of the saver after taxation through personal income tax. At the same time, income obtained from investments through saving, as well as income related to withdrawal of funds from the account or sub-account, will be exempt from taxation. The Ministry points out that the solution based on IRA is already functioning on the Polish market, and that results from the fact that under the current legal status in Poland, IRA functioning in the second pension pillar can be considered as an equivalent of PEPP.

## 8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

As of 2 September 2021, the Ministry of Finance adopted the General Interpretation on Article 43(1)(12)(a) and (b) of the Tax on Goods and Services Act of 11 March 2004 (hereinafter: 'the VAT Act')[4], implementing Article 135(1)(g) of Council Directive 2006/112/EC on the common system of value-added tax into the Polish law. On this basis, the Minister of Finance indicated that the exemption in question is applicable only to fund management services based in Poland. In other words, according to the position presented in the Interpretation, the exemption in question does not apply to funds with their registered office abroad.

In addition, since 2020, IZFiA has been holding talks with the Ministry of Finance aimed at amending the provisions of the CIT Act, which would definitively solve the problem of withholding tax for investment funds in the case of distributions made from dividends and other income from participation in profits of legal persons. A temporary solution was the systematic extension, since 1 January 2019, of the exclusion of the application of Article 26(2e) of the CIT Act by subsequent regulations of the Minister of Finance. However, in 2021, amendments to the CIT Act were adopted, which have eliminated most of the problems investment funds previously faced. By means of example the amendment added section 2eb in Article 26 of the CIT Act under which the obligation to collect the tax does not apply to entities which are taxpayers referred to in Article 3(1), i.e. residents. Thus, the withholding tax refund mechanism was limited to payments to non-residents. It seems that it significantly limits the unfavourable impact of the previous regulation on the manner of taxing dividends paid to domestic investment funds.

4 https://sip.mf.gov.pl/faces/views/szczegoly/szczegoly-interpretacji-ogolnej.xhtml?dokumentId=616389&poziomDostepu=PUB&indexAccordionPanel=-1#tresc

## 9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

On 20 October 2021, the PFSA implemented a project entitled 'Development of a national strategy for financial education', with the support of EU funds from the Technical Support Instrument of the European Commission and in cooperation with the OECD. The aim of the project is to support the development of a national strategy for financial education.

On 4 March, registration opened for the Index Investment Challenge contest – the biggest investment game for students in Poland. The contest is organised by the Warsaw Stock Exchange, the WSE Foundation and Cracow University of Economics. The IZFiA extended its patronage to the contest, which enables students to increase their knowledge of finances and economics.

- IZFiA again cooperated with the Warsaw Stock Exchange Foundation in the Go4Poland programme, targeted at Polish students and graduates of foreign universities around the world. One of the elements was a closed edition of the 'Summer School of the Stock Exchange', where students were able to learn to understand the rules of the functioning of capital markets and financial instruments, including investment funds.
- The President of IZFiA, Małgorzata Rusewicz, is a member of the Main Committee of the National Olympiad on Knowledge about Finance - 'Finansomania' - organised by the University of Economics in Poznań. The aim of the Olympiad is financial education of young people and the popularising of knowledge about finances.

## 10. OTHER ACTIVITIES OF THE ASSOCIATION

Publications (reports, newsletters, surveys, research)

- The Annual Report of the Chamber of Asset and Fund Management for 2020. It includes information on the market of funds in Poland and in Europe against the background of the macroeconomic situation, data on the structure and net value of assets, entities functioning in the sector and changes that occurred during 2019. The Report is available for download at https://www.izfa.pl/download/pobierz/raport-roczny-izfia-2020
- Report: 'Polish investment fund market and potential directions of its further development', 19 October 2021 (https://www.izfa.pl/download/pobierz/mckinsey-rynek-funduszy)
- Report: 'Better Pension Better Lives Pension Report' (https://www.izfa.pl/download/pobierz/better-pensions-better-lives-pension-report-iifa)
- Marketing research
  Research on knowledge, attitudes towards investing and investment funds (https://www.izfa.pl/download/pobierz/raport-z-badania-izfia-2021)
- Digital financial services and seniors (https://www.izfa.pl/download/pobierz/raport-fintech-seniorzy-2021)
- Implementation of the Employee Capital Plans in stage II and III - results of the survey of 14 financial institutions running Employee Capital Plans. (https://www.izfa.pl/download/pobierz/wdrozenie-ppk-w-ii-i-iii-etapie-raport-z-badania-izfia-i-igte-2021)

**Press releases**

In 2021, IZFiA prepared and delivered 28 press releases. They covered all important aspects of IZFiA activity, such as legal regulations, legislation changes, good practices, marketing research outcomes, monthly and quarterly reports as well as other issues relevant to the sector.

**IZFiA conferences**

- 'Forum of Funds', 19 October 2021. 'Forum of Funds' is the most important substantive meeting of the asset management sector and related companies and institutions, such as transfer agents, custodian and distributing banks, brokerage houses, law firms, consulting firms, academia, representatives of supervision and state administration.
- The Forum of Investment Funds is a non-commercial undertaking, aimed primarily at members of the Chamber. Participation is free of charge upon individual invitation of the Chamber. Through this and similar initiatives, IZFiA fulfils its statutory objectives, acting for the development of the financial services sector, undertaking projects integrating entities related to asset management.The Forum of Funds is a place of presentation and exchange of views on the most relevant and current problems of the industry.

- Conference: 'OFE, IKE, IKZE, PPE, PPK, PEPP - upcoming changes on the pension market and their consequences', - 23 March 2021.

**Co-organised conferences and patronages**

- Financial Market Women's Club, 18 February 2021
- XXI Conference of the Chamber of Brokerage Houses', 4-5 March 2021
- 'Ring the Bell for Gender Equality', 8 March 2021
- Conference of the Chamber of Brokerage Houses: 'Current problems of financial institutions related to new regulations', 18 May 2021
- Online conference: 'Knowledge capital. Presentation of the model of acceleration of intersectoral cooperation for the development of the capital market', – 19-20 May 2021
- European Financial Congress 2021, 14 June; 13-15 September 2021
- VII edition of GPWInnovationDay, 22-24 June 2021
- CFA Society Poland Annual Conference, 24 September 2021
- XII EFPA Congress, 1 October 2021
- Congress of Financial Markets Regulation FinReg 2021, 13 October 2021
- Cyfrowa transformacja na rynku funduszy inwestycyjnych, 16 November 2021
- Gold-Plating, implementation of European regulations and the development and competitiveness of the Polish financial market, 30 November 2021

**Seminars**

- In 2021, the Chamber of Asset and Fund Management organized and conducted 11 training sessions, among others:
- Training: 'Practical implications of the change in accounting rules for investment funds', 17 February 2021.
- Training: 'How to properly comply with new remuneration policy regulations, 25 February 2021.
- Training 'Surveillance system for TFIs' anti-avoidance conduct', 10 March 2021.
- Online training: 'Using cloud technology in TFI', 21 April 2021.
- Online training: 'Liquidity stress testing under ESMA guidelines in practice', 18 May 2021.
- Training: 'ESG criteria in the creation of TFI product strategy', 25 May 2021.
- Training: 'Remote distribution channels', 16 June 2021.
- Training: 'Application of modern technologies in the capital and investment funds market', 16 and 22 September 2021.
- Training: 'Amendment to the AML Act - key changes and implications for the financial market' - 8 November 2021.

Videos/podcasts

No additional developments.

# PORTUGAL COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

| Table 1: Net Assets by the Fund Industry in Portugal (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 23.1 | 21.9 | 23.5 | 25.5 | 31.0 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Assets | 23.1 | 21.9 | 23.5 | 25.5 | 31.0 |

| Table 2: Net Sales of Investment Funds in Portugal (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 907.2 | -599.7 | 954.8 | 1,477.4 | 4,260.3 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Foreign-domiciled funds promoted by foreign providers | 1,258.0 | 148.8 | 152.6 | 184.9 | n.a. |
| Total Net Sales | 907.2 | -599.7 | 954.8 | 1,477.4 | 4,260.3 |

## 2. KEY TRENDS IN THE UCITS MARKET

| Table 3: UCITS Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 1.2 | 1.2 | 1.8 | 1.9 | 3.4 |
| Bond funds | 1.7 | 2.3 | 2.7 | 3.0 | 2.9 |
| Multi-asset funds | 2.9 | 4.3 | 5.7 | 6.7 | 10.3 |
| Money market funds | 0.2 | 0.2 | 0.2 | 0.4 | 0.3 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | 2.9 | 2.2 | 1.8 | 1.9 | 2.0 |
| Total | 8.8 | 10.2 | 12.3 | 13.9 | 18.9 |
| of which ➤ ETFs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ➤ Funds of funds | 2.4 | 3.0 | 3.7 | 4.2 | 6.3 |

| Table 4: Net Sales of UCITS by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 47.6 | 137.8 | 199.0 | 110.2 | 875.6 |
| Bond funds | 495.3 | -168.4 | 262.3 | 309.5 | -42.7 |
| Multi-asset funds | 402.4 | 418.8 | 1,000.3 | 772.4 | 3,190.4 |
| Money market funds | -61.4 | 23.8 | 43.4 | 177.4 | -83.5 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | 448.6 | -598.3 | -388.3 | 64.1 | 145.1 |
| Total | 1,332.5 | -186.2 | 1,116.7 | 1,433.6 | 4,084.9 |
| of which ➤ ETFs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ➤ Funds of funds | 443.1 | 338.7 | 310.8 | 391.5 | 1,868.7 |

## 3. KEY TRENDS IN THE AIF MARKET

| Table 5: AIF Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | | | | | |
| Bond funds | | | | | |
| Multi-asset funds | | | | | |
| Money market funds | 0.3 | 0.2 | 0.0 | 0.0 | 0.0 |
| Guaranteed/protected funds | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Absolute Return Innovative Strategies (ARIS) funds | 0.01 | 0.01 | 0.00 | 0.00 | 0.00 |
| Real estate funds | 10.8 | 10.6 | 10.5 | 10.8 | 11.1 |
| Other funds | 3.0 | 0.8 | 0.7 | 0.7 | 0.9 |
| Total | 14.3 | 11.7 | 11.2 | 11.6 | 12.0 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 0.9 | 0.3 | 0.3 | 0.2 | 0.2 |
| ➤ Institutional funds | | | | | |

| Table 6: Net Sales of AIFs by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** | **2021** |
| Equity funds | -0.1 | -1.8 | 0.0 | 0.0 | 0.0 |
| Bond funds | 6.5 | 20.4 | 4.9 | -2.2 | -2.6 |
| Multi-asset funds | 0.6 | -4.3 | -2.4 | 3.6 | 18.3 |
| Money market funds | -783.7 | -98.8 | 0.0 | 0.0 | 0.0 |
| Guaranteed/protected funds | -136.2 | -73.5 | 0.0 | 3.7 | 0.0 |
| Absolute Return Innovative Strategies (ARIS) funds | -11.3 | -1.4 | -8.8 | 0.0 | 0.0 |
| Real estate funds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other funds | 499.0 | -254.1 | -155.6 | 38.7 | 159.7 |
| Total | -425.3 | -413.5 | -161.9 | 43.8 | 175.4 |
| of which ➤ ETFs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ➤ Funds of funds | 231.3 | -51.6 | -60.2 | -56.7 | -22.0 |
| ➤ Institutional funds | | | | | |

## 4. TRENDS IN THE NUMBER OF FUNDS

| Table 7: Number of Funds | | | | | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** | **2021** |
| Home-domiciled UCITS | 115 | 135 | 145 | 142 | 144 |
| Home-domiciled AIFs | 266 | 236 | 226 | 217 | 217 |
| Foreign funds registered for sales | 3,235 | 3,287 | 3,672 | 4,175 | 4,434 |
| ➤ By national promoters | | | 24 | 27 | 30 |
| ➤ By foreign promoters | | | 3,648 | 4,148 | 4,404 |
| Fund launches | 9 | 22 | 21 | 15 | 25 |
| Fund liquidations | 26 | 26 | 16 | 21 | 18 |
| Fund mergers & acquisitions | 10 | 5 | 6 | 6 | 5 |

## 5. REGULATORY DEVELOPMENTS

### 5.1. UCITS

A new legal framework for governing Portuguese Investment Funds was proposed at the end of 2021, through a Public Consultation launched by the Portuguese Securities Market Commission (CMVM).

The new draft framework creates a new paradigm for the supervision of Investment Funds and their Managers, shifting from ex-ante supervision (where specific authorisation from the CMVM was required prior to most of the changes in the management of investment funds) to ex-post supervision (where most such events no longer require such authorisation).

The amendments also envisage simplifying the regulatory framework for Portuguese investment funds and to eliminate all gold-plating features, with the aim of increasing the competitiveness and the attractiveness of Portuguese investment fund market and its players.

Also worth mentioning is the transposition of Directive (EU) 2019/1160 of the European Parliament and of the Council of 20 June 2019, amending Directives 2009/65/EC and 2011/61/EU with regard to cross-border distribution of collective investment undertakings, through the publication of Decree-Law no. 109-F/2021, of 9 December 2021, which transposed, also, the Commission Delegated Directive (EU) 2021/1270, of 21 April 2021, amending Directive 2010/43/EU on the sustainability risks and sustainability factors to be taken into account for UCITS.

### 5.2. AIFMD

One major changes that the (draft) new legal regime referred to above introduces is the exemption foreseen in Article 3 (2) of the AIFMD for all Portuguese AIFMs.

The current regime does not include this exemption for investment fund management Companies (only for venture capital funds/private equity and their managers), and the amendments proposed foresee the introduction of this exemption.

### 5.3. MiFID II

The Portuguese regulator published the ESMA guidelines on its website and is compliant according to the ESMA guidelines compliance table.[1]

Portuguese investment funds are mainly sold by the depositary, which normally is part of the same group as the management company. This facilitates the relationship of obtaining/providing the information that needs to be disclosed under MiFID II. Nevertheless, EMT is commonly used by Asset Managers and Distributors. We have no knowledge of the EFT playing an important role in the Portuguese Market.

### 5.4. PRIIPs

Portuguese fund managers are currently working to have the PRIIP KID ready for the beginning of 2023.

Nevertheless, one doubt remains over a personal pension product called a 'PPR', which may be in the form of an investment fund (other possible formats are insurance contract and pension fund). Currently, PPRs are left out of the PRIIP Regulation irrespective of the format they assume, since the CMVM clarified - in December 2018 - that they fall under the exception foreseen in Article 2(2)(e) (i.e.: *"pension products which, under national law, are recognised as having the primary purpose of providing the investor with an income in retirement and which entitle the investor to certain benefits"*). However, the CMVM is considering whether PPR investment funds should have the PRIIP KID and APFIPP is advocating the maintenance of the exclusion interpretation. The final position on it is still unknown.

### 5.5. ELTIF

Until now, there has not been a significant interest from investors (retail and institutional) for ELTIFs. The major issue is not related to the features of the ELTIF, but rather with the fact that it needs scale to be able to meet the investment policy/strategy and to achieve a minimum diversification that minimises the risk. There has not been enough interest from Portuguese institutional investors to drive the demand needed for the take-up of such funds.

### 5.6. Sustainable finance

Portuguese market participants are currently doing their best to implement Level 1 SFRD, although they are at different stages in the implementation process.

The CMVM has not issued any specific guidance or other detailed information to the market, and has decided to align with ESMA guidance and to not advance with any domestic interpretation.

Market participants are struggling with the scarcity of viable and reliable data to comply with the Level 1 SFRD and with the fact that SFDR RTS will only apply from 1 January 2023.

### 5.7. Stewardship

There were no notable developments in this area during 2021.

1 https://www.esma.europa.eu/sites/default/files/library/esma70-156-4754_compliance_table_guidelines_market_data.pdf.

### 5.8. Benchmarks

There were no notable developments in this area during 2021.

### 5.9. Anti-Money Laundering Directive

In December 2021, the CMVM organised a meeting with the bodies under its supervision to discuss the implementation of AML regulations and to highlight several aspects of the package of legislative proposals presented by the European Commission on 20 July 2021.

In the meeting, the CMVM emphasised the importance and relevancy of EBA's guidelines and the need to comply with them.

### 5.10. Digital Finance

There were no notable developments in this area during 2021.

### 5.11. Other regulatory developments

A revision of the Portuguese Securities Code and Auditory Supervisory Regime was published at the end of the year, through Law no. 99-A of 31 December 2021. This revision removed investment funds from the definition of public interest entities.

Another major development was the publication of the new regime for investment firms (Decree-Law n.º 109-H/2021, of 10 December 2021).

The new regime for investment firms was simpler than the previous one, concentrating all activities that were previously performed by different companies with different objects into a single type of firm ('Empresas de Investimento' – investment company).

The new Regime also concentrated all the supervisory powers for investment firms (with some minor exceptions) on the CMVM. Until then, most of the existing investment firms were subject to double supervision by the Banco de Portugal and also by the CMVM.

The Decree-Law no. 109-H/2021, of 10 December 2021, also transposed several European Directives, namely: i) Directive (EU) 2019/2034 of the European Parliament and of the Council of 27 November 2019 on the prudential supervision of investment firms and amending Directives 2002/87/EC, 2009/65/EC, 2011/61/EU, 2013/36/EU, 2014/59/EU and 2014/65/EU; ii) Directive (EU) 2021/338 of the European Parliament and of the Council of 16 February 2021 amending Directive 2014/65/EU as regards information requirements, product governance and position limits, and Directives 2013/36/EU and (EU) 2019/878 as regards their application to investment firms, to help the recovery from the COVID-19 crisis; and iiii) Delegated Directive (EU) 2021/1269 of 21 April 2021 amending Delegated Directive (EU) 2017/593 as regards the integration of sustainability factors into the product governance obligations.

## 6. PENSIONS & PEPP

The national implementation of the PEPP regulation has been discussed in the Council of the Portuguese Financial Supervisors, and a draft bill has already been proposed to the Government. However, no details have been provided so far.

APFIPP has been asking for the definition of a favourable tax regime that help the uptake of the PEPP in Portugal, but none has been decided as yet.

## 7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

There were no notable developments in this area during 2021.

## 8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

In 2011, the Government established the National Plan for Financial Education (PNFF). This is coordinated by the three Portuguese financial supervisors and relies on the collaboration of diversified stakeholders, including national associations within the financial sector, such as APFIPP.

During the 10 years of implementation of a national strategy for financial education, extensive work has been done with the aim increasing the level of financial knowledge of the Portuguese population. It also aims to promote adoption of appropriate financial behaviours through an integrated vision of financial education projects and through the combination of the stakeholders' efforts. This will contribute to increasing the wellbeing of the population and the stability of the financial system.

Promoting financial literacy in schools has been one of the cornerstones of the performance and strategy of the National Plan for Financial Education, including the production of workbooks aimed at students of the basic and secondary education levels, with a view to support teachers and students in their learning process.

The project of publishing financial workbooks for students has been undertaken through an agreement between the financial supervisors, the Ministry of Education and four National Associations of the Financial Sector, including the APFIPP. This partnership resulted in four financial education workbooks for all phases of education, from elementary to secondary school. These were broadly distributed among schools and are also available online for free (in Portuguese and in English). The 4th Financial Education Workbook was released in 2021, targeting secondary level students.

Also in 2021, a new reference for action of the National Plan for Financial Education was adopted for the period 2021-2025, with priorities defined for achieving the goals of the next five years.

APFIPP has been partnering with different institutions and personalities in the sector to increase financial literacy and awareness for the issues of saving and investment. As stated above, the Portuguese Association has an ongoing collaboration with the National Plan for Financial Education, namely in producing financial education workbooks for students of different ages.

In 2021, for World Investor Week, the APFIPP partnered with Euronext Lisbon to promote so-called 'Invest Talks', conversations of about 20 minutes between a well-known financial journalist, Camilo Lourenço, and experts of the Portuguese financial market. These covered the areas of cybersecurity, digitalisation and financial behaviour, issues of high interest to investors and the general public. The two talks had around 500 viewers following each 'live' event, and by a week later each had had more than 19,000 views.

## 9. OTHER ACTIVITIES OF THE ASSOCIATION

**Publications (reports, newsletters, surveys, research)**

As usual, the APFIPP remains the main source of statistics on Portuguese asset and pension fund management by providing regular data on the sectors it represents, through both its website and by e-mail.

**(Tele) conferences**

Webinar "How to implement the SFDR Regulation?"

Seeking to assist APFIPP Members in the monitoring of the various dossiers in progress, in the area of sustainable finance, and also to address the doubts surrounding Regulation (EU) 2019/2088 of the

European Parliament and of the Council, of 27 November 2019, on sustainability-related disclosures in the financial services sector, APFIPP promoted a Webinar on this matter, entitled "How to implement the SFDR Regulation?". The debate proved dynamic, addressing questions such as 'Integrating ESG themes vs not integrating: Can I choose?' and 'Is it enough to comply with the Law, or is it a matter of strategic positioning?'.

**Seminars**

Besides the initiatives on the occasion of the World Investor Week, APFIPP organised a major webinar on PEPP, entitled "Pan-European Personal, Pension Product | Major challenges, Pros and Cons". This featured Gabriel Bernardino, former EIOPA chairman, and João Nuno Mendes, Secretary of State for Finance as guest speakers, alongside other stakeholders, both domestic and foreign.

On the occasion of the annual APFIPP/Jornal de Negócios Fund Awards, the APFIPP organised two discussion panels, the first on sustainable finance and the other on Investor Protection ('Investor Protection versus CMU development: have We found the right balance?'.

# ROMANIA COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

| Table 1: Net Assets by the Fund Industry in Romania (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 9.2 | 8.4 | 9.6 | 8.4 | 9.9 |
| Funds domiciled abroad and promoted by national providers | 0.6 | 0.6 | 0.7 | 0.7 | 1.0 |
| Total Net Assets | 9.8 | 9.0 | 10.3 | 9.1 | 10.9 |

| Table 2: Net Sales of Investment Funds in Romania (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 84.2 | -677.7 | 403.3 | -669.1 | 472.5 |
| Funds domiciled abroad and promoted by national providers | 47.2 | 72.6 | 15.4 | 6.2 | 183.1 |
| Total Net Sales | 131.4 | -605.1 | 418.7 | -662.9 | 655.6 |

## 2. KEY TRENDS IN THE UCITS MARKET

| Table 3: UCITS Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 0.1 | 0.1 | 0.1 | 0.2 | 0.4 |
| Bond funds | 2.4 | 1.9 | 3.3 | 2.8 | 2.7 |
| Multi-asset funds | 0.2 | 0.2 | 0.3 | 0.3 | 0.5 |
| Money market funds | | | | | |
| Guaranteed/protected funds | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 |
| Absolute Return Innovative Strategies (ARIS) funds | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 |
| Other funds | 2.0 | 1.7 | 0.8 | 0.8 | 0.9 |
| Total | 4.9 | 4.2 | 4.7 | 4.0 | 4.5 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |

| Table 4: Net Sales of UCITS by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 17.8 | 1.8 | 17.1 | 29.0 | 153.3 |
| Bond funds | -74.2 | -498.3 | 366.4 | -654.3 | 1.3 |
| Multi-asset funds | 76.9 | 22.8 | 39.1 | 33.4 | 177.6 |
| Money market funds | -0.4 | 19.9 | 0.0 | 0.0 | 0.0 |
| Guaranteed/protected funds | -11.8 | -23.9 | -21.3 | -14.4 | 0.0 |
| Absolute Return Innovative Strategies (ARIS) funds | 30.7 | -14.7 | -23.4 | -31.9 | 19.7 |
| Other funds | 16.6 | -259.9 | 32.5 | -50.8 | 108.0 |
| Total | 55.6 | -752.2 | 410.4 | -689.0 | 459.9 |
| of which ➤ ETFs | 0.3 | 0.1 | 0.5 | 0.7 | 4.7 |
| ➤ Funds of funds | | | | | |

## 3. KEY TRENDS IN THE AIF MARKET

| Table 5: AIF Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 0.0 | 3.9 | 4.6 | 4.1 | 5.0 |
| Bond funds | | | | | |
| Multi-asset funds | 0.03 | 0.03 | 0.04 | 0.03 | 0.04 |
| Money market funds | | | | | |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Real estate funds | | | | | |
| Other funds | 4.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Total | 4.3 | 4.2 | 4.9 | 4.4 | 5.3 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |
| ➤ Institutional funds | | | | | |

| Table 6: Net Sales of AIFs by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 0.0 | -1.0 | 0.0 | 0.0 | 0.0 |
| Bond funds | | | | | |
| Multi-asset funds | 10.7 | 0.2 | 3.0 | 0.1 | 4.5 |
| Money market funds | | | | | |
| Guaranteed/protected funds | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Absolute Return Innovative Strategies (ARIS) funds | 19.8 | 9.2 | -7.8 | 12.0 | -1.3 |
| Real estate funds | | | | | |
| Other funds | -2.3 | 66.1 | -2.4 | 7.8 | 9.5 |
| Total | 28.6 | 74.5 | -7.2 | 19.9 | 12.6 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |
| ➤ Institutional funds | | | | | |

## 4. TRENDS IN THE NUMBER OF FUNDS

| Table 7: Number of Funds | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS | 74 | 78 | 81 | 81 | 86 |
| Home-domiciled AIFs | 22 | 30 | 30 | 33 | 34 |
| Foreign funds registered for sales ➤ By national promoters ➤ By foreign promoters | 98 | 98 | 104 | 108 | 114 |
| Fund launches | 1 | 13 | 3 | 4 | 7 |
| Fund liquidations | 1 | 1 | 0 | 1 | 1 |
| Fund mergers & acquisitions | 1 | 0 | 3 | 3 | 1 |

## 5. REGULATORY DEVELOPMENTS

### 5.1. UCITS and AIFMD

On 16 November, the Romanian FSA adopted Regulation Nr.18/2021 on the procedure for withdrawing notification by Romanian UCITS or AIFM, or from other Member States, on the distribution of shares as well as on the procedure for notification of pre-marketing activity by fund managers of AIFs in Romania or other Member States. (Note: Given that a draft law was in the inter-institutional approval circuit, the FSA proposed to issue a transitional rule in order to transpose certain provisions of the EU Directive 2019/1160. This Regulation will be repealed upon the entry into force of the drafted law.)

On 5 April, the NORM no. 7/2021 for the application of ESMA's Guidelines on performance fees in UCITS and certain types of AIFs was adopted.

On 14 September, the FSA's Norm no. 27/2021 on the application of the ESMA Guidelines on reporting under Articles 4 and 12 of the Regulation (EU) 2015/2365 of the European Parliament, and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012 [SFTR], was adopted.

On 3 August, the FSA's Regulation no. 11/2021 for amending and supplementing the Regulation of the Financial Supervisory Authority no. 10/2015 on the alternative investment funds management was adopted.

On 13 October, the FSA's Regulation no. 14/2021 amending the FSA's Regulation no. 7/2020 on the authorisation and operation of AIFs was adopted.

On 7 October, the FSA's Norm no. 29/2021 amending Financial Supervision Authority Norm no. 13/2018, implementing ESMA's Guideline on stress test scenarios under the MMF Regulation [art. 28 of the Regulation (U.E.) no. 1131/2017], was adopted.

Another regulatory development in 2021 was the adoption of the FSA's Norm no. 31/2021 for the application of the ESMA Guidelines on Article 25 of Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010.

### 5.2. MiFID II

There were no specificities of national implementation and related developments in 2021 relating to MiFID.

The EMT (European MiFID Template) and EFT (European MiFID Feedback Template) does not currently play an major role in the overall distribution and disclosures processes in Romania, but this may change in future.

### 5.3. PRIIPs

There were no specific national efforts on the transition from the UCITS KIID to the PRIIP KID on 1 January 2023.

### 5.4. ELTIF

There are no ELTIF products in Romania, which is why we did not identify critical aspects of the recent EU Commission's proposal (November 2021) amending the ELTIF Regulation to improve the offer of such products.

### 5.5. Sustainable finance

The Bucharest Stock Exchange (BVB) has launched its first Environmental, Social and Governance (ESG) focused initiative on the Romanian capital market, which aims to provide high-level ESG insights for BVB-listed companies. The first ESG scores on the local capital market were available in February 2022, on the BVB Research Hub platform of the BVB. The scores are part of the reports prepared by Sustainalytics, one of the global leaders in the segment of ESG research and ratings and are based on the collaboration with BVB initiated in 2020. The scores are published on a voluntary basis, and eight of the companies listed on the BVB joined the project at this initial stage.

The BVB also published a *'Guide on ESG reporting for issuers'*, developed in partnership with European Bank for Reconstruction and Development (EBRD) and Steward Redqueen, the consulting company specialising in sustainability. This was promoted as a practical and coherent resource to support the values of the issuers of the BVB.

It is premature to assess how market participants in Romania in the scope of the Non-Financial Reporting Directive (NFRD) will report against Article 8 Delegated Act of the EU Taxonomy, which applies as of 1 January 2022. In addition, no national ecolabels have been implemented.

### 5.6. Stewardship

There are scarce sources of consistent information on any obstacles (or effective practices) that might be identified for the exercising of shareholders rights in Romania. Taking into account the extensive COVID-19 restrictions during 2021, we can at least highlight some initiatives to make secure and reliable online voting available for shareholders. One such example is the eVote platform, a solution offering an audiovisual stream of the General Shareholders Meeting on everyone's screen, accompanied by a real-time voting system. The solution was used by several listed companies at the BVB.

### 5.7. Benchmarks

Following the publication of the European Commission implementing Regulation EU2021/ 1847 on the designation of a statutory replacement for certain settings of CHF LIBOR, the National Bank of Romanian announced that - from 1 January 2022 - references to LIBOR CHF rates with maturities of one month, three months, six months and twelve months, contained in contracts and all financial instruments maturing after 1 January 2022, which relate to LIBOR CHF, concluded by credit institutions in Romania with all their customers, will be automatically replaced by the combined SARON rates and the corresponding margin adjustments provided for in the Commission's implementing regulation, without the need to renegotiate contracts.

### 5.8. Anti-Money Laundering Directive

On 15 September 2021, Order no. 380 - on informing the National Office for Prevention and Control of Money Laundering by the reporting entities on inconsistencies regarding the real beneficiaries - was issued.

### 5.9. Digital Finance

There were no notable developments in this area during 2021.

### 5.10. Other regulatory developments

On 10 August, the FSA's Norm no. 21/2021 for the application of ESMA's Guidelines On outsourcing to cloud service providers [ESMA 50-164-4285] was adopted. In line with this norm, the entities referred to in point I.1 of the ESMA Guidelines must review, and modify appropriately, existing cloud outsourcing commitments on critical or important functions, in accordance with the provisions of the ESMA Guide by no later than 31 December 2022.

## 6. PENSIONS & PEPP

A legal initiative was launched designating the Financial Supervisory Authority (ASF) as the competent authority responsible for ensuring compliance with the provisions of the PEPP Regulation. It exercises duties for registration, regulation, supervision, investigation and control over PEPP providers for which Romania is the home Member State, PEPP distributors carrying out PEPP distribution activities in Romania, depositories of assets for PEPP and PEPP auditors.

## 7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

There were no new rules introduced in 2021 that could have an impact on fund and/or asset management, in the following areas:

- tax rates/treatments impacting investors in investment funds, asset management companies, distributors and/or fund administrators
- withholding tax rates on dividend and interest distributed/paid
- double tax treaties
- VAT regime and practices.

## 8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

Starting with the 2020-2021 study year, financial education has become a compulsory subject for eight-grade scholars, as part of the discipline 'Social Education'. At the end of 2021, a new legislative initiative was adopted, aimed at introducing financial education in pre-university education, alongside education.to encourage entrepreneurship from an early age.

In March 2021 the Ministry of Education, the National Bank of Romania, the Ministry of Finance, the FSA and the Romanian Association of Banks launched the financial education platform www.edu-fin.ro. For the general public, the site is an interactive platform that provides practical advice for all those who want to develop their knowledge, attitude and financial behaviour. The launch of this platform represents a new stage in the process of rolling out the National Strategy for Financial Education.

In March 2021, FSA launched a new financial education programme for students – the ASF Student Club. It is dedicated to students across the country, with bi-monthly online meetings. Under this programme, young participants who are passionate about finance will be able to learn practical information and interact with professionals in the field, to create a network of connections, develop skills and improve their financial knowledge.

The AAF has continued its own investor education programme ('Economiseste inteligent!' - Smart Saving!) that aims to increase Romanians' level of information on important financial concepts (inflation, risk, return, diversification, etc.), the investment fund industry and specific products. In addition, it shows how channelling personal savings to investments can contribute to increasing financial wellbeing. In 2021, the *Smart Saving* project strategy expanded the audience mix by also including mobile news app exposure as well radio and online TV. By the end of 2021, the number of Romanians following the information transmitted within the Smart Saving project exceeded 1 million. We believe that this education initiative made an important contribution to the 30% annual increase of the number of investors in the local management industry.

## 9. OTHER ACTIVITIES OF THE ASSOCIATION

In 2021, the AAF organised its 3rd 'Summit of the asset management industry', which aims to become a regular event where the members of the association - together with partners and guests - discuss the opportunities for growth in the asset management industry and the challenges that the industry must face. This time, it was a fully online event, as COVID 19 restrictions did not permit a face-to-face event.

The association's activities and our domestic lobbying activities targeting the following areas:

- increasing investor confidence in the asset management industry
- lobbying regarding regulatory and tax issues on proposed legislative projects
- reducing the taxes and fees paid by the investment funds to the benefit of their investors
- developing financial literacy in Romania.

The AAF publishes monthly reports on the local investment fund industry, covering trends and the most relevant industry statistics.

# SLOVAKIA COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

| Table 1: Net Assets by the Fund Industry in Slovakia (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 6.6 | 6.6 | 7.4 | 7.8 | 9.4 |
| Funds domiciled abroad and promoted by national providers | 1.7 | 1.8 | 2.2 | 2.4 | 3.0 |
| Total Net Assets | 8.3 | 8.4 | 9.6 | 10.2 | 12.4 |

| Table 2: Net Sales of Investment Funds in Slovakia (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 545.5 | 220.2 | 314.8 | 274.7 | 1,147.3 |
| Funds domiciled abroad and promoted by national providers | 156.5 | 162.7 | 206.1 | 174.7 | 364.9 |
| Total Net Sales | 702.0 | 382.9 | 520.9 | 449.4 | 1,512.2 |

## 2. KEY TRENDS IN THE UCITS MARKET

| Table 3: UCITS Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 0.4 | 0.4 | 0.6 | 0.7 | 1.3 |
| Bond funds | 1.9 | 1.7 | 1.6 | 1.4 | 1.3 |
| Multi-asset funds | 2.6 | 2.8 | 3.2 | 3.6 | 4.2 |
| Money market funds | | | | | |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | | | | | |
| Total | 4.9 | 4.9 | 5.3 | 5.8 | 6.7 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |

| Table 4: Net Sales of UCITS by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | -4.6 | 42.9 | 55.3 | 54.9 | 346.3 |
| Bond funds | 11.5 | -224.0 | -163.2 | -134.4 | -145.6 |
| Multi-asset funds | 458.1 | 322.5 | 166.3 | 204.8 | 583.5 |
| Money market funds | -5.0 | -12.8 | 0.0 | 0.0 | 0.0 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | | | | | |
| Total | 460.0 | 128.6 | 58.3 | 125.4 | 784.1 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |

## 3. KEY TRENDS IN THE AIF MARKET

| Table 5: AIF Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | | | | | |
| Bond funds | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 |
| Multi-asset funds | 0.3 | 0.4 | 0.5 | 0.3 | 0.6 |
| Money market funds | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Real estate funds | 1.2 | 1.3 | 1.5 | 1.7 | 2.0 |
| Other funds | | | | | |
| Total | 1.7 | 1.7 | 2.1 | 2.0 | 2.7 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |
| ➤ Institutional funds | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 |

| Table 6: Net Sales of AIFs by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** | **2021** |
| Equity funds | 5.4 | 0.0 | 0.0 | 0.0 | 0.0 |
| Bond funds | -2.1 | -4.1 | 20.3 | 21.9 | 0.9 |
| Multi-asset funds | 36.2 | 20.4 | 87.9 | -21.4 | 89.5 |
| Money market funds | -115.3 | -45.5 | 0.0 | 0.0 | 0.0 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Real estate funds | 161.4 | 120.8 | 148.3 | 148.8 | 272.8 |
| Other funds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | 85.5 | 91.6 | 256.5 | 149.3 | 363.2 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |
| ➤ Institutional funds | 6.5 | -6.4 | 8.3 | 7.4 | 24.4 |

## 4. TRENDS IN THE NUMBER OF FUNDS

| Table 7: Number of Funds | | | | | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** | **2021** |
| Home-domiciled UCITS | 67 | 68 | 72 | 68 | 68 |
| Home-domiciled AIFs | 20 | 18 | 22 | 22 | 28 |
| Foreign funds registered for sales | | | | | |
| ➤ By national promoters | 562 | 567 | 561 | 556 | 531 |
| ➤ By foreign promoters | | | | | 177 |
| Fund launches | 7 | 3 | 9 | 4 | 213 |
| Fund liquidations | 1 | 1 | 0 | 11 | 32 |
| Fund mergers & acquisitions | 6 | 3 | 1 | 2 | 23 |

## 5. MARKET DEVELOPMENTS IN 2021

Net sales of mutual funds reached 1 EUR.5 billion, an all-time high in Slovak collective investment market. This number was three times greater than the long-term average of sales numbers. We also observed a significant increase in registered funds in the Slovak market. The total number or registered funds was 804 as of end-2021, 158 more than in 2020.

## 6. REGULATORY DEVELOPMENTS

### 6.1. UCITS

The main issue for UCITS was implementation of changes on performance fee regulation, which can lead to the removal of crossborder barriers to fund distribution. The SASS dealt also with the ESMA guideline on marketing communication in crossborder distribution. The National Bank of Slovakia (NBS), which acts as local securities market authority, published the above-mentioned regulation without creating any internal guidelines or Q&A.

### 6.2. AIFMD

There were none, apart from above-mentioned performance fee regulation which also affects AIFs.

### 6.3. MiFID II

There were no additional initiatives from the National Bank of Slovakia (NBS) side on quality enhancement. The Q&A from 2019 was the last guideline for this topic.

The NBS has mapped questionnaires focused on the creation and distribution of products and the application of MiFID II rules for product government, but the SASS has no further information.

AMCs use EMT in communication with the distributors of their products; EFT is used in lesser extent.

### 6.4. PRIIPs

The SASS, in line with the EFAMA position, communicated to NBS all relevant arguments for postponing the transition from the UCITS KIID to the PRIIP KID on 1 January 2023. The NBS adopted this position and presented it to ESMA.

### 6.5. ELTIF

The SASS does not see any interest in this product. According to our information, no ELTIFs are registered in Slovakia.

### 6.6. Sustainable finance

SFDR was implemented by asset managers in March 2021. The fact that regulatory technical standards for SFDR were missing caused interpretation problems.

The SASS expects that there are still many companies operating outside the financial market who are unaware of these obligations. Companies who are aware will likely hire advisors to help them fulfil mentioned obligations.

There are no specific national ecolabels, only the European Ecolabels are used is Slovakia.

### 6.7. Stewardship

Slovak asset managers predominantly invest in foreign companies. Due to this, their share of companies' equity is often negligible. Thus they only occasionally use the voting rights.

### 6.8. Benchmarks

Slovak funds are normally actively managed on an absolute return principle without any benchmark, so the benchmark regulation was not a major issue for them. On the other hand, they have had to prepare themselves for IBOR transition for valuation reasons.

### 6.9. Anti-Money Laundering Directive

The 5th AML Directive was implemented in November 2020, along with the related implementations, including:

- politically exposed persons
- identification verification
- due diligence
- unusual transactions.

There were no real challenges for local AMCs in this regulation.

## 7. PENSIONS & PEPP

Slovakia implemented new PEPP legislation into the separate act.

The state of play as regards the national implementation of the PEPP, in particular the following points:

- Preparation and adoption of legislative bills
- The Ministry of Labour, Social Affairs and Family of the Slovak Republic was responsible for PEPP implementation, using a separate act.
- Designation of national competent authorities to regulate PEPP;
- The National Bank of Slovakia
- Tax incentives for the PEPP.
- There is an annual tax-deductible allowance of EUR 180 per client for having a PEPP in place.

## 8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

There has been no change or no new tax rules in Slovakia. The main legislative effort of the SASS is focused on achieving a level playing field for the taxation of comparable investment products. There is a tax exemption on all publicly traded securities held for more than one year, with the exception of mutual funds. This exemption is valid even for ETFs, but not for ordinary mutual funds. The SASS put a lot of effort into trying to remove this discrepancy.

## 9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

The SASS participates in '5money' an educational project under the aegis of the NBS. The project was created in 2021 with the aim of helping people in Slovakia better understand the world of money. 5money is a project that embraces multiples initiatives, such as an online platform and the organisation of activities in schools that provide financial education content to a wide audience. This ranges from children in elementary schools to adults of working age who need to learn how to manage their money or family finances, how to build savings for rainy days and how to save and invest.

## 10. OTHER ACTIVITIES OF THE ASSOCIATION

The SASS publishes weekly and monthly reports on the development in the Slovak collective investment industry. The reports are available on the SASS webpage.

The SASS usually organises two large conferences; one in spring and one in autumn. The spring 2021 conference, entitled "Next steps in Asset management", was cancelled due to pandemic situation. The SASS was able to organise an 'in person' version of its flagship conference "Collective investment in Slovakia" in autumn 2021. There was also a live stream from conference on internet, as well. The SASS also declares the best fund in several categories in the annual "Top Fund Slovakia" competition. The 2020 edition was organised in February 2021 in a virtual format from the studio of the daily Slovak economic newspaper.

# SLOVENIA COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

| Table 1: Net Assets by the Fund Industry in Slovenia (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 2.7 | 2.6 | 3.1 | 3.4 | 4.7 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Assets | 2.7 | 2.6 | 3.1 | 3.4 | 4.7 |

| Table 2: Net Sales of Investment Funds in Slovenia (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 33 | -9 | 83 | 148 | 460 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Sales | 33 | -9 | 83 | 148 | 460 |

## 2. KEY TRENDS IN THE UCITS MARKET

| Table 3: UCITS Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 1.6 | 1.5 | 1.9 | 2.1 | 2.9 |
| Bond funds | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 |
| Multi-asset funds | 0.8 | 0.7 | 0.9 | 0.8 | 1.1 |
| Money market funds | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | 0.001 | 0.001 | 0.001 | 0.001 | 0.002 |
| Total | 2.7 | 2.5 | 3.0 | 3.2 | 4.3 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |

| Table 4: Net Sales of UCITS by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 13.5 | -42.6 | -0.1 | 97.9 | 285.9 |
| Bond funds | 9.4 | -8.7 | 53.5 | 22.0 | 27.3 |
| Multi-asset funds | 54.5 | 17.0 | 38.5 | 13.1 | 161.9 |
| Money market funds | -44.4 | 24.9 | -9.5 | 15.0 | -15.6 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | 0.5 | 0.1 | 0.2 | 0.3 | 0.7 |
| Total | 33.5 | -9.3 | 82.6 | 148.4 | 460.1 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | -1.1 | 0.9 | 5.4 | -7.3 | 0.4 |

## 3. KEY TRENDS IN THE AIF MARKET

| Table 5: AIF Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | | | | | |
| Bond funds | | | | | |
| Multi-asset funds | | | | | |
| Money market funds | | | | | |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Real estate funds | 0.0 | 0.03 | 0.03 | 0.05 | 0.1 |
| Other funds | 0.0 | 0.1 | 0.1 | 0.1 | 0.3 |
| Total | 0.0 | 0.1 | 0.1 | 0.2 | 0.3 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |
| ➤ Institutional funds | 0.0 | 0.1 | 0.1 | 0.2 | 0.3 |

## 4. TRENDS IN THE NUMBER OF FUNDS

| Table 6: Number of Funds | | | | | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** | **2021** |
| Home-domiciled UCITS | 100 | 100 | 100 | 82 | 79 |
| Home-domiciled AIFs | 14 | 15 | 34 | 47 | 60 |
| Foreign funds registered for sales | 176 | 168 | 229 | 257 | 312 |
| ➤ By national promoters | 103 | 96 | 124 | 111 | 120 |
| ➤ By foreign promoters | 73 | 72 | 105 | 146 | 192 |
| Fund launches | 3 | 2 | 0 | 3 | 0 |
| Fund liquidations | 0 | 1 | 0 | 2 | 0 |
| Fund mergers & acquisitions | 8 | 1 | 0 | 19 | 3 |

## 5. REGULATORY DEVELOPMENTS

### 5.1. UCITS

The Act Amending the Investment Funds and Management Companies Act (ZISDU-3D) was adopted on 21 October 2021. The amending Act has implemented the amendments to the UCITS Directive in the area of cross-border funds distribution. It has also abolished the provisions on advertising of UCITS funds in national legislation, due to the direct regulation of the subject matter in the EMSA Guidelines. The Securities Market Agency (NCA), has carried out an overview of costs to investors and fees of UCITS funds. The ESMA's interpretation on undue costs will be implemented in the NCA's by-laws in 2022.

### 5.2 AIFMD

The Act Amending the Alternative Investment Fund Managers Act (ZUAIS-B) was adopted on 21 October 2021. The amending Act has brought changes to conditions with regard to marketing, the conditions for notifying procedures to the competent authorities and the minimum capital requirements (the alignment with the Act on the Prudential Supervision of Investment Firms). The ZUAIS-B transposed the Directive (EU) 2011/61 into the Slovenian law.

### 5.3. MiFID II

The Act Amending the Market in Financial Instruments Act (ZTFI-1B) was adopted on 11 August 2021. The amending Acts have implemented the following EU Directives, specifically: Directive 2019/2034, Directive 2019/2177/EU, Directive 2020/1504 and Directive 2021/338. Together with the Act on the Prudential Supervision of Investment Firms, a new prudential regime has been established for risk management, reporting and disclosure as well as for remuneration rules for investment firms.

In accordance with the Decision by the NCA, the ESMA Guidelines on MiFID II/MIFIR market data obligations are binding in Slovenia as of 1 January 2022.

EMT (European MiFID Template) and EFT (European MiFID Feedback Template) do not play an important role at the moment.

### 5.4. PRIIPs

The relevant European regulations are being monitored and the groundwork is being prepared for a timely harmonisation of the Key Investor Information Documents (KIID).

### 5.5. ELTIF

No ELTIF regulation was adopted in 2021. There are no European long-term investment funds (ELTIFs) in Slovenia as yet.

### 5.6. Sustainable finance

Slovenian management companies try to comply with as many of the SFRD requirements as possible; most Slovenian funds are defined and apply Article 8 of the Regulation. We believe that the SFRD provisions are not sufficiently clear, and we are awaiting the upgrading of the legislation as well as the conclusions by the NCA on a more precise definition of ESG funds, taxonomy and the corporate sustainability reporting - CSRD.

We do not yet have the guidance and decisions on how to report on, and the indicators to be taken into account, for the NFRD.

Slovenia does not yet have a national Ecolabel. To the best of our knowledge, there is no national Ecolabel being developed, so there is an interest in adopting the EU Ecolabel.

### 5.7. Stewardship

There were no significant changes made in this area in 2021. We have not identified any examples of poor practice of the exercising of shareholder rights.

### 5.8. Benchmarks

There were no significant changes made in this area in 2021.

### 5.9. Anti-Money Laundering Directive

There were no amendments to the legislation made in this area in 2021. However, the Act Amending the Prevention of Money Laundering and Terrorist Financing Act is included in the legislative procedure of March 2022 with the aim of being adopted. The amending Act will implement the provisions of Directive (EU) 2019/1153, Directive (EU) 2019/2177. More specifically, the implementation of the Regulation (EU) 2018/1672 will introduce improvements in the functioning of the system for the prevention of money laundering.

### 5.10. Digital Finance

No legislation or regulation has been adopted in the field of MiCA or DLT regulation in Slovenia.

No legislation has been adopted at a national legislative level to manage the risks arising from the use of digital technologies.

### 5.11. Other regulatory developments

The new Act on the Prudential Supervision of Investment Firms (ZBNIP) was adopted on 11 August 2021, establishing a new prudential regime for risk management, reporting and disclosure as well as for remuneration rules for investment firms. ZBNIP is aligned with the Regulation (EU) 2019/2033.

In January 2021, the Act Amending the Companies Act (ZGD-1K) was adopted, which transposed Directive (EU) 2017/828 into Slovenian law and aligned the aforementioned Act with the Commission Implementing Regulation (EU) 2018/1212.

## 6. PENSIONS & PEPP

No changes to legislation were made in this area in 2021, and nothing has been implemented in this regard.

## 7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

In 2021, there were no changes to legislation in the area of taxation that affected the operation of mutual funds and management companies.

## 8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

There have been no changes to the curriculum and/or curricula at the national and public education level. Initiatives for financial literacy have come mainly from the economic sector.

Financial literacy was set as one of the Slovenian Investment Fund Association's objectives for 2021. We launched several relevant activities, notably in the following areas: regular posts on the LinkedIn profile, organising free webinars, networking with other financial institutions and participating in their seminars, trainings. We also linked up with schools, the Youth Office and entrepreneurial networks in order to extend the address book, spreading the word and reaching out to more participants at our events and on our social networking sites.

## 9. OTHER ACTIVITIES OF THE ASSOCIATION

In 2021, the Slovenian Investment Fund Association organised and co-organised the following seminars and meetings:

- February webinar: How to ensure the Satisfaction of Obligations under the Act Amending the Companies Act (ZGD-1K)
- January and October 2021: Regulatory Innovations in the Capital Market
- November: ESG - Moving towards a Sustainable Economy
- November: New Developments with Respect of Prevention of Money Laundering and Terrorist Financing
- December: Round table on Efficient Savings for Old Age

Our members also participated in numerous trainings, seminars of similar financial institutions and organisations such as: the Bank Association, Moje Finance newspaper, Ljubljana Stock Exchange.

In April, during the Mutual Funds Week, a meeting with journalists was organised, discussing the topic of the mutual funds industry and management companies.

In December, the EFAMA brochure 'Investing for a better future' was translated and printed for distribution to all our members' subscription points and beyond.

In October, the Slovenian Investment Fund Association's profile on LinkedIn was created; at least two posts a week are published.


Governance, risk
and compliance
is a complex field.
Navigating it needn't be.
Drawing on over 20 years experience, we have the expertise and technology to build the investment structures you require.
We have the resources to support them. We have the capabilities to protect them. And we can do so in every region in the world. In fact, we're currently supporting asset managers with over US$1Tn in AUM.
At Waystone, our aim is to provide you with the certainty you need. Because it's only with certainty that you and your clients can achieve success now, and in the future.
waystone.com
waystone

# SPAIN COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

**Table 1: Net Assets by the Fund Industry in Spain (EUR billion)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Home-domiciled UCITS & AIFs | 295.3 | 286.2 | 306.3 | 302.3 | 347.1 |
| Funds domiciled abroad and promoted by national providers | 5.5 | 6.5 | 9 | 12 | 22 |
| Foreign-domiciled funds promoted by foreign providers | 168 | 168 | 195 | 220 | 272 |
| Total Net Assets | 468.8 | 460.7 | 510.3 | 534.3 | 641.1 |

**Table 2: Net Sales of Investment Funds in Spain (EUR million)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Home-domiciled UCITS & AIFs | 21,222 | 8,113 | 1,773 | 1,105 | 25,726 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Sales | 21,222 | 8,113 | 1,773 | 1,105 | 25,726 |

## 2. KEY TRENDS IN THE UCITS MARKET

**Table 3: UCITS Assets by Fund Type (EUR billion)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Equity funds | 66.2 | 72.8 | 81.5 | 79.9 | 124.6 |
| Bond funds | 61.7 | 58.9 | 72.9 | 73.1 | 79.9 |
| Multi-asset funds | 73.9 | 70.2 | 75.8 | 81.2 | 87.1 |
| Money market funds | 7.1 | 6.8 | 3.8 | 4.6 | 4.5 |
| Guaranteed/protected funds | 0.0 | 0.1 | 0.4 | 0.3 | 0.3 |
| Absolute Return Innovative Strategies (ARIS) funds | 16.5 | 14.0 | 11.5 | 7.7 | 7.6 |
| Other funds | | | | | |
| Total | 225.4 | 222.8 | 245.8 | 246.8 | 304.0 |
| of which ➤ ETFs | 0.4 | 0.3 | 0.2 | 0.2 | 0.3 |
| ➤ Funds of funds | | | | | |

| Table 4: Net Sales of UCITS by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 17,245 | 13,900 | -1,278 | -549 | 8,539 |
| Bond funds | -1,802 | -2,462 | 9,077 | 4,019 | 7,006 |
| Multi-asset funds | 7,938 | 1,262 | 763 | 166 | 10,828 |
| Money market funds | -2,446 | -348 | -774 | 800 | -89 |
| Guaranteed/protected funds | -127 | 97 | 194 | -8 | -18 |
| Absolute Return Innovative Strategies (ARIS) funds | 3,602 | -2,102 | -2,525 | -1,457 | 2,199 |
| Other funds | | | | | |
| Total | 24,410 | 10,347 | 5,457 | 2,971 | 28,465 |
| of which ➤ ETFs | -28 | -24 | -102 | 40 | 0 |
| ➤ Funds of funds | | | | | |

## 3. KEY TRENDS IN THE AIF MARKET

| Table 5: AIF Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 7.9 | 7.5 | 6.9 | 6.4 | 0.8 |
| Bond funds | 16.1 | 13.0 | 10.4 | 8.7 | 8.6 |
| Multi-asset funds | 23.3 | 21.1 | 22.7 | 22.3 | 20.0 |
| Money market funds | | | | | |
| Guaranteed/protected funds | 19.7 | 18.9 | 17.4 | 15.1 | 10.2 |
| Absolute Return Innovative Strategies (ARIS) funds | 0.5 | 0.4 | 0.3 | 0.2 | 0.0 |
| Real estate funds | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 |
| Other funds | 2.0 | 2.2 | 2.6 | 2.5 | 3.1 |
| Total | 69.8 | 63.4 | 60.5 | 55.4 | 43.1 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |
| ➤ Institutional funds | | | | | |

| Table 6: Net Sales of AIFs by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 1,891 | 256 | -964 | -163 | 465 |
| Bond funds | -4,185 | -2,588 | -2,075 | -652 | -378 |
| Multi-asset funds | -92 | -58 | 513 | 319 | 110 |
| Money market funds | | | | | |
| Guaranteed/protected funds | -1,293 | 166 | -1,199 | -1,198 | -3,330 |
| Absolute Return Innovative Strategies (ARIS) funds | 184 | -89 | -102 | -62 | -13 |
| Real estate funds | | | | | |
| Other funds | 307 | 79 | 143 | -110 | 407 |
| Total | -3,188 | -2,234 | -3,684 | -1,866 | -2,739 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | | | | | |
| ➤ Institutional funds | | | | | |

## 4. TRENDS IN THE NUMBER OF FUNDS

| Table 7: Number of Funds | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS | 1,737 | 2,038 | 2,175 | 2,245 | 2,459 |
| Home-domiciled AIFs | 672 | 631 | 569 | 520 | 409 |
| Foreign funds registered for sales | 1,013 | 1,024 | 1,033 | 1,048 | 1,072 |
| ➤ By national promoters | | | | | |
| ➤ By foreign promoters | | | | | |
| Fund launches | | | | | |
| Fund liquidations | | | | | |
| Fund mergers & acquisitions | | | | | |

## 5. MARKET DEVELOPMENTS IN 2021

In 2021, assets under management in the collective investment industry increased an remarkable 20% to an all-time high of EUR 641.1 billion, due to both excellent market returns and notable net inflows. Since November 2020, the performances of the financial markets, particularly the stocks markets, have provide outstanding returns. The year could be remembered as one of recovery following the market turmoil caused by the COVID-19 pandemic; however, the end of the year has been characterised by the inflationary pressures in the bond markets causing some volatility in the stocks markets. As happened in 2020, the behaviour of the unit holders was a key factor reaching the second high of the last twenty-three years in net inflows.

The main increase in the total AuM was due to foreign-domiciled funds that increased by EUR 52 billion, but domestic funds also provided a significant increase of around EUR 45 billion.

At the end of 2021, domestic UCITS and AIF assets under management reached EUR 347.1 billion, representing a significant increase of 14.8% (EUR 44.8 million greater than in 2020). Just like last year, the UCITS market continued to increase. There was consistent growth during the period 2017 – 2021, with the exception of 2018. The behaviour of the AIF market is the opposite, continuing to decrease to 43.1 EUR billion (EUR 12.3 billion less than 2020).

During 2021, unitholders changed their behaviour due to the recovery of the economy following the COVID-19 shock, investing in more risky options. As an example of this behaviour, equity funds recorded net inflows of up to

EUR 9.0 billion, following two years of recording outflows in both UCITS and AIF funds, while money market funds recorded outflows (89 EUR million). Net assets for equity funds have grown by EUR 51.3 Billion since 2017, of which EUR 39 billion (76%) belongs to 2021 growth. Also noteworthy is that multi-asset funds recorded inflows around EUR 11 billion, a new high for 2017- 2021.

The investment volume of foreign-domiciled funds marketed in Spain reached 272 EUR billion, 52 EUR billion higher than 2020 (23.6%).

Domestic funds experienced net sales of EUR 25.7 billion, meaning strong confidence in the financial markets among investors in times of high volatility. As explained, in 2021, assets with equity exposure ended the year with excellent returns.

## 6. REGULATORY DEVELOPMENTS

### 6.1. UCITS

On ESMA's Guidelines on performance fees in UCITS and certain types of AIFs, the Spanish National Securities Market Commission has informed ESMA that it intends to comply with the Guidelines. The exception would be in relation to the reference period in paragraphs 40 and 41 of guideline 4, as national legislation establishes different period and system. Spanish legislation (art. 5 of the Collective Investment Schemes' Regulation) establishes a static period of three years for the high-water mark model. The CNMV will promote the amendment of the national regulatory framework to achieve overall compliance, which, for new, is still pending.

Law 5/2021, 12 April, modifying the Spanish Corporation Law (LSC) and other financial rules on shareholders rights (SRD II), amended the LSC to match companies traded in a Multilateral Trading Facilities to the legal regime of listed companies. This amendment had the consequence of a new maximum limit of share capital (below 10% of subscribed capital) being applied to SICAV (UCITS).

### 6.2. AIFMD

As for UCITS, had the consequence of a new maximum limit of share capital (below 10% of subscribed capital) being applied to SICAV (AIF).

### 6.3. MiFID II

The CNMV has adopted a new criterion for the application of MIFID II when marketing units of Collective Investment Schemes (CIS) by Management Companies. This applies to the marketing activities carried out by ManCos, both when marketing their own vehicles or third parties' funds. Therefore, in Spain, the same obligations will apply for distributors/intermediaries and Management companies whenever they market collective investment schemes.

The CNMV has published a draft of technical guidelines on the appropriateness test.

The CNMV's general policy is to comply with ESMA guidelines.

Currently, the use of the EMT (European MiFID Template) and EFT (European MiFID Feedback Template) by the industry is still limited.

### 6.4. PRIIPs

The CNMV will not facilitate an application to transform the current UCITS KID to the one required by PRIIPs or to extract it from the prospectus. Also, the CNMV has no plans to prepare a PRIIPS KID template.

The CNMV will also align the practice of the Spanish market with that of most supervisors in the EU, by removing the obligation to verify, ex-ante, the PRIIPS KID (without prejudice to the preservation of a public register of such documents).

### 6.5. ELTIF

We advocate removing article 13.3) "The aggregate value of units or shares of ELTIFs, EuvECAs, EuSEFs, UCITS and of EU AIFs managed by EU AIFM in an ELTIF portfolio shall not exceed 40% of the value of the capital of the ELTIF", since it does not allow CIS to carry out fund-of-funds strategies.

### 6.6. Sustainable finance

The CNMV has been active in facilitating financial market participants in adapting to and navigating the SFDR.

Indeed, on 1 June, it published a Q&A document on the sustainability regulations applicable to financial products: SFDR and Taxonomy Regulation. This document includes interpretative criteria to comply with the information obligations that - by virtue of the SFDR - apply from 10 March 2021.

As far as we know, there are no Spanish Management Companies subject to this requirement, therefore, we do not know how other Spanish FMP will comply with this obligation.

No Spanish ecolabels have yet been developed.

### 6.7. Stewardship

The publication in the Spanish Official Gazette of Law 5/2021 on 12 April, modifying the Spanish Corporation Law and other financial rules on shareholders rights, completes the transposition of SRD II to domestic legislation. However, while engagement policies obligations are already in place, the publication of the annual report for the 2022 period for Management Companies will not be due until 2023.

The CNMV will promote the publication of a Spanish Stewardship Code. For this purpose, it has put together a committee of experts - of which INVERCO is a member - in order to gather feedback prior to the future public consultation.

### 6.8. Benchmarks

The CNMV's recommendations for LIBOR are that entities exposed to this index should assess adopting contingency measures to adequately manage the transition before its expected disappearance at the end of 2021.

EONIA-€STR transition: Collateral agreements. Given the limited progress in the transition process from EONIA to €STR on existing collateral agreements, the CNMV highlighted the importance of entities exposed to the EONIA adopting the required contingency measures to accelerate the modification of collateral agreements. This will help guarantee that the transition process is completed before January 3, 2022 (cessation of publication of the EONIA index).

### 6.9. Anti-Money Laundering Directive

The V Directive was transposed in 2021 with the Royal Decree 7/2021, of 27 April, which transposed several EU Directives into Spanish legislation. The Register on beneficial ownership is still pending regulation.

### 6.10. Digital Finance

In December, the Bank of Spain published the TIBER-ES implementation guide, thus completing the national adoption of the advanced cybersecurity testing framework published by the ECB (TIBER-EU). The fundamental objective of TIBER-ES is to strengthen the overall cyber-resilience of the Spanish financial sector.

### 6.11. Other regulatory developments

CNMV Q&As on Brexit.

- UK ManCos with a 'European passport': There is a transitional period, to 30 June 2021, for all entities authorised to provide services in Spain under the contractually stipulated terms to undertake all activities needed to carry out the orderly termination or assignment of the contracts signed before 1 January 2021.

- CNMV must, ex officio, deregister UCITS domiciled in the UK, as well as AIFs domiciled or with a Manager in the UK that are marketed in Spain, as of December 31, 2020, if they had not regularised their situation.

- UK domiciled Management Companies that intend to undertake portfolio management or provide any other investment services permitted by the current regulations in Spain, will be subject to the third county's legal regime.

- OTC:
  - During the transitional period, entities may continue to enter into OTC derivatives transactions with counterparties with whom they had pre-existing transactions or contracts.
  - In any case, during the transitional period and after its completion, those operations that are at the initiative of the Spanish party will not require that the counterparty based in the UK have a license in the EU.

Law 7/2021, 20 May, on climate change and energy transition

This introduces the obligation for listed companies, insurers, banks and other companies over a certain size to prepare an annual report where they evaluate the financial impact on society stemming from the risks associated to climate change. This includes the risks of the transition towards a sustainable economy and the measures adopted to deal with said risks.

In addition, the Bank of Spain, the CNMV and the Spanish Pension Supervisor (DGSFP) will jointly provide a report every two years on the degree of alignment with the climate goals of the Paris Agreement and the EU regulations. This will be based on future scenarios and on the evaluation of the risk for the Spanish financial system derived from climate change and the policies to fight against it.

## 7. PENSIONS & PEPP

So far, there has not been any developments, except for a new reduction to the limits of tax deductions for personal pension plans.

There is a legislative proposal for the PEPP to have the same tax regime as other equivalent national pension products.

## 8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

A Q&A was published on the application of the Spanish Financial Transactions Tax (Law 5/2020): This confirmed that the Management Companies of CIS (SGIIC) are not ITF taxpayers.
The domestic requirements applicable to SICAVs in order to apply the 1% tax rate in the Companies Tax have been reinforced. To the requirement of a minimum of 100 shareholders, a further new requirement has been added, of EUR 2500 of NAV at acquisition date for each shareholder in order to be able to apply the 1% tax rate. This requirement only applies to Spanish domiciled SICAVs. A transitional regime has been granted to SICAVs liquidated during 2022 as well as to their shareholders.

On VAT, a consultation has been issued by the Spanish Tax Administration establishing a restrictive approach to the application of the VAT exemption to the case of segregated delegation of tasks which are part of the administration of Funds (Investment Funds and Pension Funds).

## 9. FINANCIAL & INVESTOR EDUCATION INITIATIVES

On financial education, Inverco has contributed through:

- The 'INVERCO Observatory' (http://www.observatorioinverco.com/), which spreads knowledge and explains the characteristics and advantages of investments funds and pension plans. The Observatory undertook the following activities during 2020-2021:
  - The first survey of asset managers on sustainability strategy, entitled 'Perception of Asset Managers in relation to different aspect of the application of the new Regulation, analysing how they are incorporating ESG strategies in their portfolios'.
  - A survey on the perception of asset managers on a range of issues: prospects for 2021, situation of the industry after the pandemic, creation of new products, financial education and the profile of unitholders.
  - A report on the Spanish saver profile (2021 edition).
  - A report on assets invested in CIS per Spanish region.
  - Articles in press, interviews, etc...
  - Educational sessions with the financial specialised media
- The second edition of 'Rumbo a tus sueños' ('Towards your dreams'): A finance training programme for young students where volunteers from asset management companies explain the relevance of setting clear objectives and of saving and investing properly to achieve them. The goal of this initiative is to explain different basic financial concepts to vocational students who are not studying finance as part of their curriculum.
  - Pill videos and infographics on financial concepts: Seven short videos with infographics summing up the content of the videos. The red thread between these videos was 'Ideas that help you save money'. The target audience is average people without any type of investment knowledge. The videos are available at the following link: https://www.queelahorroteacompane.es/category/educacion-financiera/
- The third report on financial education initiatives carried out by asset managers: The aim of the report is to gather the main initiatives in financial education and show their relevance to society as a whole. The final report can be found at the following link: https://www.inverco.es/40/0/153
- EFAMA Leaflet on savings and investing: This was translated into Spanish language and distributed among our associates and media. The target audience of is the millennials generation who are in their first steps of investing.

## 10. OTHER ACTIVITIES OF THE ASSOCIATION

**Publications (reports, newsletters, surveys, research)**

- 19 November – Newsletter Noviembre 2021
- 27 July - Newsletter Julio 2021
- 13 May - Newsletter Mayo 2021
- 2 February - Newsletter Febrero 2021

Link to newsletters: https://www.inverco.es/archivosdb/register.pdf

**Seminars**

- **Webinar: 'Shareholders Rights Directive 2, Obligations for Asset Managers'**
- **Webinar: 'SFDR and its Implementation as of March 2021'**

These webinars can be found at the following link: https://www.inverco.es/93/0/0

# SWEDEN COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

**Table 1a: Net Assets by the Fund Industry in Sweden (EUR billion)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Home-domiciled UCITS & AIFs | 335.4 | 333.0 | 421.2 | 479.9 | 610.4 |
| Funds domiciled abroad and promoted by national providers | 65.7 | 47.7 | 53.2 | 52.9 | 54.1 |
| Total Net Assets | 401.1 | 380.7 | 474.4 | 532.8 | 664.5 |

**Table 1b: Total Assets by Fund Type in Sweden (domiciled home and abroad) (EUR billion)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Equity funds | 235 | 217 | 289 | 335 | 439 |
| Bond funds | 40 | 39 | 70 | 77 | 81 |
| Multi-asset funds | 100 | 94 | 110 | 116 | 166 |
| Money market funds | 21 | 25 | | | |
| Other funds | 6 | 6 | 5 | 5 | 5 |
| Total | 401 | 381 | 475 | 533 | 692 |
| of which > ETFs | 3 | 3 | 4 | 4 | 5 |

**Table 2a: Net Sales of Investment Funds in Sweden (EUR million)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Home-domiciled UCITS & AIFs | 11,046.5 | 7,385.5 | 14,078.5 | 6,595.3 | 20,342.5 |
| Funds domiciled abroad and promoted by national providers | 1,297.0 | -1,237.0 | -2,738.8 | -1,082.3 | -1,498.4 |
| Total Net Sales | 12,343.5 | 6,148.5 | 11,339.7 | 5,513.0 | 18,844.1 |

**Table 2b: Total Net Sales by Fund Type in Sweden (domiciled home and abroad) (EUR million)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Equity funds | 6,415.0 | -358.0 | 5,251.0 | 5,308.0 | 8,233.0 |
| Bond funds | 3,106.0 | 1,278.0 | 5,459.0 | 2,202.0 | 6,193.0 |
| Multi-asset funds | 2,714.0 | 2,502.0 | 1,216.0 | -1,276.0 | 4,091.0 |
| Money market funds | -381.0 | 2,398.0 | | | |
| Other funds | 490.0 | 328.0 | -585.0 | -721.0 | 327.0 |
| Total | 12,344.0 | 6,148.0 | 11,341.0 | 5,513.0 | 18,844.0 |

## 2. KEY TRENDS IN THE UCITS MARKET

| Table 3: UCITS Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 201.5 | 192.9 | 260.2 | 306.7 | 404.0 |
| Bond funds | 27.1 | 31.3 | 55.7 | 60.8 | 67.0 |
| Multi-asset funds | 67.1 | 68.3 | 82.2 | 87.7 | 108.5 |
| Money market funds | 16.5 | 20.2 | 0.0 | 0.0 | 0.0 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | 0.3 | 0.2 | 0.1 | 0.1 | 0.1 |
| Other funds | | | | | 0.1 |
| Total | 312.5 | 312.9 | 398.4 | 455.3 | 579.8 |
| of which ➤ ETFs | 2.9 | 2.8 | 4.0 | 3.8 | 4.7 |
| ➤ Funds of funds | 29.9 | 34.6 | 42.5 | 45.4 | 58.1 |

| Table 4: Net Sales of UCITS by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 5,388.4 | 885.1 | 6,563.7 | 5,662.2 | 8,319.5 |
| Bond funds | 2,702.0 | 1,706.9 | 5,285.4 | 3,087.7 | 7,438.2 |
| Multi-asset funds | 2,018.0 | 1,346.2 | 2,641.7 | -1,077.8 | 2,711.7 |
| Money market funds | -168.8 | 3,084.3 | 0.0 | 0.0 | 0.0 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | -77.2 | -117.3 | -17.2 | -41.2 | -0.2 |
| Other funds | 0.0 | 0.0 | -0.6 | 1.0 | 8.2 |
| Total | 9,862.5 | 6,905.4 | 14,473.0 | 7,632.0 | 18,477.5 |
| of which ➤ ETFs | 95.2 | 142.0 | 533.0 | -407.7 | -155.5 |
| ➤ Funds of funds | 2,462.7 | 2,275.6 | 3,268.2 | 253.2 | 3,449.0 |

## 3. KEY TRENDS IN THE AIF MARKET

**Table 5: AIF Assets by Fund Type (EUR billion)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Equity funds | 8.3 | 6.2 | 7.7 | 10.0 | 13.7 |
| Bond funds | 1.5 | 1.2 | 1.7 | 1.6 | 1.5 |
| Multi-asset funds | 8.6 | 7.7 | 9.0 | 10.5 | 12.6 |
| Money market funds | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | 1.3 | 1.4 | 1.4 | 1.0 | 0.9 |
| Real estate funds | | | | | |
| Other funds | 3.1 | 3.5 | 3.1 | 1.4 | 1.8 |
| Total | 22.9 | 20.2 | 22.8 | 24.6 | 30.6 |
| of which ➤ ETFs | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| ➤ Funds of funds | 8.7 | 6.5 | 11.4 | 12.1 | 14.1 |
| ➤ Institutional funds | | | | | |

**Table 6: Net Sales of AIFs by Fund Type (EUR million)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Equity funds | 558.8 | 15.4 | -185.6 | 525.1 | 930.4 |
| Bond funds | -30.9 | -221.9 | 346.9 | -133.6 | -44.5 |
| Multi-asset funds | -34.0 | -12.6 | 239.0 | -103.1 | 686.4 |
| Money market funds | -46.2 | -13.5 | 0.0 | 0.0 | 0.0 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | 65.7 | 46.9 | -300.3 | -401.0 | -81.1 |
| Real estate funds | | | | | |
| Other funds | 670.7 | 665.7 | -494.6 | -924.1 | 373.9 |
| Total | 1,184.0 | 480.1 | -394.6 | -1,036.7 | 1,865.1 |
| of which ➤ ETFs | -13.5 | -20.2 | 16.5 | 55.1 | 14.2 |
| ➤ Funds of funds | 206.4 | 79.6 | 3.6 | -330.9 | 100.9 |
| ➤ Institutional funds | | | | | |

## 4. TRENDS IN THE NUMBER OF FUNDS

**Table 7: Number of Funds**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Home-domiciled UCITS | 525 | 539 | 537 | 545 | 559 |
| Home-domiciled AIFs | 100 | 92 | 98 | 94 | 107 |
| Foreign funds registered for sales | 9,131 | 9,436 | 9,621 | 9,575 | 11,819 |
| ➤ By national promoters | | | | | |
| ➤ By foreign promoters | | | | | |
| Fund launches | | | | | |
| Fund liquidations | | | | | |
| Fund mergers & acquisitions | | | | | |

## 5. REGULATORY DEVELOPMENTS

### 5.1. UCITS

The Swedish Investment Fund Association (SIFA) has in a written submission to the Swedish Financial Supervisory Authority (FSA) proposed that swing pricing should be allowed. The FSA has subsequently declared that they will allow price adjustment through swing pricing. The FSA has also submitted a report to the Ministry of Finance asking for legislation on other liquidity management tools.

In Sweden, there are no exemptions from the remuneration rules for smaller sums of remuneration. The SIFA has submitted a request to the FSA asking for a change of the fund regulation, not least in light of the EUR 50,000 exemption introduced for credit institutions and investment firms. The FSA has declared that they agree that such exemptions should be introduced for fund management companies, but that they are prevented from do so due to the UCITS Directive.

The implementation of the Directive on cross-border distribution of collective investment undertakings has been delayed in Sweden. The new legislation should have been in place on 2 August 2021. but will be implemented on 1 March 2022.

### 5.2. AIFMD

The SIFA has in a written submission to the FSA proposed that swing pricing should be allowed. The FSA has thereafter declared that they will allow price adjustment through swing pricing. The FSA has also submitted a report to the Ministry of Finance asking for legislation on other liquidity management tools.

The implementation of the Directive on cross-border distribution of collective investment undertakings has been delayed in Sweden. The new legislation should have been in place on 2 August 2021. but will be implemented on 1 March 2022.

### 5.3. MiFID II

There were no notable developments in this area during 2021.

### 5.4. PRIIPs

The SIFA runs a working group with the aim of producing ‘Guidance for creating PRIIP KIDs for funds’. This will summarise and, where needed interpret, the existing rules (Regulation, Guidelines and Q&A) and will be published in April 2022.

### 5.5. ELTIF

In Swedish fund legislation, there are only structures for funds investing in financial instruments. There are no special legal structures for funds that, like an ELTIF, invest in other types of assets. This has hampered the emergence of ELTIFs. Until such legal structures are in place accompanied with suitable taxation rules, the proposed changes in the ELTIF Regulation will have little effect to the development of ELTIFs in Sweden.

### 5.6. Sustainable finance

Implementation remains challenging, due to lack of guidance and clarification from regulators and the absence of level 2. The SIFA has developed voluntary guidelines (a template) for the disclosure of SFDR information (in the absence of SFDR level 2 templates), which includes a disclaimer for the taxonomy reporting. The template is widely used. The FSA has not objected to the use of the template or the disclaimer. It also undertook an initial survey of how funds were categorised according to the SFDR in March 2021. This showed that a majority of funds domiciled in Sweden are Article 8 funds. No official guidance has been given on categorising funds. The FSA is currently looking more closely at funds classified as Article 9.

No members within the scope of NFRD (some are as a part of a larger group, but the SIFA has no information on this).

There are 30 funds that have the Nordic Swan Ecolabel. Nordic Swan Ecolabel funds must meet the requirements of four different sustainability strategies.

- Exclude the worst companies and industries within coal, oil, gas, nuclear, tobacco, weapons, and non-compliance with international norms.
- Include more-sustainable companies, by rewarding companies with strong sustainability work seen from a ESG and EU Taxonomy perspective. The criteria also have a particular focus on sectors with high GHG emissions and/or a high risk of impact on biodiversity.
- Exercise active ownership, by engaging with companies where there is uncertainty as to whether they live up to international norms if the company is not sold.
- Publish all holdings in the portfolio and publish an annual sustainability report.

In addition, the fund collects points by showing a strong green inclusion or a strong active ownership. The criteria were updated in February 2022, and holders of the Swan Ecolabel have a year to comply with the new, stricter requirements.

### 5.7. Stewardship

There were no notable developments in this area during 2021.

### 5.8. Benchmarks

The Swedish Financial Benchmark Facility (SFBF) submitted, in December 2021, an application for authorisation as administrator of STIBOR to the FSA, according to the EU Benchmarks Regulation (BMR) requirements.

From 1 October 2021, the Swedish Riksbank began to gradually publish the SWESTR (Swedish krona Short Term Rate). The SWESTR is a reference rate calculated by the Riksbank based on transactions executed in Swedish kronor on the money market from one banking day to the next. The Riksbank also provides compounded average rates and an index based on SWESTR.

### 5.9. Anti-Money Laundering Directive

The SIFA takes part in meetings with the Ministry of Finance, who negotiates the newly proposed AML Package in the Council. We have, together with six industry associations from the financial sector in Sweden, launched guidelines on how to interpret the different regulations on AML. The Swedish FSA has updated its recommendations on the reporting of crossborder transactions for fund managers.

### 5.10. Digital Finance

The FSA has informed the European Securities and Markets Authority (ESMA) that it is compliant with ESMA guidelines on outsourcing to cloud service providers. The Swedish Fund managers are reviewing their agreements accordingly.

## 6. PENSIONS & PEPP

The Swedish national pension system has been the topic of extensive debate for some time. The premium pension system, where a small portion of the pillar one pensions are invested into UCITS funds, is currently subject to substantial change.

As a first step, new legislation entered into force in 2018. New and stricter rules on marketing and distribution of premium pension products and services entered into force from 1 July 2018. And, as of 1 November 2018, new rules apply to UCITS funds seeking to participate in the premium pension system. These measures, both quantitative and qualitative requirements on fund and managers, are aimed at reducing the risk of unprofessional fund operators within the premium pension system.

Furthermore, in November 2019, an independent inquiry presented a report with proposals that fundamentally would change the premium pension system. These changes are expected to be implemented during 2022 and will severely limit the number of funds available in the system. The SIFA has been strongly critical of most of the proposals presented, and has argued that the proposals will not benefit end users and risks distorting competition.

The Ministry of Finance has circulated a Memorandum with proposals for adjustments to be made in Swedish law in order to be compliant with the Regulation. The finalised bill is scheduled to be voted on and adopted by the Parliament following the 2022summer recess. The Swedish FSA has been designated to supervise the market implementation of the bill.

The SIFA has responded to the Government's Memorandum. We believe that the interest in PEPP in Sweden is likely to be low. Compared with many other countries, Sweden already has a widespread savings culture among the population with a habit of saving in long-term products (particularly UCITS funds). At the same time, Sweden is now one of the few countries in the EU where - in principle - there is no incentive, in the form of tax subsidies, for long-term savings for pension purposes. This will also be true for PEPP, according to the proposition. Given this, and the restrictions that are proposed to apply to savings in PEPP, the SIFA believes that savings in PEPP will have limited popularity.

Although the interest in PEPP is likely to be limited in Sweden, the obvious benefit with the product is its portability. We believe that PEPP will mainly be relevant for people who take advantage of free movement in the Union to work in more than one Member State. Thus, it is conceivable that PEPP will find its way into the Swedish market via foreign investors.

## 7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

The Supreme Court has finally declared that Swedish investment funds should be considered resident in Sweden from the perspective of the double tax treaties. This means the end of a process that has been ongoing for many years.

## 8. FINANCIAL & INVESTOR EDUCATION INITIATIVES

The SIFA is active in the national programme entitled 'Gilla Din Ekonomi' (National Network for Financial Education), which involves education in personal finances. 'Gilla Din Ekonomi' was initiated by the Swedish Ministry of Finance. The network, which is coordinated by the FSA, is a cooperation between approximately forty players – authorities, organisations and companies – with the goal of strengthening and increasing individual's self-confidence in the field of personal finances. The SIFA is responsible for training on fund saving.

The SIFA 'Fondkollen' (Fund Check) initiative provides a multichannel resource, via a website and printed material, where retail investors can find practical tools to help evaluate and select funds. The aim of Fondkollen is to boost savers' financial self-confidence. The SIFA savings economist regularly shares savings tips here, and promotes the website on social media.

Our savings economist also published short clips on our YouTube channel to spread knowledge on important information on saving in funds. The videos include subjects like 'How does fund fees work', 'How do you choose a sustainable fund' and 'How can you tell if an active fund really is actively managed'. The goal is to make sure savers have all the relevant information they need in a consumer-friendly format.

The SIFA is a co-financer of 'Ung Privatekonomi' (Young Personal Finances), a school information project that educates more than 24,000 young people in Sweden's upper secondary schools every year in personal finance and saving in stocks and funds. During the year, the Association co-wrote a textbook that is being used for the education of young people as part of this project.

## 9. OTHER ACTIVITIES OF THE ASSOCIATION

**Publications/Surveys**

SIFA publishes a monthly newsletter open to everyone interested in keeping up to date with the Association's activities.

- A member exclusive newsletter was distributed to all member companies six times during the year, in both Swedish and English
- An annual report on the fund savings in Sweden 2020 was published in January, and was launched at a press conference
- A broad survey on the und saving preferences of Swedes was published during the year
- A survey on fund preferences among women and men
- A survey on sustainable savings
- A survey on savings for children.

**Conferences, Seminars & Webinars**

The major annual conference 'Fonddagen' (Fund Day) was held in September with a limited number of guests. The Swedish minister of financial markets, Åsa Lindhagen, took part, as did the Director of the Financial Supervisory Authority, Erik Thedéen. The theme for the day was sustainability, with several presentations and discussions covering the subject. We also discussed inducements and how a possible ban could affect the Swedish market as well as the premium pension system. Due to the pandemic, the conference was recorded in full and clips of the day published online.

We held a webinar raising important questions for parents with tips on how to save for kids in funds. The webinar is still available on our YouTube channel, and was marketed in our social media channels as well as on our websites.

A webinar on 'Ban on commissions – the UK experience'.

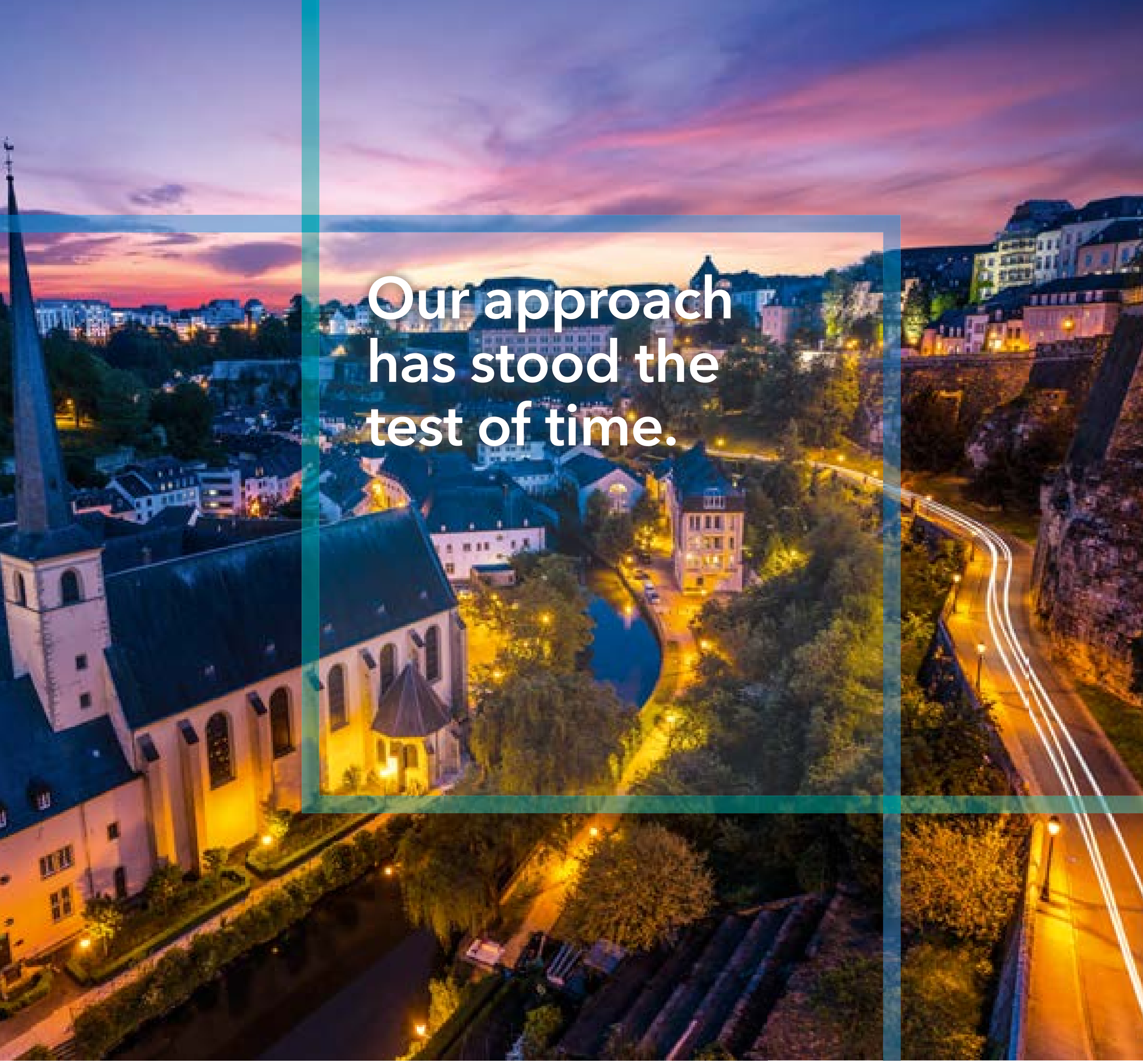
A seminar where Anders Andersson, from the Swedish House of Finance, presented his research on investor understanding of the sustainability information of funds.

A webinar on an initiative from the FinDatEx organisation, where producers and distributors in the financial sector cooperate about standardised sustainability data.

A webinar on saving for children.

A webinar on ESG in the US – a look at sustainable investing across the Atlantic.

A broadcasted event featuring a number of different guests discussing investment funds, aimed at inspiring savers.


Our approach has stood the test of time.

# SWITZERLAND COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

| Table 1: Net Assets by the Fund Industry in Switzerland (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 550.8 | 571.0 | 714.3 | 762.0 | 892.3 |
| Funds domiciled abroad and promoted by national providers | 201.4 | 138.4 | 156.2 | 173.5 | 209.8 |
| Total Net Assets | 752.2 | 709.4 | 870.5 | 935.5 | 1,102.1 |

| Table 2: Net Sales of Investment Funds in Switzerland (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS & AIFs | 19,359.4 | 14,894.4 | 73,853.0 | 29,475.1 | 34,946.8 |
| Funds domiciled abroad and promoted by national providers | 16,385.7 | 7,329.9 | 8,749.5 | 14,986.3 | 14,460.1 |
| Total Net Sales | 35,745.1 | 22,224.3 | 82,602.5 | 44,461.4 | 49,406.9 |

## 2. KEY TRENDS IN THE UCITS MARKET

| Table 3: UCITS Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 168.9 | 160.4 | 215.8 | 226.0 | 300.3 |
| Bond funds | 143.7 | 148.1 | 180.2 | 194.1 | 215.0 |
| Multi-asset funds | 121.0 | 120.8 | 149.0 | 153.4 | 183.5 |
| Money market funds | 17.9 | 15.5 | 19.5 | 18.7 | 19.6 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | | | | | |
| Total | 451.5 | 444.8 | 564.5 | 592.2 | 718.4 |
| of which ➤ ETFs | 4.0 | 3.7 | 5.3 | 6.2 | 8.0 |
| ➤ Funds of funds | 16.7 | 15.3 | 19.8 | 21.7 | 26.3 |

| Table 4: Net Sales of UCITS by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 3,394.0 | 1,799.6 | 9,646.3 | -1,680.2 | 10,770.7 |
| Bond funds | 8,599.6 | 8,423.9 | 18,146.8 | 12,961.1 | 15,057.2 |
| Multi-asset funds | 3,047.4 | 4,510.8 | 4,622.3 | 6,588.1 | 8,260.1 |
| Money market funds | 1,430.9 | -2,021.9 | 3,582.9 | 369.6 | -407.8 |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Other funds | | | | | |
| Total | 16,472.0 | 12,712.4 | 35,998.3 | 18,238.5 | 33,680.3 |
| of which ➤ ETFs | -188.2 | 119.8 | 691.9 | 606.0 | 310.9 |
| ➤ Funds of funds | -118.3 | 105.0 | 2,193.8 | 1,210.1 | 2,484.0 |

## 3. KEY TRENDS IN THE AIF MARKET

| Table 5: AIF Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | | | | | |
| Bond funds | | | | | |
| Multi-asset funds | | | | | |
| Money market funds | | | | | |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Real estate funds | 29.6 | 30.6 | 36.1 | 39.5 | 44.6 |
| Other funds | 69.7 | 95.7 | 113.7 | 130.3 | 129.3 |
| Total | 99.3 | 126.3 | 149.8 | 169.8 | 173.9 |
| of which ➤ ETFs | 9.3 | 9.4 | 12.3 | 15.4 | 15.7 |
| ➤ Funds of funds | 9.0 | 9.1 | 10.6 | 11.0 | 13.7 |
| ➤ Institutional funds | 46.3 | 47.0 | 86.3 | 100.4 | 101.1 |

| Table 6: Net Sales of AIFs by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** | **2021** |
| Equity funds | | | | | |
| Bond funds | | | | | |
| Multi-asset funds | | | | | |
| Money market funds | | | | | |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Real estate funds | 1,396.0 | 249.8 | 367.7 | 1,161.4 | 4,741.1 |
| Other funds | 1,491.5 | 1,932.2 | 37,487.1 | 10,075.2 | -3,474.5 |
| Total | 2,887.4 | 2,182.0 | 37,854.8 | 11,236.5 | 1,266.5 |
| of which ➤ ETFs | 1,251.6 | 38.3 | 5,738.0 | 790.3 | 5,222.2 |
| ➤ Funds of funds | 1,101.5 | 1,659.7 | 83.9 | 421.3 | 899.4 |
| ➤ Institutional funds | 462.3 | 488.9 | 28,024.7 | 6,549.7 | -3,006.3 |

## 4. TRENDS IN THE NUMBER OF FUNDS

| Table 7: Number of Funds | | | | | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020** | **2021** |
| Home-domiciled UCITS | 929 | 900 | 931 | 940 | 1,008 |
| Home-domiciled AIFs | 171 | 160 | 187 | 186 | 187 |
| Foreign funds registered for sales | 7,760 | 8,098 | 8,172 | 8,133 | 8,357 |
| > By national promoters | | | | | |
| > By foreign promoters | | | | | |
| Fund launches | | | | | |
| > Home-domiciled UCITS and AIF | 173 | 178 | 106 | 120 | 131 |
| > Foreign funds registered for sales | 745 | 313 | 181 | 136 | 242 |
| Fund liquidations | | | | | |
| > Home-domiciled UCITS and AIF | 82 | 83 | 96 | 79 | 56 |
| > Foreign funds registered for sales | 386 | 6 | 107 | 175 | 18 |

## 5. REGULATORY DEVELOPMENTS

### 5.1. UCITS

After ESMA had launched a consultation on guidelines on marketing communication under the Regulation on facilitating cross-border distribution of UCITS (and also AIFs) in November, the final guidelines were published in August 2021. On changes of the UCITS guidelines for AIFMD and PRIIPS, please refer to later sections.

### 5.2 AIFMD

On 25 November 2021, the European Commission proposed amendments to the AIFMD and the UCITS Directive. These would allow the delegation of task (delegation), liquidity risk management, data reporting for market data reporting for market supervision and the regulatory treatment of depositaries. On delegation, the Commission recognises the success of the EU fund and manager labels, particularly in enabling efficient management of investment portfolios and the acquisition of the necessary expertise in a geographic market or asset class. The Commission concludes - in line with ESMA - that diverging national supervisory practices in fulfilling the EU requirements for the delegation of risk or portfolio management to third parties could lead to inconsistencies that may prove detrimental to the overall level of investor. The Commission proposal was referred to the Council and Parliament in the ordinary legislative process, which in turn can make adjustments.

### 5.3. MiFID II

There were no material developments regarding the implementation of MiFID II in Switzerland in 2021)

### 5.4. PRIIPs

The European Parliament voted, on 23 November 2021, to extend the transitional regime for investment funds under the PRIIPS Regulation and the UCITS Directive. Investment funds that currently produce a UCITS-KIID (key investor information document) now have until 31 December 2022 to replace it with a PRIIPs-KID (key information document). The European Commission's original proposal entailed extending the transitional regime until the end of June 2022. The industry viewed this proposed delay as sensible, given that the Regulatory Technical Standards (RTS) must first be in place to ensure that PRIIPs-KIDs can be produced correctly.

The European Supervisory Authorities (ESAs) are also investigating on behalf of the Commission whether PRIIPs are delivering the desired effect. Stakeholders were invited to provide their input by 16 December 2021, and the ESAs will report to the Commission on 30 April 2022. On 3 December 2021, the Federal Council extended the transitional deadline for producing a key information document (KID) for complex financial instrument by 12 months. This means that - according to Swiss law - securities funds, other funds for traditional investments, real estate funds and structured products can continue to publish their key investor information document or simplified prospectus under the old collective investment schemes legislation until 31 December 2022. This extension required amendments to the relevant articles of the Financial Services Ordinance (FinSO) and Collective Investment Schemes Ordinance (CISO).

### 5.5. Sustainable finance

The topic of sustainability in the financial sector took on a new dimension in 2021. Internationally, the commitments to implementing the UN's Sustainable Development Goals (SDGs) and limiting global warming to 1.5°C by 2050, which were renewed at COP26 in Glasgow, confirm an underlying trend. Sustainability, and along with it sustainable asset management, has gained importance and begun to mature. There will be a learning curve, which is inevitable with any form of transition. It also brings the need to work out a clear definition of what 'sustainable' means. The requirement for clarity and transparency also go hand-in-hand with a commitment to avoiding the risk of greenwashing.

In Switzerland, the regulatory authorities and politicians are addressing these issues. The Federal Council sees sustainability as an opportunity for the Swiss financial sector and has reiterated its aim of positioning Switzerland as a leader in this field. In line with the principle of subsidiarity, it has instructed the financial sector to draw up principles, minimum standards and rules that will shape future sustainability frameworks. This means that all Swiss financial players – banks, insurers and asset managers – must speak with a single voice. The industry associations, the Asset Management Association Switzerland (AMAS) included, have a vital role to play here. The AMAS is prepared for this, and is looking forward to working together with its members, politicians, other associations, non-governmental organisations and the industry as a whole.

At a meeting last November, the Federal Council recommended greater transparency and disclosure of climate-relevant non-financial information and indicators, more commitment to international net-zero initiatives from the financial sector, and the introduction of uniform definitions and standards for sustainable financial products and services, in order to avoid all risks of greenwashing. For the first point, the possibility of rolling out a Swiss climate label will be investigated. A working group was set up in mid-December at the initiative of the State Secretariat for International Finance. It comprises representatives from the financial industry (the AMAS, the Swiss Bankers Association, Swiss Sustainable Finance) and non-governmental organisations (Greenpeace and WWF) as well as industry experts. A number of exponents of the Swiss financial industry have already heeded the FDF's call to decarbonise investment portfolios and join net-zero initiatives. In particular, 24 of our members have joined the Net Zero Asset Managers initiative (NZAMI). AMAS is convinced that this a good initiative and is proud to be among the first national industry associations to officially promote it. The AMAS is committed to raising its members' awareness of the NZAMI and encouraging them to join.

The Federal Council's ultimate goal in combatting greenwashing is to create a binding framework to serve as a basis for the entire Swiss financial centre. It requested a report, to be submitted by December 2022, on progress to date in implementing its recommendations. The message is clear: self-regulation is no longer optional when it comes to sustainable asset management, it is a necessity. Efforts to put a liberal system of self-regulation in place are likely to keep us busy during 2022.

The supervisory authority is also taking greenwashing in sustainable finance seriously. FINMA officially amended its circulars on disclosure for insurers and banks in May 2021, in line with the recommendations by the Task Force on Climate-related Financial Disclosures to set out binding rules on the disclosure of climate risks. These are only binding for financial institutions in supervisory categories 1 and 2, with effect from July 2021. In November 2021, FINMA went one step further and published guidance on preventing and combatting greenwashing, covering the asset management industry and rules of conduct at the point of sale.

A joint working group set up by the AMAS and Swiss Sustainable Finance (SSF) carried out an in-depth investigation of greenwashing in sustainable asset management. The AMAS and SSF published their Recommendations on Transparency and Minimum Requirements for Sustainable Investment Approaches and Products at the end of November 2021, with the aim of building investor trust in the Swiss financial centre. The recommendations have three main goals: i) to define the various sustainable investment approaches and instruments in greater detail and set minimum criteria for implementing them; ii) to specify minimum requirements for investor information on the different investment approaches and instruments; and iii) to identify which sustainable investment approaches satisfy investors' various goals most effectively.

The second 'Building Bridges' week, held in Geneva from 29 November - 2 December 2021, offered an opportunity to raise awareness of the recommendations and present them to a wider audience. The multistakeholder conference, which was co-founded by AMAS, was a notable success, attracting more than 1000 attendees from a range of interest groups to over 70 events promoting the global agenda of a sustainable future for the financial industry. We look forward to contributing to the organisation and content of the third 'Building Bridges' week.

## 5.6. Other regulatory developments

**Financial Services Act (FinSA), Financial Institutions Act (FinIA), self-regulation**

The industry had entered the final phase of implementing the FinSA and FinIA in 2021. The transition periods specified in the FinIA for existing licensees expired at the end of 2020. The FinSA, meanwhile, gave financial service providers until the end of 2021 to implement its new rules. The transitional provisions also specified deadlines for phasing out certain provisions of the old CISA, which also expired at the end of 2021. Supported by a working group, the Executive Board revised the Association's guidelines and model documents during the year, in line with the FinSA and FinIA, the new CISA, and the related Federal Council and financial supervisor FINMA implementing provisions. As a rule, FINMA must acknowledge changes to the guidelines and to the model documents. The new Ordinance to the Financial Market Supervision Act (FINMASA Ordinance) also required further consultation procedures within the federal government, in relation to FINMA's recognition of the self-regulation materials. The revised guidelines - as recognised by FINMA -the model fund documents and a new model 'distribution agreement' were published on 28 September 2021, a significant milestone for the AMAS. The following guidelines were published on 28 September 2021:

- Code of Conduct
- Guidelines for real estate funds
- Technical guidelines (Guidelines for money market funds, Guidelines on the valuation of assets and the handling of valuation errors, Guidelines on the calculation and publication of performance data, Guidelines on the calculation and disclosure of the TER).

The provisions of the old Transparency Guidelines were also revised and integrated into the updated Code of Conduct. The revisions entered into force on 1 January 2022, replacing the existing minimum standard with no interruption. The Distribution Guidelines and KIID Guidelines ceased to apply when the statutory transition periods expired, as their content has now been subsumed into the FinSA.

The revised model fund documents published on 28 September 2021 were acknowledged by FINMA. The model documents for limited partnerships for collective investment, which have been revised with the help of the Swiss Private Equity and Corporate Finance Association (SECA), will be published in a second step. The revised model prospectuses are based on the system that has been in place to date. Annex 6 of the FinSO, which sets out the minimum content of the prospectus for collective investment schemes, also introduced a new prospectus structure. While this new structure is not yet mandatory for the time being, the AMAS nevertheless recommends adopting it as quickly as possible. The new structure is likely to become mandatory for all funds in the medium term.

The new model agreement on promoting the sale of collective investment schemes in Switzerland (previously 'model distribution agreement') has been acknowledged by the Federal Tax Administration (FTA) on behalf of the authorities. This aims to take account of industry practice in the new regulatory environment and provide a model for cases in which third parties are contracted to promote the sale of collective investment schemes (previously referred to as 'distribution').

To ensure that the industry has enough time to implement the revised self-regulation materials, the Association asked FINMA to extend the deadline according to Article 144 para. 3 CISO for submitting fund documents revised in line with the FinSA and FinIA until 30 June 2022. FINMA did so on 12 July 2021.

**Limited Qualified Investor Fund (L-QIF)**
In a competitive international market, Swiss funds are often not an investor's first choice, particularly for alternative investments for professional investors. High time and cost pressures in the approval process mean that even Swiss investors often favour foreign collective investment schemes. The Swiss limited qualified investor fund (L-QIF) is intended as an innovative response to this problem. The Federal Council had taken up the idea - which was supported by the AMAS from the outset - on 5 September 2018, presenting a consultation draft of a revised CISA on 26 June 2019.

The proposal centres on the idea of offering a flexible collective investment scheme under Swiss law that does not need to be approved by FINMA, and can therefore be set up faster and at a lower cost. L-QIFs will be offered exclusively to qualified investors who know exactly what they want to invest in and are looking for a bespoke investment solution. These are market participants who have excellent fund knowledge or receive professional advice on funds. The usual levels of quality and security will be ensured as the L-QIF fund management company or manager must be an institution authorised and supervised by FINMA. This takes full account of qualified investors' need for protection. Other collective investment schemes for qualified investors will remain subject to FINMA approval. The L-QIF will merely be an additional option for qualified investors who are prepared to forgo dual supervision (institution and product).

The L-QIF project was up and running quickly. The Federal Council instructed the Federal Department of Finance (FDF) on 5 September 2018 to draft the necessary revision to the law. The idea also met with widespread support in parliament. However, the Federal Council's vote to adopt the dispatch was delayed by the coronavirus situation. The Council of States Economic Affairs and Taxation Committee discussed the matter on 20 April 2021 and voted, with an overwhelming majority, in favour of the L-QIF. The Council of States discussed the proposal at its plenary session on 9 June 2021 and adopted it unanimously (with a single abstention). This represents another major success for the AMAS, which has proactively supported the project from the outset. The draft was finally discussed by the National Council's Economic Affairs and Taxation Committee at the start of September 2021 and adopted by a plenary meeting of the National Council during the winter session. Subsequent efforts to resolve differences between the two councils resulted in a consensus text. The draft was then adopted in the final votes by the National Council (122 votes to 68) and the Council of States (30 votes to 12). It can be expected to enter into force in 2023 at the earliest.

## 6. PENSIONS

There were no notable developments in this area during 2021.

## 7. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

**Withholding tax reform**

Reforming the withholding tax regime has been a key political issue for some time. Following failed reform attempts in 2010 and 2014, the Federal Council decided to try again. It opened a consultation in April 2020 on revising the Withholding Tax Act with the stated aims of strengthening the debt market and closing existing loopholes. The intention was to implement the reform by partially introducing the paying agent principle for interest income. Under this principle, the tax would not be collected from the debtor of a taxable payment, as is currently the case, but rather from a paying agent. Various stakeholders – the AMAS included – criticised this complete change of system and the complexity of putting it into practice in their responses to the consultation.

The Federal Council took this criticism on board in the dispatch forwarded to the Swiss Parliament in April 2021. In place of a system change, it proposed a solution that would be easy to implement, namely abolishing withholding tax to a large extent. However, this proposal included only income from direct investments in bonds, not from funds. The Federal Council thus expressedly chose not to treat direct and indirect investments (i.e. fund income) equally, despite clear support for doing so in the consultation. It claimed that the resulting tax incentive to favour direct investments or investments in foreign funds was acceptable, given how complex it would be to ensure equal treatment in practice. The MAS did not agree with this argument, and made the case for abolishing withholding tax not only on interest earned from direct investments, but also on income from bonds held indirectly via Swiss investment funds, provided it is reported separately, in the interest of equal tax treatment. This would be easy to implement both in law and in practice.

In May, the AMAS had the opportunity to present its views during a hearing organised by the National Council's Economic Affairs and Taxation Committee (EATC-N). The Committee discussed the draft in detail and decided that not only income from direct bond investments but also income from indirect investments should be exempt from withholding tax. The majority of the committee members believe that this would prevent disadvantages for Swiss collective investment schemes relative to their foreign counterparts. The plenary meeting of the National Council, the Council of States Economic Affairs and Taxation Committee and the plenary meeting of the Council of States all shared this view. As a result they voted in favour of extending the tax exemption to fund income. The draft was then clearly adopted by the National Council (125 votes to 70) and the Council of States (31 votes to 12).

## 8. ACTIVITIES OF THE ASSOCIATION

**Merger and Strategy**

In 2020, the activities of the former Swiss Fund and Asset Management Association (SFAMA) and the Asset Management Platform Switzerland were brought together to form the AMAS. AMAS is now the representative association of the Swiss asset management industry. It aims to strengthen Switzerland's position as a leading centre for asset management with high standards of quality, performance and sustainability. To this end, it supports its members in developing the Swiss asset management industry and adding value for investors over the long term.

In the course of 2021, the AMAS and its Board of Directors have focused on its renewed strategy with its four priorities:

- Strengthening Swiss asset management: promoting and developing the Swiss asset management industry and its individual member firms
- Innovation: promoting innovation, new technologies, and innovation-friendly national regulation
- Savings and pensions: improving the frameworks for professional, cost-effective management of retirement assets and savings
- Sustainable asset management: improving Switzerland's standing and promoting it as a centre for sustainable asset management.

**A review of events**

- 14 January 2021 - virtual webinar: Alternative Investments and the Sustainable Finance Disclosure Regulation (SFDR) – Are you ready?
- 27 April 2021 - virtual information event for members
- 24 August 2021 - Zurich/virtual information event for members
- 26 August 2021 - Geneva/virtual information event for members
- 24 September 2021 - Bern Annual General Meeting, Bern Asset Management Day
- 9 November 2021 - Zurich/virtual information event for members
- 11 November 2021 - Geneva/virtual information event for members
- 26 November 2021 - Publication of "Recommendations on Transparency and minimum Requirements for Sustainable Investment Approaches and Products" in collaboration with SSF
- 29 November 2021 – 'Building Bridges' week in Geneva, with the AMAS as founding partner
- 1 December 2021- Zurich GIPS Day 2021
- 10 December 2021 - virtual GIPS Beginners 2021
- 10 December 2021 - Lugano information event for members
- 16 December 2021 - AMAS joins Net Zero Asset Managers Initiative as supporting organisation

# TURKEY COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

**Table 1: Net Assets by the Fund Industry in Turkey (EUR billion)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Home-domiciled UCITS & AIFs | 25.6 | 20.5 | 29.1 | 26.2 | 27.9 |
| Funds domiciled abroad and promoted by national providers | 0.001 | 0.001 | 0.002 | 0.002 | 0.003 |
| Total Net Assets | 25.7 | 20.5 | 29.1 | 26.2 | 27.9 |

**Table 2: Net Sales of Investment Funds in Turkey (EUR million)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Home-domiciled UCITS & AIFs | 431 | -2,246 | 7,304 | -799 | 6,463 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Sales | 431 | -2,246 | 7,304 | -799 | 6,463 |

## 2. KEY TRENDS IN THE UCITS MARKET

**Table 3: UCITS Assets by Fund Type (EUR billion)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Equity funds | 0.5 | 0.4 | 0.6 | 1.1 | 1.6 |
| Bond funds | 5.0 | 3.0 | 4.1 | 2.6 | 2.3 |
| Multi-asset funds | 1.2 | 0.6 | 1.5 | 1.5 | 1.4 |
| Money market funds | 3.1 | 2.1 | 6.0 | 2.9 | 2.7 |
| Guaranteed/protected funds | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Absolute Return Innovative Strategies (ARIS) funds | 0.6 | 0.6 | 1.6 | 3.8 | 6.6 |
| Other funds | 0.6 | 0.6 | 1.5 | 2.4 | 3.3 |
| Total | 11.0 | 7.4 | 15.4 | 14.4 | 18.0 |
| of which ➤ ETFs | 0.0 | 0.0 | 0.0 | 0.4 | 0.5 |
| ➤ Funds of funds | 0.3 | 0.2 | 0.4 | 1.0 | 1.7 |

| Table 4: Net Sales of UCITS by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 74.9 | 44.8 | 76.5 | 420.6 | 654.0 |
| Bond funds | -535.8 | -1,488.3 | 924.2 | -902.1 | 438.4 |
| Multi-asset funds | 351.1 | -417.9 | 847.5 | 134.6 | 292.8 |
| Money market funds | -62.8 | -585.0 | 3,359.9 | -2,050.9 | 648.1 |
| Guaranteed/protected funds | -16.8 | 37.7 | 35.6 | -2.5 | -94.1 |
| Absolute Return Innovative Strategies (ARIS) funds | 209.2 | 48.5 | 872.5 | 409.5 | 2,510.6 |
| Other funds | 346.2 | 81.3 | 781.6 | 899.7 | 1,558.2 |
| Total | 365.9 | -2,278.9 | 6,897.7 | -1,091.1 | 6,008.0 |
| of which ➤ ETFs | -4.8 | 1.2 | 7.8 | 354.5 | 120.8 |
| ➤ Funds of funds | 248.6 | -55.3 | 113.6 | 589.6 | 1,016.4 |

## 3. KEY TRENDS IN THE AIF MARKET

| Table 5: AIF Assets by Fund Type (EUR billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | | | | | |
| Bond funds | | | | | |
| Multi-asset funds | | | | | |
| Money market funds | | | | | |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Real estate funds | 14.1 | 12.8 | 13.0 | 10.9 | 8.4 |
| Other funds | 0.5 | 0.4 | 0.7 | 0.9 | 1.4 |
| Total | 14.7 | 13.2 | 13.7 | 11.8 | 9.9 |
| of which ➤ ETFs | 0.0 | 0.0 | 0.0 | 0.4 | 0.5 |
| ➤ Funds of funds | 0.3 | 0.2 | 0.4 | 1.0 | 1.7 |
| ➤ Institutional funds | | | | | |

| Table 6: Net Sales of AIFs by Fund Type (EUR million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | | | | | |
| Bond funds | | | | | |
| Multi-asset funds | | | | | |
| Money market funds | | | | | |
| Guaranteed/protected funds | | | | | |
| Absolute Return Innovative Strategies (ARIS) funds | | | | | |
| Real estate funds | 53.9 | 25.3 | 356.7 | 171.0 | 134.5 |
| Other funds | 11.4 | 7.6 | 49.9 | 121.0 | 320.0 |
| Total | 65.3 | 32.9 | 406.5 | 292.0 | 454.6 |
| of which ➤ ETFs | -4.8 | 1.2 | 7.8 | 354.5 | 120.8 |
| ➤ Funds of funds | 248.6 | -55.3 | 113.6 | 589.6 | 1,016.4 |
| ➤ Institutional funds | | | | | |

## 4. TRENDS IN THE NUMBER OF FUNDS

| Table 7: Number of Funds | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS | 387 | 398 | 401 | 566 | 795 |
| Home-domiciled AIFs | 53 | 58 | 108 | 136 | 219 |
| Foreign funds registered for sales | 14 | 10 | 10 | 9 | 9 |
| ➤ By national promoters | | | | | |
| ➤ By foreign promoters | 14 | 10 | 10 | 9 | 9 |
| Fund launches | | | | | |
| Fund liquidations | | | | | |
| Fund mergers & acquisitions | | | | | |

## 5. MARKET DEVELOPMENTS IN 2021

In 2021, mutual funds showed significant growth. The number of mutual funds also gained momentum in 2021, adding 293 new funds: 77 mutual funds; 140 hedge funds and 13 protected funds. Health, tourism, technology, fintech and blockchain and clean energy funds were the new thematic funds established, these funds are designed for investing in specific themes.

In 2020, funds grew by only 17% under the pandemic conditions. However in 2021, this surged 113%, reaching TRY 305 billion.

Real estate investment funds and private equity funds, which have about a four-year history in Turkey came to TRY 30.8 billion. Hedge funds also displayed rapid growth in 2021, reaching TRY 101.5 billion in 2021 from TRY 36 billion in 2020 a growth of 175%.

GDP in 2021 grew 11% on a TRY basis. The growth was driven by exports, following the recovery in export markets in Europe and domestic demand. The growth on a EUR basis was 9.3%.

The inflation rate in 2021 is 36.1%, brought about by FX-sensitive items such as energy and consumer durables, as well as high global commodity prices.

## 6. REGULATORY DEVELOPMENTS

**Corporate governance – major developments**

Corporate Governance Principles in Turkey were issued by the CMB in June 2003. These can be used primarily by listed companies as well as by joint stock companies both in the private and public sector.

The Turkish Institutional Investment Managers' Association (TKYD) accepted the EFAMA code of conduct for investment and asset management firms, issuing these principles as a guide to its members. The Borsa Istanbul (Istanbul Stock Exchange) works on several international projects as part of EU accession process. TYKD also published "Ethical Principles and Codes of Conducts Guide" for the Asset Management Sector in September 2021.

**Fund governance**

At the end of 2012, the mutual funds industry entered a new era, after The New Capital Markets Law (Nr. 6362) and related regulations came into force. Investment companies and asset management companies became increasingly important role with the new regulations in the capital markets. The Turkey Electronic Fund Trading Platform (TEFAS), which is one of the most important steps for the widespread growth of mutual funds, has been implemented. In addition, the new law allowed Portfolio Management Companies to establish mutual funds. The ongoing process to adapt to new rules and notification shas been completed, and its transition process ended in 2015. Portfolio Management Companies took over the mutual funds as founders.

Mutual funds are established as open-end investment companies in Turkey; they do not have legal entity. They are operated in terms of the rules stated in the prospectus, which includes general terms on management of the fund, custody of assets, valuation principles and conditions of investing in the fund. Turkey is closely following the developments of the European Fund Industry and compliance of the Turkish Fund Industry with EU legislations.

The investment fund industry currently represents a very small portion in the country's GDP (2.0% of the total GDP), however mutual fund industry more than doubled in 2019, with total assets jumping to TRY 110 billion in 2019 from TRY 45 billion the previous year (1.2% of GDP), while shrinking to TRY 97 billion in 2020. Higher growth is expected in the coming years, with the support of changing investment behaviour in the country and investors getting used to TEFAS and comparing mutual funds. High interest rate and volatility are inhibiting the market development.

The Turkey Electronic Fund Trading Platform (TEFAS) has had a positive impact on development and support of the mutual fund industry, particularly in 2020-2021. This platform has been operational since January 2015. The CMB's new regulations are mandatory for investment funds traded on the platform. The Government also put it in the agenda and studying implementing TEFAS to private pension funds.

Types of investment funds changed in 2016 in to comply with EU standards; debt securities, money market, mixed and variable, alternative, equity, funds of funds, precious metals, participation and exchange-traded. Investment funds share of household financial assets fell to 3.5% in September 2020 from 4.2% the previous year, due to the pandemic and volatility of local markets.

Capital markets are gaining new investment products and asset classes for alternative types of investment funds with the new law. There are new products entering the market, such as interest-free products (Islamic products), venture capital funds and real estate investment funds that offer variety for the market. These funds entered capital markets in 2016 and continued to grow in 2020. Open-ended real estate funds grew to TRY 8.3 billion in 2020 from TRY 5.8 billion the previous year. Venture capital funds also grew in 2020, reaching TRY 3.1 billion asset size, up from TRY 1.7 billion in 2019. In recent years, hedge funds also showed growth, reaching TRY 34.7 billion in 2020 from TRY 18.3 billion in 2019.

The CMB issued the related communiqués on establishing private equity funds and real estate funds in January 2014. There are real estate investment trusts that are all closed-ended instruments in the Turkish capital markets.

The CMB's new investment funds communique, issued under the new Capital Markets Law, entered into force on 1 July 2014. An Investment Funds Handbook prepared by the CMB in line with this communique, was also issued in June 2014. The latest amendments date from 23 December 2020.

Guaranteed/protected funds, hedge funds (free investment funds, ARIS) are new to the market and market share of the guaranteed and protected funds rose notably since 2008. Free Investment Funds (FIF)s are able to set any minimum investment amount (including no minimum) to determine the number of investors. FIF units can only be sold to qualified investors.

According to the hedge funds communiqué published in late 2006, hedge funds in Turkey are regulated by the CMB. Together with several funds compatible with the UCITS III Directives, the applications of hedge funds are made since the first quarter of the 2009. Hedge Funds also showed strong development during 2021, reaching TRY 101.1 billion, up from TRY 35.1 billion in 2020.

## 7. PENSIONS

**Private Pensions and Auto Enrolment**

The current pension system in Turkey is the third pillar - a voluntary system - started on 10 October 2003. In 2013, Along with the Government Contribution beginning from 1 January 2013, the pension fund industry showed visible growth over the last eight years. However, during 2018-2019, participation in the system came down because of the new auto enrolment system. In 2020, the system returned to growth. The Turkish Government continued to contribute 25% of the participant's contribution limited with the minimum wage ceiling which is yearly gross minimum wage totally. The aim of the support was to make the pension system more attractive to pension savers. The purpose of the new regulations is to increase savings by Turkish investors which will help improve economic outlook and reduce Turkey's current deficit.

In Turkey, funds are usually invested in traditional standard instruments, namely equities, bills, bonds, and deposits and, to a degree, futures markets. For the last few years, within the development of capital markets by Capital Markets Boards of Turkey, funds began to invest both internationally and locally. The need for longer-term instruments is surging through the fast-growing industry. The participation in the system continued to accelerate, although it is a voluntary system. However, the number of investors showed little growth in 2020, because of the auto-enrolment pension system constructed by the government and the COVID-19 pandemic. The system picked up in 2021 and added 191,000 new participants. The number of participants grew to 7.1 million by the end of December 2021 compared to 6.9 million the previous year.

The current Turkish pension system is fund-based, and pension funds are managed by the asset management companies. The system is complementary to the national social security system on a voluntary participation basis. It is based on the defined-contribution principle, with a view to directing individual pension savings towards investment to improve the welfare level by providing a supplementary income during retirement and to contribute to economic development by creating long term resources for the economy.

The Capital Markets Board of Turkey (CBM) provided the opportunity for constructing longer-term and alternative capital market instruments, such as real estate investment funds and venture capital funds. These instruments are appropriate for longer-term investment opportunities for pension fund portfolios. Infrastructure funds are also important for long-term investments and portfolio diversification.

In 2013, the proportion of pension funds in household's investment portfolio was only 2%, growing to 5.5% in September 2021. Consequently, the Government support was successful for the last five years. It is obvious that pension system is a important tool for improving savings. At the end of 2012, the total amount was TRY 20 billion; by 2021 this had grown to TRY 205.5 billion, with 7.1 million participants. Government support to the system reached to TRY 22.3 billion.

There are many types of pension funds with differing investment strategies, the majority of assets in Turkish funds were government bonds in the past. Nowadays, participants prefer gold, variable and government external debt funds, respectively. Withholding tax is applied when a participant leaves the system. The taxation rates differ depending on the participant's opt-out period. The participant who stays 10 years in the system and retires from the system at the age of 56, pays only 5% withholding tax. However, the participant who does not stay in the system for minimum 10 years must pay 15% withholding tax (also for the government support). In addition, if the participant completes 10 years in the system and opts out before reaching 56, they pay 10% withholding tax. Finally, the participant pays 5% of withholding tax if qualifies for retirement (death or becoming disabled). It is also effective for auto enrolment system.

The Turkish Government established another pillar; an auto-enrolment pension system to attract more participants; this came in to force in 2017. In August 2016, Private Pension and Savings Code was reformed and a new article added through which employees will be automatically integrated in a pension plan. Accordingly employees under 45 years of age will be automatically involved in a pension plan by the employer. The employer transfers minimum 3% of the salary to the system. The employees can use the right of withdrawal and opt out within two months. The new system gradually began operating in 2017. Both the government support to the voluntary pension system and auto-enrolment will add more participants. At the end of 2021, 6.2 million participants and TRY 15.4 billion fund amount were raised by the auto enrolment system with TRY 735 million Government support. The auto-enrolment system also has Government support, amounting to 25% of contribution paid. If the participant does not opt out, at the end of the beginning period, the government contribution is calculated TRY 1000 as one-time profit. If the participant prefers to use the pension buying 10-year period annuity contract, 5% of the savings will be paid to the pensioner. The conditions to be entitled to Governmental support is shown at the table below:

| Private Pension System<br>Amount of Governmental Support Account | Auto-enrolment System<br>Amount of Governmental Support Account |
|---|---|
| Minimum of three years in the system: 15% | Minimum of three years in the system: 15% |
| Minimum of six years in the system: 35% | Minimum of six years in the system: 35% |
| Minimum of ten years in the system: 60% | Minimum of ten years in the system: 60% |
| Retirement, death and disability: %100 | Retirement, death and disability:%100 |

The private pension and auto-enrolment participant has the right to change the distribution of the funds in a pension plan six times in a calendar year, which changed to 12 times a year in legislation published on 6 May 2021.

At the end of May 2019, the CMB of Turkey added an article to the Pension Funds Guide, in which underperforming asset management companies will be sanctioned. The aim of the article is to improve the fund returns. If, over a three-year period, the fund underperforms two periods, the manager of the fund will be switched to an asset management company. Outperforming funds will be awarded with extra payments.

In October 2019, the Presidency of Republic's 2020 Annual Programme was published. The pension system is important for improving long-term savings and 2020 amendments seek to improve sustainability of the pension system:

(1) Governmental support will be differentiated according to age. The aim is to encourage youth into the pension system.
(2) Partial withdrawal opportunities will be provided.
(3) A supplementary pension system will be established. The auto-enrolment system will be rearranged to enhance the duration of participants in the system and amount of funds raised.

In June 2020, it was announced that supplementary pension system would be activated on 1 January 2022. The system has two options, one is a combined supplementary pension system and will be compulsory. The other option is subject to preference of employees. In the combined supplementary system, 3% of the monthly severance pay of employees (8.3%) will be transferred to the supplementary fund account of the employees. In the second model, every employee will have a supplementary fund account. Employers will contribute 4% to the fund as provisions for severance pay, and the Government will contribute 1%. A haircut ranging from 0.5% to 3% will be made from the salaries of employees and transferred to the fund account. Employees will have the right to opt out from the combined system and transfer to the other system.

## 8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

The Ministry of Treasury and Finance imposed equal withholding taxes on foreign and Turkish nationals for bonds and investment funds. The current taxation system allows both foreign and domestic investors to pay zero withholding tax on shares.

Securities and other capital market instruments, purchase/sales gains and depreciation based on the distinction between domestic and foreign investors given the application of withholding tax and capital companies (investment funds and securities and other capital market instruments exclusively in partnership with the increase in value with gains and the associated benefits rights to use the non-resident operating in mutual funds and investment trusts established in accordance with the Capital Market Law that are similar to those set out in the Ministry of Treasury and Finance included) are subject to 0% withholding tax.

For all the others:

- Withholding tax of 10% was removed for equity-based investment funds (min. 80% equity holding funds).
- Any income from holding funds that hold a minimum 51% equity of the fund portfolio over a year are exempt from 10% withholding tax.
- Investors investing in all other types of funds are subject to 10% withholding tax.

There were other major developments in 2021. On 22 December 2020, a Presidential Decree was published and the 15% portfolio income tax was reduced to 0% beginning 1 January 2021. From 23 December 2020 to 31 March 2021, 0% income tax is applied for some type of mutual funds (excluding variable, mixed, Eurobond, foreign, hedge funds and funds which have Foreign Currency expression in the name); this was extended to 31 March 2022.

## 9. OTHER ACTIVITIES OF THE ASSOCIATION

**Other Activities of TKYD**

When we review developments in the portfolio management and fund industry since 2000, we can see a significant improvement with the positive impacts of the approval of the private pension legislation and the integration of our country's financial institutions to the system as well as their increased reputation on the international arena as a result of the restructuring based on the lessons learned in the past.

The new legislative regulations in the investment fund industry introduced by the CMB and the new products introduced support and enhance the industry. The tax equality among the investment tools and specific legislation on the asset management companies will both stimulate growth of the collective investments industry in Turkey and ensure they meet international standards. The number of asset management companies – by owners independent from banks - have already increased in the last six years, bringing the total number of asset management companies to 50 (companies with Assets under Management larger than 0 are considered) in 2021.

The CMB is working closely with TKYD to resolve many of the issues relating to investment funds, as well as discussing proposals and offering solutions for some critical issues facing the industry in Turkey.

**Summary of TKYD activities in 2021:**

- On 22 June, TKYD President Mehmet Ali Ersarı was a guest on Ekotürk TV 'Institutional Investor Effect in Capital Markets' topic.

- On 7 July, TKYD President Ersarı was a guest on Bloomberg TV Turkey, discussing portfolio diversification.

- TKYD, Takas Istanbul (Istanbul Clearing, Settlement and Custody Bank) and the Turkish Capital Markets Association (TCMA) organised the second competition for university students in 2021. The competition is called the 'Golden Egg Fund Basket Competition for University Students', where they constructed virtual portfolios of funds. The aim is to help students identify mutual funds and lead them to make long-term investments by constructing mutual fund baskets according to their attitude and risk appetite.

- TKYD and Integrated Reporting Network Türkiye (ERTA) held meetings on 22 April 2021 and 9 June 2021. TKYD is in the ERTA executive committee. The subject was the declaration signed by executive committee of ERTA. It is also mentioned that ESG factors became crucial in finance sector and institutional investors began preferring companies which prepare integrated reporting.

- TKYD held an online meeting with Word Bank specialists. The meeting addressed the potential of the asset management sector in Turkey, and products such as venture capital funds, in attracting long term investment.

- An online webinar entitled 'Post Pandemic Issues of Homo Sapiens' was held on 8 March with the cooperation of TKYD and TCMA and with the participation of EFAMA.

- S&P Global Ratings Turkey and TKYD Management organised an online meeting. At the meeting ESG issues in Institutional Investors were discussed.

- On 8 June 8, TKYD Management organised an online meeting with Mr Korkmaz Ergun, CEO and Board Member of Borsa Istanbul.

- On 10 August, TKYD Management organised an online meeting with Mr Avsar Sungurlu, CEO and Board Member of Takas Istanbul.

TKYD has a Twitter account (TKYD_1999) and a LinkedIn profile (tkyd1999) to improve communication among sector professionals in order to encourage professional networking and to provide a platform for sectoral developments; this is proving popular. TKYD also created Facebook and Instagram accounts to reach more participants.

The CMB is also in close contact with TKYD in working towards the steps needed to move the Turkish investment fund sector closer to EU accession.

TKYD has 14 institutional (asset management companies, insurance companies and brokerages) and 23 individual members.

The Turkish Institutional Investment Managers' Association, with an ambitious vision of enhancing the base for institutional investors in Turkey, is aiming at increasing the number of investors to 10 million.

TKYD has published a quarterly magazine entitled 'Institutional Investor' since April 2008. It is distributed among TKYD members, institutional investors, companies traded on the stock exchange, universities and regulatory body officials. The magazine covers all up-date developments in the Turkish Investment Fund Industry as well as several analyses, reports, the introduction of new funds in the market, interviews, new trends in the sector and developments in the global fund industry together with the relevant industry statistics. Last year, the Annual Report celebrated its 12$^{th}$ anniversary.

**TKYD has determined six priority areas for 2022:**

1. Investor Protection
2. Improvement of Sector Standards
3. Capital Markets Development
4. Research Activities and Statistical Data
5. Long Term Savings Growth
6. Taxation.

TKYD signed a partnership agreement with Borsa Istanbul in 2015 for calculation of KYD benchmark indices beginning from July 1st. The name of the indices regenerated as BIST-KYD indices. TKYD and BIST generated BIST-KYD Indices Committee which will periodically hold meetings to define new indices according to the sector's needs.

# UNITED KINGDOM COUNTRY REPORT

## 1. KEY TRENDS IN THE GLOBAL MARKET

**Table 1: Net Assets by the Fund Industry in United Kingdom (GBP billion)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Home-domiciled UCITS & AIFs | 1,461.4 | 1,335.9 | 1,502.2 | 1,604.1 | 1,794.4 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Assets | 1,461.4 | 1,335.9 | 1,502.2 | 1,604.1 | 1,794.4 |

**Table 2: Net Sales of Investment Funds in United Kingdom (GBP million)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Home-domiciled UCITS & AIFs | 56,672 | -20,451 | -17,413 | 14,566 | 32,301 |
| Funds domiciled abroad and promoted by national providers | | | | | |
| Total Net Sales | 56,672 | -20,451 | -17,413 | 14,566 | 32,301 |

## 2. KEY TRENDS IN THE UCITS MARKET

**Table 3: UCITS Assets by Fund Type (GBP billion)**

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Equity funds | 656.5 | 579.9 | 672.3 | 702.5 | 811.1 |
| Bond funds | 196.0 | 185.5 | 183.4 | 195.2 | 200.8 |
| Multi-asset funds | 134.3 | 121.6 | 153.8 | 176.6 | 186.5 |
| Money market funds | 20.2 | 19.3 | 21.6 | 21.3 | 22.0 |
| Guaranteed/protected funds | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Absolute Return Innovative Strategies (ARIS) funds | 68.8 | 55.1 | 43.9 | 35.9 | 29.4 |
| Other funds | 11.6 | 15.5 | 21.6 | 24.7 | 43.1 |
| Total | 1,087.6 | 976.8 | 1,096.6 | 1,156.1 | 1,292.9 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 43.8 | 45.5 | 59.2 | 64.4 | 68.7 |

| Table 4: Net Sales of UCITS by Fund Type (GBP million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 6,191.1 | -14,621.5 | -14,455.6 | 628.6 | 16,533.8 |
| Bond funds | 17,737.1 | -1,922.9 | 259.6 | 690.5 | 9,786.3 |
| Multi-asset funds | 15,261.2 | 7,404.1 | 7,082.6 | 13,865.8 | 9,394.6 |
| Money market funds | 3,480.9 | -1,003.4 | 2,343.0 | -278.3 | 696.5 |
| Guaranteed/protected funds | -179.6 | -8.4 | 0.0 | 0.0 | 0.0 |
| Absolute Return Innovative Strategies (ARIS) funds | 3,762.3 | -12,186.4 | -14,504.6 | -8,722.2 | -6,844.6 |
| Other funds | 2,465.4 | 1,099.9 | 2,258.5 | 3,982.7 | 7,701.2 |
| Total | 48,718.5 | -21,238.7 | -17,016.6 | 10,167.1 | 37,267.8 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 8,423.5 | 5,055.1 | 2,101.2 | 2,027.4 | 1,402.9 |

## 3. KEY TRENDS IN THE AIF MARKET

| Table 5: AIF Assets by Fund Type (GBP billion) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 53.8 | 41.3 | 49.3 | 77.1 | 80.9 |
| Bond funds | 14.1 | 14.4 | 15.1 | 16.8 | 18.6 |
| Multi-asset funds | 94.4 | 83.9 | 88.3 | 93.1 | 99.1 |
| Money market funds | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Guaranteed/protected funds | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Absolute Return Innovative Strategies (ARIS) funds | 2.6 | 10.9 | 12.6 | 11.9 | 12.2 |
| Real estate funds | 25.4 | 25.8 | 21.9 | 18.4 | 15.3 |
| Other funds | 183.4 | 182.8 | 218.4 | 230.5 | 275.2 |
| Total | 373.8 | 359.1 | 405.6 | 448.0 | 501.5 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 112.1 | 102.6 | 112.5 | 117.8 | 130.1 |
| ➤ Institutional funds | | | | | |

| Table 6: Net Sales of AIFs by Fund Type (GBP million) | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Equity funds | 1,674.9 | 1,005.5 | -2,121.9 | 4,636.3 | -5,622.0 |
| Bond funds | -742.2 | -57.7 | -1,284.9 | -7.1 | 2,020.6 |
| Multi-asset funds | 5,884.9 | -2,580.5 | 2,963.2 | 256.1 | -609.8 |
| Money market funds | -244.1 | -8.1 | -0.6 | 15.8 | 7.7 |
| Guaranteed/protected funds | -138.6 | -118.7 | 0.0 | 0.0 | 0.0 |
| Absolute Return Innovative Strategies (ARIS) funds | 160.9 | 743.4 | 559.9 | -1,007.9 | -711.5 |
| Real estate funds | 252.0 | -863.4 | -4,393.8 | -2,204.7 | -4,458.5 |
| Other funds | 1,105.4 | 2,666.7 | 3,881.7 | 2,710.4 | 4,407.0 |
| Total | 7,953.1 | 787.3 | -396.4 | 4,398.9 | -4,966.3 |
| of which ➤ ETFs | | | | | |
| ➤ Funds of funds | 6,821.3 | -2,625.0 | 3,756.9 | 1,230.4 | -963.5 |
| ➤ Institutional funds | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

## 4. TRENDS IN THE NUMBER OF FUNDS

| Table 7: Number of Funds | | | | | |
|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| Home-domiciled UCITS | 2,124 | 2,196 | 2,301 | 2,350 | 2,320 |
| Home-domiciled AIFs | 986 | 1,003 | 1,014 | 1,029 | 1,067 |
| Foreign funds registered for sales | 1,383 | 1,415 | 1,463 | 1,608 | 1,712 |
| ➤ By national promoters | | | | | |
| ➤ By foreign promoters | | | | | |
| Fund launches | 250 | 226 | 356 | 220 | 241 |
| Fund liquidations | 143 | 117 | 152 | 123 | 146 |
| Fund mergers & acquisitions | | | | | |

## 5. MARKET DEVELOPMENTS IN 2021

**Near record GBP 43 billion fund inflows**

UK investor fund sales were strong in 2021; annual retail inflows of GBP 43 billion represented a GBP 12 billion year-on-year rise, placing the year only slightly below the record sales of GBP 49 billion in 2017. In 2021, economies continued to rebound from 2020, with the lifting of pandemic restrictions enabled by successful vaccine rollouts. Low interest rates pushed UK investors to invest savings amassed from reduced spending during lockdowns. Inflows to retail funds slowed towards the end of the year, as rising inflation caused uncertainty for investors.

**Responsible Investments drive GBP 16 billion sales**

Building on the trends seen in 2020, responsible investment was a key driver of sales in 2021, with GBP 16 billion in net retail sales to funds operating with fund-specific exclusions, a sustainability focus, and/or impact investment strategies. This inflow was over a third of the total, although responsible investment funds represent less than 6% of industry funds under management.

**Sales to actively managed funds vs index trackers**

Actively managed funds saw inflows of GBP 25.3 billion in 2021, 58% of total sales, as investors trusted active managers to deliver increased returns in more volatile markets post-COVID-19. Inflows doubled from 2020, continuing the reversal of the outflows from active funds seen in 2018-2019. Investors have also continued to make use of low-cost index trackers, with 2021 being a third consecutive year of inflows of just over GBP 18 billion.

**Net retail sales by asset class**
Equity funds were the highest-selling asset class for a second consecutive year, taking 34% of net inflows, the same proportion as in 2020. Within equities, however, investor demand was uneven. Investors showed a marked preference for globally diversified funds, with consistent monthly inflows, reaching GBP 13.4 billion through 2021. Investors largely avoided country- or region-specific equity funds, with outflows from UK and North American equity funds of GBP 5.3 billion and GBP 865 million, respectively. Asian equity funds continue to see inflows, but these fell in 2021 to just under GBP 1 billion, from GBP 1.6 billion the previous year.

Bond funds saw inflows rise to GBP 11.6 billion in 2021, up from GBP 8.0 billion in 2020 and representing 27% of fund inflows. Sales were heavily weighted to the beginning of the year. From September, inflation figures were persistently above expectation, causing inflows to bond funds to decline steadily through the second half of the year. Rising inflation erodes the value of fixed interest payments.

Multi-asset funds remained consistently popular with investors through 2021, as a way of accessing a diversified portfolio with the desired equity and bond mix at relatively low cost. Investor interest has been largely focused on the higher equity multi-asset funds of the IA's Mixed Investment 40-85% Shares sector, which suggests that investors have chosen higher-growth strategies.

## 6. REGULATORY DEVELOPMENTS

### 6.1. UCITS

On 31 December 2020, the Brexit transition period ended, with UK-domiciled funds no longer being recognised as UCITS by the EEA. UK UCITS have been branded as such, with the immediate intention that UK UCITS regulation remains equivalent to those of the EEA, although slight variations may occur over time.

EEA UCITS are now third-country AIFs under UK legislation. However, EEA UCITS registered under the FCA's Temporary Marketing Permissions Regime (TMPR) can continue to be marketed into the UK, along with newly established sub-funds of umbrella schemes registered with the TMPR.

The TMPR was made available to EEA UCITS that were passporting into the UK immediately before the end of the transition period. This allowed them to continue to be marketed in the UK until the Overseas Funds Regime (OFR) becomes operational, but no later than the end of 2025.

The OFR will replace the passporting route for non-UK-domiciled funds and introduce two new regimes based on equivalence; one for retail investment funds and one for money market funds. The legislative framework for the OFR was enacted in February 2022. Still, the recognition of UCITS under the OFR is a separate process, and HM Treasury or the FCA has published no formal timetable for this.

**Value Assessment**
Firms have now completed two cycles of value assessments for authorised funds. In July 2021, the FCA published the findings of its first multi-firm review on how companies had implemented the value assessment requirements.

While recognising some good practices, the FCA found examples of where the processes and governance around value assessments did not meet expectations. Firms have been reviewing and adapting their processes following the feedback from the FCA.

### 6.2. AIFMD

Following the UK's withdrawal from the EU, national private placement regimes (NPPRs) are now the only route to access EU markets by UK AIFMs.

The Temporary Marketing Permissions Regime (TMPR) above also extends to EU AIFMs managing or marketing AIFs in the UK. The UK NPPR is available for EU AIFMs seeking to market AIFs in the UK that are not registered in the TMPR.

The Investment Authority (IA) continues to support a robust and viable AIFMD regime in the EU, noting that the original framework has been largely successful in achieving its objectives. Since the publication of the AIFMD amendment proposal by the European Commission in November 2021, the IA has engaged with European policy makers to ensure that the scope of the amendments remains targeted.

**Fund Liquidity**

The Bank of England (BoE)/FCA joint review of liquidity mismatch in investment funds concluded in July, when the BoE's Financial Policy Committee published its conclusions. In completing the review, the BoE and FCA have developed a draft framework for:

- How a practical liquidity classification framework for open-ended funds could be designed, with a consistent and realistic classification of funds' assets.
- The calculation and use of swing pricing to ensure that the price adjustment accurately reflects redemption costs.

The FCA will now carry this work forward, including working alongside IOSCO and the Financial Stability Board on their initiatives.

The BoE, Her Majesty's Treasury (HMT) and the FCA have established an industry working group - including representation from the IA - to increase supplies of productive finance to the economy.

## 6.3. MiFID II

HMT has published its response to its Wholesale Markets Review consultation, which was conducted in 2021 and aimed to alter the financial regulatory framework of the UK, particularly following the UK's departure from the EU. This will include amendments to MiFID II legislation.

In its response, the HMT sets out a package of reforms and how the government plans to take these proposals forward. The UK government has stated that it sees these as delivering a more straightforward and less-prescriptive regime, while at the same time maintaining or improving regulatory outcomes.

In particular, it will look to:

- Simplify the 'systematic internaliser' regime to provide clarity and remove what government sees as unnecessary regulatory burdens.
- Remove restrictions on firms' ability to execute transactions.
- Reconfigure the transparency regime for fixed income and derivatives markets, so that only appropriate instruments are subject to enhanced transparency requirements, hopefully removing unnecessary burdens on firms.
- Reduce the scope of the commodities position limits regime, and delegate it to trading venues to ensure that market activity is not unnecessarily restricted, while ensuring that markets function efficiently.
- Ensure the FCA can help support the provision of a consolidated tape, which will better enable participants to identify the best available pricing for instruments.

Some of these changes can be affected by existing powers. Others will require legislative changes to be delivered when sufficient parliamentary time allows.

Separately, the FCA has introduced new exemption rules for research, specifically:

- An exemption for research on small and mid-cap listed or unlisted companies with a market capitalisation below GBP 200 million from the inducement rules, allowing it to be provided on a bundled basis.
- Third-party research on fixed income, currencies and commodities (FICC) instruments will also be exempt from inducement rules, likewise allowing it to be provided on a bundled basis.

- Research providers who do not provide execution services, and are not part of a group that includes a firm offering execution services, will be exempt.

The FCA also clarifies that openly available written research will not fall into the scope of the inducement rules.

The FCA has removed the need for UK firms to produce the annual RTS 28 report on best execution. This change will apply from 2021, so the related report need not be produced by the end of April 2022.

The FCA has also removed the need to provide 10% depreciation notices to professional clients.

### 6.4. ELTIF

Following the UK's departure from the EU, the UK's onshored ELTIF regime has been renamed the Long-Term Investment Fund, or LTIF. To date, no LTIFs have been launched in the UK, and there has been little interest in utilising the ELTIF structure in the UK by either manufacturers or investors.

The longer-term future of this framework is uncertain, particularly following the launch, in November 2021, of the regulatory framework for the UK's own Long-Term Asset Fund (LTAF). The existing listed closed-ended investment trust company structure is also preferred by UK investors over the LTIF, given its long history, flexible investment powers and the ability to redeem at a market price.

The LTAF, which was originally proposed by the IA in 2019, is a new authorised fund structure for investment into long-term illiquid assets such as private equity, private debt, infrastructure and venture capital. The investment powers are calibrated differently to those of the ELTIF, allowing greater flexibility in holding liquid assets and using collective investment undertakings. The manager will be able to set subscription and redemption terms that align with the portfolios' liquidity, notably allowing redemptions on a less-frequent basis and with a suitable notice period.

The LTAF is currently restricted to professional investors such as pension schemes, and only to sophisticated or high-net-worth retail investors. However, the FCA is expected to consult on broadening access to more types of retail investor in the summer of 2022.

### 6.5. Money Market Funds

The IA responded to the FSB's consultation on reforms to Money Market Funds (MMFs) in August 2021, noting that the March 2020 market turmoil driven by COVID-19 highlighted weaknesses in the short-term funding markets, rather than the MMF structures used by UK money market managers, which the IA believes proved resilient during the crisis.

The IA will be looking to engage in policy proposals expected in 2022 from both the EU and UK authorities to reform their respective MMF regimes. While supportive of proposals to delink regulatory thresholds from requirements to impose redemption fees, gates or suspension, the IA remains opposed to more fundamental reforms. In particular, this includes an end stable pricing for Low Volatility Net Asset Value (LVNAV) MMFs, something which the IA views as disproportionate given that no LVNAV MMFs breached their regulatory thresholds or were required to impose redemption fees, gates or suspension of dealing.

### 6.6. Sustainable finance

**Taskforce on Climate-related Financial Disclosures (TCFD) Roadmap**

On 17 December 2021, the FCA published its final policy statement on climate-related financial disclosure rules for asset managers, life-insurers and FCA-regulated pension providers (PS21/24).

These rules require that asset managers and certain FCA-regulated asset owners make mandatory disclosures consistent with the TCFD's recommendations on an annual basis at:

- Entity level: an entity-level TCFD report setting out how they take climate-related risks and opportunities into account when managing or administering investments on behalf of clients and consumers.

- Product or portfolio level: a baseline set of consistent, comparable disclosures in respect of their products and portfolios, including a core set of metrics.

These rules will apply from 1 January 2022 for the largest in-scope firms (AUM > GBP 50 billion), and a year later for smaller firms above the GBP 5 billion exemption threshold. The first public disclosures in line with the FCA requirements must be made by 30 June 2023.

**UK green gilt**

The UK government last year issued GBP 16 billion in green gilts, the UK's first green sovereign bond. This follows their publication of the UK's Green Finance framework. The IA continues to engage with the UK government to construct a green gilt framework that meets the needs of investors, governments and society.

**UK Taxonomy**

The UK continues to develop a green taxonomy to provide a clear understanding of which economic activities count as sustainable. It will be robust and evidence-based, taking an objective and science-based approach to assessing sustainability. The Green Technical Advisory Group (GTAG) will provide independent advice to the Government on implementing a UK taxonomy.

Technical Screening Criteria (TSC) for climate change mitigation and climate change adaptation objectives within the UK green taxonomy will be based on those in the EU Taxonomy. The UK government is currently reviewing these, and expects to consult on UK draft TSC in the first quarter of 2022 before legislating by the end of the year.

The government has asked the Energy Working Group (EWG), chaired by the Chief Scientific Advisor to BEIS, to prioritise considering nuclear power's role in the UK Taxonomy.

**Net Zero Strategy and Net Zero Review**

In October 2021, ahead of COP26, the UK government published two documents detailing the steps being taken to decarbonise the UK economy. The Department for Business, Energy and Industrial Strategy (BEIS) published the Net Zero Strategy, which includes decarbonisation pathways to net zero by 2050 for high-emitting sectors, and sets out policies and proposals to reduce emissions. The Net Zero Strategy will be submitted to the United Nations Framework Convention on Climate Change as the UK's second Long-Term Low Greenhouse Gas Emission Development Strategy under the Paris Agreement.

**UK Sustainable Disclosure Requirements (SDR) regime**

The key announcements in 2021 made by the UK government and FCA designed help shape sustainable finance disclosure going forward were:

- The FCA published its Guiding Principles on ESG fund design, delivery and disclosure.
- The UK Government Green Finance Roadmap, which announced an SDR regime and investment labels and resulting FCA discussion paper.
- The FCA Guiding Principles on ESG/Sustainable fund design, delivery and disclosure.

On 19 July 2021, via a "Dear Chair" letter to authorised fund managers, the FCA published its guiding principles on design, delivery, and disclosure of ESG and sustainable investment funds. The FCA made it clear in its letter that many of the applications for authorisation of funds with a sustainable focus are of poor quality and fall below FCA expectations.

The principles, informed by consumer research, are based on existing rules (outlined in the publication) and aim to ensure that any ESG-related claims are clear and not misleading, both at the time of application and on an ongoing basis.

The principles are targeted at funds that make specific ESG-related claims, not those that integrate ESG considerations into mainstream investment processes. They should be viewed as part of broader work on climate and sustainability-related matters outlined in the 2021-2022 FCA Business Plan, as well as Government commitments. They are designed to be compatible with future disclosure rules for responsible and sustainable investment fund products such as the SDRs.

The publication of the Principles was then followed by the Government publication in October of a roadmap which outlined the actions the UK government and regulators are taking to close the information gap for market participants on sustainability. This is primarily being done through the development and implementation of an SDR regime across the UK economy for corporate disclosure requirements for companies and new requirements for asset managers and asset owners and investment product disclosure. The roadmap also announced the delivery of a UK Green Taxonomy, which will draw on the EU approach, but exact details on the UK Taxonomy are yet to emerge. Published in November 2021, FCA Discussion Paper (DP) 21/4 asked for feedback on areas of the SDR regime, notably:

- In traducing an 'objective' approach with five labels and definitions spanning all investment products (not promoted as sustainable; responsible; sustainable transition; sustainable aligned; and impact).
- Intending to build on a range of existing definitions and frameworks, including SFDR, and to avoid duplication or conflict.
- Proposing entity-level requirements that need to be met for firms to label products as sustainable or responsible.
- Proposing the use of minimum thresholds for 'sustainable 'aligned' products linked to UK taxonomy and may require thresholds for 'sustainable 'transitioning' products.
- Introducing the concept of consumer-facing disclosure – tiers of disclosure with more detailed disclosure for 'sophisticated and institutional investors'.
- Exploring whether there is a role for independent verification of the label.

The deadline for responding to the DP was 7 January 2022. Since then, the IA has been an active member of the FCA Disclosures and Advisory Group that has been set up to help inform the policy development process. The FCA expects to publish a follow-up consultation paper in Q2 of 2022. Details on the SDR regime for corporate issuers and pension schemes are yet to be published.

**Transition Plan Taskforce**
At COP26, the Chancellor announced the creation of a new Transition Plan Taskforce as part of the 'UK's ambition to be the 'world's first Net Zero Aligned Financial Centre. The Taskforce was established in 2022, composed of a Steering Group providing high-level oversight of the Taskforce's work and a Delivery Group to make recommendations for a Transition Plan Disclosure Framework and prepare detailed sectoral Transition Plan Templates, focused on real economy sectors. A secretariat for the Taskforce will be provided by two thinktanks, the UK Centre for Greening Finance and Investment (CGFI) and E3G.

The Taskforce will have a two-year mandate and provide its initial report by the end of 2022. It will focus on providing recommendations for UK regulatory processes. It will also aim to provide a best practice for the development of national standards in other jurisdictions, and for developing international standards and norms. The introduction of transition plans is viewed as a logical step following mandatory TCFD reporting across the UK economy, and will form a part of the Sustainability Disclosure Requirements regime. The Taskforce will also seek to align its work with outputs on a green taxonomy from the Green Technical Advisory Group.

## 6.7. Stewardship & Corporate Governance

**Stewardship**

**Lord Hill's Listings Review**
In November 2020, the UK Listings Review, chaired by Lord Hill, was launched by the UK government to strengthen the country's position as a leading global financial centre, with a specific focus on enhancing UK public markets. In March 2021, the Hill Report was published, with 15 recommendations covering seven themes for improving the UK listing environment:

- monitoring and delivering results
- improving the environment for companies to go public in London
- redesigning the prospectus regime
- tailoring information to meet investor needs better
- empowering retail investors and improving capital raising for listed issuers
- improving the efficiency of the listing process
- broadening the financial ecosystem.

Addressing these recommendations, and the wide range of issues they are comprised of, has required commitment from a range of government departments, regulators and other stakeholders. Below is a summary of the major consultations.

The FCA, following industry consultation, finalised changes to its listings rules designed as targeted changes to remove the immediate barriers. The changes include allowing a target form of Dual Class shares on the premium segment, reductions in free float requirements and an increased minimum market capitalisation threshold.

The FCA also revised its approach to SPACs and amended its listings rules to remove the general presumption of a suspension in shares when a SPAC announces an acquisition provided the SPAC has embedded certain investor protections.

HMT also reviewed the UK's prospectus regime and announced that it would overhaul the existing regime with one that differentiates between the primary and secondary capital markets. It will also remove the regime from statute and grant the FCA enhanced rulemaking responsibilities and discretion to allow the regime to be specified in the FCA Rulebook.

In addition, HMT has established the UK Secondary Capital Raisings Review, which will make recommendations on improving the UK capital-raising process for existing publicly traded companies, with a specific focus on how the rights issue process might be improved. The outcomes of the review are expected in Q2 of 2022.

**Shareholder Rights Directive (SRD II)**
SRD II was implemented in the UK through the FCA's Policy Statement 19/13, with the rules coming into force on 10 June 2019. The FCA's implementation of SRD II adhered as closely as possible to the original Directive text, except for related party transactions, where the UK regime (which is more stringent than SRD II) has been preserved for premium listings and the SRD II regime implemented for standard listings.

2020 was the first year that asset managers were required to report against their engagement policies in line with SRD II, including reporting to clients on most significant votes and engagement activities. As noted below under 'Pensions', the implementation of SRD II and other regulatory reporting obligations on pension schemes have led to a strong reliance on investment managers to provide the required information.

There have been two notable market-led solutions to ensure that managers are helping clients to meet their regulatory requirements:

- PLSA's Vote Reporting Template: This is designed to promote consistent and uniform reporting of how asset managers use their voting rights, and seeks disclosures on 'most significant votes'.
- ICSWG's Engagement Reporting Guide: This is designed to support the consistent collection of engagement data to help asset owners meet their stewardship obligations. The Guide includes firm level and strategy level questions for asset managers on their engagement activity.

**Taskforce on Pension Scheme Voting Implementation Report**
In December 2020, the Department for Work and Pensions (DWP) established a working group, the Taskforce on Pension Scheme Voting Implementation (TPSVI) to advise on the development of voting policies for occupational pension schemes, and further proposals for better vote disclosures. The TPSVI report was published in September 2021, and consists of 24 recommendations to government, regulators and industry.

The focus of the report's recommendations is twofold; how to facilitate more and better-quality voting by occupational pension schemes, by encouraging them to set voting policies, and making recommendations that will support the changes in behaviours needed from service providers to meet this objective.

**FRC Stewardship Code**

The Financial Reporting Council's revised Stewardship Code came into effect on 1 January 2020. Under the FCA's Conduct of Business (COBS) requirements, all asset managers are required to report the nature of their commitment to the Stewardship Code, irrespective of whether they are signatories to the Code. The first list of signatories to the revised code was released in September 2021, the second in March 2022. The 2022 Stewardship Code signatory list has a broader set of signatories, including asset owners, asset managers and service providers.

This represented a significant shift in stewardship in the UK, with a greater focus on stewardship outcomes. Signatories are also expected to:

- demonstrate how they take into account material ESG factors, including climate change
- extend stewardship beyond listed equities, asking asset managers and asset owners to set out their approach to stewardship across different asset classes and geographies
- identify and respond to market-wide and systemic risks.

**Asset Management Taskforce Stewardship Report**

In November 2020, the Asset Management Taskforce published its report entitled, 'Investing with Purpose: placing stewardship at the heart of sustainable growth', which provides a blueprint for integrating stewardship into the investment process and promoting excellence in stewardship practice.

This blueprint features 20 recommendations under three key pillars:

- stewardship behaviours
- stewardship for clients and savers
- economy wide approach to stewardship.

The recommendations connect investment decisions more closely with climate change and sustainability considerations, as well as strengthening the relationship between savers' broader investment goals and their financial returns.

In response to the recommendations in the report, the IA has initiated several proactive projects, including:

- Expanding stewardship beyond listed equities into other asset classes through working with fixed-income investors to ensure they make full use of the rights available to them. The IA has also established a working group to develop guidance on how stewardship in fixed income can be improved; we anticipate the guidance being published shortly.
- Strengthening escalation of stewardship. The IA has established a working group to work with industry to develop guidance for overcoming existing practically and regulatory barriers to effective use of requisitioned resolutions; we anticipate the guidance being published shortly.
- Embedding stewardship in pension assets through establishing a dedicated council of UK pension schemes to Joint IA/PLSA Steering Group to address how the relationship between asset owners and investment managers can be governed to promote a long-term focus and align stewardship expectations; we anticipate the guidance being published shortly.
- Improve company reporting and disclosures with a particular focus on supporting ongoing international efforts to enhance and harmonise corporate reporting standards for sustainability.
- Widening adoption of the UK Stewardship Code to include various parties along the investment chain, including asset managers, asset owners, and service providers.

## Corporate Governance

### BEIS Audit and Corporate Governance Reform

BEIS published its white paper consultation on audit reform entitled 'Restoring Trust in Audit and Corporate Governance' in March 2021. The paper sets out proposed reforms to the UK's audit, corporate reporting and corporate governance system, seeking to improve the audit market and reinforce investor and public confidence in audit and companies more generally. The White Paper advanced recommendations made by three independent reviews: The Kingman and Brydon reviews as well as the CMA Statutory Audit Market Study.

The paper includes several wide-ranging proposals for reforms targeting various stakeholders including:

- Directors and Companies: The proposals expand the definition of a Public Interest Entity and increase the focus on Director accountability through new attestation requirements covering internal controls, dividend and capital management decisions and resilience planning.

  In addition, there are proposals to establish a new regulator (ARGA) to be established to succeed the FRC, funded by a statutory levy. ARGA will have the necessary powers to investigate and sanction breaches of corporate reporting and audit-related responsibilities.

- Auditors and Audit Firms: Managed shared audits for FTSE 350 companies have been proposed, with those companies required to appoint a 'challenger' audit firm to conduct a meaningful proportion of the statutory audit. In addition, there must be operational separation between the audit and non-audit sides of the firm.

- Shareholders: There are proposals to provide shareholders with the opportunity to propose areas of emphasis for the audit and to be given an advisory vote on the Audit and Assurance Policy. An Audit Users Review Board will also be established to aid the regulator in protecting and promoting the interests of investors and users of accounts.

### Public register

In August 2017, the UK Government asked the IA to develop and maintain a Public Register, which can be found here. The Register is an aggregated list of the publicly available information regarding meetings of companies in the FTSE All-Share Index who have received significant shareholder opposition to proposed resolutions or have withdrawn a resolution prior to the shareholder vote. The aim of the Register is to highlight those companies who receive a high vote against or withdraw a resolution, and to understand the process used by those companies to identify and address the concerns of their shareholders.

### Issuer Climate-Related Disclosures

In the UK government's Roadmap for Taskforce on Climate-related Financial Disclosures (TCFD), the Joint Government-Regulator TCFD Taskforce sets out an indicative pathway to achieving the UK's ambition to make TCFD-aligned disclosures mandatory across the economy by 2025, with a significant proportion of mandatory requirements in place by 2023.

In October, BEIS published 'The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2021'. This follows an earlier consultation on 'Mandatory Climate-related Financial Disclosures by Publicly Quoted Companies, Large Private Companies and Limited Liability Partnerships (LLPs)'.

The new legislation builds on the 'Government's 2019 Green Finance Strategy' and was developed in cooperation with the HMT-led TCFD joint taskforce. It will require all large UK companies (those with more than 500 employees or with a turnover of greater than GBP 500 million) to make disclosures against the TCFD's recommendations mandatory.

The FCA consulted on proposals to enhance climate-related disclosures by standard-listed issuers in June 2021 and published its Policy Statement 21/23 in December 2021. The new rule will apply for accounting periods beginning on or after 1 January 2022.

It builds on the Listing rule announced in December 2020, which requires commercial companies with a UK premium listing (including sovereign-controlled commercial companies) to include a statement in their annual financial report setting out whether they have made disclosures consistent with the TCFD's recommendations on a comply or explain basis. The new rule effectively expands these requirements onto standard-listed issuers of equity, GDRs, debt and other debt-like securities.

**FRC's revised Corporate Governance Code**
The FRC published its revised Corporate Governance Code in July 2018, following Government recommendations for Corporate Governance reform. The first set of annual reports and accounts in line with the Code were published in 2020.

The Code incorporates many of the recommendations of the government's response to its Green Paper on Corporate Governance Reform, but also represents a major rewrite of the Code, with the aim of focusing it on the principles and reporting on the outcomes achieved, rather than the provisions.

The Code includes new expectations related to the Directors' Section 172 duties, including the adoption of one of four workforce engagement mechanisms and a description of the company's key stakeholders and how their interests have been considered in the board decision-making process.

### 6.8. Benchmarks

The UK Government has extended the deadline for the transition period for third-country benchmarks until the end of 2025.

### 6.9. Anti-Money Laundering Directive

In late 2021 HMT consulted on short- and medium-term changes to the Money Laundering Regulations. The short-term changes are expected to be published in Q2 of 2022, with a further paper on medium-term changes due in the summer.

## 7. PENSIONS

**Stewardship and ESG**
Since 1 October 2020, occupational pension scheme trustees have been required to produce an implementation statement setting out how they have implemented their investment policies with respect to the consideration of financially material ESG factors.

The implementation of the revised Shareholder Rights Directive (SRD II) in the UK also has implications for pension scheme trustees and their investment managers, with schemes being required, since 1 October 2020, to disclose a number of pieces of information on their arrangements with asset managers.

This includes how asset managers are incentivised to align their investment strategy and decisions with ESG matters and based on assessment about medium-to-long term financial and non-financial performance; also, how the method of the evaluation and remuneration of asset managers are in line with the trustee's investment policies.

**Climate Change and pension scheme investment**
Last year, the DWP published legislation that required occupational pension schemes to ensure there is effective governance of the scheme with respect to climate change. The legislation (which became law in early 2021) requires pension schemes to adopt and report against the recommendations of the TCFD. The idea is for pension schemes to use the information they receive on the climate-related disclosures from their investments to ensure that their portfolios are positioned to protect against the risks and benefit from the opportunities of climate change.

Last year, the DWP consulted on detailed proposals that expand on the TCFD framework for pension schemes. These would require them to have effective governance, strategy, risk management and accompanying metrics and targets for assessing and managing climate risk and opportunities.

The final proposals are the subject of an ongoing consultation at the time of writing (February 2021) and will come into force later in 2021 for schemes of a certain size and type. More schemes will be brought into scope in 2022.

Many of these disclosures will require asset managers to report data and information to UK pension fund clients in consistent and comparable formats and timely manner. Consequently, this will be an area of considerable activity for asset managers in the coming years.

## 8. TAX RULES, VAT RULES AND DOUBLE TAX TREATIES

**Investment Funds**

The UK continues to consult on far-reaching change to both the tax and the regulatory framework of its domestic Fund Regime. The review is aimed at improving the UK as a location to domicile funds and address known issues in respect of existing authorised fund vehicles as well as new products such as the Long-Term Asset Fund.

**Qualified Asset Holding Companies**

The vanguard of the new UK Fund Regime, the Qualified Asset Holding Company (QAHC/AHC) regime is coming into effect from April 2022, and will provide a platform to consolidate investments via UK resident holding companies.

The regime is designed to ensure that investors get a similar tax outcome to that from investing in the underlying assets. It has several eligibility criteria, including that the QAHC must be at least 70% owned by diversely owned funds or certain institutional investors, and must mainly carry out investment activity with no more than insubstantial ancillary trading.

Provided all eligibility criteria are met, the AHC will be exempt from capital gains and able to pay out dividends or interest without the deduction of withholding tax.

**Mandatory Disclosure Rules**

Following the UK's exit from the EU and scaling back of the DAC6 reporting, the UK has released an open consultation on future implementation of the OECD's Model Mandatory Disclosure Rules. It is envisaged that these regulations will come into force in the summer of 2022 and will require historical reporting of CRS avoidance schemes going back to October 2014.

**Uncertain Tax Treatments**

Long trailed, the UK is introducing a reporting regime for large businesses to provide HMRC with details of tax positions of material uncertainty. Intended to flush out disparities between the government's interpretation of legislation vs. the taxpayers, a series of triggers for reporting focus on differences between financial accounting positions and tax filings, and whether a treatment runs contrary to known government guidance. The regime will come into force for tax filings made for corporation tax, income tax and VAT from April 2022.

**Double tax treaties**

The UK signed the Multilateral Instrument (MLI) on 7 June 2017 to implement tax treaty-related measures to prevent base erosion and profit shifting. The UK Double taxation agreements with the following countries have been modified by the MLI entering into force in 2021-2022: Albania, Iceland, Mauritius, Oman and South Korea.

The following Tax Treaties have been amended during 2021 to update existing agreements, including new competent authority agreements and MoUs: Austria, Australia, Bahamas, Germany, Guernsey, Isle of Man, Macao, Saint Christopher (Saint Kitts) and Nevis, Saint Vincent and the Grenadines, San Marino, Sweden, Taiwan and the USA.

## 9. FINANCIAL AND INVESTOR EDUCATION INITIATIVES

The IA has had an extensive events schedule covering many topical industry subjects throughout 2021 including conferences, briefings, forums and seminars. The IA also delivered industry training, primarily based on regulatory and compliance requirements.

**All the IA's Events and Training activities can be found here:**
https://www.theia.org/events-training.

**Our library of previously recorded webinars can be found here:** https://www.theia.org/events-training/webinars


EFAMA

European Fund and Asset Management Association

Rue Marie-Thérèse, 11
1000 Brussels
Belgium
T. +32 2 513 39 69
E. info@efama.org

www.efama.org
Follow us on
@EFAMAnews
www.linkedin.com/company/efama